

**Forrest County General Hospital  
(A Component Unit of Forrest County, Mississippi)**

Independent Auditor's Report and Financial Statements

September 30, 2018 and 2017



**Forrest County General Hospital**  
**(A Component Unit of Forrest County, Mississippi)**  
September 30, 2018 and 2017

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## Independent Auditor's Report

Board of Trustees  
Forrest County General Hospital  
Hattiesburg, Mississippi

We have audited the accompanying financial statements of Forrest County General Hospital (the Hospital), a component unit of Forrest County, Mississippi, as of and for the years ended September 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Hospital'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. 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 opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Forrest County General Hospital as of September 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in *Note 18* to the financial statements, in 2018, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension and other postemployment benefit information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required GASB, 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The Surety Bonds for Officials and Employees is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied by us in the audits of the basic financial statements, and, accordingly, we do not express an opinion on it or provide any assurance on it.

**BKD, LLP**

Jackson, Mississippi  
December 7, 2018

**Forrest County General Hospital**  
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**Management's Discussion and Analysis**  
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**Introduction**

This management's discussion and analysis of the financial performance of Forrest County General Hospital (the Hospital) provides an overview of the Hospital's financial activities for the fiscal years that ended on September 30, 2018 and 2017. It should be read in conjunction with the accompanying financial statements of the Hospital.

**Financial Highlights**

**2018**

- Total operating revenues increased 0.1%. Current year changes impacting operating revenues include:
  - Demand for services decreased, as admissions and surgery cases decreased 1.3% and 5.6%, respectively.
- Operating expenses increased 2.0%. Current year changes impacting operating expenses include:
  - Salaries, wages and employee benefits increased approximately 2.0%, due to a retention payment made to all employees during fiscal year 2018.
  - Medical supplies and other increased approximately 3.0%, due primarily to volume increases in pharmaceuticals and implants needed for surgical cases.
- Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was adopted in fiscal year 2018. This required the Hospital to retroactively restate 2017 by recording a net other postemployment benefit (OPEB) liability. The Hospital restated its OPEB liability for 2017 by approximately \$1.5 million and reduced beginning net position at October 1, 2016 by approximately \$3.3 million for the cumulative effect of the change in accounting principle. Fiscal year 2016 was not restated at the adoption of GASB 75.

**2017**

- Total operating revenues increased 2.4%. Current year changes impacting operating revenues include:
  - Demand for services remained consistent, as admissions and surgery cases demand fluctuated less than 1%.

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## **Management's Discussion and Analysis**

**September 30, 2018 and 2017**

- In 2017, the number of patients seen at the Hospital with insurance exchange products increased 30.0%, with a correlating increase in payments. Coincidentally, the number of uninsured patients seen at the Hospital decreased.
- Continuous improvement in the revenue cycle after implementation of a new electronic health records (EHR) system contributed to increased operating revenues. Management expanded the new system to all facilities during fiscal year 2017.
- Operating expenses increased 5.5%. Current year changes impacting operating expenses include:
  - Salaries, wages and employee benefits increased approximately 6.7%, due to preparations made to implement the new EHR system at the regional facilities and market and merit adjustments given at the end of fiscal year 2016 in order to attract and retain quality staff.
  - Medical supplies and other increased approximately 4.5%, due primarily to volume increases in pharmaceuticals and implants needed for surgical cases.

### **Using This Annual Report**

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

### **The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position**

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets, all liabilities and all deferred inflows and outflows of resources using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in it. The Hospital's total net position—the difference between assets, liabilities and deferred inflows and outflows of resources—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and

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regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

**The Statement of Cash Flows**

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

**The Hospital's Net Position**

The Hospital's net position is the difference between its assets, liabilities and deferred inflows and outflows of resources reported in the balance sheet. The Hospital's net position increased by approximately \$19,500,000 (4.4%) in 2018 over 2017, and by approximately \$14,300,000 (3.3%) in 2017 over 2016, as shown in Table A-1 and Table A-2.

# Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)

## Management's Discussion and Analysis

September 30, 2018 and 2017

**Table A-1**  
**Condensed Balance Sheets (in millions of dollars)**

	2018	2017 (Restated - Note 18)	Dollar Change	Percentage Change
<b>Assets and Deferred Outflows of Resources</b>				
Cash and other current assets	\$ 137.8	\$ 139.5	\$ (1.7)	-1.2%
Patient accounts receivable, net	53.3	51.9	1.4	2.7%
	191.1	191.4	(0.3)	-0.2%
Investments and other assets	255.9	249.7	6.2	2.5%
Capital assets	326.8	320.1	6.7	2.1%
Deferred outflows of resources	6.9	9.6	(2.7)	-28.1%
	Total assets and deferred outflows of resources			
	<u>\$ 780.7</u>	<u>\$ 770.8</u>	<u>\$ 9.9</u>	1.3%
<b>Liabilities and Deferred Inflows of Resources</b>				
Current liabilities	\$ 68.0	\$ 67.4	\$ 0.6	0.9%
Long-term liabilities	248.2	259.0	(10.8)	-4.2%
Deferred inflows of resources	3.6	3.1	0.5	16.1%
	Total liabilities and deferred inflows of resources			
	<u>319.8</u>	<u>329.5</u>	<u>(9.7)</u>	-2.9%
<b>Net Position</b>				
Net investment in capital assets	173.5	158.3	15.2	9.6%
Unrestricted	287.4	283.0	4.4	1.6%
	Total net position	Total net position	Total net position	Total net position
	<u>460.9</u>	<u>441.3</u>	<u>19.6</u>	4.4%
	Total liabilities, deferred inflows of resources and net position	Total liabilities, deferred inflows of resources and net position	Total liabilities, deferred inflows of resources and net position	Total liabilities, deferred inflows of resources and net position
	<u>\$ 780.7</u>	<u>\$ 770.8</u>	<u>\$ 9.9</u>	1.3%

Table A-1 above shows net cash and other current assets decreased by approximately \$1,700,000 from 2017 to 2018. Investments and other assets reflect an increase of approximately \$6,200,000 for the same time period. These changes are due primarily to increases in the assets held under trust agreement for the 457(f) plan discussed in *Note 2*. Deferred outflows of resources decreased by approximately \$2,700,000, due primarily to differences between net investment gains on pension plan assets and assumed gains.

# Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)

## Management's Discussion and Analysis

September 30, 2018 and 2017

Long-term liabilities decreased approximately \$10,800,000, due primarily to debt forgiveness (*Note 4*) and a decrease in the net pension liability (*Note 12*), offset by changes in OPEB liability from adoption of GASB 75 (*Note 18*).

**Table A-2  
Condensed Balance Sheets (in millions of dollars)**

	2017 (Restated - <i>Note 18</i> )	2016	Dollar Change	Percentage Change
<b>Assets and Deferred Outflows of Resources</b>				
Cash and other current assets	\$ 139.5	\$ 144.1	\$ (4.6)	-3.2%
Patient accounts receivable, net	51.9	53.5	(1.6)	-3.0%
	<u>191.4</u>	<u>197.6</u>	<u>(6.2)</u>	<u>-3.1%</u>
Investments and other assets	249.7	237.3	12.4	5.2%
Capital assets	320.1	336.4	(16.3)	-4.8%
Deferred outflows of resources	9.6	17.0	(7.4)	-43.5%
	<u>9.6</u>	<u>17.0</u>	<u>(7.4)</u>	<u>-43.5%</u>
Total assets and deferred outflows of resources	<u>\$ 770.8</u>	<u>\$ 788.3</u>	<u>\$ (17.5)</u>	<u>-2.2%</u>
<b>Liabilities and Deferred Inflows of Resources</b>				
Current liabilities	\$ 67.4	\$ 71.1	\$ (3.7)	-5.2%
Long-term liabilities	259.0	286.8	(27.8)	-9.7%
Deferred inflows of resources	3.1	3.3	(0.2)	-6.1%
	<u>3.1</u>	<u>3.3</u>	<u>(0.2)</u>	<u>-6.1%</u>
Total liabilities and deferred inflows of resources	<u>329.5</u>	<u>361.2</u>	<u>(31.7)</u>	<u>-8.8%</u>
<b>Net Position</b>				
Net investment in capital assets	158.3	166.3	(8.0)	-4.8%
Unrestricted	283.0	260.8	22.2	8.5%
	<u>283.0</u>	<u>260.8</u>	<u>22.2</u>	<u>8.5%</u>
Total net position	<u>441.3</u>	<u>427.1</u>	<u>14.2</u>	<u>3.3%</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 770.8</u>	<u>\$ 788.3</u>	<u>\$ (17.5)</u>	<u>-2.2%</u>

Table A-2 above shows net cash and other current assets decreased by approximately \$4,600,000 from 2016 to 2017. This was a result of management's decision to contribute incremental monies into the Hospital's pension plan. Investments and other assets reflect an increase of approximately \$12,400,000 for the same time period. These changes were due primarily to 2017 operating results and revenue cycle

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## Management's Discussion and Analysis

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management. Deferred outflows of resources decreased by approximately \$7,400,000, due primarily to differences between net investment gains on pension plan assets in excess of assumed gains.

Long-term liabilities decreased approximately \$27,800,000, due primarily to decreases in the net pension liability (*Note 12*).

**Table A-3**  
**Condensed Statements of Revenues, Expenses and**  
**Changes in Net Position (in millions of dollars)**

	2018	2017 (Restated - Note 18)	Dollar Change	Percentage Change
<b>Operating Revenues</b>				
Net patient service revenue	\$ 537.4	\$ 533.8	\$ 3.6	0.7%
Other	13.5	16.4	(2.9)	-17.7%
Total operating revenues	<u>550.9</u>	<u>550.2</u>	<u>0.7</u>	0.1%
<b>Operating Expenses</b>				
Salaries, wages and employee benefits	261.1	256.0	5.1	2.0%
Supplies and other expenses	241.8	234.8	7.0	3.0%
Depreciation and amortization	<u>32.7</u>	<u>34.4</u>	<u>(1.7)</u>	-4.9%
Total operating expenses	<u>535.6</u>	<u>525.2</u>	<u>10.4</u>	2.0%
<b>Operating Income</b>	15.3	25.0	(9.7)	-38.8%
<b>Nonoperating Revenues (Expenses), Net</b>	<u>4.3</u>	<u>(7.4)</u>	<u>11.7</u>	-158.1%
<b>Increase in Net Position</b>	19.6	17.6	2.0	11.4%
<b>Beginning Net Position</b>	<u>441.3</u>	<u>423.8</u>	<u>17.5</u>	4.1%
<b>Ending Net Position</b>	<u>\$ 460.9</u>	<u>\$ 441.4</u>	<u>\$ 19.5</u>	4.4%

Table A-3 above shows net patient service revenue increased by approximately \$3,600,000 from 2017 to 2018. The change was primarily the result of an increase in overall patient volume and improved payer mix.

Salaries, wages and employee benefits increased \$5,100,000, due to increases in full-time equivalent employees related to volume combined with employee retention payments made in 2018. Supplies,

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## Management's Discussion and Analysis

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contractual services, repairs and maintenance, and other expenses increased by approximately 3.0%, due primarily to increases in cancer-related pharmaceutical prices and use of contract labor to fill nursing shortages.

**Table A-4**  
**Condensed Statements of Revenues, Expenses and**  
**Changes in Net Position (in millions of dollars)**

	2017 (Restated - Note 18)	2016	Dollar Change	Percentage Change
<b>Operating Revenues</b>				
Net patient service revenue	\$ 533.8	\$ 520.2	\$ 13.6	2.6%
Other	16.4	16.9	(0.5)	-3.0%
Total operating revenues	<u>550.2</u>	<u>537.1</u>	<u>13.1</u>	2.4%
<b>Operating Expenses</b>				
Salaries, wages and employee benefits	256.0	240.0	16.0	6.7%
Supplies and other expenses	234.8	224.7	10.1	4.5%
Depreciation and amortization	34.4	32.9	1.5	4.6%
Total operating expenses	<u>525.2</u>	<u>497.6</u>	<u>27.6</u>	5.5%
<b>Operating Income</b>	25.0	39.5	(14.5)	-36.7%
<b>Nonoperating Revenues (Expenses), Net</b>	<u>(7.4)</u>	<u>(2.8)</u>	<u>(4.6)</u>	164.3%
<b>Increase in Net Position</b>	17.6	36.7	(19.1)	-52.0%
<b>Beginning Net Position, as Restated</b>	<u>423.8</u>	<u>390.4</u>	<u>33.4</u>	8.6%
<b>Ending Net Position</b>	<u>\$ 441.4</u>	<u>\$ 427.1</u>	<u>\$ 14.3</u>	3.3%

Table A-4 above shows net patient service revenue increased by approximately \$13,600,000 from 2016 to 2017. The change was primarily the result of an increase in overall patient volume and improved payer mix. Acute care admissions increased 0.9%, while emergency room visits increased 4.9%.

