

The Health Care Authority of the City of Huntsville



Combined Financial Statements

Years Ended June 30, 2025 and 2024

Table of Contents

Independent Auditors' Report	1
Management's Discussion and Analysis (Unaudited)	4
Combined Financial Statements:	
Combined Statements of Net Position	15
Combined Statements of Revenues, Expenses and Changes in Net Position	17
Combined Statements of Cash Flows	18
Notes to Combined Financial Statements	20
Supplement Schedules:	
Internal Control Report.....	48
Listing of Board Members (Unaudited)	50

INDEPENDENT AUDITORS' REPORT

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

Opinion

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, 2025 and 2024, 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 respective financial positions of the business-type activities and the discretely presented component unit of the Authority, as of June 30, 2025 and 2024, 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 Opinion

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 combined financial statements as a whole. The Members of the Authority Board on page 48 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 21, 2025, 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 21, 2025

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, 2025, 2024, and 2023. 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 2,382 licensed acute beds and 318 licensed skilled and long-term nursing beds and has nearly 20,000 employees in the health system. The flagship hospital of the health system is Huntsville Hospital, a two campus 1,021-bed community based not-for-profit acute care hospital, including Huntsville main, licensed for 931 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, 129 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, 2025, HH had 1,608 physician medical staff members, including allied health professionals on staff.

Subsidiaries and Blended Component Units

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

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.

First Community Health Plan, Inc.

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. FC was an independent autonomous entity organized in accordance with Alabama Code Section 10-4-102. The Authority was the sponsoring organization for FC and was 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.

HH Heart Center, LLC

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-nine physicians serve nine clinics and eight 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

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. Effective May 25, 2025, Lawrence Medical Center (LMC), an acute care hospital located in Moulton, Alabama, was combined into DMH through an Integration Agreement. DMH now consists of the Decatur campus, licensed for 273 acute care beds, Decatur West, licensed for sixty-four psychiatric beds, the Parkway campus, consisting of 120 licensed beds and various outpatient-only operations formerly part of LMC. DMH has been operating under one provider number since 2014. DMH is one of the largest employers in its county with 1,805 employees. DMH operates sixteen physician clinics with a staff of twenty-one 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

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 five physician clinics which employ nine physicians.

HH Health System – Athens Limestone, LLC

The Authority formed this Alabama 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. ALH has a physician network of twenty clinics and forty-five physicians.

HH Health System – Marshall, LLC

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 sixteen 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 employs 1,722 staff members.

HH Health System – Jackson, LLC

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 ten physician practices.

**The Health Care Authority of the City of Huntsville
Management's Discussion and Analysis (Unaudited)**

HH Health System – Lincoln, Inc.

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 (DCC), Patrick Rehab/Wellness Center, and Lincoln Home Health and Hospice. LMS is licensed for forty-nine acute care beds and 168 dually-certified skilled and long-term care beds at DCC. In addition, HMC operates various other healthcare businesses, including several physician practices.

HH Health System – DeKalb, LLC

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

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, 2025 and 2024.

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

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, effective August 1, 2017, 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

The Authority formed HH Health System – Emergency Medical Services, LLC, (EMS), a Limited Liability Company and wholly owned subsidiary, to expand and 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). The Authority's other existing ambulance services were consolidated into EMS beginning July 1, 2024 and did not have a material effect on the combined financial statements of the Authority. On a consolidated basis, EMS serves approaching 390,000 residents in approximately 1,000 square miles of Alabama and south central Tennessee.

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

**The Health Care Authority of the City of Huntsville
Management’s Discussion and Analysis (Unaudited)**

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.

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.

**The Health Care Authority of the City of Huntsville
Management's Discussion and Analysis (Unaudited)**

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 in 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, 2025, 2024, and 2023 is presented below (in thousands):

	<u>2025</u>	<u>2024</u>	<u>2023</u>
ASSETS AND DEFERRED OUTFLOWS			
Current assets:			
Cash and cash equivalents	\$ 232,610	\$ 216,689	\$ 118,028
Patient accounts receivable, net	372,516	348,959	280,494
Other current assets	149,414	138,270	114,744
Board designated funds – current	<u>130,000</u>	<u>70,126</u>	<u>137,191</u>
Total current assets	884,540	774,044	650,457
Noncurrent cash and investments	797,701	834,292	738,065
Capital assets	1,162,221	1,119,949	1,093,235
Other assets	<u>50,287</u>	<u>37,708</u>	<u>37,005</u>
Total assets	2,894,749	2,765,993	2,518,762
Deferred outflows of resources	<u>9,491</u>	<u>12,316</u>	<u>15,593</u>
Total assets and deferred outflows of resources	<u>\$ 2,904,240</u>	<u>\$ 2,778,309</u>	<u>\$ 2,534,355</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION			
Current liabilities:			
Accounts payable	\$ 137,987	\$ 129,187	\$ 91,265
Salaries and benefits payable	177,820	166,969	139,609
Unearned revenue	5,420	215	5,032
Accrued interest	2,213	1,718	768
Current maturity of lease liabilities and installment obligations	20,740	23,673	15,537
Current maturity of bonds and notes payable	15,673	20,625	25,319
Commercial paper notes payable	<u>130,000</u>	<u>70,000</u>	<u>137,000</u>
Total current liabilities	<u>489,853</u>	<u>412,387</u>	<u>414,530</u>
Long-term liabilities:			
Lease liabilities and installment obligations	60,063	73,977	68,304
Bonds and notes payable, including bond premium	516,790	545,000	367,379
Deferred compensation liabilities	<u>3,370</u>	<u>2,906</u>	<u>4,778</u>
Total long-term liabilities	<u>580,223</u>	<u>621,883</u>	<u>440,461</u>
Total liabilities	1,070,076	1,034,270	854,991

**The Health Care Authority of the City of Huntsville
Management's Discussion and Analysis (Unaudited)**

Deferred inflows of resources	29,356	18,288	18,347
Net position	<u>1,804,808</u>	<u>1,725,751</u>	<u>1,661,017</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 2,904,240</u>	<u>\$ 2,778,309</u>	<u>\$ 2,534,355</u>

Fiscal Year 2025 vs. 2024

The total net position of the Authority increased \$79.1 million, or 4.6%. The net increase in net position was substantially due to \$81.1 million of excess of revenue over expenses.

Cash and cash equivalents, board designated funds, and other noncurrent cash and investments increased a combined \$39.2 million due primarily to operating EBITDA of \$159.7 million, \$60.0 million of proceeds from the issuance of additional tax-exempt commercial paper (CP) notes program (see CP Notes Payable section below), and \$21.6 million of investment market appreciation, mostly offset by (\$165.6) million of capital acquisitions and (\$10.6) million in cash paid to buy-back a portion of the Series 2020B Bonds (see Long-Term Debt section below).

