

**SOUTH CENTRAL REGIONAL
MEDICAL CENTER**
Laurel, Mississippi

Audited Financial Statements
As of and for the Years Ended
September 30, 2017 and 2016

SOUTH CENTRAL REGIONAL MEDICAL CENTER

Laurel, Mississippi

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
South Central Regional Medical Center
Laurel, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of South Central Regional Medical Center (the "Medical Center"), a component unit of Jones County, Mississippi, as of and for the years ended September 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Medical Center, as of September 30, 2017 and 2016, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Medical Center's basic financial statements. The Schedule of Surety Bonds for Officers and Employees on page 40 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Surety Bonds for Officers and Employees has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2017 on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Medical Center's internal control over financial reporting and compliance.



Ridgeland, Mississippi
November 28, 2017

**SOUTH CENTRAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS**
Years Ended September 30, 2017 and 2016

This section of South Central Regional Medical Center's ("Medical Center") annual financial report presents background information and our analysis of the Medical Center's financial performance during the fiscal years that ended on September 30, 2017 and 2016. Please read it in conjunction with the financial statements in this report. The amounts contained within this section are rounded to the nearest thousand.

2017

FINANCIAL HIGHLIGHTS

The Medical Center's total net position increased by \$2,032,000 or 1.8 percent, from the prior year. All of this increase results from the recognition of revenue over expenses.

At the end of the 2017 fiscal year, the assets of the Medical Center exceeded liabilities by \$112,012,000. Of this excess amount, \$73,171,000 (unrestricted) may be used to meet ongoing obligations to the Medical Center's employees, patients and creditors, \$34,527,000 is invested in capital assets, net of related debt and \$4,314,000 is restricted for debt service, for self-insurance and for minority interest in blended component unit. The Medical Center is self-insured for general and professional liability claims and has established a self-insurance fund in accordance with the requirements of the Mississippi Tort Claims Board. At September 30, 2017, the Medical Center had \$1,532,000 deposited into this restricted account to be used exclusively for general and professional liability claims and related claim defense expenses. All related liabilities and incurred but not reported ("IBNR") amounts are recorded in the financial statements and further defined in the notes to the financial statements. At September 30, 2017, the Medical Center had a current ratio exceeding 4.9.

Total operating revenue increased \$6.5 million or 4.3 percent. This was due primarily to an increase of \$6.9 million in net patient service revenue which consisted primarily of increases in inpatient and outpatient volumes. Operating expenses, excluding depreciation and amortization, increased by \$4.2 million from 2016 to 2017. This increase was due primarily to increases in salaries and employee benefits of \$2.2 million and an increase in supplies of \$1.9 million.

2016

FINANCIAL HIGHLIGHTS

The Medical Center's total net position increased by \$1,204,000 or 1.1 percent, from the prior year. All of this increase results from the recognition of revenue over expenses.

At the end of the 2016 fiscal year, the assets of the Medical Center exceeded liabilities by \$109,980,000. Of this excess amount, \$68,505,000 (unrestricted) may be used to meet ongoing obligations to the Medical Center's employees, patients and creditors, \$34,582,000 is invested in capital assets, net of related debt and \$6,893,000 is restricted for debt service, for self-insurance and for minority interest in blended component unit. The Medical Center is self-insured for general and professional liability claims and has established a self-insurance fund in accordance with the requirements of the Mississippi Tort Claims Board. At September 30, 2016, the Medical Center had \$1,532,000 deposited into this restricted account to be used exclusively for general and professional liability claims and related claim defense expenses. All related liabilities and incurred but not reported ("IBNR") amounts are recorded in the financial statements and further defined in the notes to the financial statements. At September 30, 2016, the Medical Center had a current ratio exceeding 3.8.

**SOUTH CENTRAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS**
Years Ended September 30, 2017 and 2016

Total operating revenue decreased \$2.6 million or 1.7 percent. This was due primarily to a decrease of \$2.7 million in net patient service revenue which consisted primarily of decreases in inpatient volume; outpatient lab, pharmacy and radiology services. Operating expenses, excluding depreciation and amortization, increased by \$0.9 million from 2015 to 2016. This increase was due primarily to increases in salaries and employee benefits of \$1.4 million and a decrease in professional fees, supplies, and maintenance of \$0.5 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four components - the Management's Discussion and Analysis of Financial Condition and Operating Results (this section), the Independent Auditor's Report, the Financial Statements and Supplementary Information.

The *Financial Statements* of the Medical Center report the financial position of the Medical Center and the results of its operations and its cash flows. The financial statements are prepared on the accrual basis of accounting. These statements offer short-term and long-term financial information about the Medical Center's activities.

The *Statements of Net Position* include all of the Medical Center's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the Medical Center's creditors (liabilities) for both the current year and the prior year. They also provide the basis for evaluating the capital structure of the Medical Center, and assessing the liquidity and financial flexibility of the Medical Center.

All of the current year's revenues and expenses are accounted for in the *Statements of Revenue and Expenses and Changes in Net Position*. These statements measure the performance of the Medical Center's operations over the past two years and can be used to determine whether the Medical Center has been able to recover all of its costs through its patient service revenue and other revenue sources.

The primary purpose of the *Statements of Cash Flows* is to provide information about the Medical Center's cash from operations, investment and financial activities. The statements of cash flows outline where the cash comes from, what the cash is used for and the changes in the cash balance during the reporting period.

The annual report also includes *Notes to the Financial Statements* that are essential to gain a full understanding of the data provided in the financial statements. The notes to the financial statements can be found immediately following the basic financial statements in this report. Following the notes to the financial statements is a section containing supplementary information that provides additional information as required.

**SOUTH CENTRAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS**
Years Ended September 30, 2017 and 2016

FINANCIAL ANALYSIS OF THE MEDICAL CENTER

The statements of net position, the statements of revenue and expenses and changes in net position report information about the Medical Center's activities. These statements report the net position of the Medical Center and changes in them. Increases or improvements, as well as decreases or declines in the net position, is one indicator of the financial state of the Medical Center. Other non-financial factors that should also be considered include changes in economic conditions, population growth (including uninsured and working poor) and new or changed government legislation.

2017

Net Position

A summary of the Medical Center's statements of net position is presented in the following table:

**Condensed Statements of Net Position
(In Thousands)**

	Fiscal Year 2017	Fiscal Year 2016	Dollar Change	Total Percent Change
Current and other assets	\$ 127,367	\$ 92,442	\$ 34,925	37.8%
Capital assets	68,486	64,240	4,246	6.6%
Total assets	<u>\$ 195,853</u>	<u>\$ 156,682</u>	<u>\$ 39,171</u>	<u>25.0%</u>
Long-term debt outstanding	\$ 66,875	\$ 29,658	\$ 37,217	125.5%
Other liabilities	16,966	17,044	(78)	-0.5%
Total liabilities	<u>83,841</u>	<u>46,702</u>	<u>37,139</u>	<u>79.5%</u>
Investment in capital assets, net of related debt	34,527	34,582	(55)	-0.2%
Restricted	4,314	6,893	(2,579)	-37.4%
Unrestricted	<u>73,171</u>	<u>68,505</u>	<u>4,666</u>	<u>6.8%</u>
Total net position	<u>112,012</u>	<u>109,980</u>	<u>2,032</u>	<u>1.8%</u>
Total liabilities and net position	<u>\$ 195,853</u>	<u>\$ 156,682</u>	<u>\$ 39,171</u>	<u>25.0%</u>

Total assets increased 25.0 percent due to an increase in assets limited to use of \$32.5 million. The increase in asset limited to use is due to new borrowings on long-term debt for the Medical Center expansion (the "Project"). The Project consist of a 67,980 square foot three floor addition to the easterly end of the Medical Center to house a new emergency department and to shell in two floors for future expansion, the construction of a 67,815 square foot four floor medical office building, new parking areas and drives and a paved heliport. The cost of the Project is estimated at approximately \$35,600,000.

Long-term debt increased by \$37.2 million due to new borrowings of \$66.5 million. The new borrowings were used to refund the Mississippi Medical Center Equipment and Facilities Authority bonds, payoff the outstanding bank loans and capital lease obligations, and fund the Project. This is further discussed in the Long-Term Debt and Capital Assets section of the Operating and Financial Performance section of this analysis.