Salaries, wages and employee benefits increased \$16,000,000, due to volume related increases in full-time equivalent employees and implementation of an EHR system at regional facilities, combined with pay increases for market and merit adjustments. Supplies, contractual services, repairs and maintenance, and other expenses increased by 4.5%, due primarily to increases in volume.

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**(A Component Unit of Forrest County, Mississippi)**  
**Management's Discussion and Analysis**  
**September 30, 2018 and 2017**

**Capital Assets and Debt Financing**

**Capital Assets**

The Hospital's investment in a variety of net capital assets was approximately \$326,800,000 as of September 30, 2018 and approximately \$320,100,000 as of September 30, 2017, as shown in Table A-5 below.

**Table A-5**  
**Capital Assets (in millions of dollars)**

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Land and land improvements	\$ 31.6	\$ 30.9	\$ 30.0
Buildings	321.5	338.1	327.8
Furniture, fixtures and equipment	293.5	310.2	289.1
Total capital assets	646.6	679.2	646.9
Accumulated depreciation	(341.0)	(365.7)	(338.3)
Construction in progress	21.2	6.6	27.8
Capital assets, net	<u>\$ 326.8</u>	<u>\$ 320.1</u>	<u>\$ 336.4</u>

**Debt Financing**

During 2018, the Hospital paid off certain capital lease obligations by entering into promissory notes with a bank (*Note 5*) and in 2017, the Hospital entered into a line-of-credit with a bank (*Note 6*).

For more detailed information regarding the Hospital's capital assets, debt financing and interest rate swap agreements, please refer to the notes to the financial statements that follow this section.

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**Next Year's Operating Plan**

The Hospital's Board of Trustees adopted the fiscal year 2019 operating plan in August 2018. The operating plan for 2019 assumes that inpatient admissions will remain consistent with 2018. The plan includes an increase in net assets of approximately \$4,600,000.

Management continues to anticipate changes from the Patient Protection and Affordable Care Act (PPACA) legislation passed by Congress. Proposed changes call for reduction in payments to all hospitals for Medicare disproportionate share to help pay for proposed legislation. Other revenue reductions could come in the form of higher deductible plans, readmission penalties, Recovery Audit Contract (RAC) audits, value-based purchasing requirements, bundled payments, etc. Over the next 12 months, management will continue its focus on becoming more efficient with resources, while striving to achieve the highest level of quality of care.

**Contacting the Hospital's Financial Management**

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to Ben R. Hester, Chief Financial Officer, by telephone at 601.288.4225.

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**Balance Sheets**

**September 30, 2018 and 2017**

**Assets and Deferred Outflows of Resources**

	<b>2018</b>	<b>2017 (Restated - Note 18)</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 119,094,399	\$ 117,867,317
Funds held by trustee for self-insurance funding – current	255,739	226,900
Patient accounts receivable, net of allowance for doubtful accounts of \$65,591,000 in 2018 and \$68,287,000 in 2017	53,316,623	51,931,072
Other receivables	2,803,953	6,530,187
Supplies	9,855,303	9,497,139
Prepaid expenses and other	5,828,943	5,344,669
Total current assets	191,154,960	191,397,284
<b>Noncurrent Cash and Investments</b>		
Funds held by trustee for self-insurance funding	4,573,285	4,632,012
Funds held by trustee under deferred fee agreement	73,655,132	65,042,349
Funds designated by the Board for discretionary purposes	168,878,033	173,222,410
	247,106,450	242,896,771
<b>Capital Assets, Net</b>	326,826,581	320,136,300
<b>Other Assets</b>	8,762,946	6,815,187
<b>Deferred Outflows of Resources</b>	6,878,038	9,581,026
Total assets and deferred outflows of resources	\$ 780,728,975	\$ 770,826,568

## Liabilities, Deferred Inflows of Resources and Net Position

	<b>2018</b>	<b>2017 (Restated - Note 18)</b>
<b>Current Liabilities</b>		
Current installments of long-term debt	\$ 5,632,225	\$ 3,028,913
Current installments of capital lease obligations	-	1,803,311
Line of credit	-	581,856
Accounts payable	25,761,899	24,093,813
Salaries and wages payable	12,129,901	11,445,259
Payroll taxes and withholdings	2,927,221	3,089,806
Due to third-party payers	10,852,165	11,083,545
Other accrued expenses	10,715,637	12,316,034
	<hr/>	<hr/>
Total current liabilities	68,019,048	67,442,537
Long-term debt	143,024,949	131,179,173
Capital lease obligations	-	22,143,609
Other long-term liabilities	-	102,762
Workers' compensation and professional liability reserves	3,952,257	4,639,934
Net postemployment benefit liability	5,826,558	6,659,805
Net pension liability	20,205,966	27,311,924
Deferred compensation	75,164,474	66,891,998
	<hr/>	<hr/>
Total liabilities	316,193,252	326,371,742
<b>Deferred Inflows of Resources</b>	<hr/>	<hr/>
	3,627,769	3,063,059
<b>Net Position</b>		
Net investment in capital assets	173,525,857	158,341,821
Unrestricted	287,382,097	283,049,946
	<hr/>	<hr/>
Total net position	460,907,954	441,391,767
	<hr/>	<hr/>
Total liabilities, deferred inflows of resources and net position	<u>\$ 780,728,975</u>	<u>\$ 770,826,568</u>

**Forrest County General Hospital**  
**(A Component Unit of Forrest County, Mississippi)**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended September 30, 2018 and 2017**