The Authority's cash and investment position continues to be relatively strong and consistent, but slowly lessening in terms of days cash on hand (DCOH) due primarily to unfinanced capital expenditures and an increase in daily cash operating expenses, with 154 DCOH as of June 30, 2025. On September 29, 2025, Moody's re-affirmed the Authority's A1 Bond rating and its P-1 rating for its CP notes program, with stable outlook.

Net patient accounts receivable increased \$23.6 million, or 6.8%, primarily due to net patient service revenue increasing 9.9% from the prior year and days in accounts receivable increasing 3.0% from 46.6 days as of June 30, 2024 to 48.0 days as of June 30, 2025.

Accounts payable and salaries and benefits payable increased a combined \$19.7 million, or 6.6% due primarily to volume growth and inflation. Both of these working capital financial statement line items also have natural fluctuations in value based on timing of scheduled disbursements.

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).

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.

**The Health Care Authority of the City of Huntsville
Management’s Discussion and Analysis (Unaudited)**

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.

Capital Assets

The following table summarizes capital assets for the fiscal years ended June 30, 2025, 2024, and 2023 (in thousands):

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Construction-in-process	\$ 75,946	\$ 44,296	\$ 171,824
Land and improvements	112,550	103,211	99,289
Buildings	1,417,848	1,345,313	1,181,512
Equipment	1,015,926	978,378	928,670
Right of use/subscription assets	<u>158,908</u>	<u>148,236</u>	<u>117,072</u>
Total	2,781,178	2,619,434	2,498,367
Accumulated depreciation	<u>(1,618,957)</u>	<u>(1,499,485)</u>	<u>(1,405,132)</u>
Capital assets – net	<u>\$ 1,162,221</u>	<u>\$ 1,119,949</u>	<u>\$ 1,093,235</u>

During the year ended June 30, 2025, the Authority experienced a net \$42.3 million, or 3.8% increase in capital assets. Included in this were capital expenditures mostly offset by depreciation and amortization of (\$136.0) million for the year. Capital additions were funded by a mix of operating cash flow and, to a much lesser extent, the aforementioned \$60.0 million CP program draw.

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).

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, resulting in an outstanding balance of \$70.0 million as of June 30, 2024 (see Long-Term Debt section below). In December 2024, the Authority issued an additional \$60.0 million of CP to reimburse itself for unfinanced capital paid with operating cash, resulting in a \$130.0 million balance outstanding as of June 30, 2025. 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, 2025 and 2024:

- 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 million of CP issued to acquire TOC (see CP Notes Payable section

**The Health Care Authority of the City of Huntsville
Management’s Discussion and Analysis (Unaudited)**

above) and finance certain prior and subsequent 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.
- In November 2024, the Authority extinguished \$10.6 million in par value of its Series 2020B Bonds for \$10.6 million in cash and recognized a negligible gain recorded as gain on debt extinguishment in nonoperating activity in the combined statements of revenues, expenses and changes in net position.
- The remaining change in indebtedness during the years ended June 30, 2025 and 2024 primarily represents scheduled principal repayments on indebtedness and routine lease/ subscription activity.

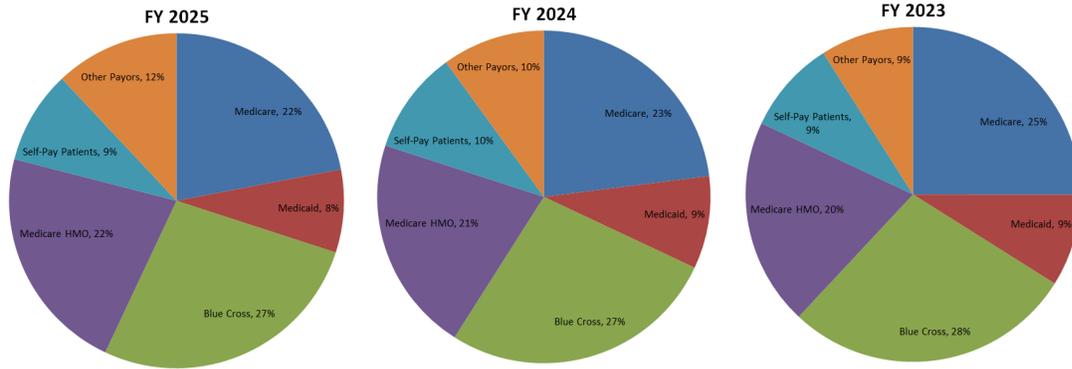
Combined Statements of Revenues, Expenses and Changes in Net Position

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, 2025, 2024, and 2023 is presented below (in thousands):

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Operating revenue:			
Net patient service revenue	\$ 2,874,818	\$ 2,616,687	\$ 2,272,534
Other operating revenue	<u>103,162</u>	<u>98,930</u>	<u>85,308</u>
Total operating revenue	<u>2,977,980</u>	<u>2,715,617</u>	<u>2,357,842</u>
Operating expenses:			
Salaries and benefits	1,738,119	1,616,977	1,368,887
Other operating expenses	<u>1,216,097</u>	<u>1,086,165</u>	<u>988,616</u>
Total operating expenses	<u>2,954,216</u>	<u>2,703,142</u>	<u>2,357,503</u>
Operating income	23,764	12,475	339
Non-operating activity, net	<u>57,334</u>	<u>41,763</u>	<u>54,378</u>
Revenues in excess of expenses	<u>\$ 81,098</u>	<u>\$ 54,238</u>	<u>\$ 54,717</u>

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, 2025, 2024, and 2023.

**The Health Care Authority of the City of Huntsville
Management’s Discussion and Analysis (Unaudited)**



Fiscal Year 2025 vs. 2024

Total operating revenues increased \$262.4 million, or 9.7%, principally due to commercial payor rate increases and 8.2% growth in adjusted discharges.

Total operating expenses increased by \$251.1 million, or 9.3%, a rate slightly lower than the total operating revenue increase. Salaries and benefits represented \$121.1 million of the total, or a 7.5% increase, due to the aforementioned higher volume as well as inflation and cost of living increases. Total non-payroll operating expenses increased \$129.9 million, or 12.0%, due primarily to the higher volume and inflationary pressures, particularly with patient care supplies.

Operating margin increased year-over-year by \$11.3 million due to the net effect of the operating revenue and expense changes described above.

Non-operating activity increased \$15.6 million, or 37.3%, from the prior year due primarily to \$4.8 million higher net realized gains and investment income from the investment portfolio and \$9.7 million greater unrealized market appreciation.

Excess margin increased \$26.9 million, or 49.5% compared to the prior year due to the combined operating and nonoperating performance, as described above.

Fiscal Year 2024 vs. 2023

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, 2024.

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 due to (\$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 substantially offset by \$37.4 favorable investment market 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.

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 \$27.9 million for fiscal year 2025 compared to fiscal year 2024 and a net increase of \$112.5 million for fiscal year 2024 compared to fiscal year 2023.