**SOUTH CENTRAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS**
Years Ended September 30, 2017 and 2016

2016

Net Position

A summary of the Medical Center's statements of net position is presented in the following table:

Condensed Statements of Net Position
(In Thousands)

	Fiscal Year 2016	Fiscal Year 2015	Dollar Change	Total Percent Change
Current and other assets	\$ 92,442	\$ 98,517	\$ (6,075)	-6.2%
Capital assets	64,240	61,530	2,710	4.4%
Total assets	<u>\$ 156,682</u>	<u>\$ 160,047</u>	<u>\$ (3,365)</u>	<u>-2.1%</u>
Long-term debt outstanding	\$ 29,658	\$ 30,653	\$ (995)	-3.2%
Other liabilities	17,044	20,618	(3,574)	-17.3%
Total liabilities	<u>46,702</u>	<u>51,271</u>	<u>(4,569)</u>	<u>-8.9%</u>
Investment in capital assets, net of related debt	34,582	30,877	3,705	12.0%
Restricted	6,893	7,378	(485)	-6.6%
Unrestricted	68,505	70,521	(2,016)	-2.9%
Total net position	<u>109,980</u>	<u>108,776</u>	<u>1,204</u>	<u>1.1%</u>
Total liabilities and net position	<u>\$ 156,682</u>	<u>\$ 160,047</u>	<u>\$ (3,365)</u>	<u>-2.1%</u>

Total assets decreased 2.1 percent due to decreases in cash and investments of \$9.0 million, offset by a \$2.7 million increase in net patient receivables estimated third-party payor settlements. The decrease in cash and investments is due to a new billing system being implemented on July 26, 2016.

Long-term debt decreased by 3.2 percent due to the payment of principal on long-term debt. This is further discussed in the Long-Term Debt and Capital Assets section of the Operating and Financial Performance section of this analysis.

**SOUTH CENTRAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS**
Years Ended September 30, 2017 and 2016

2017

Summary of Revenue and Expenses

The following table presents a summary of the Medical Center's historical revenues and expenses for each of the fiscal years ended September 30, 2017 and 2016:

Condensed Statements of Revenue and Expenses
(In Thousands)

	Fiscal Year 2017	Fiscal Year 2016	Dollar Change	Total Percent Change
Net patient service revenue	\$ 155,482	\$ 148,540	\$ 6,942	4.7%
Other operating revenue excluding interest income	2,901	3,361	(460)	-13.7%
Total operating revenue	158,383	151,901	6,482	4.3%
Salaries and benefits	89,839	87,992	1,847	2.1%
Professional fees, supplies, maintenance, other	56,355	54,050	2,305	4.3%
Total operating expenses before depreciation/amortization	146,194	142,042	4,152	2.9%
Earnings before interest depreciation and amortization ("EBITDA")	12,189	9,859	2,330	23.6%
Depreciation and amortization expense	8,350	8,167	183	2.2%
Operating net income	3,839	1,692	2,147	126.9%
Investment and grant income	656	1,201	(545)	-45.4%
Income from joint ventures	101	190	(89)	-46.8%
Gain (loss) on sale of capital assets	-	1	(1)	-100.0%
Distributions to minority interest	(589)	(529)	(60)	11.3%
Debt issuance costs	(1,130)	-	(1,130)	100.0%
Interest expense	(846)	(1,351)	505	-37.4%
Total non-operating expenses	(1,808)	(488)	(1,320)	270.5%
Increase in net position	\$ 2,031	\$ 1,204	\$ 827	68.7%

**SOUTH CENTRAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS**
Years Ended September 30, 2017 and 2016

2017

Operating Revenue

During fiscal year 2017, the Medical Center derived approximately 98.2 percent of its total operating revenues from net patient service revenues. Operating revenues include revenues from the Medicare and Medicaid programs, patients or their third-party carriers who pay for care in the Medical Center's facilities.

The following table represents the relative percentage of gross charges billed for patient services by payor for the fiscal years ended September 30, 2017 and 2016:

	Fiscal Year 2017	Fiscal Year 2016
Medicare	49.4%	47.0%
Medicaid	19.8%	22.3%
Other	30.8%	30.7%
	<u>100.0%</u>	<u>100.0%</u>

2017

OPERATING AND FINANCIAL PERFORMANCE

The following summarizes the changes in the Medical Center's statements of revenue and expenses and changes in net position for 2017 as compared to 2016:

- During 2017, the Medical Center had patient days and admissions of 33,797 and 8,659, respectively. As compared to 2016, patient days decreased by 1.9 percent while admissions increased by 3.8 percent, lowering the average length of stay.
- Outpatient and emergency registrations were 47,663 and 31,596, respectively, in 2017 which corresponds to a decrease of 6.5 percent and 7.5 percent, respectively, as compared to 2016; however, outpatient infusion and chemotherapy services increased.
- Surgical cases decreased by 0.1 percent to 3,631 in 2017 from 3,638 in 2016.
- Net patient service revenue increased as stated in the Financial Highlights. Net patient service revenue increased to \$155.5 million in 2017 from \$148.5 million in 2016.
- Salaries increased \$2.2 million to \$76.8 million in 2017 from \$74.6 million in 2016. The increase is primarily due to an increase in full-time equivalents as well as an increase in the average hourly rate paid as a result of salary increases as well as an increased skill mix.

**SOUTH CENTRAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS**
Years Ended September 30, 2017 and 2016

2016

Summary of Revenue and Expenses

The following table presents a summary of the Medical Center's historical revenues and expenses for each of the fiscal years ended September 30, 2016 and 2015:

Condensed Statements of Revenue and Expenses
(In Thousands)

	Fiscal Year 2016	Fiscal Year 2015	Dollar Change	Total Percent Change
Net patient service revenue	\$ 148,540	\$ 151,273	\$ (2,733)	-1.8%
Other operating revenue excluding interest income	3,361	3,193	168	5.3%
Total operating revenue	151,901	154,466	(2,565)	-1.7%
Salaries and benefits	87,992	86,642	1,350	1.6%
Professional fees, supplies, maintenance, other	54,050	54,509	(459)	-0.8%
Total operating expenses before depreciation/amortization	142,042	141,151	891	0.6%
Earnings before interest depreciation and amortization ("EBITDA")	9,859	13,315	(3,456)	-26.0%
Depreciation and amortization Expense	8,167	8,180	(13)	-0.2%
Operating net income	1,692	5,135	(3,443)	-67.0%
Investment and grant income	1,201	1,369	(168)	-12.3%
Income from joint ventures	190	212	(22)	-10.4%
Gain (loss) on sale of capital assets	1	34	(33)	-97.1%
Distributions to minority interest	(529)	(382)	(147)	-38.5%
Interest expense	(1,351)	(1,442)	91	-6.3%
Total non-operating expenses	(488)	(209)	(279)	-133.5%
Increase in net position	\$ 1,204	\$ 4,926	\$ (3,722)	-75.6%

**SOUTH CENTRAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS**
Years Ended September 30, 2017 and 2016

2016

Operating Revenue

During fiscal year 2016, the Medical Center derived approximately 98.1 percent of its total operating revenues from net patient service revenues. Operating revenues include revenues from the Medicare and Medicaid programs, patients or their third-party carriers who pay for care in the Medical Center's facilities.

The following table represents the relative percentage of gross charges billed for patient services by payor for the fiscal years ended September 30, 2016 and 2015:

	Fiscal Year 2016	Fiscal Year 2015
Medicare	47.0%	48.5%
Medicaid	22.3%	20.0%
Other	30.7%	31.5%
	<u>100.0%</u>	<u>100.0%</u>

2016

OPERATING AND FINANCIAL PERFORMANCE

The following summarizes the changes in the Medical Center's statements of revenue and expenses and changes in net position for 2016 as compared to 2015:

- During 2016, the Medical Center had patient days and admissions of 34,560 and 8,424, respectively. As compared to 2015, patient days decreased by 10.8 percent while admissions decreased by 7.6 percent.
- Outpatient and emergency registrations were 51,839 and 33,913, respectively, in 2016 which corresponds to an increase of 2.2 percent and a decrease of 7.1 percent, respectively, as compared to 2015.
- Surgical cases decreased by 11.6 percent to 3,638 in 2016 from 4,117 in 2015.
- Net patient service revenue increased as stated in the Financial Highlights. Net patient service revenue decreased to \$148.5 million in 2016 from \$151.2 million in 2015.
- Salaries increased \$0.4 million to \$74.6 million in 2016 from \$74.2 million in 2015. The increase is primarily due to an increase in full-time equivalents as well as an increase in the average hourly rate paid as a result of salary increases as well as an increased skill mix.