	<b>2018</b>	<b>2017 (Restated - Note 18)</b>
	<hr/>	<hr/>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts of \$55,666,000 in 2018 and \$61,365,000 in 2017	\$ 537,371,323	\$ 533,815,335
Other	13,474,683	16,369,731
	<hr/>	<hr/>
Total operating revenues	550,846,006	550,185,066
	<hr/>	<hr/>
<b>Operating Expenses</b>		
Salaries, wages and employee benefits	261,095,036	255,968,095
Supplies	117,977,204	112,623,765
Contractual services	78,677,805	76,221,159
Repairs, maintenance and other	34,717,854	33,819,415
Insurance	1,659,228	2,208,007
Lease and rentals	8,814,668	9,917,026
Depreciation and amortization	32,673,738	34,425,763
	<hr/>	<hr/>
Total operating expenses	535,615,533	525,183,230
	<hr/>	<hr/>
<b>Operating Income</b>	15,230,473	25,001,836
	<hr/>	<hr/>
<b>Nonoperating Revenues (Expenses)</b>		
Net investment income	1,002,097	549,645
Interest expense	(6,716,528)	(7,534,610)
Noncapital grants and gifts received and other	870,922	695,819
Noncapital grants and gifts paid to others	(1,495,212)	(979,571)
Gain on forgiveness of debt	6,244,548	-
Net gain on disposal of capital assets	3,029,857	1,912
Other	1,350,030	(116,167)
	<hr/>	<hr/>
Total nonoperating revenues (expenses)	4,285,714	(7,382,972)
	<hr/>	<hr/>
<b>Increase in Net Position</b>	19,516,187	17,618,864
	<hr/>	<hr/>
<b>Net Position, Beginning of Year, as Previously Reported</b>	441,391,767	427,099,864
	<hr/>	<hr/>
<b>Cumulative Effect of Change in Accounting Principle</b>	-	(3,326,961)
	<hr/>	<hr/>
<b>Net Position, Beginning of Year, as Restated</b>	441,391,767	423,772,903
	<hr/>	<hr/>
<b>Net Position, End of Year</b>	<u>\$ 460,907,954</u>	<u>\$ 441,391,767</u>

**Forrest County General Hospital**  
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**Statements of Cash Flows**

**Years Ended September 30, 2018 and 2017**

	<b>2018</b>	<b>2017 (Restated - Note 18)</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 536,609,123	\$ 529,640,619
Other cash received	15,331,324	16,099,605
Cash paid to suppliers and others	(243,894,047)	(235,635,430)
Cash paid to or on behalf of employees	(267,631,737)	(280,962,199)
Net cash provided by operating activities	40,414,663	29,142,595
<b>Noncapital Financing Activities</b>		
Noncapital grants and gifts received and other	863,572	741,794
Noncapital grants and gifts paid to others	(1,495,212)	(979,571)
Net cash used in noncapital financing activities	(631,640)	(237,777)
<b>Capital and Related Financing Activities</b>		
Proceeds from line of credit	-	581,856
Principal paid on long-term debt	(25,558,454)	(7,272,598)
Principal paid on capital lease obligations	(1,123,108)	(1,617,182)
Purchase of capital assets	(38,873,561)	(18,148,081)
Proceeds from issuance of notes payable	22,980,925	-
Proceeds from insurance recovery	1,493,531	-
Proceeds from sale of capital assets	4,643,318	79,302
Interest paid on long-term debt and capital lease obligations	(7,235,865)	(7,879,455)
Net cash used in capital and related financing activities	(43,673,214)	(34,256,158)
<b>Investing Activities</b>		
Interest and dividends on investments	6,139,429	4,608,547
Proceeds from sale of investments	12,108,611	25,818,861
Purchase of investments	(16,477,927)	(32,830,567)
Net cash provided by (used in) investing activities	1,770,113	(2,403,159)
Decrease in Cash and Cash Equivalents	(2,120,078)	(7,754,499)
Cash and Cash Equivalents, Beginning of Year	136,847,274	144,601,773
Cash and Cash Equivalents, End of Year	\$ 134,727,196	\$ 136,847,274

**Forrest County General Hospital**  
**(A Component Unit of Forrest County, Mississippi)**  
**Statements of Cash Flows (Continued)**  
**Years Ended September 30, 2018 and 2017**

	<b>2018</b>	<b>2017 (Restated - Note 18)</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 15,230,473	\$ 25,001,836
Items not requiring cash		
Depreciation and amortization	32,673,738	34,425,763
Provision for uncollectible accounts	55,665,821	61,364,807
Changes in		
Patient accounts receivable, net	(57,051,372)	(59,843,210)
Accounts payable and accrued liabilities	(929,562)	2,134,787
Amounts due to and from third-party payers	(231,380)	(2,455,326)
Net pension liability	(7,105,958)	(30,936,323)
Net other postemployment benefit liability	(833,247)	816,830
Other assets, deferred outflows, liabilities and deferred inflows	2,996,150	(1,366,569)
	<u>\$ 40,414,663</u>	<u>\$ 29,142,595</u>
<b>Reconciliation of Cash and Cash Equivalents to the Balance Sheets</b>		
Cash and cash equivalents in current assets	\$ 119,094,399	\$ 117,867,317
Cash and cash equivalents in funds internally designated and held by trustee for capital acquisition and deferred fee agreements	12,227,018	15,559,210
Cash and cash equivalents in funds held by trustee for self-insurance funding	3,405,779	3,420,747
	<u>\$ 134,727,196</u>	<u>\$ 136,847,274</u>
<b>Noncash Investing, Capital and Financing Activities</b>		
Capital asset purchases included in accounts payable	\$ 3,273,941	\$ 1,579,472
Gain on forgiveness of debt	\$ 6,244,548	\$ -
Refinancing of capital leases to bank financing due to purchase of buildings	\$ 22,823,812	\$ -

# **Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)**

## **Notes to Financial Statements**

**September 30, 2018 and 2017**

### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

#### ***Nature of Operations and Reporting Entity***

Forrest County General Hospital (the Hospital) is an acute care hospital established by Forrest County, Mississippi (the County) as a special purpose government entity under Mississippi Code Section 41-13-15. The Hospital is owned by the County and per Mississippi statute is governed by a Board of Trustees appointed by the County Board of Supervisors. The Hospital is a component unit of Forrest County, Mississippi, as defined by Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. The Hospital's component unit relationship to the County is principally due to the Hospital's financial accountability to the County as defined in GASB Statement No. 61.

In addition to the Hattiesburg, Mississippi campus, the Hospital also operates the following locations:

- Highland Community Hospital (HCH), an acute care hospital located in Picayune, Mississippi, over which the Hospital obtained control on May 1, 2006;
- Walthall General Hospital (WGH), a critical access hospital located in Tylertown, Mississippi, over which the Hospital obtained control on October 1, 2010;
- Jefferson Davis General Hospital (JDGH), a critical access hospital located in Prentiss, Mississippi, over which the Hospital obtained control on July 1, 2011; and
- Marion General Hospital (MGH), a hospital located in Columbia, Mississippi, over which the Hospital obtained control on January 1, 2012.