Special Recognitions

The Authority earned high marks in U.S. News & World Report’s 2024-25 hospital rankings. The news organization rated HH as the Best Regional Hospital in North Alabama and No. 2 in the state, with ten clinical areas recognized as “High Performing.”

The Authority also earned the American Heart Association’s 2025 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 2024 by Forbes and was named to Newsweek’s 2025 America’s Greatest Workplaces for Women.

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 and other agency recognitions:

Huntsville Hospital:

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

Athens-Limestone Hospital:

- Knee and Hip Replacement - Blue Distinction Center

**The Health Care Authority of the City of Huntsville
Management's Discussion and Analysis (Unaudited)**

- Maternity Care- Blue Distinction Center
- Spine Surgery- 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 (South Campus):

- 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:

- Alabama Performance Excellence Award – Falls Reduction Team (2018)
- Alabama Performance Excellence Award – Health Care Sector – Tier One Commitment to Performance Excellence (2018)
- 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, 2025 and 2024
 (in thousands)

	2025			2024		
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	\$ 232,610	\$ 1,389	\$ 233,999	\$ 216,689	\$ 1,459	\$ 218,148
Patient accounts receivable, net	372,516	-	372,516	348,959	-	348,959
Inventories	65,666	-	65,666	59,503	-	59,503
Prepaid expenses	25,726	22	25,748	24,341	21	24,362
Other assets	855	-	9,031	1,763	11,246	13,009
Other receivables	57,167	-	57,167	51,434	621	52,055
Estimated third-party settlements	-	-	-	1,229	-	1,229
Board designated funds - current	130,000	-	130,000	70,126	-	70,126
Total current assets	884,540	1,411	894,127	774,044	13,347	787,391
Noncurrent cash and investments:						
Trustee held funds	1,899	-	1,899	1,255	-	1,255
Board designated funds, net of current portion	403,395	-	403,395	521,166	-	521,166
Other investments	383,562	-	383,562	303,395	-	303,395
Foundation investments	649	48,843	41,316	748	37,477	38,225
Accrued interest - investments	8,196	-	8,196	7,728	-	7,728
Total noncurrent cash and investments	797,701	48,843	838,368	834,292	37,477	871,769
Total capital assets	1,162,221	19	1,162,240	1,119,949	35	1,119,984
Other assets:						
Investments in joint ventures	17,936	-	17,936	16,389	-	16,389
Related party note receivable	1,571	-	1,571	1,817	-	1,817
Net pension asset	6,968	-	6,968	5,532	-	5,532
Other receivables	23,812	-	23,812	13,970	-	13,970
Total other assets	50,287	-	50,287	37,708	-	37,708
Total assets	2,894,749	50,273	2,945,022	2,765,993	50,859	2,816,852
Deferred outflows of resources	9,491	-	9,491	12,316	-	12,316
Total assets and deferred outflows	\$ 2,904,240	\$ 50,273	\$ 2,954,513	\$ 2,778,309	\$ 50,859	\$ 2,829,168

See accompanying notes.

The Health Care Authority of the City of Huntsville
 Combined Statements of Net Position
 June 30, 2025 and 2024
 (in thousands)

(Continued)

	2025			2024		
	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	\$ 137,987	\$ 37	\$ 138,024	\$ 129,187	\$ 39	\$ 129,226
Salaries and benefits payable	177,820	-	177,820	166,969	-	166,969
Accrued interest	2,213	-	2,213	1,718	-	1,718
Unearned revenue	5,420	-	5,420	215	-	215
Current maturity of lease liabilities and installment obligations	20,740	-	20,740	23,673	-	23,673
Current maturity of bonds and notes payable	15,673	-	15,673	20,625	-	20,625
Commercial paper notes payable	130,000	-	130,000	70,000	-	70,000
Total current liabilities	489,853	37	489,890	412,387	39	412,426
Long-term liabilities:						
Lease liabilities and installment obligations	60,063	-	60,063	73,977	-	73,977
Bonds and notes payable, including bond premium	516,790	-	516,790	545,000	-	545,000
Deferred compensation liabilities	3,370	-	3,370	2,906	-	2,906
Total long-term liabilities	580,223	-	580,223	621,883	-	621,883
Total liabilities	1,070,076	37	1,070,113	1,034,270	39	1,034,309
Deferred inflows of resources	29,356	-	29,356	18,288	-	18,288
Net position:						
Reserved for minority interest, nonexpendable	(670)	-	(670)	527	-	527
Net investment in capital assets	418,955	19	418,974	387,391	35	387,426
Unrestricted	1,386,523	50,217	1,436,740	1,337,833	50,785	1,388,618
Total net position	1,804,808	50,236	1,855,044	1,725,751	50,820	1,776,571
Total liabilities, deferred inflows of resources, and net position	\$ 2,904,240	\$ 50,273	\$ 2,954,513	\$ 2,778,309	\$ 50,859	\$ 2,829,168

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, 2025 and 2024
 (in thousands)

	2025			2024		
	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	\$ 2,874,818	\$ -	\$ 2,874,818	\$ 2,616,687	\$ -	\$ 2,616,687
Other operating revenue	103,162	10,007	113,169	98,930	9,750	108,680
Total operating revenue	<u>2,977,980</u>	<u>10,007</u>	<u>2,987,987</u>	<u>2,715,617</u>	<u>9,750</u>	<u>2,725,367</u>
Operating expenses:						
Salaries and benefits	1,738,119	-	1,738,119	1,616,977	-	1,616,977
Supplies	640,864	-	640,864	575,063	-	575,063
Other operating expenses	439,259	14,921	454,180	382,215	9,486	391,701
Depreciation and amortization expense	135,974	8	135,982	128,887	9	128,896
Total operating expenses	<u>2,954,216</u>	<u>14,929</u>	<u>2,969,145</u>	<u>2,703,142</u>	<u>9,495</u>	<u>2,712,637</u>
Operating Income (loss)	<u>23,764</u>	<u>(4,922)</u>	<u>18,842</u>	<u>12,475</u>	<u>255</u>	<u>12,730</u>
Nonoperating activity:						
Investment income, net	65,898	4,364	70,262	51,428	4,440	55,868
Gain on debt extinguishment	1,215	-	1,215	1,296	-	1,296
Interest expense	(26,955)	(18)	(26,973)	(26,675)	(18)	(26,693)
County tax appropriation	48	-	48	187	-	187
Other income (loss), net	17,128	(8)	17,120	15,527	(3)	15,524
Total nonoperating activity, net	<u>57,334</u>	<u>4,338</u>	<u>61,672</u>	<u>41,763</u>	<u>4,419</u>	<u>46,182</u>
Revenue in excess (deficit) of expenses	<u>81,098</u>	<u>(584)</u>	<u>80,514</u>	<u>54,238</u>	<u>4,674</u>	<u>58,912</u>
Net position transferred	(844)	-	(844)	10,868	-	10,868
Other, net	(1,197)	-	(1,197)	(372)	-	(372)
Increase (decrease) in net position	<u>79,057</u>	<u>(584)</u>	<u>78,473</u>	<u>64,734</u>	<u>4,674</u>	<u>69,408</u>
Net position as of beginning of year	1,725,751	50,820	1,776,571	1,661,017	46,146	1,707,163
Net position as of end of year	<u>\$ 1,804,808</u>	<u>\$ 50,236</u>	<u>\$ 1,855,044</u>	<u>\$ 1,725,751</u>	<u>\$ 50,820</u>	<u>\$ 1,776,571</u>

See accompanying notes.

