

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

Audited Financial Statements
As of and for the Years Ended
September 30, 2016 and 2015

SOUTH CENTRAL REGIONAL MEDICAL CENTER

Laurel, Mississippi

Board of Trustees

Frank C. Therrell, Chairman

George Walters, Vice Chairman

Becky Brewer

Lewis Goins, Secretary

Victor Jones, Jr.

Michael Lowe, Treasurer

Arthur L. Siggers

President and Chief Executive Officer
G. Douglas Higginbotham

Chief Financial Officer
J. Thomas Canizaro

CONTENTS

Independent Auditor's Report	1 - 2
------------------------------	-------

Management's Discussion and Analysis	3 - 13
Financial Statements	
Statements of Net Position	14
Statements of Revenue and Expenses and Changes in Net Position	15
Statements of Cash Flows	16
Notes to Financial Statements	17 - 40
Supplementary Information	
Schedule of Surety Bonds for Officers and Employees	41
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	42 - 43



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, 2016 and 2015, 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, 2016 and 2015, 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 41 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 December 12, 2016 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
December 12, 2016

**SOUTH CENTRAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended September 30, 2016 and 2015**

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, 2016 and 2015. Please read it in conjunction with the financial statements in this report. The amounts contained within this section are rounded to the nearest thousand.

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.

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.

2015

FINANCIAL HIGHLIGHTS

The Medical Center's total net position increased by \$4,926,000 or 4.7 percent, from the prior year. All of this increase results from the recognition of revenue over expenses.

At the end of the 2015 fiscal year, the assets of the Medical Center exceeded liabilities by \$108,776,000. Of this excess amount, \$70,521,000 (unrestricted) may be used to meet ongoing obligations to the Medical Center's employees, patients and creditors, \$30,877,000 is invested in capital assets, net of related debt and \$7,378,000 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, 2015, the Medical Center had \$2,090,000 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, 2015, the Medical Center had a current ratio exceeding 3.5.

**SOUTH CENTRAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS**
Years Ended September 30, 2016 and 2015

Total operating revenue increased \$6.5 million or 4.4 percent. This was due primarily to an increase of \$7.3 million in net patient service revenue which consisted primarily of increases in inpatient volume; outpatient lab, pharmacy and radiology services. Operating expenses, excluding depreciation and amortization, increased by \$3,609,000 from 2014 to 2015. This increase was due primarily to increases in salaries, employee benefits and supplies of \$4.6 million and a decrease in professional fees of \$1.0 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, 2016 and 2015

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.

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, 2016 and 2015

2015

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 2015	Fiscal Year 2014	Dollar Change	Total Percent Change
Current and other assets	\$ 98,517	\$ 90,934	\$ 7,583	8.3%
Capital assets	61,530	62,145	(615)	-1.0%
Total assets	<u>\$ 160,047</u>	<u>\$ 153,079</u>	<u>\$ 6,968</u>	<u>4.6%</u>
Long-term debt outstanding	\$ 30,653	\$ 32,390	\$ (1,737)	-5.4%
Other liabilities	20,618	16,840	3,778	22.4%
Total liabilities	<u>51,271</u>	<u>49,230</u>	<u>2,041</u>	<u>4.1%</u>
Investment in capital assets, net of related debt	30,877	29,755	1,122	3.8%
Restricted	7,378	7,171	207	2.9%
Unrestricted	<u>70,521</u>	<u>66,923</u>	<u>3,598</u>	<u>5.4%</u>
Total net position	<u>108,776</u>	<u>103,849</u>	<u>4,927</u>	<u>4.7%</u>
Total liabilities and net position	<u>\$ 160,047</u>	<u>\$ 153,079</u>	<u>\$ 6,968</u>	<u>4.6%</u>

Total assets increased 4.6 percent due to increases in cash and investments of \$9.9 million, offset by a \$2.3 million decrease in Net patient receivables and a decrease of \$1.2 million in estimated third-party payor settlements.