**SOUTH CENTRAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS**
Years Ended September 30, 2017 and 2016

2017

CAPITAL ASSETS

	Capital Assets (In Thousands)			
	Fiscal Year 2017	Fiscal Year 2016	Dollar Change	Total Percent Change
Land and land improvements	\$ 5,166	\$ 4,522	\$ 644	14.2%
Building and leasehold improvements	71,526	70,361	1,165	1.7%
Equipment	90,561	83,172	7,389	8.9
Subtotal	167,253	158,055	9,198	5.8%
Less: Accumulated depreciation	(109,215)	(100,865)	(8,350)	8.3%
	58,038	57,190	848	1.5%
Construction in progress	10,448	7,050	3,398	48.2%
Net capital asset	<u>\$ 68,486</u>	<u>\$ 64,240</u>	<u>\$ 4,246</u>	<u>6.6%</u>

Net capital assets increased approximately \$4.2 million or 6.6 percent due to the Medical Center's purchases exceeding depreciation. Before depreciation, capital assets increased by \$12.6 million primarily related to the construction of the Project.

2017

LONG-TERM DEBT

At year-end, the Medical Center had \$66.9 million in long-term debt. Total long-term debt represents 79.0 percent of the Medical Center's total liabilities as of year-end. More detailed information about the long-term debt is presented in the notes to the financial statements.

**SOUTH CENTRAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS**
Years Ended September 30, 2017 and 2016

2016

CAPITAL ASSETS

	Capital Assets (In Thousands)			
	Fiscal Year 2016	Fiscal Year 2015	Dollar Change	Total Percent Change
Land and land improvements	\$ 4,522	\$ 4,523	\$ (1)	0.0%
Building and leasehold improvements	70,361	66,989	3,372	5.0%
Equipment	83,172	76,828	6,344	8.3
Subtotal	158,055	148,340	9,715	6.5%
Less: Accumulated depreciation	(100,865)	(92,977)	(7,888)	8.5%
	57,190	55,363	1,827	3.3%
Construction in progress	7,050	6,167	883	14.3%
Net capital asset	\$ 64,240	\$ 61,530	\$ 2,710	4.4%

Net capital assets increased approximately \$2.7 million or 4.4 percent due to the Medical Center's purchases exceeding depreciation. Before depreciation, capital assets increased by \$10.6 million primarily related to the replacement of fully depreciated assets and building improvements.

2016

LONG-TERM DEBT

At year-end, the Medical Center had \$29.7 million in long-term debt. Total long-term debt represents 64.0 percent of the Medical Center's total liabilities as of year-end. More detailed information about the long-term debt is presented in the notes to the financial statements.

THE MEDICAL CENTER'S CASH FLOWS

Changes in the Medical Center's cash flows are consistent with changes in operating income and non-operating revenues and expenses, discussed earlier.

**SOUTH CENTRAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS**
Years Ended September 30, 2017 and 2016

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

While the annual budget of the Medical Center is not presented within these financial statements, the Medical Center's Board and management considered many factors when setting the fiscal year 2018 budget. Although the financial outlook for the Medical Center is outstanding, of primary importance in setting the 2018 budget is the status of the economy and the healthcare environment, which takes into account market forces and environmental factors such as:

- Medicare reimbursement changes;
- Medicaid reimbursement changes, as well as the continuation at the current or increased level of the Disproportionate Share and Upper Payment Limit programs;
- Increased number of uninsured and working poor;
- Ongoing competition for services;
- Cost of supplies, primarily pharmaceuticals;
- Ability to continue recruiting medical staff physicians to maintain the high level of services offered to our service area;
- Continued growth of service levels in the ancillary departments;
- Continuation of the excellent working relationship between the Medical Staff, the Board and the Medical Center administration;
- Impact of Healthcare Reform as it relates to reimbursement and employee health insurance coverage.

SOUTH CENTRAL REGIONAL MEDICAL CENTER
(A Component Unit of Jones County)
Statements of Net Position
September 30, 2017 and 2016

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 15,816,097	\$ 14,391,233
Investments	17,995,873	18,034,733
Assets limited as to use	981,664	2,715,275
Patient receivables, net of allowances for uncollectible accounts of \$26,780,976 in 2017 and \$16,861,134 in 2016	43,021,925	40,354,791
Estimated third-party payor settlements	326,446	1,829,004
Inventories	5,988,575	5,866,006
Other current assets	1,377,781	1,384,812
Total current assets	85,508,361	84,575,854
Assets limited as to use, net of amount required for current liabilities	35,982,544	3,527,303
Capital assets, net	68,485,718	64,239,721
Other assets	5,876,007	4,339,242
Total assets	195,852,630	156,682,120
LIABILITIES		
Current liabilities		
Current maturities of long-term debt	391,244	4,853,013
Accounts payable, trade	9,151,897	9,303,165
Accrued salaries and compensated absences	5,062,059	4,697,465
Accrued self-insurance costs	2,070,000	2,080,000
Other current liabilities	682,199	963,515
Total current liabilities	17,357,399	21,897,158
Long-term debt, less current maturities	66,483,325	24,804,664
Total liabilities	83,840,724	46,701,822
NET POSITION		
Net investment in capital assets	34,526,884	34,582,044
Restricted - nonexpendable for		
Minority interest in blended component unit	344,222	650,377
Restricted - expendable for		
Debt service	2,437,474	4,710,374
Use in self-insurance programs	1,532,204	1,532,204
Unrestricted	73,171,122	68,505,299
Total net position	\$ 112,011,906	\$ 109,980,298

See accompanying notes.

SOUTH CENTRAL REGIONAL MEDICAL CENTER
(A Component Unit of Jones County)
Statements of Revenue and Expenses and Changes in Net Position
Years Ended September 30, 2017 and 2016

	2017	2016
Operating revenues		
Net patient service revenue, net of provision for bad debts of \$16,309,935 in 2017 and \$12,617,094 in 2016	\$ 155,482,180	\$ 148,540,485
Other operating revenue	2,901,490	3,360,943
Total operating revenue	<u>158,383,670</u>	<u>151,901,428</u>
Operating expenses		
Salaries and wages	76,799,137	74,641,394
Professional fees	9,443,198	9,407,395
Employee benefits	13,039,495	13,351,034
Supplies and other	35,081,005	33,128,700
Maintenance and utilities	11,832,358	11,513,810
Depreciation and amortization	8,349,974	8,166,865
Total operating expenses	<u>154,545,167</u>	<u>150,209,198</u>
Income from operations	<u>3,838,503</u>	<u>1,692,230</u>
Nonoperating revenue (expenses)		
Interest expense	(845,717)	(1,351,283)
Unrestricted gifts and bequests	102,726	87,417
Gain on sale of capital assets	-	1,032
Joint venture income	101,419	189,832
Investment income	553,700	1,114,010
Debt issuance costs	(1,129,567)	-
Total nonoperating revenues (expenses)	<u>(1,217,439)</u>	<u>41,008</u>
Distributions to minority interest	<u>(589,456)</u>	<u>(528,686)</u>
Increase in net position	2,031,608	1,204,552
Net position, beginning of year	<u>109,980,298</u>	<u>108,775,746</u>
Net position, end of year	<u>\$ 112,011,906</u>	<u>\$ 109,980,298</u>

See accompanying notes.

SOUTH CENTRAL REGIONAL MEDICAL CENTER
(A Component Unit of Jones County)
 Statements of Cash Flows
 Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 154,419,023	\$ 144,131,335
Payments to suppliers and contractors	(57,733,426)	(54,605,199)
Payments to employees	(89,474,038)	(88,951,916)
Other receipts and payments, net	2,901,490	3,360,943
Net cash provided by operating activities	10,113,049	3,935,163
Cash flows from noncapital financing activities		
Noncapital grants and contributions	102,726	87,417
Distributions to minority interest	(589,456)	(528,686)
Net cash used in noncapital financing activities	(486,730)	(441,269)
Cash flows from capital and related financing activities		
Principal payments on long-term debt	(29,547,571)	(4,718,608)
Proceeds from issuance of long-term debt	66,764,463	3,723,760
Interest paid on long-term debt	(1,119,847)	(1,324,783)
Purchase of capital assets	(12,595,971)	(10,876,666)
Proceeds from sale of capital assets	-	1,032
Payment of debt issuance costs	(1,129,567)	-
Net cash provided by (used in) capital and related financing activities	22,371,507	(13,195,265)
Cash flows from investing activities		
Investment income	148,668	201,846
Proceeds from sale of investments	-	63,886
Net cash provided by investing activities	148,668	265,732
Net increase (decrease) in cash and cash equivalents	32,146,494	(9,435,639)
Cash and cash equivalents, beginning of year	19,101,607	28,537,246
Cash and cash equivalents, end of year	\$ 51,248,101	\$ 19,101,607

See accompanying notes.