The Health Care Authority of the City of Huntsville
Combined Statements of Cash Flows
Years Ended June 30, 2025 and 2024
(in thousands)

	2025			2024		
	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	\$ 2,857,907	\$ -	\$ 2,857,907	\$ 2,556,116	\$ -	\$ 2,556,116
Payments to suppliers	(1,081,058)	(11,854)	(1,092,912)	(928,578)	(9,589)	(938,167)
Payments to employees	(1,715,967)	-	(1,715,967)	(1,593,569)	-	(1,593,569)
Other receipts and payments, net	87,670	10,628	98,298	83,021	9,129	92,150
Net cash provided by (used in) operating activities	148,552	(1,226)	147,326	116,990	(460)	116,530
Cash flows from noncapital financing activities:						
County tax appropriation	48	-	48	187	-	187
Other, net	(1,197)	-	(1,197)	(372)	-	(372)
Net cash used in noncapital financing activities	(1,149)	-	(1,149)	(185)	-	(185)
Cash flows from capital and related financing activities:						
Repayment (issuance) of related party note receivable, net	246	-	246	(36)	-	(36)
Proceeds from issuance of long-term debt, net	-	-	-	203,528	-	203,528
Purchase of capital assets, net	(165,562)	8	(165,554)	(112,205)	(4)	(112,209)
Commercial paper drawn (repaid)	60,000	-	60,000	(67,000)	-	(67,000)
Payment of bonds and notes payable	(31,421)	-	(31,421)	(29,441)	-	(29,441)
Change in capital leases and installment obligations	(28,130)	-	(28,130)	(20,121)	-	(20,121)
Interest payments	(25,235)	(18)	(25,253)	(23,378)	(18)	(23,396)
Net cash used in capital and related financing activities	(190,102)	(10)	(190,112)	(48,653)	(22)	(48,675)
Cash flows from investing activities:						
Investment (loss) income	65,430	4,364	69,794	51,452	4,440	55,892
Other income (loss), net	17,128	(8)	17,120	15,527	(3)	15,524
Purchases of investments	(135,773)	-	(135,773)	(331,742)	-	(331,742)
Sales of investments	123,410	-	123,410	316,042	-	316,042
Increase in investments	-	(3,190)	(3,190)	-	(3,564)	(3,564)
Transfer of ownership	424	-	424	(6,960)	-	(6,960)
Net cash provided by investing activities	70,619	1,166	71,785	44,319	873	45,192
Increase (decrease) in cash and cash equivalents	27,920	(70)	27,850	112,471	391	112,862
Cash and cash equivalents as of beginning of year	289,699	1,459	291,158	177,228	1,068	178,296
Cash and cash equivalents as of end of year	\$ 317,619	\$ 1,389	\$ 319,008	\$ 289,699	\$ 1,459	\$ 291,158

See accompanying notes.

The Health Care Authority of the City of Huntsville
Combined Statements of Cash Flows
Years Ended June 30, 2025 and 2024
(in thousands)

(Continued)

	2025			2024		
	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	\$ 232,610	\$ 1,389	\$ 233,999	\$ 216,689	\$ 1,459	\$ 218,148
Cash and cash equivalents in board designated funds	85,009	-	85,009	73,010	-	73,010
Total cash and cash equivalents	\$ 317,619	\$ 1,389	\$ 319,008	\$ 289,699	\$ 1,459	\$ 291,158
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating income (loss)	\$ 23,764	\$ (4,922)	\$ 18,842	\$ 12,475	\$ 255	\$ 12,730
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization	135,974	8	135,982	128,887	9	128,896
Provision for bad debts	436,602	-	436,602	384,626	-	384,626
Change in:						
Patient accounts receivable	(459,947)	-	(459,947)	(444,467)	-	(444,467)
Inventories and other assets	(23,524)	3,690	(19,834)	(24,657)	(715)	(25,372)
Accounts payable and accrued expenses	17,717	(2)	17,715	62,787	(9)	62,778
Unearned revenue	5,205	-	5,205	(4,817)	-	(4,817)
Other long-term liabilities	11,532	-	11,532	(1,931)	-	(1,931)
Estimated third-party settlements	1,229	-	1,229	4,087	-	4,087
	124,788	3,696	128,484	104,515	(715)	103,800
Net cash provided by (used in) operating activities	\$ 148,552	\$ (1,226)	\$ 147,326	\$ 116,990	\$ (460)	\$ 116,530
Supplemental disclosure of noncash investing, capital, and financing activities						
Capital assets acquired through capital leases and installment obligations	\$ 10,672	\$ -	\$ 10,672	\$ 31,164	\$ -	\$ 31,164
Capital assets acquired through transfer of ownership	\$ 938	\$ -	\$ 938	\$ 12,317	\$ -	\$ 12,317
Unrealized securities gain	\$ 21,648	\$ 1,350	\$ 22,998	\$ 11,940	\$ 4,509	\$ 16,449

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)
- 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.

The Authority

The Authority is a public authority that operates a regional health care system made up of fourteen hospitals, thirteen 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 fourteenth 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 was an independent not-for-profit autonomous organization organized in accordance with Alabama Code Section 10-4-102. The Authority was the sponsoring organization for FC and was the sole member of the FC. In addition, the Authority managed FC under a management agreement that subjected 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. TOC operates in the Authority's market across Northern Alabama and South-central Tennessee, specializing in orthopaedics, spinal, and sports medicine.

HH Health System – Morgan, LLC (DMH)

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. Effective May 25, 2025, Lawrence Medical Center (LMC), an acute care hospital located in Moulton, Alabama, was combined into DMH through an Integration Agreement (see Note 11).

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

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)

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).

HH Health System – Marshall, LLC (MMC)

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 effective October 1, 2018. 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)

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 (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)

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. 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)

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)

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, 2025 and 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)

The Authority formed HH Health System – Emergency Medical Services, LLC, (EMS), a Limited Liability Company and wholly owned subsidiary, to expand and 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). The Authority's other existing ambulance services were consolidated into EMS beginning July 1, 2024 and did 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 moved 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 operating 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 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 (i.e. HHF, the limited liability companies, etc.) are not eligible to participate in the SAFE Program. As of June 30, 2025 and 2024, of the \$232,610 and 216,689, respectively, of non-HHF cash and cash equivalents on the combined statements of net position, \$124,450 and \$127,739, respectively, are covered under the SAFE Act Program. The remaining balances are covered up to FDIC 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 \$366,350 and \$355,167 as of June 30, 2025 and 2024, 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 and is recorded in noncurrent cash and investments as trustee held funds in the combined statements of net position.