Long-term debt decreased by 5.4 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, 2016 and 2015

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	<u>151,901</u>	<u>154,466</u>	<u>(2,565)</u>	<u>-1.7%</u>
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	<u>142,042</u>	<u>141,151</u>	<u>891</u>	<u>0.6%</u>
Earnings before interest depreciation and amortization ("EBITDA")	<u>9,859</u>	<u>13,315</u>	<u>(3,456)</u>	<u>-26.0%</u>
Depreciation and amortization Expense	<u>8,167</u>	<u>8,180</u>	<u>(13)</u>	<u>-0.2%</u>
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	<u>(488)</u>	<u>(209)</u>	<u>(279)</u>	<u>-133.5%</u>
Increase in net position	<u>\$ 1,204</u>	<u>\$ 4,926</u>	<u>\$ (3,722)</u>	<u>-75.6%</u>

**SOUTH CENTRAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS**
Years Ended September 30, 2016 and 2015

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%
	100.0%	100.0%

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, 2016 and 2015

2015

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, 2015 and 2014:

Condensed Statements of Revenue and Expenses
(In Thousands)

	Fiscal Year 2015	Fiscal Year 2014	Dollar Change	Total Percent Change
Net patient service revenue	\$ 151,273	\$ 143,955	\$ 7,318	5.1%
Other operating revenue excluding interest income	3,193	4,003	(810)	-20.2%
Total operating revenue	154,466	147,958	6,508	4.4%
Salaries and benefits	86,642	83,900	2,742	3.3%
Professional fees, supplies, maintenance, other	54,509	53,642	867	1.6%
Total operating expenses before depreciation/amortization	141,151	137,542	3,609	2.6%
Earnings before interest depreciation and amortization ("EBITDA")	13,315	10,416	2,899	27.8%
Depreciation and amortization Expense	8,180	7,994	186	2.3%
Operating net income	5,135	2,422	2,713	112.0%
Investment and grant income	1,369	608	761	125.2%
Income from joint ventures	212	248	(36)	-14.5%
Gain (loss) on sale of capital assets	34	(38)	72	-189.5%
Distributions to minority interest	(382)	(513)	131	-25.5%
Interest expense	(1,442)	(1,627)	185	-11.4%
Total non-operating revenues (expenses)	(209)	(1,322)	1,113	-84.2%
Increase in net position	\$ 4,926	\$ 1,100	\$ 3,826	347.8%

**SOUTH CENTRAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS**
Years Ended September 30, 2016 and 2015

2015

Operating Revenue

During fiscal year 2015, the Medical Center derived approximately 97.9 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, 2015 and 2014:

	Fiscal Year 2015	Fiscal Year 2014
Medicare	48.5%	47.8%
Medicaid	20.0%	19.2%
Other	31.5%	33.0%
	<u>100.0%</u>	<u>100.0%</u>

2015

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 2015 as compared to 2014:

- During 2015, the Medical Center had patient days and admissions of 38,757 and 9,119, respectively. As compared to 2014, patient days increased by 4 percent while admissions increased by 8 percent.
- Outpatient and emergency registrations were 50,706 and 36,498, respectively, in 2015 which corresponds to an increase of 12 percent and an increase of 5 percent, respectively, as compared to 2014.
- Surgical cases decreased by 1 percent to 4,117 in 2015 from 4,155 in 2014.
- Net patient service revenue increased as stated in the Financial Highlights. Net patient service revenue increased to \$151 million in 2015 from \$143 million in 2014.
- Salaries increased \$1.9 million to \$74.2 million in 2015 from \$72.3 million in 2014. 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, 2016 and 2015

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%
Construction in progress	57,190	55,363	1,827	3.3%
	7,050	6,167	883	14.3%
Net capital asset	<u>\$ 64,240</u>	<u>\$ 61,530</u>	<u>\$ 2,710</u>	<u>4.4%</u>

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.

**SOUTH CENTRAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS**
Years Ended September 30, 2016 and 2015

2015

CAPITAL ASSETS

	Capital Assets (In Thousands)			
	Fiscal Year 2015	Fiscal Year 2014	Dollar Change	Total Percent Change
Land and land improvements	\$ 4,523	\$ 3,764	\$ 759	20.2%
Building and leasehold improvements	66,989	66,091	898	1.4%
Equipment	76,828	79,645	(2,817)	-3.5%
Subtotal	148,340	149,500	(1,160)	-0.8%
Less: Accumulated depreciation	(92,977)	(90,353)	(2,624)	2.9%
Construction in progress	55,363	59,147	(3,784)	-6.4%
	6,167	2,998	3,169	105.7%
Net capital assets	<u>\$ 61,530</u>	<u>\$ 62,145</u>	<u>\$ (615)</u>	<u>-1.0%</u>

Net capital assets decreased approximately \$0.6 million or 1.0 percent due to the Medical Center's depreciation. Before depreciation, capital assets increased by \$2.0 million primarily related to Construction in Progress.