	2017	2016
Reconciliation of cash and cash equivalents to the statements of net position		
Cash and cash equivalents	\$ 15,816,097	\$ 14,391,233
Assets limited as to use	981,664	2,715,275
Assets limited as to use, net of amount required for current liabilities	34,450,340	1,995,099
Total cash and cash equivalents	<u>\$ 51,248,101</u>	<u>\$ 19,101,607</u>
Reconciliation of income from operations to net cash provided by operating activities		
Income from operations	\$ 3,838,503	\$ 1,692,230
Adjustments to reconcile income from operations to net cash provided by operating activities		
Joint venture income	101,419	189,832
Depreciation and amortization	8,349,974	8,166,865
Provision for bad debts	16,309,935	12,617,094
Changes in assets and liabilities		
Receivables	(18,977,069)	(13,499,105)
Inventories	(122,569)	(117,422)
Other current and noncurrent assets	(1,085,842)	315,238
Accounts payable, trade	(151,268)	766,659
Estimated third-party payor settlements	1,502,558	(3,716,971)
Accrued salaries and compensated absences	364,594	(959,488)
Other liabilities	(17,186)	(1,519,769)
Net cash provided by operating activities	<u>\$ 10,113,049</u>	<u>\$ 3,935,163</u>
Supplemental disclosures of noncash investing and financing activities		
Unrealized gains on investments	<u>\$ 405,032</u>	<u>\$ 912,164</u>

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Operations, Reporting Entity and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

South Central Regional Medical Center (the "Medical Center") is a regional healthcare provider established by Jones County as a special purpose government entity under the laws of the State of Mississippi. The Medical Center is owned by Jones County and is governed by a Board of Trustees pursuant to Sections 41-13-15 et. Seq. of Mississippi Code of 1972, as amended. Because of the relationship between the Medical Center and Jones County, the Medical Center has been defined as a component unit of the county.

The Medical Center provides inpatient, outpatient, emergency care services and long-term care primarily for residents of Jones County and the surrounding primary service area. Comfort Care Home Health and Hospice, multiple physician clinics and EmServ Ambulance Services are also a part of the Medical Center's operations. Admitting physicians are primarily practitioners in the same area. The Medical Center is currently licensed to provide 285 Medical Center beds, 248 nursing home beds and 12 assisted living beds.

Basis of Accounting

The Medical Center prepares its financial statements as a business-type activity in conformity with the applicable pronouncements of the Governmental Accounting Standards Board ("GASB"). The accompanying financial statements of the Medical Center have been prepared on the accrual basis of accounting using the economic resources measurement focus. In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 makes the GASB Accounting Standards Codification the sole source of authoritative accounting guidance for governmental entities in the United States of America.

Blended Component Units

The financial statements include the accounts of the Medical Center, the South Central Health Care Foundation (the "Foundation"), Open MRI, LLC ("Open MRI") and Sleep Lab, LLC ("Sleep Lab"), entities over which the Medical Center exerts control and there is a financial benefit relationship with these entities. These entities are presented as blended component units due to the governing body being substantially the same as the governing body of the Medical Center and have operational responsibility of these component units. All material intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most sensitive estimates included in these financial statements relate to contractual discounts under third-party contracts and the allowance for uncollectible accounts.

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less, including amounts limited as to use by the Board of Trustees or under trust agreements.

Patient Receivables

Patient receivables 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 losses 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 contractual discounts are based on the estimated differences between the Medical Center's established rates and the actual amounts to be received under each contract.

Investments

The Medical Center's investments consist of external investment pools and are carried at fair value. Interest, dividends and gains and losses on investments, both realized and unrealized, are included in nonoperating income when earned.

Investment in Joint Venture

The Medical Center has a noncontrolling 51 percent financial ownership interest in the Laurel Surgical and Endoscopy Center. This investment is accounted for using the equity method. The Medical Center does not have control of the operations of Laurel Surgical and Endoscopy Center; therefore, it is not considered a component unit of the Medical Center.

Assets Limited as to Use

Assets limited as to use include assets held by Trustees under indenture agreements, assets set aside under the Medical Center's self-insured malpractice insurance program, and assets designated for further capital improvements. Amounts that are required for obligations classified as current liabilities are reported as current assets, with the excess reported as noncurrent assets.

Inventories

Inventories, which consist primarily of medical supplies and drugs, are stated at the lower of cost based on the first-in, first-out method, or market.

Prepaid Expenses and Deferred Charges

Prepaid expenses are amortized over the estimated period of future benefit, generally on a straight-line basis.

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Capital Assets, Net

Capital asset acquisitions are recorded at cost, if purchased, or at fair value at the date of the gift, if donated. Depreciation is provided over the estimated useful life for each class of depreciable asset and is computed using the straight-line method.

Management evaluates assets for potential impairment when a significant, unexpected decline in the service utility of a capital asset occurs.

Cost of Borrowing

Costs incurred in connection with the obtaining of financing are expensed as incurred. Premium or discount incurred in connection with the issuance of bonds and indentures is amortized over the life of the obligations on the straight-line method, which approximates the interest method, and the unamortized amount is included in the balance of the outstanding debt.

Estimated Malpractice Costs

The Medical Center considers the need for recording a liability for malpractice claims. The provision for estimated malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Compensated Absences

Medical Center employees can accumulate earned time off, which is vested with the employee and upon termination is payable under certain circumstances. Sick leave is credited each month to eligible employees, but is not payable upon termination. Any employee who accumulates 720 hours of sick leave may be paid for excess sick leave up to a ceiling of \$1,000. All vested compensated absences are recorded as of the statements of net position date.

Net Position

Net position consists of net investment in capital assets; restricted; and unrestricted. The net investment in capital assets consists of capital assets net of accumulated depreciation and the outstanding balances of any related debt that is attributable to the acquisition of the capital asset. Restricted net position are those resources that are externally restricted by creditors, grantors, contributors or laws and regulations or those restricted by constitutional provisions and enabling legislation. Unrestricted net position consists of all other resources.

Operating Revenue and Expenses

The Medical Center's statements of revenue and expenses and changes in net position distinguish between operating and nonoperating revenue and expenses. Operating revenues result from exchange transactions associated with providing healthcare services, which is the Medical Center's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Grants and Contributions

From time to time, the Medical Center receives grants from governmental entities as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Patient service revenue is reported at estimated net realizable amounts from patients, third-party payors and others for services rendered, and includes estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are considered in the recognition and accrual of revenue on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The primary third-party programs include Medicare and Medicaid, which account for a significant amount of the Medical Center's revenue. The laws and regulations under which Medicare and Medicaid programs operate are complex and subject to interpretation and frequent changes. As part of operating under these programs, there is a possibility that government authorities may review the Medical Center's compliance with these laws and regulations. Although no assurance can be given, management believes it has complied with the requirements of these programs.

Charity Care

The Medical Center provides medical care without charge or at a reduced charge to patients who meet certain criteria under its charity care policy. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, these charges are not reported as net revenue.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments beginning in 2011 for eligible hospitals and professionals that adopt and meaningfully use certified electronic health record ("EHR") technology. The Medical Center must also attest to certain criteria in order to qualify to receive the incentive payments. The amount of the incentive payments are calculated using predetermined formulas based on available information, primarily related to discharges and patient days. The Medical Center recognizes revenues related to Medicare incentive payments ratably over each EHR reporting period (October 1 to September 30) when it has demonstrated meaningful use requirements of certified EHR technology for the EHR reporting period. The Medical Center recognizes Medicaid incentive payments in the period that it qualifies for the funds based on the provisions of the State of Mississippi Division of Medicaid.

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

The Medical Center recognized \$-0- and \$440,000 of revenues related to the Medicare incentive program for the years ended September 30, 2017 and 2016. The Medical Center recognized \$-0- and \$20,920 of revenues related to the Medicaid incentive program for the years ended September 30, 2017 and 2016, respectively. These revenues are reflected in other operating revenues on the accompanying statements of revenue and expenses and changes in net position. Future incentive payments could vary due to certain factors such as availability of federal funding for both Medicare and Medicaid incentive payments and the Medical Center's ability to implement and demonstrate meaningful use of certified EHR technology. The Medical Center has and will continue to incur both capital costs and operating expenses in order to implement its certified EHR technology and meet meaningful use requirements in the future. These expenses are ongoing and are projected to continue over all stages of implementation of meaningful use. The timing of recognizing the expenses may not correlate with the receipt of the incentive payments and the recognition of revenues. There can be no assurance that the Medical Center will be able to continue to demonstrate meaningful use of certified EHR technology in the future, and the failure to do so could have a material, adverse effect on the results of operations. As a part of operating this program, there is a possibility that government authorities may make adjustments to amounts previously recorded by the Medical Center. The Medical Center's attestation of demonstrating meaningful use is also subject to review by the appropriate government authorities. The amount of revenue recognized is based on management's best estimate, which is subject to change. Such changes will be reflected in the period in which the changes occur.