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 (loss) within nonoperating activity in 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 \$- and \$716 as of June 30, 2025 and 2024, respectively, which was being amortized over the shorter life of the old or new debt, (2) goodwill in the amount of \$6,972 and \$7,901 as of June 30, 2025 and 2024, respectively, which is being amortized over its estimated useful lives, (3) deferred outflows in the amount of \$508 and \$1,017 as of June 30, 2025 and 2024, respectively, related to the Authority's defined benefit pension plan as discussed in Note 9, and (4) deferred outflows from the TOC acquisition aggregating \$2,011 and \$2,682 as of June 30, 2025 and 2024, 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 \$1,704 and \$1,740 as of June 30, 2025 and 2024, respectively, related to the defined benefit pension plan as discussed in Note 9 and (2) deferred inflows in the amount of \$27,652 and \$16,548 as of June 30, 2025 and 2024, 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 most other grants; are generally reported as nonoperating activity.

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 \$436,602 and \$384,626 for the years ended June 30, 2025 and 2024, respectively.

The Health Care Authority of the City of Huntsville
Notes to Combined Financial Statements
June 30, 2025
(in thousands)

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, 2025 and 2024 was approximately 25% for both years.

The calculated cost of Charity Care provided under the Authority’s Charity Care policies totaled approximately \$36,000 and \$39,000 for the years ended June 30, 2025 and 2024, respectively. Total Uncompensated Care, including Charity Care, was approximately \$144,400 and \$171,400 for the fiscal years ending June 30, 2025 and 2024, respectively. The decrease from the prior year was primarily due to a \$27,000 increase in access payments which reduced the Medicaid program losses. Otherwise, the level of uncompensated care was consistent in both years.

Subsequent events

Management has evaluated subsequent events and their potential effects on these combined financial statements through [WA to determine report date], 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:

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		<u>(1,151)</u>
Net position transferred	<u>\$</u>	<u>10,868</u>

The Health Care Authority of the City of Huntsville
Notes to Combined Financial Statements
June 30, 2025
(in thousands)

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 were as follows 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		<u>(2,701)</u>
Net assets acquired	<u>\$</u>	<u>7,013</u>

3. Capital Assets

Capital assets consist of the following as of June 30, 2025 and 2024:

	<u>Balance July 1, 2024</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>Balance June 30, 2025</u>
Construction-in-process	\$ 44,296	\$ 77,212	\$ (45,562)	\$ 75,946
Land and improvements	103,211	8,713	626	112,550
Buildings	1,345,313	58,276	14,259	1,417,848
Equipment	<u>978,378</u>	<u>33,815</u>	<u>3,733</u>	<u>1,015,926</u>
	2,471,198	178,016	(26,944)	2,622,270
Accumulated depreciation	<u>(1,447,847)</u>	<u>(104,218)</u>	<u>12,111</u>	<u>(1,539,954)</u>
	1,023,351	73,798	(14,833)	1,082,316
Right of use assets:				
Right of Use Assets – Buildings	74,117	3,140	(2,249)	75,008
Right of Use Assets – Equipment	33,967	3,918	(1,568)	36,317
Subscriptions – Software	<u>40,152</u>	<u>9,554</u>	<u>(2,123)</u>	<u>47,583</u>
	148,236	16,612	(5,940)	158,908
Accumulated amortization	<u>(51,638)</u>	<u>(30,682)</u>	<u>3,317</u>	<u>(79,003)</u>
Right of use assets, net	<u>96,598</u>	<u>(14,070)</u>	<u>(2,623)</u>	<u>79,905</u>
Total capital assets	<u>\$1,119,949</u>	<u>\$59,728</u>	<u>\$(17,456)</u>	<u>\$1,162,221</u>
	<u>Balance July 1, 2023</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>Balance June 30, 2024</u>
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	<u>928,670</u>	<u>82,381</u>	<u>(32,673)</u>	<u>978,378</u>

The Health Care Authority of the City of Huntsville
Notes to Combined Financial Statements
June 30, 2025
(in thousands)

	2,381,295	312,628	(222,725)	2,471,198
Accumulated depreciation	<u>(1,372,525)</u>	<u>(100,268)</u>	<u>24,946</u>	<u>(1,447,847)</u>
	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	<u>25,705</u>	<u>16,981</u>	<u>(2,534)</u>	<u>40,152</u>
	117,072	38,582	(7,418)	148,236
Accumulated amortization	<u>(32,607)</u>	<u>(26,674)</u>	<u>7,643</u>	<u>(51,638)</u>
Right of use assets, net	<u>84,465</u>	<u>11,908</u>	<u>225</u>	<u>96,598</u>
Total capital assets	<u>\$1,093,235</u>	<u>\$224,268</u>	<u>\$(197,554)</u>	<u>\$1,119,949</u>

Included in net position transferred for the fiscal year ended June 30, 2024 are \$1,102 of net deficit related to the transfer of LMC. Included in net position transferred 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.

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, 2025 and 2024, the investments were summarized and mature as follows:

	<u>2025</u>	<u>2024</u>
Cash and cash equivalents	\$ 85,009	\$ 73,010
Annuity contracts	1,899	1,255
U.S. government and agency obligations	248,186	167,351
State, municipal, and university obligations	106,689	94,990
Corporate bonds	459,580	540,582
Commercial mortgage-backed securities (CMBS)	7,163	-
Asset-backed securities (ABS)	<u>10,979</u>	<u>19,502</u>
	<u>\$ 919,505</u>	<u>\$ 896,690</u>

June 30, 2025	Carrying Amount	Investment Maturities (in Years)			
		Less Than 1	1 – 5	6 – 10	More Than 10
Investment Type:					
U.S. government and agency obligations	\$ 248,186	\$ 4,075	\$ 37,089	\$ 10,965	\$ 196,057
State, municipal and University obligations	106,689	12,455	82,068	5,578	6,588
Corporate bonds	459,580	53,645	373,866	30,763	1,306
CMBS	7,163	-	-	506	6,657
ABS	<u>10,979</u>	<u>3,468</u>	<u>7,138</u>	<u>373</u>	<u>-</u>
Total	<u>\$ 832,597</u>	<u>\$ 73,643</u>	<u>\$ 500,161</u>	<u>\$ 48,185</u>	<u>\$ 210,608</u>

The Health Care Authority of the City of Huntsville
Notes to Combined Financial Statements
June 30, 2025
(in thousands)

June 30, 2024	Carrying Amount	Investment Maturities (in Years)			
		Less Than 1	1 – 5	6 – 10	More Than 10
Investment Type:					
U.S. government and agency obligations	\$ 167,351	\$ 6,881	\$ 1,129	\$ 9,685	\$ 149,656
State, municipal and university obligations	94,990	5,925	71,915	11,373	5,777
Corporate bonds	540,582	74,680	412,437	52,174	1,291
ABS	19,502	-	5,484	6,424	7,594
Total	\$ 822,425	\$ 87,486	\$ 490,965	\$ 79,656	\$ 164,318

The amounts above exclude HHF investments of \$40,667 and \$37,477 as of June 30, 2025 and 2024, respectively.