The accompanying financial statements also include entities that are blended component units of the Hospital as defined by GASB Statement No. 61. Those entities are:

- AAA Ambulance Service, Inc. (AAA), a provider of medical and emergency transportation services;
- Forrest General Healthcare Foundation, Inc. (the Foundation), which raises funds for the benefit of the Hospital;
- South Mississippi Health Services, Inc., a property management organization;
- Forrest General Health Services, Inc., a management and consulting organization;
- Clean Earth, Inc., a waste removal organization;
- Forrest General Managed Care Services, Inc., which owns a physical hospital organization and managed care contracting entity; and
- Forrest General Occupational Medicine Services, Inc., which owns an occupational medicine provider.

# **Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)**

## **Notes to Financial Statements September 30, 2018 and 2017**

On August 1, 2015, the Hospital acquired the membership interest in Pointe Properties, LLC, an entity that owned the building in which the Hospital operated its Orthopedic Institute through a capital lease. The membership interest was acquired through the assumption of debt and a cash transfer. See *Note 4* for further discussion.

All entities have the same fiscal year as the Hospital. All entities have been, with the exception of the Foundation, presented as a blended component unit because the Hospital is the sole corporate member of the entity or the entities are operated by the same, or substantially the same, governing board as the Hospital, and management of the Hospital has operational responsibility of the entities. The Foundation has been presented as a blended component unit because it is operated for the primary benefit of the Hospital. AAA issues separate audited financial statements, which can be obtained by writing to AAA Ambulance Service, Inc., 100 Rawls Springs Loop Road, Hattiesburg, Mississippi 39402, or calling 601.264.2211. The Foundation also issues separate financial statements, which can be obtained from the Hospital's management.

### ***Basis of Accounting and Presentation***

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions (principally federal and state grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated or voluntary nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific, property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, deferred outflows and inflows of resources 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.

# **Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)**

## **Notes to Financial Statements September 30, 2018 and 2017**

### ***Cash and Cash Equivalents***

Cash and cash equivalents include cash on hand, funds held in interest and noninterest-bearing checking accounts and all highly liquid investments with maturities at the time of purchase of three months or less.

### ***Supplies***

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method or market.

### ***Risk Management***

The Hospital 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 insurance coverage is purchased for claims arising from such matters other than medical malpractice at the Hospital's main and HCH campuses, workers' compensation at the Hospital's main campus and employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from medical malpractice, workers' compensation and employee health claims. Annual estimated provisions are accrued for the self-insured portion of these risks, which include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

### ***Patient Accounts Receivable***

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

### ***Designated Funds and Funds Held by Trustees***

Designated funds and funds held by trustees include: (1) assets set aside by the Board of Trustees (currently for future plant replacement, expansion and infrastructure maintenance) over which the Board of Trustees retains control and may, at its discretion, subsequently use for other purposes, (2) assets held by trustee under the self-insurance trust agreement and (3) assets held by trustee under the terms of a deferred fee agreement with Hattiesburg Clinic Professional Association.

# **Forrest County General Hospital** **(A Component Unit of Forrest County, Mississippi)**

## **Notes to Financial Statements**

**September 30, 2018 and 2017**

### ***Investments and Investment Income***

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one-year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

### ***Capital Assets***

Capital assets are recorded at cost, if purchased or, if donated, at acquisition value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset using the straight-line method. Capital assets under capital lease obligations are amortized using the straight-line method over the shorter of the lease term, or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization expense in the accompanying financial statements. Major renewals and betterments are capitalized. Costs for repairs and maintenance are expensed when incurred. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts, and the gain or loss, if any, is included in nonoperating revenues (expenses) in the accompanying statements of revenues, expenses and changes in net position.

All capital assets other than land are depreciated or amortized (in the case of capital leases) using these asset lives:

Land improvements	10 – 20 years
Leasehold improvements	3 – 20 years
Buildings	10 – 40 years
Fixed equipment	5 – 20 years
Movable equipment	3 – 7 years
Automotive equipment	3 – 5 years

The Hospital recognizes the impairment of capital assets when events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined. If such assets are no longer used, they are reported at the lower of carrying value or fair value. If such assets will continue to be used, the impairment loss is measured using the method that best reflects the diminished utility of the capital assets. The restoration or replacement of an impaired capital asset is reported as a separate transaction from any associated insurance recovery. The impairment loss is reported net of the associated realized or realizable insurance recovery when the recovery and loss occur in the same year. Insurance recoveries reported in subsequent years are reported as other nonoperating revenue.

**Forrest County General Hospital  
(A Component Unit of Forrest County, Mississippi)**

**Notes to Financial Statements**

**September 30, 2018 and 2017**

**Compensated Absences**

The Hospital's employees accumulate vacation, holiday and sick leave at varying rates, depending upon their years of continuous service and their payroll classification, subject to maximum limitations. Upon termination of employment, employees are paid all unused accrued vacation and holiday time at their regular rate of pay up to a designated maximum number of days. Since the employees' vacation and holiday time both accumulate and vest, an accrual for this liability, plus an additional amount for compensation-related payments such as social security and Medicare taxes, are included in salaries and wages payable in the accompanying balance sheets.