Budgetary Information

The Medical Center is required by statute of the State of Mississippi to prepare a non-appropriated annual budget. The budget is not subject to the appropriation and is, therefore, not required to be presented as supplementary information.

Income Taxes

The Medical Center's operation is a governmental entity and, as such, is exempt from federal and state income taxes. The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. As limited liability companies, Open MRI's and Sleep Lab's taxable income or loss is allocated to its members in accordance with the operating agreement.

New Accounting Standards Adopted

In 2017, the Medical Center adopted the following accounting standard:

The Medical Center adopted GASB 80, *Blending Requirements for Certain Component Units*. This statement clarifies the financial statement presentation requirements for certain component units. This statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The adoption of this statement did not have a significant impact on the financial statements of the Medical Center.

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

New Accounting Standards Yet to be Adopted

The Medical Center will be required to adopt the following new accounting standards in future years:

The Medical Center will adopt GASB 85, *Omnibus 2017*, in fiscal year 2018. This statement addresses practice issues that have been identified during implementation and application of certain GASB statements. Statement No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The Medical Center is currently assessing the impact of adopting this accounting standard.

Note 2. Cash Deposits and Investments

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Medical Center's deposits might not be recovered. The collateral for public entities' deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the Medical Center's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation ("FDIC"). All deposits with financial institutions must be collateralized in an amount equal to 105 percent of uninsured deposits and are therefore fully insured. The bank balance of the collateralized and insured balances was \$16,565,418 and \$14,015,622 at September 30, 2017 and 2016, respectively.

The Medical Center also has cash deposits held by a Trustee. The use of these funds is restricted for capital improvements and debt service related to the Medical Center's revenue bonds. The carrying value of these deposits was \$35,432,004 and \$4,710,374 at September 30, 2017 and 2016, respectively. As of September 30, 2017 and 2016, \$35,182,004 and \$4,460,374, respectively, of the Medical Center's capital improvements and debt service fund balances was exposed to custodial credit risk.

Investments

The statutes of the State of Mississippi restrict the authorized investments of the Medical Center to obligations of the U. S. Treasury, agencies and instrumentalities of the United States and certain other types of investments. The Medical Center's investments consist of the following external investment pool funds at September 30:

	<u>2017</u>	<u>2016</u>
MHA Intermediate Duration Trust	\$ 19,528,077	\$ 22,504,824

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 2. Continued

The external investment pools do not have a credit rating on the overall pool and they are not insured.

The Medical Center does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Deposits and investments are recorded on the statements of net position as of September 30, 2017 and 2016, as follows:

	2017	2016
Cash and cash equivalents	\$ 15,816,097	\$ 14,391,233
Investments	17,995,873	18,034,733
Assets limited as to use	981,664	2,715,275
Assets limited as to use, net of amount required for current liabilities	35,982,544	3,527,303
Total	\$ 70,776,178	\$ 38,668,544

Note 3. Assets Limited as to Use

Assets limited as to use consisted of the following as of September 30, 2017 and 2016:

	2017	2016
Trustee-held funds		
Principal and interest fund	\$ -	\$ 2,715,275
Debt service reserve fund	-	1,995,099
Cost of issuance fund	78,795	-
Project fund	32,915,735	-
Capitalized interest fund	2,437,474	-
Self-insurance fund	1,532,204	1,532,204
Total cash and investments limited as to use	36,964,208	6,242,578
Less cash and investments that are required for current liabilities	981,664	2,715,275
Total noncurrent cash and investments	\$ 35,982,544	\$ 3,527,303

Amounts classified as current assets represent those assets that are anticipated to be used to satisfy current liabilities at each statements of net position date.

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets

A summary of capital assets at September 30, 2017 and 2016 is set forth below:

	2017	2016
Land	\$ 3,151,110	\$ 3,151,110
Land improvements	2,014,455	1,370,437
Building	71,526,499	70,360,680
Equipment	90,560,449	58,366,140
Equipment under capital lease	-	24,806,116
	<u>167,252,513</u>	<u>158,054,483</u>
Less accumulated depreciation and amortization	<u>(109,214,855)</u>	<u>(100,864,881)</u>
	58,037,658	57,189,602
Construction in progress	<u>10,448,060</u>	<u>7,050,119</u>
Capital assets, net	<u>\$ 68,485,718</u>	<u>\$ 64,239,721</u>

Depreciation expense for the years ended September 30, 2017 and 2016 totaled \$8,349,974 and \$8,166,865, respectively. Accumulated amortization related to capital lease obligations at September 30, 2017 and 2016 totaled \$0- and \$22,221,039, respectively.

Construction in progress is principally comprised of expenditures related to the expansion and renovation of Medical Center facilities. As of September 30, 2017, the Medical Center had outstanding construction commitments of approximately \$26,725,477.

Capital asset additions, retirements and balances for the year ended September 30, 2017, were as follows:

	Balance September 30, 2016	Increases	Decreases	Balance September 30, 2017
Capital assets not being depreciated				
Land	\$ 3,151,110	\$ -	\$ -	\$ 3,151,110
Construction in progress	7,050,119	10,141,508	(6,743,567)	10,448,060
Total capital assets not being depreciated	<u>10,201,229</u>	<u>10,141,508</u>	<u>(6,743,567)</u>	<u>13,599,170</u>
Capital assets being depreciated				
Land improvements	1,370,437	644,018	-	2,014,455
Buildings	70,360,680	1,165,819	-	71,526,499
Equipment	58,366,140	32,194,309	-	90,560,449
Equipment under capital lease	24,806,116	-	(24,806,116)	-
Total capital assets being depreciated	<u>154,903,373</u>	<u>34,004,146</u>	<u>(24,806,116)</u>	<u>164,101,403</u>

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 4. Continued

	Balance September 30, 2016	Increases	Decreases	Balance September 30, 2017
Less accumulated depreciation for				
Land improvements	\$ (1,179,438)	\$ (52,614)	\$ -	\$ (1,232,052)
Buildings	(37,527,324)	(2,422,706)	-	(39,950,030)
Equipment	(39,241,862)	(28,790,911)	-	(68,032,773)
Equipment under capital lease	(22,916,257)	-	22,916,257	-
Total accumulated depreciation	(100,864,881)	(31,266,231)	22,916,257	(109,214,855)
Capital assets being depreciated, net	54,038,492	2,737,915	(1,889,859)	54,886,548
Capital assets, net	\$ 64,239,721	\$ 12,879,423	\$ (8,633,426)	\$ 68,485,718

Capital asset additions, retirements and balances for the year ended September 30, 2016 were as follows:

	Balance September 30, 2015	Increases	Decreases	Balance September 30, 2016
Capital assets not being depreciated				
Land	\$ 3,151,110	\$ -	\$ -	\$ 3,151,110
Construction in progress	6,167,107	6,961,736	(6,078,724)	7,050,119
Total capital assets not being depreciated	9,318,217	6,961,736	(6,078,724)	10,201,229
Capital assets being depreciated				
Land improvements	1,371,597	11,040	(12,200)	1,370,437
Buildings	66,989,116	3,485,130	(113,566)	70,360,680
Equipment	52,021,833	6,497,484	(153,177)	58,366,140
Equipment under capital lease	24,806,116	-	-	24,806,116
Total capital assets being depreciated	145,188,662	9,993,654	(278,943)	154,903,373
Less accumulated depreciation for				
Land improvements	(1,155,234)	(36,404)	12,200	(1,179,438)
Buildings	(35,396,035)	(2,252,494)	121,205	(37,527,324)
Equipment	(35,683,326)	(3,704,074)	145,538	(39,241,862)
Equipment under capital lease	(20,742,364)	(2,173,893)	-	(22,916,257)
Total accumulated depreciation	(92,976,959)	(8,166,865)	278,943	(100,864,881)
Capital assets being depreciated, net	52,211,703	1,826,789	-	54,038,492
Capital assets, net	\$ 61,529,920	\$ 8,788,525	\$ (6,078,724)	\$ 64,239,721

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 5. Other Assets

The composition of other assets at September 30, 2017 and 2016 was as follows:

	2017	2016
Morris & Dickson deposit	\$ 528,796	\$ 528,796
CON - 60 nursing home beds	637,500	637,500
City of Laurel, lease rights	13,137	13,434
Premier Healthcare Solutions, Inc., common stock	1,879,442	1,435,550
Workers Compensation Public Pool Dividend Receivable	560,848	626,463
Investment in Laurel Surgical and Endoscopy Center	250,418	232,265
Clinic acquisitions – medical records	29,706	29,706
Insurance receivable	1,055,831	291,162
Non-current portion of note receivable	920,329	544,366
Total other assets	<u>\$ 5,876,007</u>	<u>\$ 4,339,242</u>

The Medical Center's group purchasing organization, Premier Healthcare Solutions, Inc. ("PHSI"), completed an initial public offering on September 26, 2013. This resulted in the Medical Center's shares of PHSI stock being converted into 103,575 shares of Class B units in the public company. The Medical Center's initial ownership interest in PHSI was recorded as an equity-based investment of \$171,000 at September 30, 2013. The Class B shares are exchangeable pro rata over seven years into Class A common shares or to retain as Class B shares. As the Class B common shares are exchanged, the Class A common share value is based on the quoted market price. The carrying value of the Premier investment was approximately \$1,879,000 and \$1,436,000 as of September 30, 2017 and 2016, respectively.