2015

LONG-TERM DEBT

At year-end, the Medical Center had \$30.7 million in long-term debt. Total long-term debt represents 59.8 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, 2016 and 2015

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 2017 budget. Although the financial outlook for the Medical Center is outstanding, of primary importance in setting the 2017 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, 2016 and 2015

	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 14,391,233	\$ 23,922,592
Investments	18,034,733	17,047,495
Assets limited as to use	2,715,275	2,726,525
Patient receivables, net of allowances for uncollectible accounts of \$16,861,134 in 2016 and \$14,435,798 in 2015	40,354,791	39,472,780
Estimated third-party payor settlements	1,829,004	-
Inventories	5,866,006	5,748,584
Other current assets	1,384,812	1,886,963
Total current assets	84,575,854	90,804,939
Assets limited as to use, net of amount required for current liabilities	3,527,303	3,977,736
Capital assets, net	64,239,721	61,529,920
Other assets	4,339,242	3,733,886
Total assets	156,682,120	160,046,481
LIABILITIES		
Current liabilities		
Current maturities of long-term debt	4,853,013	4,347,306
Accounts payable, trade	9,303,165	8,536,506
Estimated third-party payor settlements	-	1,887,967
Accrued salaries and compensated absences	4,697,465	5,656,953
Accrued self-insurance costs	2,080,000	2,674,619
Other current liabilities	963,515	1,862,165
Total current liabilities	21,897,158	24,965,516
Long-term debt, less current maturities	24,804,664	26,305,219
Total liabilities	46,701,822	51,270,735
NET POSITION		
Net investment in capital assets	34,582,044	30,877,395
Restricted - nonexpendable for		
Minority interest in blended component unit	650,377	673,517
Restricted - expendable for		
Debt service	4,710,374	4,614,654
Use in self-insurance programs	1,532,204	2,089,607
Unrestricted	68,505,299	70,520,573
Total net position	\$ 109,980,298	\$ 108,775,746

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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues		
Net patient service revenue, net of provision for bad debts of \$12,617,094 in 2016 and \$12,449,146 in 2015	\$ 148,540,485	\$ 151,272,808
Other operating revenue	3,360,943	3,193,240
Total operating revenue	<u>151,901,428</u>	<u>154,466,048</u>
Operating expenses		
Salaries and wages	74,641,394	74,214,024
Professional fees	9,407,395	9,649,592
Employee benefits	13,351,034	12,427,608
Supplies and other	33,128,700	34,311,458
Maintenance and utilities	11,513,810	10,547,822
Depreciation and amortization	8,166,865	8,179,582
Total operating expenses	<u>150,209,198</u>	<u>149,330,086</u>
Income from operations	<u>1,692,230</u>	<u>5,135,962</u>
Nonoperating revenue (expenses)		
Interest expense	(1,351,283)	(1,442,088)
Unrestricted gifts and bequests	87,417	67,599
Gain on sale of capital assets	1,032	34,356
Joint venture income	189,832	212,236
Investment income	1,114,010	1,300,445
Total nonoperating revenues	<u>41,008</u>	<u>172,548</u>
Distributions to minority interest	<u>(528,686)</u>	<u>(382,103)</u>
Increase in net position	1,204,552	4,926,407
Net position, beginning of year	<u>108,775,746</u>	<u>103,849,339</u>
Net position, end of year	<u>\$ 109,980,298</u>	<u>\$ 108,775,746</u>

See accompanying notes.