**Deferred Outflows/Inflows of Resources**

Transactions not meeting the definition of an asset or liability that result in the consumption or acquisition of net position in one period that are applicable to future periods are reported as deferred outflows of resources and deferred inflows of resources. At September 30, 2018 and 2017, deferred outflows of resources and deferred inflows of resources were comprised of the following:

	<b>Deferred Outflows of Resources</b>	
	<b>2018</b>	<b>2017 (Restated Note 18)</b>
Deferred loss on swap termination (Note 4)	\$ 2,812,856	\$ 3,265,860
Pension plan (Note 12)	3,354,042	4,821,708
OPEB plan (Note 13)	711,140	1,493,458
	<b>\$ 6,878,038</b>	<b>\$ 9,581,026</b>
	<b>Deferred Inflows of Resources</b>	
	<b>2018</b>	<b>2017 (Restated Note 18)</b>
Gain on debt refunding (Note 4)	\$ 2,399,162	\$ 2,785,541
Pension plan (Note 12)	1,111,918	191,616
OPEB plan (Note 13)	116,689	85,902
	<b>\$ 3,627,769</b>	<b>\$ 3,063,059</b>

# **Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)**

## **Notes to Financial Statements**

**September 30, 2018 and 2017**

### ***Defined Benefit Pension Plan***

The Hospital has a single-employer defined benefit pension plan, Forrest County General Hospital Pension Plan, (the Plan). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### ***Defined Benefit Other Postemployment Benefit Plan***

The Hospital has a single-employer defined benefit other postemployment benefit (OPEB) plan, Forrest County General Hospital Employee Health Benefit Plan, (the OPEB Plan). For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### ***Net Position***

The Hospital's net position is classified into the components as shown below:

- Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by outstanding balances of any borrowings used to finance the purchase or construction of those assets and any unpaid capital asset related invoices.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

The Hospital had no material restricted net position at September 30, 2018 or 2017.

### ***Net Patient Service Revenue***

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

**Forrest County General Hospital  
(A Component Unit of Forrest County, Mississippi)**

**Notes to Financial Statements  
September 30, 2018 and 2017**

***Charity Care***

The Hospital provides care to patients who meet certain criteria under its charity care policy, without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

***Restricted Resources***

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

***Income Taxes***

The Hospital is classified as a governmental entity under the laws of Mississippi and is exempt from income taxes, but also carries an exemption from income taxes under Internal Revenue Code Section 501(c)(3). South Mississippi Health Services, Inc., Forrest General Health Services, Inc., Forrest General Healthcare Foundation, Inc. and AAA Ambulance Service, Inc. are tax-exempt organizations under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3), whereby only unrelated business income is taxable. Forrest General Managed Care Services, Inc. and Forrest General Occupational Medicine Services, Inc. are nonprofit organizations subject to tax. Clean Earth, Inc. is subject to federal and state income taxes. Income taxes related to unrelated business income and the taxable entities are not significant to the Hospital.

# Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)

## Notes to Financial Statements

September 30, 2018 and 2017

### Note 2: Deposits, Investments and Investment Income

The Hospital's deposits and investments are summarized below as of September 30, 2018 and 2017:

	2018	2017
Cash and cash equivalents	\$ 119,094,399	\$ 117,867,317
Designated funds and funds held by trustees		
Cash and cash equivalents	9,030,815	10,150,530
Money market mutual funds	6,601,982	8,829,427
U.S. agency securities	24,652,425	21,119,708
U.S. Treasury securities	196,048	200,895
State municipal securities	20,425,615	20,847,803
Open-end mutual funds	68,593,277	59,455,608
Corporate debt securities	33,417,633	37,146,699
Pooled investment securities	84,444,394	85,373,001
	247,362,189	243,123,671
	\$ 366,456,588	\$ 360,990,988

The Hospital is required to provide additional disclosures of investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk associated with cash deposits and investments. These disclosures are reflected below.

#### **Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The Hospital's investment policy, which conforms to Mississippi state law, does not specifically limit investment in securities based on an NRSRO credit rating, but the policy does designate authorized investments by type. These authorized investments, within established guidelines, are limited to securities of the U.S. government or its agencies, U.S. government obligations, U.S. and Mississippi municipal bonds, interest-bearing accounts and certificates of deposits of financial institutions, open-end or closed-end management type investment company or investment trust and an investment trust consisting of pooled or commingled funds of other hospitals.

Unless there is information to the contrary, obligations of the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

# Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)

## Notes to Financial Statements

September 30, 2018 and 2017

A summary of cash and investments is as follows:

September 30, 2018	Fair Value	Percentage	Credit Rating
Cash and cash equivalents, operating funds	\$ 119,094,399	32.50%	Exempt from disclosure
Cash and cash equivalents, designated and held by trustee	9,030,815	2.46%	Exempt from disclosure
Money market mutual funds	6,601,982	1.80%	Aaa
U.S. agency securities	24,652,425	6.73%	Exempt from disclosure
U.S. Treasury securities	196,048	0.05%	Exempt from disclosure
State municipal securities	20,425,615	5.57%	Exempt from disclosure
Open-end mutual funds	68,593,277	18.72%	*
Corporate debt securities	33,417,633	9.12%	Aaa - A3
Pooled investment securities	<u>84,444,394</u>	<u>23.05%</u>	**
Total cash and investments	<u>\$ 366,456,588</u>	<u>100.00%</u>	

September 30, 2017	Fair Value	Percentage	Credit Rating
Cash and cash equivalents, operating funds	\$ 117,867,317	32.65%	Exempt from disclosure
Cash and cash equivalents, designated and held by trustee	10,150,530	2.81%	Exempt from disclosure
Money market mutual funds	8,829,427	2.45%	Aaa
U.S. agency securities	21,119,708	5.85%	Exempt from disclosure
U.S. Treasury securities	200,895	0.06%	Exempt from disclosure
State municipal securities	20,847,803	5.78%	Exempt from disclosure
Open-end mutual funds	59,455,608	16.47%	*
Corporate debt securities	37,146,699	10.29%	Aaa - A3
Pooled investment securities	<u>85,373,001</u>	<u>23.64%</u>	**
Total cash and investments	<u>\$ 360,990,988</u>	<u>100.00%</u>	

\* The open-end mutual funds primarily represent funds that the Hospital holds on behalf of Hattiesburg Clinic Professional Association (HCPA) for certain deferred fees as part of a 457(f) plan. The Hospital does not make investment decisions on these funds, and the entirety of the funds is due to HCPA. Mutual funds included in board designated accounts totaled \$314,552 and \$886,090 at September 30, 2018 and 2017, respectively.

\*\* The pooled investment securities represent the Hospital's investment in the Mississippi Hospital Association investment pool. Although open to all hospitals, the pool is structured to comply with the provisions of Section 27-105-365 of the Mississippi Code Annotated (1972), which establishes guidelines for depository and investment activity for all county and municipal hospital funds. Accordingly, the pooled investment securities are limited to U.S. government and U.S. agencies, certain investment and trust funds and commercial paper and corporate notes and bonds that have an "A" rating or better.