5. Deposit and Investment Risk

As of June 30, 2025, 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 for operating cash balances 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/Aaa S&P and/or Moody's-rated agencies. There is no limitation on direct or AAA/Aaa S&P and/or Moody's-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/Baa3 – or equivalent S&P and/or Moody's rated 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 S&P and/or Moody's at the time of purchase and core fixed income investments to those rated BBB-/Baa3 or better by S&P and/or 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, 2025:

The Health Care Authority of the City of Huntsville
Notes to Combined Financial Statements
June 30, 2025
(in thousands)

<u>Investment Type</u>	<u>S&P Rating</u>	<u>Moody's Rating</u>	<u>Percentage</u>
Cash and cash equivalents	Not rated	Not rated	9%
U.S. government and agency obligations	*	*	28%
Other investments	AAA	Aaa	3%
Other investments	AA+ to AA-	Aa1 to Aa3	10%
Other investments	A+ to A-	A1 to A3	22%
Other investments	BBB+ to BBB-	Baa1 to Baa3	28%

*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), certain of the Authority's bank deposits were fully insured or collateralized. The Authority also had investments in U.S. government and agency obligations, state, municipal & university obligations, corporate bonds, CMBS, and ABS obligations totaling \$832,597 and \$822,425, which were held in safekeeping as of June 30, 2025 and 2024, respectively. These investments were segregated from the assets of the custodian and were not subject to the custodian's credit risk.

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:

	<u>2025</u>	<u>2024</u>
U.S. government and agency obligations	16.725	18.006
State, municipal and university obligations	4.898	5.601
Corporate bonds	3.323	3.308
CMBS	21.403	-
ABS	3.293	16.259
Overall	<u>7.134</u>	<u>6.795</u>

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, 2025 and 2024.

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

The Health Care Authority of the City of Huntsville
Notes to Combined Financial Statements
June 30, 2025
(in thousands)

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, 2025 and 2024, the Authority made interest payments, totaling \$3,209 and \$3,043, respectively, and remarketed existing CP totaling approximately \$723,000 and \$917,000, respectively. The notes outstanding totaled \$130,000 and \$70,000 as of June 30, 2025 and 2024, respectively, with interest rates varying from 3.05% to 3.10% as of June 30, 2025.

Changes in the Authority's CP during the years ended June 30, 2025 and 2024, respectively, were as follows:

	<u>Balance</u> <u>July 1, 2024</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2025</u>	<u>Current</u> <u>Maturity</u>
CP notes payable	\$ <u>70,000</u>	\$ <u>60,000</u>	\$ <u>-</u>	\$ <u>130,000</u>	\$ <u>130,000</u>
	<u>Balance</u> <u>July 1, 2023</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2024</u>	<u>Current</u> <u>Maturity</u>
CP notes payable	\$ <u>137,000</u>	\$ <u>-</u>	\$ <u>67,000</u>	\$ <u>70,000</u>	\$ <u>70,000</u>

7. Long-Term Debt

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 was being amortized over the life of the notes. The notes bore interest at a fixed rate of 1.89% with required monthly principal and interest payments and matured in June 2025. The notes were 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 November 2024, the Authority extinguished \$10,630 in par value and recognized a net gain on extinguishment of \$1,215, included in nonoperating activity in the 2025 combined statements of revenues, expenses and changes in net position. 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 in the 2024 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 prior extinguishments of the Series 2020B Bonds and to finance certain prior and future capital. Initial 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 60 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, 2025 and 2024, the 2022 Swap has a fair value of approximately \$171 and \$180, 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

The Health Care Authority of the City of Huntsville
Notes to Combined Financial Statements
June 30, 2025
(in thousands)

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.

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:

	<u>2025</u>	<u>2024</u>
Bonds and notes payable:		
Series 2015-A Notes	-	4,630
Series 2016-A Notes	5,417	10,417
Series 2020-A Notes	104,167	114,583
Series 2020B Bonds	163,775	174,405
2022 HEMSI Note	31	399
Series 2022A Bonds	41,700	41,700
2023 HEMSI Note	264	475
Series 2023A Bonds	190,000	190,000
NMTC notes payable	1,381	1,381
NMTC notes payable	<u>619</u>	<u>619</u>
	507,354	538,609
Net un-accreted bond premium payable	<u>25,109</u>	<u>27,016</u>
	532,463	565,625
Current maturity of bonds and notes payable	<u>(15,673)</u>	<u>(20,625)</u>
	<u>\$ 516,790</u>	<u>\$ 545,000</u>

The Health Care Authority of the City of Huntsville
Notes to Combined Financial Statements
June 30, 2025
(in thousands)

Debt service requirements of the Authority's various bonds and notes as of June 30, 2025 are as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 15,673	\$ 20,478	\$ 36,151
2027	10,872	20,200	31,072
2028	10,417	19,999	30,416
2029	10,417	19,790	30,207
2030	<u>10,417</u>	<u>19,585</u>	<u>30,002</u>
Five Year Total	57,796	100,052	157,848
2031-2035	72,948	81,518	154,466
2036-2040	84,965	68,345	153,310
2041-2045	89,970	50,421	140,391
2046-2050	118,490	28,011	146,501
2051-2055	<u>83,185</u>	<u>6,315</u>	<u>89,500</u>
	<u>\$ 507,354</u>	<u>\$ 334,662</u>	<u>\$ 842,016</u>

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, 2025 and 2024.