SOUTH CENTRAL REGIONAL MEDICAL CENTER
(A Component Unit of Jones County)
Statements of Cash Flows
Years Ended September 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 144,131,335	\$ 156,909,319
Payments to suppliers and contractors	(54,605,199)	(54,081,699)
Payments to employees	(88,951,916)	(85,787,650)
Other receipts and payments, net	3,360,943	3,193,240
Net cash provided by operating activities	3,935,163	20,233,210
Cash flows from noncapital financing activities		
Noncapital grants and contributions	87,417	67,599
Distributions to minority interest	(528,686)	(382,103)
Net cash used in noncapital financing activities	(441,269)	(314,504)
Cash flows from capital and related financing activities		
Principal payments on long-term debt	(4,718,608)	(3,945,620)
Proceeds from issuance of long-term debt	3,723,760	-
Interest paid on long-term debt	(1,324,783)	(1,416,921)
Purchase of capital assets	(10,876,666)	(5,359,330)
Proceeds from sale of capital assets	1,032	36,983
Net cash used in capital and related financing activities	(13,195,265)	(10,684,888)
Cash flows from investing activities		
Investment income	201,846	290,842
Proceeds from sale of investments	63,886	62,408
Net cash provided by investing activities	265,732	353,250
Net increase (decrease) in cash and cash equivalents	(9,435,639)	9,587,068
Cash and cash equivalents, beginning of year	28,537,246	18,950,178
Cash and cash equivalents, end of year	\$ 19,101,607	\$ 28,537,246

See accompanying notes.

	2016	2015
Reconciliation of cash and cash equivalents to the statements of net position		
Cash and cash equivalents	\$ 14,391,233	\$ 23,922,592
Assets limited as to use	2,715,275	2,726,525
Assets limited as to use, net of amount required for current liabilities	1,995,099	1,888,129
	<u>19,101,607</u>	<u>28,537,246</u>
Reconciliation of income from operations to net cash provided by operating activities		
Income from operations	\$ 1,692,230	\$ 5,135,962
Adjustments to reconcile income from operations to net cash provided by operating activities		
Joint venture income	189,832	212,236
Depreciation and amortization	8,166,865	8,179,582
Provision for bad debts	12,617,094	12,449,146
Changes in assets and liabilities		
Receivables	(13,499,105)	(10,157,432)
Inventories	(117,422)	(467,014)
Other current and noncurrent assets	315,238	(117,713)
Accounts payable, trade	766,659	(497,873)
Estimated third-party payor settlements	(3,716,971)	3,132,561
Accrued salaries and compensated absences	(959,488)	853,982
Other liabilities	(1,519,769)	1,509,773
	<u>3,935,163</u>	<u>20,233,210</u>
Supplemental disclosures of noncash investing and financing activities		
Purchase of equipment through increase in capital lease obligations	\$ -	\$ 2,207,920
	<u>912,164</u>	<u>1,009,603</u>

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2016 and 2015

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 their relationships with the Medical Center. 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, 2016 and 2015

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, 2016 and 2015

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.

Assets under capital lease obligations are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset, and are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the assets. Such amortization is included in depreciation and amortization in the financial statements. Interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

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.

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

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.

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.

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

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.

The Medical Center recognized \$440,000 and \$-0- of revenues related to the Medicare incentive program for the years ended September 30, 2016 and 2015. The Medical Center recognized \$20,920 and \$289,614 of revenues related to the Medicaid incentive program for the years ended September 30, 2016 and 2015, respectively. These revenues are reflected in other operating revenues on the accompanying statements of revenue and expenses and changes in net position. The Medical Center recorded \$-0- of receivables related to the Medicare and Medicaid incentive programs for the years ended September 30, 2016 and 2015. 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.

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

New Accounting Standards Adopted

In 2016, the Medical Center adopted the following accounting standard:

The Medical Center adopted GASB 72, *Fair Value Measurement and Application*. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The adoption of this statement did not have a significant impact on the financial statements of the Medical Center.

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 79, *Certain External Investment Pools and Pool Participants*, in fiscal year 2017. This statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This statement supersedes Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The requirements for this standard are effective for financial statements for periods beginning after June 15, 2015, except for certain provisions which are effective for reporting periods beginning after December 15, 2015, and should be applied retroactively. 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 \$14,015,622 and \$23,917,155 at September 30, 2016 and 2015, respectively.

The Medical Center also has cash deposits held by a Trustee. The use of these funds is restricted for debt service related to the Medical Center's revenue bonds. The carrying value of these deposits was \$4,710,374 and \$4,614,654 at September 30, 2016 and 2015, respectively. As of September 30, 2016 and 2015, \$4,460,374 and \$4,364,654, respectively, of the Medical Center's debt service fund balances was exposed to custodial credit risk.