# **Forrest County General Hospital** **(A Component Unit of Forrest County, Mississippi)**

## **Notes to Financial Statements**

**September 30, 2018 and 2017**

### ***Concentration of Credit Risk***

The Hospital's investment policy, in accordance with state statute, restricts investments in U.S. agencies to 50% of total investments. Investments in open-end and closed-end management type investment companies and investment trusts are limited to 20% of total investments.

Concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer (an investment that represents more than 5% of the market value of the total investment portfolio). At September 30, 2018, approximately 12% and 8% of the Hospital's investment portfolio concentrations (exclusive of funds held for HCPA or designated for deferred compensation arrangements) was invested in bonds of the State of Mississippi and Federal National Mortgage Association, respectively. At September 30, 2017, approximately 12% and 5% of the Hospital's investment portfolio concentrations (exclusive of funds held for HCPA or designated for deferred compensation arrangements) was invested in bonds of the State of Mississippi and Federal National Mortgage Association, respectively.

### ***Custodial Credit Risk***

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Hospital will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The Hospital's formal investment policy is governed by and in conformity with Section 27-105-365 of the Mississippi Code Annotated (1972), which establishes guidelines for depository and investment activity:

- In accordance with statutes of the state of Mississippi, the Hospital maintains its deposits at financial institutions authorized by the Board of Trustees.
- The collateral for public entity deposits in financial institutions is held in the name of the State Treasurer of Mississippi under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 of the Mississippi Code Annotated (1972). Under this program, the Hospital'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 these deposits.
- In the event of a financial institution's failure, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

# Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)

## Notes to Financial Statements September 30, 2018 and 2017

Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. At September 30, 2018 and 2017, deposits and investments requiring custodial credit risk disclosure totaled approximately \$165,985,000 and \$175,562,000, respectively, all of which were insured or collateralized in accordance with state statute.

### **Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates.

Interest rate risk inherent in the portfolio is measured by monitoring the segmented time distribution of the investments in the portfolio.

The following is a summary of the Hospital's segmented time distribution investment maturities in years by investment type as of September 30, 2018 and 2017.

September 30, 2018	Fair Value	Years			
		< 1	1 – 5	6 – 10	More than 10
U.S. agency securities	\$ 24,652,425	\$ 1,601,939	\$ 19,379,929	\$ 3,670,557	\$ -
U.S. Treasury securities	196,048	-	196,048	-	-
State municipal securities	20,425,615	4,072,476	14,912,340	1,440,799	-
Corporate debt securities	33,417,633	4,045,530	16,236,464	13,135,639	-
	<u>\$ 78,691,721</u>	<u>\$ 9,719,945</u>	<u>\$ 50,724,781</u>	<u>\$ 18,246,995</u>	<u>\$ -</u>

September 30, 2017	Fair Value	Years			
		< 1	1 – 5	6 – 10	More than 10
U.S. agency securities	\$ 21,119,708	\$ 324,603	\$ 15,092,818	\$ 5,702,287	\$ -
U.S. Treasury securities	200,895	-	200,895	-	-
State municipal securities	20,847,803	872,170	17,740,829	2,234,804	-
Corporate debt securities	37,146,699	2,449,596	17,801,138	16,895,965	-
	<u>\$ 79,315,105</u>	<u>\$ 3,646,369</u>	<u>\$ 50,835,680</u>	<u>\$ 24,833,056</u>	<u>\$ -</u>

The Hospital holds investments on behalf of HCPA related to certain fees paid to HCPA and its members that are deferred according to the terms of a deferred fee agreement, as amended April 1, 2005. The investments are held under a deferred fee trust agreement (trust agreement) dated April 1, 2005. Fidelity Management Trust Company is the trustee under an agreement with the Hospital and HCPA. The deferred compensation plan was established as a 457(f) plan.

The intent of the trust agreement is to provide for the deferred payment by the Hospital to HCPA of certain fees earned by HCPA for services rendered to the Hospital and to be the nonprofit vehicle

# Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)

## Notes to Financial Statements

**September 30, 2018 and 2017**

through which related investments are held on behalf of HCPA. The Hospital is liable to HCPA for the entirety of the investment.

The Hospital makes no management decisions on how and where the funds are invested. HCPA directs the Hospital as to how deferred amounts are to be invested. The corpus and income of the grantor trust are considered to be owned by the Hospital for income tax purposes through the 457(f) plan. In all other respects, the corpus and income of the grantor trust are considered by the Hospital to be fully due to HCPA.

The Hospital only funds the amount of deferred fees as determined by HCPA. The only participants in the 457(f) plan are HCPA employees. Hospital employees do not participate in the 457(f) plan. As noted previously, the Hospital holds these investments with Fidelity Management Trust Company under the trust agreement. The types of investments are:

- Money market mutual funds
- Fixed income mutual funds
- Equity mutual funds

The amount of the deferred fees that the Hospital deposits on behalf of HCPA in the trust account for the deferred compensation plan was \$248,650 and \$248,600 per month for 2018 and 2017, respectively. Periodically, usually in January, HCPA notifies the Hospital of the deferral amount based on the enrollment of HCPA physicians.

At September 30, 2018 and 2017, the fair value of the assets held under the trust agreement for the 457(f) plan that are included in open-end mutual funds and the corresponding liability was approximately \$73,655,000 and \$65,042,000, respectively. The amounts have been reflected on the accompanying balance sheets.

### ***Investment Income***

Investment income for the years ended September 30, 2018 and 2017 consisted of:

	<b>2018</b>	<b>2017</b>
Interest and dividend income	\$ 6,255,017	\$ 4,655,912
Realized gains (losses) on investments, net	(465,248)	(1,874,520)
Unrealized losses on investments	(4,787,672)	(2,231,747)
	\$ 1,002,097	\$ 549,645

**Forrest County General Hospital**  
**(A Component Unit of Forrest County, Mississippi)**

**Notes to Financial Statements**  
**September 30, 2018 and 2017**

**Note 3: Capital Assets**

Capital assets and related activity for the year ended September 30, 2018, consist of the items shown below.