Changes in the Authority's bonds and notes payable, deferred compensation liabilities, during the years ended June 30, 2025 and 2024, were as follows:

	<u>Balance July 1, 2024</u>	<u>Net Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2025</u>	<u>Current Maturity</u>
Bonds and notes payable	\$ 565,625	\$ -	\$ 33,162	\$ 532,463	\$ 15,673
Deferred compensation	<u>2,906</u>	<u>464</u>	<u>-</u>	<u>3,370</u>	<u>-</u>
	<u>\$ 568,531</u>	<u>\$ 464</u>	<u>\$ 33,162</u>	<u>\$ 535,833</u>	<u>\$ 15,673</u>
	<u>Balance July 1, 2023</u>	<u>Net Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2024</u>	<u>Current Maturity</u>
Bonds and notes payable	\$ 392,698	\$ 203,664	\$ 30,737	\$ 565,625	\$ 20,625
Deferred compensation	<u>4,778</u>	<u>2,135</u>	<u>4,007</u>	<u>2,906</u>	<u>-</u>
	<u>\$ 397,476</u>	<u>\$ 205,799</u>	<u>\$ 34,744</u>	<u>\$ 568,531</u>	<u>\$ 20,625</u>

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

Lease and SBITDA agreements are summarized as follows as of June 30, 2025 and 2024:

The Health Care Authority of the City of Huntsville
Notes to Combined Financial Statements
June 30, 2025
(in thousands)

Description	Commencement Dates	Payment Terms	Payment Amounts	Interest Rates	Balance 6/30/2025
Building	11/2003 – 6/2025	1 - 62 Years	\$1 - \$171	2.0% - 4.9%	\$ 48,423
Equipment	8/2018 – 4/2025	1- 23 Years	\$1 - \$147	2.0%-11.9%	20,999
Other					1,402
					<u>\$ 70,824</u>

SBITAs	7/2019 - 6/2025	1 - 6 Years	\$1 - \$345	2.0% - 5.3%	<u>\$ 9,979</u>
--------	-----------------	-------------	-------------	-------------	-----------------

Description	Commencement Dates	Payment Terms	Payment Amounts	Interest Rates	Balance 6/30/2024
Buildings	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
					<u>\$ 81,260</u>

SBITAs	7/2019 - 6/2024	1 - 6 Years	\$1 - \$345	2.0% - 5.3%	<u>\$ 16,390</u>
--------	-----------------	-------------	-------------	-------------	------------------

Annual requirements to amortize lease and SBITA obligations and related interest are as follows as of June 30, 2025:

Year Ending June 30,	Principal	Interest
2026	\$ 20,740	\$ 2,249
2027	15,982	1,587
2028	12,333	1,119
2029	8,652	795
2030	4,951	613
2031-2035	9,281	2,020
2036-2040	3,367	1,223
2041-2045	3,212	698
2046-2050	1,071	221
2051-2055	116	116
2056-2060	128	103
2061-2065	142	90
2066-2070	157	75
2071-2075	173	58
2076-2080	191	40
2081-2085	212	20
2086-2090	95	2
	<u>\$ 80,803</u>	<u>\$ 11,029</u>

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, the Health Care Authority Benefit Restoration Plan 415(m), and the HH Heart Center LLC Special 401(k) and HH Heart Center LLC Benefit Restoration Plan 415(m) retirement plans 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%-60% of their base salary into the plans.

DMH employees were previously covered under the Decatur General Hospital 401(a) Retirement Plan and the Decatur General Hospital 457(b) Retirement Plan. These plans were terminated December 31, 2012. Effective January 1, 2013, the employees became eligible to participate in the System Plan. LMC employees transferring to DMH during 2025 became eligible to participate in the System Plan. The Authority did not assume LMC's retirement plan. The LMC plan is in process of being terminated and funds will be distributed either to the participant or to another eligible plan.

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 May 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. Further, effective October 1, 2016, the Heart Center, P.C. was restructured into an LLC and the employees became eligible to participate in the HH Heart Center LLC 401(k) Retirement 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.

The Health Care Authority of the City of Huntsville
Notes to Combined Financial Statements
June 30, 2025
(in thousands)

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.

TOC employees were previously covered under a 401(k) plan sponsored by the previously physician-owned physician practice. Effective October 1, 2023, these 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 EMS employees became eligible to participate in the System Plan. As other ambulance employees previously employed at various Authority hospitals have become EMS employees, there has been no impact to retirement plan eligibility, as these employees were previously eligible to participate in the System Plan at the Authority hospitals.

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.

The Authority incurred costs related to the defined contribution plans for the years ended June 30, 2025 and 2024 of \$26,831 and \$23,318, 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-three participants (and only five active) remaining. The net pension asset for the fiscal years ended June 30, 2025 and June 30, 2024 was \$6,968 and \$5,532, respectively. The RPMMC is fully funded as of June 30, 2025.

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, 2025 and 2024, the remaining unamortized goodwill balance was \$6,972 and \$7,901, respectively, and is included on the combined statements of net position as deferred outflow of resources.

As of June 30, 2025 and 2024, the combined summary of the Surgery Center's unaudited financial information for the 12-month periods was as follows:

	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>	<u>Revenues</u>	<u>Net Income</u>
2025	\$ <u>14,448</u>	\$ <u>7,287</u>	\$ <u>7,161</u>	\$ <u>44,359</u>	\$ <u>5,833</u>

	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>	<u>Revenues</u>	<u>Net Income</u>
2024	\$ <u>11,647</u>	\$ <u>4,786</u>	\$ <u>6,861</u>	\$ <u>44,015</u>	\$ <u>6,669</u>

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 NTMC, 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 NTMC 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.

AffirmedRx

The Authority has a 5% ownership interest in AffirmedRx effective December 2024. AffirmedRx is a public benefit corporation and a leading provider of transparent pharmacy benefit management (PBM) services.

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 and earned in the combined statements of revenues, expenses, and changes in net position. Transfers that occur which have not been earned by the Authority by purchasing the underlying asset or expense are recorded in unearned revenue in the combined statements of net position and released into income which such purchases occur. 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 \$2,119 and \$1,585 have been made to HH by HHF for such operating purposes for the years ended June 30, 2025 and 2024, 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 \$4,267 and \$4,020 have been made to HH by HHF for such nonoperating purposes for the years ended June 30, 2025 and 2024, respectively. Transfers in unearned revenue were \$4,000 and \$0 as of June 30, 2025 and 2024, 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 a management and affiliation agreement with the Lawrence County Health Care Authority (the 2012 Agreement), which operated LMC. The 2012 Agreement created an

affiliated health care delivery system that permitted more cost-effective and efficient delivery of health services in north Alabama and surrounding areas. On October 22, 2024, a new affiliation agreement (the 2024 Agreement) was entered into between the two parties which superseded and replaced the 2012 Agreement. The primary purpose of the 2024 Agreement was to assist LMC in strategic planning to provide certain agreed upon services and alternative health care services in Lawrence County and surrounding areas. Effective May 25, 2025, the 2024 Agreement was replaced with an Integration Agreement whereby the Authority assumed the rights and obligations of the Authority as lessee in the lease agreement between the Authority and the Lawrence County Health Care Authority. As a result of the lease, LMC was combined into DMH effective May 25, 2025.

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 \$33,294 as of June 30, 2025.

CARES Act Funding

Revenues recognized from the Coronavirus Aid, Relief, and Economic Security act of 2020 (CARES Act) Provider Relief Fund (PRF) were generally 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. As such, amounts recognized or previously recognized as nonoperating revenue on the combined statements of revenues, expenses, and changes in net position could be subject to change or recoupment and those changes could be material to the Authority. The Authority continues to assess the potential impact of the CARES Act 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.