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS

Note 2. Continued

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:

	2016	2015
MHA Intermediate Duration Trust	\$ 22,504,824	\$ 22,011,103

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, 2016 and 2015, as follows:

	2016	2015
Cash and cash equivalents	\$ 14,391,233	\$ 23,922,592
Investments	18,034,733	17,047,495
Assets limited as to use	2,715,275	2,726,525
Assets limited as to use, net of amount required for current liabilities	3,527,303	3,977,736
Total	\$ 38,668,544	\$ 47,674,348

Note 3. Assets Limited as to Use

Assets limited as to use consisted of the following as of September 30, 2016 and 2015:

	2016	2015
Trustee-held funds		
Principal and interest fund	\$ 2,715,275	\$ 2,726,525
Debt service reserve fund	1,995,099	1,888,129
Self-insurance fund	1,532,204	2,089,607
Total cash and investments limited as to use	6,242,578	6,704,261
Less cash and investments that are required for current liabilities	2,715,275	2,726,525
Total noncurrent cash and investments	\$ 3,527,303	\$ 3,977,736

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS

Note 3. Continued

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.

Note 4. Capital Assets

A summary of capital assets at September 30, 2016 and 2015 is set forth below:

	2016	2015
Land	\$ 3,151,110	\$ 3,151,110
Land improvements	1,370,437	1,371,597
Building	70,360,680	66,989,116
Equipment	58,366,140	52,021,833
Equipment under capital lease	24,806,116	24,806,116
	<u>158,054,483</u>	<u>148,339,772</u>
Less accumulated depreciation and amortization	<u>(100,864,881)</u>	<u>(92,976,959)</u>
	57,189,602	55,362,813
Construction in progress	<u>7,050,119</u>	<u>6,167,107</u>
Capital assets, net	<u>\$ 64,239,721</u>	<u>\$ 61,529,920</u>

Depreciation expense for the years ended September 30, 2016 and 2015 totaled \$8,166,865 and \$8,179,582, respectively. Accumulated amortization related to capital lease obligations at September 30, 2016 and 2015 totaled \$22,221,039 and \$20,047,144, respectively.

Construction in progress is principally comprised of expenditures related to the expansion and renovation of Medical Center facilities and upgrade of the Medical Center's electronic medical records system. As of September 30, 2016, the Medical Center had outstanding construction commitments of approximately \$1,220,000.

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS

Note 4. Continued

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, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS

Note 4. Continued

Capital asset additions, retirements and balances for the year ended September 30, 2015 were as follows:

	Balance September 30, 2014	Increases	Decreases	Balance September 30, 2015
Capital assets not being depreciated				
Land	\$ 2,349,139	\$ 801,971	\$ -	\$ 3,151,110
Construction in progress	2,997,667	4,746,764	(1,577,324)	6,167,107
Total capital assets not being depreciated	5,346,806	5,548,735	(1,577,324)	9,318,217
Capital assets being depreciated				
Land improvements	1,414,473	-	(42,876)	1,371,597
Buildings	66,090,582	1,273,514	(374,980)	66,989,116
Equipment	57,048,036	114,405	(5,140,608)	52,021,833
Equipment under capital lease	22,598,196	2,207,920	-	24,806,116
Total capital assets being depreciated	147,151,287	3,595,839	(5,558,464)	145,188,662
Less accumulated depreciation for				
Land improvements	(1,159,695)	(38,415)	42,876	(1,155,234)
Buildings	(33,292,998)	(2,485,696)	382,659	(35,396,035)
Equipment	(37,108,744)	(3,704,884)	5,130,302	(35,683,326)
Equipment under capital lease	(18,791,777)	(1,950,587)	-	(20,742,364)
Total accumulated depreciation	(90,353,214)	(8,179,582)	5,555,837	(92,976,959)
Capital assets being depreciated, net	56,798,073	(4,583,743)	(2,627)	52,211,703
Capital assets, net	\$ 62,144,879	\$ 964,992	\$(1,579,951)	\$ 61,529,920

Note 5. Other Assets

The composition of other assets at September 30, 2016 and 2015 was as follows:

	2016	2015
Morris & Dickson deposit	\$ 528,796	\$ 528,796
CON - 60 nursing home beds	637,500	637,500
City of Laurel, lease rights	13,434	13,685
Premier Healthcare Solutions, Inc., common stock	1,435,550	1,017,107
Workers Compensation Public Pool Dividend Receivable	626,463	562,583
Investment in Laurel Surgical and Endoscopy Center	232,265	254,759
Clinic acquisitions - medical records	29,706	29,706
Non-current portion of note receivable	835,528	689,750
Total other assets	\$ 4,339,242	\$ 3,733,886

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS

Note 5. Continued

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 a 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 \$1,436,000 and \$1,017,000 as of September 30, 2016 and 2015, respectively.