Note 6. Long-Term Debt

A summary of long-term debt, inclusive of capital lease obligations, at September 30, 2017 and 2016 follows:

	2017	2016
Mississippi Medical Center Equipment and Facilities Authority bonds dated September 7, 2006, due annually in varying amounts through December 2031, at an average interest rate of 5.2 percent, collateralized by the Medical Center's revenues. Refunded during 2017.	\$ -	\$ 20,970,000
Capital lease obligations, at varying rates of interest ranging from 2.14 percent to 3.49 percent, collateralized by equipment. Paid in full in 2017.	-	2,901,092
Loan, \$2,300,000 original principal balance, with 60 equal monthly installments of \$42,377 at an interest rate of 4.00 percent, due through February 2018, collateralized by real estate. Paid in full in 2017.	-	700,615

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 6. Continued

	2017	2016
Loan, \$945,080 original principal balance, with interest-only payments beginning August 2013 through August 2014 at an interest rate of 4.50 percent, principal and interest payments of \$9,840 beginning September 2014 at an interest rate of 4.50 percent, due through July 2023, collateralized by real estate. Paid in full in 2017.	\$ -	\$ 794,380
Loan, \$463,392 original principal balance, with principal and interest due November 2018 at an interest rate of 2.27 percent, collateralized by equipment. Paid in full in 2017.	-	205,982
Loan, \$1,100,000 original principal balance, with principal and interest due April 2019 at an interest rate of 2.08 percent. Paid in full in 2017.	-	721,106
Loan, \$1,752,753 original principal balance, with principal and interest due December 2020 at an interest rate of 1.79 percent, collateralized by equipment. Paid in full in 2017.	-	1,499,654
Loan, \$980,000 original principal balance, with principal and interest due May 2021 at an interest rate of 1.60 percent, collateralized by equipment. Paid in full in 2017.	-	917,076
Loan, \$680,000 original principal balance, with principal and interest due May 2021 at an interest rate of 1.85 percent. Paid in full in 2017.	-	636,765
Loan, \$567,812 original principal balance, with principal and interest due November 2023 at an interest rate of 4.10 percent.	529,244	311,007
Loan, \$8,755,000 original principal balance, with principal and interest due March 1, 2037 at an interest rate of 3.67 percent.	8,600,325	-
Series 2017 Hospital Revenue notes dated March 1, 2017, maturing March 1, 2020, interest is due semiannually on March 1 and September 1 at a rate of 1.7 percent.	57,745,000	-
	66,874,569	29,657,677
Less current portion of long-term debt	391,244	4,853,013
Long-term debt, excluding current portion	<u>\$ 66,483,325</u>	<u>\$ 24,804,664</u>

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 6. Continued

During 2017, the Medical Center issued Hospital Revenue notes, Series 2017 in the amount of \$57,745,000 and a promissory note with a local bank in the amount of \$8,755,000 through the United States Department of Agriculture ("USDA") direct loan program and the USDA guaranty loan program, respectively. The debt proceeds were used to refund the Mississippi Medical Center Equipment and Facilities Authority bonds dated September 7, 2006 payoff the outstanding bank loans and capital lease obligations, and fund Medical Center expansion (the "Project"). The Project consists of a 67,980 square foot three-floor addition to the easterly end of the Medical Center to house a new emergency department and to shell in two floors for future expansion, the construction of a 67,815 square foot four-floor medical office building, new parking areas and drives and a paved heliport. The cost of the Project is estimated at approximately \$35,600,000. Upon completion of the Project, the Medical Center anticipates the Series 2017 Hospital Revenue notes to be purchased by the USDA.

The maturities on long-term debt are as follows:

Year Ending September 30,	Long-Term Debt	
	Principal	Interest
2018	\$ 391,244	\$ 1,312,257
2019	406,126	1,287,375
2020	421,577	791,090
2021	1,240,707	1,856,469
2022	1,277,365	1,817,777
2023 - 2027	6,580,875	8,489,797
2028 - 2032	7,534,269	7,424,589
2033 - 2037	8,372,406	6,190,421
2038 - 2042	6,750,000	5,116,100
2043 - 2047	7,755,000	4,121,115
2048 - 2052	8,900,000	2,978,984
2053 - 2057	10,205,000	1,669,513
2058 - 2060	7,040,000	294,765
	<u>\$ 66,874,569</u>	<u>\$ 43,350,252</u>

A schedule of changes in the Medical Center's long-term debt for 2017 follows:

	Balance September 30, 2016	Additions	Retirements	Balance September 30, 2017	Due Within One Year
Bonds payable					
2006 indenture	\$ 20,970,000	\$ -	\$ (20,970,000)	\$ -	\$ -
2017 indenture	-	57,745,000	-	57,745,000	-
Notes payable	5,786,585	9,019,463	(5,676,479)	9,129,569	391,244
Total long-term debt	26,756,585	66,764,463	(26,646,479)	66,874,569	391,244
Capital lease obligations	2,901,092	-	(2,901,092)	-	-
Total noncurrent liabilities	<u>\$ 29,657,677</u>	<u>\$ 66,764,463</u>	<u>\$ (29,547,571)</u>	<u>\$ 66,874,569</u>	<u>\$ 391,244</u>

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 6. Continued

A schedule of changes in the Medical Center's long-term debt for 2016 follows:

	Balance September 30, 2015	Additions	Retirements	Balance September 30, 2016	Due Within One Year
Bonds payable					
2006 indenture	\$ 22,560,000	\$ -	\$ (1,590,000)	\$ 20,970,000	\$ 1,660,000
Notes payable	3,333,563	3,723,760	(1,270,738)	5,786,585	1,626,148
Total long-term debt	25,893,563	3,723,760	(2,860,738)	26,756,585	3,286,148
Capital lease obligations	4,758,962	-	(1,857,870)	2,901,092	1,566,865
Total noncurrent liabilities	\$ 30,652,525	\$ 3,723,760	\$ (4,718,608)	\$ 29,657,677	\$ 4,853,013

Note 7. Retirement Plan

The Medical Center has established a 403(b) tax deferred retirement plan for the benefit of all full-time employees. Effective November 1, 2007, the Medical Center matches 100 percent of each contribution as follows: less than 10 years of participation, the Medical Center will match 100 percent of contributions up to 1.5 percent of eligible compensation; 10-15 years of participation, the Medical Center will match 167 percent of contributions up to 2.5 percent of eligible compensation; 15-20 years of participation, the Medical Center will match 200 percent of contributions up to 3 percent of eligible compensation; and greater than 20 years of participation, the Medical Center will match 233 percent of contributions up to 3.5 of eligible compensation. Participants are immediately vested in their salary reduction contributions plus earnings thereon. Participants gain 100 percent vesting in Medical Center matching contributions after 5 years of participation based on a tiered schedule. The Medical Center's matching contributions for the years ended September 30, 2017 and 2016 were \$667,717 and \$698,494, respectively.

Note 8. Insurance Programs

Risk Management

The Medical Center is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health, dental and accident benefits. Commercial liability insurance is purchased for most of these risks. However, employee health and dental insurance, workers' compensation and certain general and professional liability risks are self-funded as further explained below. The Medical Center has accrued for the estimate of self-funded claims.

Self-Funded Workers Compensation

Effective July 1, 2010, the Medical Center began an individual self-funded plan for workers' compensation claims. Prior to July 1, 2010, the Medical Center participated in the Mississippi Hospital Association Public Hospital's workers' compensation pool. A liability is recorded when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. Liabilities for claims incurred are reevaluated periodically to take into consideration recently settled

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 8. Continued

claims, frequency of claims and other economic and social factors. The Medical Center purchased commercial insurance that provides coverage for workers' compensation in excess of the self-funded limits. As of September 30, 2017 and 2016, the Medical Center accrued \$100,000 for potential claim liabilities. Claims and related activity were not significant for the years ended September 30, 2017 and 2016.