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 use of CARES Act funding is subject to validation and audit by HHS. 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, were completed after the due dates by the Authority's current external auditors due primarily to the delay of the predecessor external audit firm in completing the single audit for the year ending June 30, 2021. The Health Resources and Services Administration (HRSA) provided a letter on June 13, 2025 indicating concurrence with the late reporting finding in the single audit for the year ended June 30, 2022 and indicated that no further action is being taken by HRSA at this time. The authority expects to receive a similar communication from HRSA for the

single audit for the year ended June 30, 2023. The single audit for the year ended June 30, 2024 was timely filed and any required single audit for the year ended June 30, 2025 is expected to be timely filed on or before the March 31, 2026 reporting deadline.

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:

	<u>2025</u>	<u>2024</u>
Blue Cross	27%	27%
Medicare	22%	23%
Medicare HMO	22%	21%
Other third-party payors	12%	10%
Self-Pay Patients	9%	10%
Medicaid	8%	9%
	<u>100%</u>	<u>100%</u>

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:

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:

	<u>2025</u>	<u>2024</u>
Gross patient service charges	\$ 11,676,811	\$ 10,686,450
Provision for contractual adjustments	(8,215,650)	(7,524,004)
Charity	(149,741)	(161,133)
Provision for bad debts	<u>(436,602)</u>	<u>(384,626)</u>
	<u>\$ 2,874,818</u>	<u>\$ 2,616,687</u>

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).

The Health Care Authority of the City of Huntsville
Notes to Combined Financial Statements
June 30, 2025
(in thousands)

Fair value measurements at June 30, 2025:

Assets	Fair Value Measurement at Report Date Using			
	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S government and agency obligations	\$ 248,186	\$ -	\$ 248,186	\$ -
State, municipal and university obligations	106,689	-	106,689	-
Corporate bonds	459,580	-	459,580	-
CMBS	7,163	-	7,163	-
ABS	10,979	-	10,979	-
	<u>\$ 832,597</u>	<u>\$ -</u>	<u>\$ 832,597</u>	<u>\$ -</u>

The above schedule excludes cash and cash equivalents of \$85,009 and guaranteed contracts measured at contract value of \$1,899.

Fair value measurements at June 30, 2024:

Assets	Fair Value Measurement at Report Date Using			
	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. government and agency obligations	\$ 167,351	\$ -	\$ 167,351	\$ -
State, municipal and university obligations	94,990	-	94,990	-
Corporate bonds	540,582	-	540,582	-
ABS	19,502	-	19,502	-
	<u>\$ 822,425</u>	<u>\$ -</u>	<u>\$ 822,425</u>	<u>\$ -</u>

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

Huntsville Hospital Foundation

HHF's investments at fair value totaled \$47,194 as of June 30, 2025. Of total investments, \$40,495 were classified as Level 1 investments, \$172 were classified as Level 2 investments, \$6,527 were classified as Level 3 investments. 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.

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, 2025 and 2024, the Authority had \$2,693 and \$2,108, 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, 2025 and 2024, the Authority had \$11,001 and \$10,686, respectively, of estimated medical liability claims reserves recorded. The Authority paid and accrued claims to other health care providers totaling \$100,478 and \$106,846 for the years ended June 30, 2025 and 2024, 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, 2025 and 2024, the Authority had \$4,418 and \$5,041, respectively, of estimated claims reserves that were recorded at the net present value of \$3,178 and \$3,672 (using a discount rate of 3.9% and 4.5%), respectively.

17. Condensed Financial Information – Blended Component Units

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

Condensed statements of net position

	<u>2025</u>	<u>2024</u>
Current assets	\$ 290,486	\$ 261,582
Noncurrent cash and investments	92,310	86,451
Capital assets	390,617	397,533
Other assets	<u>18,947</u>	<u>22,723</u>
Total assets	792,360	768,289
Deferred outflows of resources	<u>508</u>	<u>1,017</u>

The Health Care Authority of the City of Huntsville
Notes to Combined Financial Statements
June 30, 2025
(in thousands)

Total assets and deferred outflows of resources	<u>\$ 792,868</u>	<u>\$ 769,306</u>
Current liabilities	\$ 154,423	\$ 157,048
Intercompany balances	748,643	590,910
Long-term liabilities	<u>28,326</u>	<u>34,476</u>
Total liabilities	<u>931,392</u>	<u>782,434</u>
Deferred inflows of resources	<u>6,530</u>	<u>7,446</u>
Restricted for minority interest, nonexpendable	(580)	396
Net investment in capital assets	351,639	348,673
Unrestricted	<u>(496,113)</u>	<u>(369,643)</u>
Total net position	<u>(145,054)</u>	<u>(20,574)</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 792,868</u>	<u>\$ 769,306</u>

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

	<u>2025</u>	<u>2024</u>
Operating revenue	\$ 1,178,706	\$ 1,052,895
Operating expenses	<u>1,311,535</u>	<u>1,166,957</u>
Operating loss	(132,829)	(114,062)
Nonoperating activity	<u>10,199</u>	<u>10,609</u>
Revenue in deficit of expenses	(122,630)	(103,453)
Net position transferred	(874)	8,061
Other	<u>(976)</u>	<u>(114)</u>
Decrease in net position	(124,480)	(95,506)
Net position as of beginning of year	<u>(20,574)</u>	<u>74,932</u>
Net position as of end of year	<u>\$ (145,054)</u>	<u>\$ (20,574)</u>

Condensed statements of cash flows

	<u>2025</u>	<u>2024</u>
Net cash provided by (used in):		
Operating activities	\$ 69,373	\$ 61,266
Capital and related financing activities	(60,662)	(82,440)
Noncapital financing activities	(928)	73
Investing activities	<u>7,102</u>	<u>21,125</u>
Net increase	14,885	24
Cash and cash equivalents:		
Beginning of year	<u>27,316</u>	<u>27,292</u>
End of year	<u>\$ 42,201</u>	<u>\$ 27,316</u>

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 combined financial statements of the Health Care Authority of the City of Huntsville (the Authority), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Authority's basic combined financial statements as listed in the table of contents, and have issued our report thereon dated October 21, 2025. 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 combined 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 23, 2025.

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 21, 2025

The Health Care Authority of the City of Huntsville
Notes to Combined Financial Statements
June 30, 2025
(in thousands)

<u>BOARD MEMBER</u>	<u>POSITION</u>	<u>EXPIRATION</u>
Mike Goodman	Chair	April 15, 2027
Amit Arora, M.D.	Vice Chair	April 15, 2027
Frank M. Caprio	Secretary	April 15, 2031
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, 2031
Patricia Sims, EdD	Member	April 15, 2031
Roy Rollings	Member at Large	July 31, 2027
James Bolte	Member at Large	April 30, 2026