Note 6. Long-Term Debt

A summary of long-term debt, inclusive of capital lease obligations, at September 30, 2016 and 2015 follows:

	2016	2015
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.	\$ 20,970,000	\$ 22,560,000
Capital lease obligations, at varying rates of interest ranging from 2.14 percent to 3.49 percent, collateralized by equipment.	2,901,092	4,758,962
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.	700,615	1,170,821
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.	794,380	874,694
Loan, \$463,392 original principal balance, with principal and interest due November 2018 at an interest rate of 2.27 percent, collateralized by equipment.	205,982	298,263

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS

Note 6. Continued

	2016	2015
Loan, \$1,100,000 original principal balance, with principal and interest due April 2019 at an interest rate of 2.08 percent.	\$ 721,106	\$ 989,785
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.	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.	917,076	-
Loan, \$680,000 original principal balance, with principal and interest due May 2021 at an interest rate of 1.85 percent.	636,765	-
Loan, \$600,000 original available principal balance, of which \$311,007 had been drawn at September 30, 2016, with principal and interest due November 2023 at an interest rate of 4.10 percent.	311,007	-
	29,657,677	30,652,525
Less current portion of long-term debt	4,853,013	4,347,306
Long-term debt, excluding current portion	<u>\$ 24,804,664</u>	<u>\$ 26,305,219</u>

Under the terms of the 2006 Bond Indenture, the Medical Center is required to maintain certain deposits with a Trustee. Such deposits are included with assets limited as to use in the financial statements. The Bond Indenture also places limits on the incurrence of additional borrowings and requires that the Medical Center satisfy certain measures of financial performance as long as the bonds are outstanding. Under the most restrictive covenants under the Bond Indentures, the Medical Center is required to maintain certain debt service coverage ratios. For the years ended September 30, 2016 and 2015, the Medical Center was in compliance with such covenants.

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS

Note 6. Continued

The maturities on long-term debt including capital lease obligations are as follows:

Year Ending September 30,	Long-Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2017	\$ 3,286,148	\$ 1,186,162	\$ 1,566,865	\$ 52,052
2018	3,125,107	1,056,934	601,587	24,462
2019	1,871,178	961,786	615,527	10,522
2020	1,757,253	895,539	117,113	444
2021	1,432,843	829,288	-	-
2022 - 2026	6,209,056	3,193,138	-	-
2027 - 2031	7,360,000	1,455,038	-	-
2032	1,715,000	45,019	-	-
	<u>\$ 26,756,585</u>	<u>\$ 9,622,904</u>	<u>\$ 2,901,092</u>	<u>\$ 87,480</u>

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	<u>\$ 30,652,525</u>	<u>\$ 3,723,760</u>	<u>\$ (4,718,608)</u>	<u>\$ 29,657,677</u>	<u>\$ 4,853,013</u>

A schedule of changes in the Medical Center's long-term debt for 2015 follows:

	Balance September 30, 2014	Additions	Retirements	Balance September 30, 2015	Due Within One Year
Bonds payable					
2006 indenture	\$ 24,070,000	\$ -	\$ 1,510,000	\$ 22,560,000	\$ 1,590,000
Notes payable	4,056,128	-	722,565	3,333,563	899,767
Total long-term debt	28,126,128	-	2,232,565	25,893,563	2,489,767
Capital lease obligations	4,264,097	2,207,920	1,713,055	4,758,962	1,857,539
Total noncurrent liabilities	<u>\$ 32,390,225</u>	<u>\$ 2,207,920</u>	<u>\$ 3,945,620</u>	<u>\$ 30,652,525</u>	<u>\$ 4,347,306</u>

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS

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, 2016 and 2015 were \$698,494 and \$679,570, 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 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, 2016 and 2015, the Medical Center accrued \$100,000 and \$200,000, respectively, for potential claim liabilities. Claims and related activity were not significant for years ended September 30, 2016 and 2015.

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.