Self-Funded Health Insurance

The Medical Center provides health and dental insurance coverage to its employees under a self-funded plan. Health claims are paid by the Medical Center as they are incurred and filed by the employee. An estimated liability for claims incurred but not reported or paid is included in accrued expenses and operating expenses in the financial statements.

The claims liability at September 30, 2017 and 2016, is based on the requirements of GASB, which requires that liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the Medical Center's claims liability amount in fiscal years 2017 and 2016 were:

Fiscal Year	October 1, Claims Liability	Current Year Claims and Changes in Estimates	Current Year Payments	September 30, Claims Liability
2017	\$ 1,336,005	\$ 9,840,679	\$ (9,867,798)	\$ 1,308,886
2016	\$ 2,393,193	\$ 11,008,511	\$ (12,065,699)	\$ 1,336,005

Medical Malpractice Program

The Medical Center maintains a professional and general liability insurance program under a self-funded plan. At year-end, the Medical Center accrues for the estimate of losses for malpractice claims outstanding. As of September 30, 2017 and 2016, this accrual totaled \$1,200,000. The future assertion of claims for occurrences prior to year-end is reasonably possible and may occur, although it is not anticipated.

Changes in the Medical Center's claims liability amount, including related legal fees, for the years 2017 and 2016 were as follows:

Fiscal Year	October 1, Claims Liability	Current Year Claims and Changes in Estimates	Current Year Payments	September 30, Claims Liability
2017	\$ 1,200,000	\$ 549,338	\$ (549,338)	\$ 1,200,000
2016	\$ 1,475,000	\$ 225,421	\$ (500,421)	\$ 1,200,000

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 8. Continued

The Mississippi Tort Claims Act provides a cap on the amount of damages recoverable against government entities, including governmental medical centers. For claims filed, the amount recoverable is the greater of \$500,000 or the amount of liability insurance coverage that has been retained.

Note 9. Net Position

Resources invested in capital assets, net of related debt, was as follows at September 30:

	2017	2016
Capital assets	\$ 177,700,573	\$ 165,104,602
Less accumulated depreciation	(109,214,855)	(100,864,881)
Less debt outstanding related to capital assets	(33,958,834)	(29,657,677)
Net investment in capital assets	\$ 34,526,884	\$ 34,582,044

Note 10. Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center 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. These rates vary according to the patient classification system that is based on clinical, diagnostic and other factors. Outpatient services related to Medicare beneficiaries are reimbursed through a prospective payment system commonly known as Ambulatory Payment Classification ("APC"). Under the APC system, certain medical devices and drugs are reimbursed at cost or average wholesale price. Long-term care services are reimbursed under a prospective payment system that considers the Medicare beneficiaries severity of illness among other clinical factors. Inpatient nonacute services are paid based on a prospective payment system. The Medical Center is reimbursed for cost-reimbursable items at a tentative rate, with final settlement determined after submission and review by the fiscal intermediary of annual cost reports.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a prospective reimbursement methodology known as an APR-DRG system. Outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a prospective reimbursement methodology known as an APC system.

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 10. Continued

The Medical Center participates in the Mississippi Intergovernmental Transfer Program as a Medicaid Disproportionate Share Hospital ("DSH") and in the Medicare Upper Payment Limit Program ("UPL"). Under these programs, the Medical Center receives enhanced reimbursement through a matching mechanism. DSH and UPL amounts are shown as a reduction of contractual adjustments and are recorded net of related taxes paid.

Beginning with the state fiscal year 2016, July 1, 2015, UPL payments were phased out and the Division of Medicaid ("DOM") implemented the Mississippi Hospital Access Payment ("MHAP") program (the "MHAP Program") in its place. The MHAP Program is administered by the DOM through the Mississippi CAN coordinated care organizations ("CCO"). The CCO's subcontract with hospitals throughout the state for distribution of MHAP payments for the purpose of protecting patient access to hospital care. The MHAP Program began December 1, 2015, and the MHAP payments and associated tax are distributed and collected equal monthly installments. MHAP amounts are shown as a reduction of contractual adjustments and are recorded net of related taxes paid.

The Medical Center participates in the Mississippi Nursing Home UPL Program. This program is funded by Intergovernmental Transfers ("IGTs") from participating providers to the DOM. Under this program, the Medical Center receives enhanced reimbursement for nursing home services offered to the community. Unlike the Hospital UPL program, the Nursing Home UPL program does not prescribe specific payment timelines, therefore, creating uncertainties about both the timing and estimation of such UPL payments. Due to these uncertainties, Nursing Home UPL payments are recorded only when notified by the DOM of the imminence of such payments. UPL amounts are shown as a reduction of contractual adjustments and are recorded net of IGTs paid. Under the Hospital and Nursing Home MHAP and UPL programs, the Medical Center received enhanced reimbursement for 2017 and 2016 as follows:

	2017	2016
UPL revenue, gross	\$ 2,054,000	\$ 3,605,119
MHAP revenue, gross	9,935,983	10,765,452
UPL assessment	409,000	931,202
MHAP assessment	5,801,133	6,049,117
MHAP and UPL revenue, net of assessment	<u>\$ 5,779,850</u>	<u>\$ 7,390,252</u>

Medicare and Medicaid laws and regulations

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result of those interpretations, the 2017 and 2016 net patient service revenue increased approximately \$1,397,000 and \$22,000, respectively, due to prior year retroactive adjustments in excess of amounts previously estimated.

Other

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

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 10. Continued

A summary of gross and net patient service revenue for the years ended September 30, 2017 and 2016 follows:

	2017	2016
Gross patient service revenue	\$ 363,376,403	\$340,359,373
Less provisions for		
Contractual adjustments under third-party reimbursement programs and other deductions	191,584,288	179,201,794
Provision for bad debts	16,309,935	12,617,094
Net patient service revenue	\$ 155,482,180	\$148,540,485

Note 11. Charity Care

The Medical Center maintains records to identify and monitor the level of charity care it provides. The amount of charges foregone for services and supplies furnished under the Medical Center's charity care policy aggregated approximately \$13,895,000 and \$10,509,000 for the years ended September 30, 2017 and 2016, respectively. The estimated cost of charity care, estimated using a ratio of cost to gross charges, totaled approximately \$5,975,000 and \$4,624,000 for the years ended September 30, 2017 and 2016, respectively.

Note 12. Concentration of Credit Risk

Accounts Receivable

The Medical Center grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The percentage mix of accounts receivable, at net, from patients and major third-party payors at September 30 was as follows:

	2017	2016
Medicare	41.1%	33.8%
Medicaid	7.2	11.1
Commercial	27.9	29.6
Other	23.8	25.5
Total	100.0%	100.0%

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 12. Continued

Patient Service Revenue Under Contract

A summary of revenue for gross patient services under contract with significant third-party payors follows:

	<u>September 30, 2017</u>		<u>September 30, 2016</u>	
	Amount	Percent of Total Gross Patient Revenue	Amount	Percent of Total Gross Patient Revenue
Medicare	\$ 179,507,943	49.4%	\$ 159,968,905	47.0%
Medicaid	71,948,528	19.8%	75,900,140	22.3%
Other	111,919,932	30.8%	104,490,328	30.7%
Total	<u>\$ 363,376,403</u>	<u>100.0%</u>	<u>\$ 340,359,373</u>	<u>100.0%</u>

Note 13. Commitments and Contingencies

Operating Leases

The Medical Center leases various equipment and facilities under operating leases expiring at various dates through 2020. Total rental expense for the years ended September 30, 2017 and 2016 for all operating leases was \$2,087,437 and \$2,137,372, respectively.

The following is a schedule, by year of expiration, of the approximate future minimum lease payments under non-cancelable operating leases as of September 30, 2017 that have initial or remaining lease terms in excess of one year:

<u>Year Ending September 30,</u>	<u>Amount</u>
2018	\$ 1,198,534
2019	1,078,695
2020	1,075,015
2021	1,078,081
2022	1,074,811
	<u>\$ 5,505,136</u>

Litigation

The Medical Center is involved in litigation and regulatory investigations arising in the normal course of business. Based on consultations with legal counsel, management is of the opinion that these matters will be resolved without material adverse effect on the Medical Center's future financial position or on the results of its future operations. See Note 8 for a description of the Medical Center's insurance programs related to claims and assessments.

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 13. Continued

Guaranty of Joint Venture Debt

The Medical Center is guarantor for the debt for one of its joint ventures. In the event of default on the debt, the Medical Center will be required to pay to the joint venture's debt holder 110 percent of 51 percent of the outstanding joint venture debt. The potential total of this payment amounted to \$121,416 and \$150,295 at September 30, 2017 and 2016, respectively. No liability has been recorded for this guarantee as of September 30, 2017 or 2016. In connection with the debt guarantee, the Medical Center pledged as collateral a certificate of need for the operation of an ambulatory surgery center. Substantially all of the assets of the joint venture have also been pledged as collateral for the debt.