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS

Note 8. Continued

The claims liability at September 30, 2016 and 2015, 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 2016 and 2015 were:

Fiscal Year	October 1, Claims Liability	Current Year Claims and Changes in Estimates	Current Year Payments	September 30, Claims Liability
2016	\$ 1,000,000	\$ 11,845,699	\$ (12,065,699)	\$ 780,000
2015	\$ 675,000	\$ 9,774,494	\$ (9,449,494)	\$ 1,000,000

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, 2016 and 2015, this accrual totaled \$1,200,000 and \$1,475,000, respectively. The future assertion of claims for occurrences prior to year-end is reasonably possible and may occur, although is not anticipated.

Changes in the Medical Center's claims liability amount, including related legal fees, for the years 2016 and 2015 were as follows:

Fiscal Year	October 1, Claims Liability	Current Year Claims and Changes in Estimates	Current Year Payments	September 30, Claims Liability
2016	\$ 1,475,000	\$ 225,421	\$ (500,421)	\$ 1,200,000
2015	\$ 1,250,000	\$ 518,121	\$ (293,121)	\$ 1,475,000

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:

	2016	2015
Capital assets	\$ 165,104,602	\$ 154,506,879
Less accumulated depreciation	(100,864,881)	(92,976,959)
Less debt outstanding related to capital assets	(29,657,677)	(30,652,525)
Net investment in capital assets	<u>\$ 34,582,044</u>	<u>\$ 30,877,395</u>

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS

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.

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 will be administered by the DOM through the Mississippi CAN coordinated care organizations ("CCO"). The CCO's will subcontract with the Hospitals throughout the state for distribution of the MHAP for the purpose of protecting patient access to hospital care. The MHAP Program began December 1, 2015 and the MHAP payments and associated tax were distributed and collected in seven equal installments during the months of December 2015 through June 2016. MHAP amounts are shown as a reduction of contractual adjustments and are recorded net of related taxes paid.

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS

Note 10. Continued

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 2016 and 2015 as follows:

	2016	2015
UPL revenue, gross	\$ 3,605,119	\$ 12,678,146
MHAP revenue, gross	10,765,452	-
UPL assessment	931,202	6,539,925
MHAP assessment	6,049,117	-
UPL revenue, net of assessment	<u>\$ 7,390,252</u>	<u>\$ 6,138,221</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 2016 net patient service revenue increased approximately \$22,000 due to prior year retroactive adjustments in excess of amounts previously estimated. In 2015, the net patient service revenue increased approximately \$21,000 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.

A summary of gross and net patient service revenue for the years ended September 30, 2016 and 2015 follows:

	2016	2015
Gross patient service revenue	\$ 340,359,373	\$ 350,044,098
Less provisions for		
Contractual adjustments under third-party reimbursement programs and other deductions	179,201,794	186,322,144
Provision for bad debts	12,617,094	12,449,146
Net patient service revenue	<u>\$ 148,540,485</u>	<u>\$ 151,272,808</u>

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS

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 \$10,509,000 and \$14,137,000 for the years ended September 30, 2016 and 2015, respectively. The estimated cost of charity care, estimated using a ratio of cost to gross charges, totaled approximately \$4,624,000 and \$6,079,000 for the years ended September 30, 2016 and 2015, 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:

	2016	2015
Medicare	33.8%	26.4%
Medicaid	11.1	13.6
Commercial	29.6	35.5
Other	25.5	24.5
Total	100.0%	100.0%

Patient Service Revenue Under Contract

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

	September 30, 2016		September 30, 2015	
	Amount	Percent of Total Gross Patient Revenue	Amount	Percent of Total Gross Patient Revenue
Medicare	\$ 159,968,905	47.0%	\$ 169,771,387	48.5%
Medicaid	75,900,140	22.3%	70,008,820	20.0%
Other	104,490,328	30.7%	110,263,891	31.5%
Total	\$ 340,359,373	100.0%	\$ 350,044,098	100.0%

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, 2016 and 2015 for all operating leases was \$2,137,372 and \$2,156,172, respectively.

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS

Note 13. Continued

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, 2016 that have initial or remaining lease terms in excess of one year:

Year Ending September 30,	Amount
2017	\$ 1,311,930
2018	1,262,831
2019	1,213,531
2020	1,205,731
	<hr/>
	\$ 4,994,023

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.

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 \$150,295 and \$213,950 at September 30, 2016 and 2015, respectively. No liability has been recorded for this guarantee as of September 30, 2016 or 2015. 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 both Open MRI and 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, 2016 and 2015 for The Foundation, Open MRI and Sleep Lab are detailed as follows:

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS

Note 14. Continued

	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
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

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS

Note 14. Continued

	2015		
	The Foundation	Open MRI	Sleep Lab
Condensed Statements of Net Position			
Assets			
Current assets	\$ 76,860	\$ 317,759	\$ 862,306
Capital assets	-	495,844	3,029
Total assets	76,860	813,603	865,335
Liabilities			
Current liabilities	-	83,260	48,152
Net position			
Invested in capital assets, net of related debt	-	495,844	3,029
Unrestricted	76,860	234,499	814,154
Total net position	\$ 76,860	\$ 730,343	\$ 817,183
Condensed statements of revenue, expenses and changes in net position			
Operating revenues			
Net patient service revenues	\$ 66,044	\$ 1,680,387	\$ 1,171,883
Other operating revenues	-	-	611
Total operating revenues	66,044	1,680,387	1,172,494
Operating expenses			
Depreciation expenses	42,828	19,068	1,394
Other operating expenses	-	1,010,791	710,763
Total operating expenses	42,828	1,029,859	712,157
Increase in net position	23,216	650,528	460,337
Net position, beginning of year	53,644	780,340	431,846
Distributions	-	(700,525)	(75,000)
Net position, end of year	\$ 76,860	\$ 730,343	\$ 817,183
Condensed Statements of Cash Flows			
Cash provided by operating activities	\$ 22,992	\$ 690,625	\$ 385,082
Cash used in capital and related financing activities	1,735	(701,812)	(77,119)
Increase (decrease) in cash and cash equivalents	24,727	(11,187)	307,963
Cash and cash equivalents, beginning of year	52,133	176,937	293,865
Cash and cash equivalents, end of year	\$ 76,860	\$ 165,750	\$ 601,828

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS

Note 15. Fair Value

The Medical Center's investments are recorded at fair value as of September 30, 2016 and 2015. 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.

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, 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 following table represents the Medical Center's investments within the fair value hierarchy at September 30, 2015:

	Fair Value Measurements at September 30, 2016			
	(Level 1)	(Level 2)	(Level 3)	Total
Investments				
MHA duration trust	\$ -	\$ 22,011,103	\$ -	\$ 22,011,103

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS

Note 15. Continued

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, 2016 and 2015, respectively.

	2016	2015
Cash	\$ 254,498	\$ 256,971
Patient accounts receivable, net	303,757	382,805
Capital assets, net	262,047	372,981
Other assets	256,574	266,117
Total assets	\$ 1,076,876	\$ 1,278,874
Current liabilities	\$ 261,676	\$ 180,921
Long-term liabilities	159,431	313,241
Members' capital	655,769	784,712
Total liabilities and capital	\$ 1,076,876	\$ 1,278,874
Net patient service and other revenues	\$ 5,036,357	\$ 5,374,780
Operating expenses	(4,704,671)	(4,695,744)
Net income	\$ 331,686	\$ 679,036

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.

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Years Ended September 30, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS

Note 17. Continued

Patient Protection and Affordable Care Reconciliation Act

On March 23, 2010, the most sweeping healthcare legislation since the advent of Medicare was signed into law. The law promises to expand insurance coverage to an additional 32 million Americans, reduce the growth of Medicare expenditures, dramatically reform insurance markets, and continue the trend toward value-based payment. The Reconciliation Act adds some new provisions that were not included originally. Several legal challenges have been made against the legislation since it was enacted, and uncertainty exists as to the ultimate impact of the legislation on the healthcare delivery system. On June 28, 2012, The United States Supreme Court upheld the constitutionality of components of the Affordable Care Act, allowing the historic overhaul of the healthcare system to continue. Potential impacts of healthcare reform include uncertainty and volatility in Medicare and Medicaid reimbursement, fundamental changes in payment systems, increased regulation and significant required investments in healthcare information technology.

SOUTH CENTRAL REGIONAL MEDICAL CENTER
Schedule of Surety Bonds for Officers and Employees
September 30, 2016

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, 2016, 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 December 12, 2016

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 cursive script that reads "Home LLP".

Ridgeland, Mississippi
December 12, 2016