Note 14. Blended Component Units

The Foundation is a tax-exempt, legally separate component unit of the Medical Center. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the Medical Center.

Open MRI and Sleep Lab are legally separate, taxable component units of the Medical Center. The Medical Center owns a 51 percent majority share of Open MRI. The Medical Center owns 100 percent of Sleep Lab and appoints a voting majority of the Board of Trustees for each.

The condensed statements of net position, condensed statements of revenue, expenses and changes in net position, and the condensed statements of cash flows as of and for the years ended September 30, 2017 and 2016 for The Foundation, Open MRI and Sleep Lab are detailed as follows:

	2017		
	The Foundation	Open MRI	Sleep Lab
Condensed Statements of Net Position			
Assets			
Current assets	\$ 76,895	\$ 272,281	\$ 309,909
Capital assets	-	1,045,352	442
Total assets	76,895	1,317,633	310,351
Liabilities			
Current liabilities	-	85,894	-
Long-term debt	-	529,244	-
Total liabilities	-	615,138	-
Net position			
Invested in capital assets, net of related debt	-	516,108	442
Unrestricted	76,895	186,387	309,909
Total net position	\$ 76,895	\$ 702,495	\$ 310,351

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 14. Continued

	2017		
	The Foundation	Open MRI	Sleep Lab
Condensed statements of revenue, expenses and changes in net position			
Operating revenues			
Net patient service revenues	\$ -	\$ 1,496,770	\$ 649,956
Other operating revenues	94,948	-	356
Total operating revenues	94,948	1,496,770	650,312
Operating expenses			
Depreciation expenses	-	47,657	202
Other operating expenses	105,303	1,049,593	380,464
Total operating expenses	105,303	1,097,250	380,666
Operating income (loss)	(10,355)	399,520	269,646
Nonoperating expenses			
Interest expense	-	(20,719)	-
Increase (decrease) in net position	(10,355)	378,801	269,646
Net position, beginning of year	87,250	734,194	766,109
Distributions	-	(410,500)	(725,404)
Net position, end of year	\$ 76,895	\$ 702,495	\$ 310,351
Condensed Statements of Cash Flows			
Cash provided by (used in) operating activities	\$ (10,355)	\$ 458,154	\$ 416,652
Cash used in capital and related financing Activities	-	(488,890)	(725,404)
Decrease in cash and cash equivalents	(10,355)	(30,736)	(308,752)
Cash and cash equivalents, beginning of year	87,250	150,313	618,661
Cash and cash equivalents, end of year	\$ 76,895	\$ 119,577	\$ 309,909
	2016		
	The Foundation	Open MRI	Sleep Lab
Condensed Statements of Net Position			
Assets			
Current assets	\$ 87,250	\$ 352,677	\$ 821,932
Capital assets	-	796,382	644
Total assets	87,250	1,149,059	822,576
Liabilities			
Current liabilities	-	103,858	56,467
Long-term debt	-	311,007	-
Total liabilities	-	414,865	56,467
Net position			
Invested in capital assets, net of related debt	-	485,375	644
Unrestricted	87,250	248,819	765,465
Total net position	\$ 87,250	\$ 734,194	\$ 766,109

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 14. Continued

	2016		
	The Foundation	Open MRI	Sleep Lab
Condensed statements of revenue, expenses and changes in net position			
Operating revenues			
Net patient service revenues	\$ 79,887	\$ 1,607,288	\$ 1,132,459
Other operating revenues	-	-	613
Total operating revenues	79,887	1,607,288	1,133,072
Operating expenses			
Depreciation expenses	69,497	19,235	2,385
Other operating expenses	-	955,058	781,761
Total operating expenses	69,497	974,293	784,146
Operating income	10,390	632,995	348,926
Nonoperating expenses			
Interest expense	-	(2,146)	-
Increase in net position	10,390	630,849	348,926
Net position, beginning of year	76,860	730,343	817,183
Distributions	-	(626,998)	(400,000)
Net position, end of year	\$ 87,250	\$ 734,194	\$ 766,109
Condensed Statements of Cash Flows			
Cash provided by operating activities	\$ 10,390	\$ 620,327	\$ 416,833
Cash used in capital and related financing activities	-	(635,764)	(400,000)
Increase (decrease) in cash and cash equivalents	10,390	(15,437)	16,833
Cash and cash equivalents, beginning of year	76,860	165,750	601,828
Cash and cash equivalents, end of year	\$ 87,250	\$ 150,313	\$ 618,661

Note 15. Fair Value

The Medical Center's investments are recorded at fair value as of September 30, 2017 and 2016. GASB Statement No. 72, Fair Value Measurement and Application, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumption about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 15. Continued

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

- Level 2 Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly.

- Level 3 Investments classified as Level 3 have unobservable inputs for an asset or liability and may require a degree of professional judgment.

The following table represents the Medical Center's investments within the fair value hierarchy at September 30, 2017:

	Fair Value Measurements at September 30, 2017			
	(Level 1)	(Level 2)	(Level 3)	Total
Investments				
MHA duration trust	\$ -	\$ 19,528,077	\$ -	\$ 19,528,077

The following table represents the Medical Center's investments within the fair value hierarchy at September 30, 2016:

	Fair Value Measurements at September 30, 2016			
	(Level 1)	(Level 2)	(Level 3)	Total
Investments				
MHA duration trust	\$ -	\$ 22,504,824	\$ -	\$ 22,504,824

The fair value of the MHA investment pools are based on the closing price reported on the active market on which the individual funds are traded, and the fair value is allocated to the Medical Center based on unit ownership. Therefore, investments are considered a Level 2 category.

Note 16. Investment in Joint Venture

The Medical Center has an ownership interest (51 percent) in a joint venture that provides surgical and endoscopy services. The Medical Center's investment in the joint venture is reflected in other assets on the accompanying statements of net position. The following is summarized unaudited financial information for the joint venture as of and for the years ended September 30, 2017 and 2016, respectively.

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 16. Continued

	2017	2016
Cash	\$ 186,072	\$ 254,498
Patient accounts receivable, net	263,336	303,757
Capital assets, net	246,355	262,047
Other assets	223,742	256,574
Total assets	<u>\$ 919,505</u>	<u>\$ 1,076,876</u>
Current liabilities	\$ 159,779	\$ 261,676
Long-term liabilities	216,428	159,431
Members' capital	543,298	655,769
Total liabilities and capital	<u>\$ 919,505</u>	<u>\$ 1,076,876</u>
Net patient service and other revenues	\$ 4,630,091	\$ 5,036,357
Operating expenses	(4,518,151)	(4,704,671)
Net income	<u>\$ 111,940</u>	<u>\$ 331,686</u>

Note 17. Risks and Uncertainties

Current Economic Conditions

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of the Medical Center's patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payors may significantly impact net patient service revenue, which could have an adverse impact on the Medical Center's future operating results. Furthermore, the effect of economic conditions on the state could have an adverse effect on cash flows related to the Medicaid program.

Patient Protection and Affordable Care Reconciliation Act

The Patient Protection and Affordable Care Act ("PPACA") has and, unless repealed or replaced, will continue to substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system including many provisions that change payments from Medicare, Medicaid and insurance companies.

A significant component of PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional. The State of Mississippi has elected not to expand the Medicaid program.

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Schedule of Surety Bonds for Officers and Employees
September 30, 2017

Name	Position	Company	Amount of Bond
Becky Brewer	Trustee	Fidelity and Deposit Company of Maryland	\$ 100,000
Victor Jones, Jr.	Trustee	Fidelity and Deposit Company of Maryland	100,000
Lewis Goins	Trustee	Fidelity and Deposit Company of Maryland	100,000
Michael Lowe	Trustee	Fidelity and Deposit Company of Maryland	100,000
Frank C. Therrell	Trustee	Fidelity and Deposit Company of Maryland	100,000
Arthur L. Siggers	Trustee	Fidelity and Deposit Company of Maryland	100,000
George Walters	Trustee	Fidelity and Deposit Company of Maryland	100,000
G. Douglas Higginbotham	President & Chief Executive Officer	Fidelity and Deposit Company of Maryland	100,000
All Employees		Fidelity and Deposit Company of Maryland	250,000



**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 Trustees
South Central Regional Medical Center
Laurel, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of South Central Regional Medical Center (the "Medical Center"), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements, and have issued our report thereon dated November 28, 2017

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Home LLP". The signature is written in a cursive, flowing style.

Ridgeland, Mississippi
November 28, 2017