	<b>Balance October 1, 2017</b>	<b>Transfers in and Additions</b>	<b>Transfers Out and Retirements</b>	<b>Balance September 30, 2018</b>
Capital assets not being depreciated				
Land	\$ 15,970,830	\$ 1,282,800	\$ (517,363)	\$ 16,736,267
Construction in progress	6,562,082	52,820,626	(38,149,220)	21,233,488
	<u>22,532,912</u>	<u>54,103,426</u>	<u>(38,666,583)</u>	<u>37,969,755</u>
Total book value of capital assets not being depreciated				
Capital assets being depreciated				
Land improvements	14,956,212	220,434	(293,662)	14,882,984
Leasehold improvements	5,137,008	45,100	(12,199)	5,169,909
Buildings	338,127,684	13,433,719	(30,106,615)	321,454,788
Fixed equipment	48,789,157	1,097,493	(713,841)	49,172,809
Movable equipment	252,650,947	9,103,387	(27,142,914)	234,611,420
Automotive equipment	3,606,061	1,123,211	(160,421)	4,568,851
	<u>663,267,069</u>	<u>25,023,344</u>	<u>(58,429,652)</u>	<u>629,860,761</u>
Total book value of capital assets being depreciated				
Less accumulated depreciation for				
Land improvements	8,480,255	770,550	(181,400)	9,069,405
Leasehold improvements	2,667,944	520,421	(4,376)	3,183,989
Buildings	163,724,098	11,890,280	(29,137,776)	146,476,602
Fixed equipment	22,678,881	2,613,858	(713,842)	24,578,897
Movable equipment	165,141,932	16,492,022	(27,135,668)	154,498,286
Automotive equipment	2,970,571	386,607	(160,422)	3,196,756
	<u>365,663,681</u>	<u>32,673,738</u>	<u>(57,333,484)</u>	<u>341,003,935</u>
Total accumulated depreciation				
Capital assets, being depreciated, net	<u>297,603,388</u>	<u>(7,650,394)</u>	<u>(1,096,168)</u>	<u>288,856,826</u>
Capital assets, net	<u>\$ 320,136,300</u>	<u>\$ 46,453,032</u>	<u>\$ (39,762,751)</u>	<u>\$ 326,826,581</u>

# Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)

## Notes to Financial Statements September 30, 2018 and 2017

Capital assets and related activity for the year ended September 30, 2017, consist of the items shown below.

	Balance October 1, 2016	Transfers in and Additions	Transfers Out and Retirements	Balance September 30, 2017
Capital assets not being depreciated				
Land	\$ 15,970,830	\$ -	\$ -	\$ 15,970,830
Construction in progress	27,787,965	9,415,791	(30,641,674)	6,562,082
	<u>43,758,795</u>	<u>9,415,791</u>	<u>(30,641,674)</u>	<u>22,532,912</u>
Total book value of capital assets not being depreciated				
Capital assets being depreciated				
Land improvements	14,072,983	883,229	-	14,956,212
Leasehold improvements	4,110,235	1,067,424	(40,651)	5,137,008
Buildings	327,844,998	10,292,753	(10,067)	338,127,684
Fixed equipment	45,238,992	3,561,620	(11,455)	48,789,157
Movable equipment	236,084,247	23,433,331	(6,866,631)	252,650,947
Automotive equipment	3,602,415	207,445	(203,799)	3,606,061
	<u>630,953,870</u>	<u>39,445,802</u>	<u>(7,132,603)</u>	<u>663,267,069</u>
Total book value of capital assets being depreciated				
Less accumulated depreciation for				
Land improvements	7,698,872	781,383	-	8,480,255
Leasehold improvements	2,083,482	618,603	(34,141)	2,667,944
Buildings	151,668,811	12,057,976	(2,689)	163,724,098
Fixed equipment	20,073,625	2,606,402	(1,146)	22,678,881
Movable equipment	153,907,541	18,049,768	(6,815,377)	165,141,932
Automotive equipment	2,859,787	311,631	(200,847)	2,970,571
	<u>338,292,118</u>	<u>34,425,763</u>	<u>(7,054,200)</u>	<u>365,663,681</u>
Total accumulated depreciation				
Capital assets, being depreciated, net	<u>292,661,752</u>	<u>5,020,039</u>	<u>(78,403)</u>	<u>297,603,388</u>
Capital assets, net	<u>\$ 336,420,547</u>	<u>\$ 14,435,830</u>	<u>\$ (30,720,077)</u>	<u>\$ 320,136,300</u>

Construction in progress at September 30, 2018, consists of expenditures associated with renovation of acute care areas of the main facility and the cancer center.

# Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)

## Notes to Financial Statements September 30, 2018 and 2017

### Note 4: Long-term Debt

A summary of long-term obligation transactions for the Hospital for the years ended September 30, 2018 and 2017 follows.

Description	Balance October 1, 2017	Additions	Retired	Amortization	Balance September 30, 2018	Due Within One Year
Series 2009 (A)	\$ 34,145,000	\$ -	\$ 1,945,000	\$ -	\$ 32,200,000	\$ 2,045,000
Series 2010 (C)	70,000,000	-	-	-	70,000,000	-
BancorpSouth (M)	-	21,930,454	755,685	-	21,174,769	1,150,208
BancorpSouth (N)	-	13,000,000	438,014	-	12,561,986	1,086,544
BancorpSouth (O)	-	10,297,000	77,577	-	10,219,423	947,955
Mercy Loan Note A (F)	14,705,195	-	14,705,195	-	-	-
Mercy Loan Note B (G)	4,694,805	-	4,694,805	-	-	-
ECD Note A (H)	7,225,257	-	7,225,257	-	-	-
ECD Note B (I)	1,549,743	-	1,549,743	-	-	-
GO Zone Revenue Bond (J)	173,849	-	173,849	-	-	-
Zoll Equipment Note (L)	744,560	-	186,140	-	558,420	186,140
The First (P)	-	1,159,139	51,737	-	1,107,402	216,378
Unamortized Bond Premium	969,677	-	-	(134,503)	835,174	-
	<u>\$ 134,208,086</u>	<u>\$ 46,386,593</u>	<u>\$ 31,803,002</u>	<u>\$ (134,503)</u>	<u>\$ 148,657,174</u>	<u>\$ 5,632,225</u>

Description	Balance October 1, 2016	Additions	Retired	Amortization	Balance September 30, 2017	Due Within One Year
Series 2009 (A)	\$ 35,995,000	\$ -	\$ 1,850,000	\$ -	\$ 34,145,000	\$ 1,945,000
Pike National Bank (B)	18,563	-	18,563	-	-	-
Series 2010 (C)	70,000,000	-	-	-	70,000,000	-
BancorpSouth (D)	503,424	-	503,424	-	-	-
BancorpSouth (E)	4,000,000	-	4,000,000	-	-	-
Mercy Loan Note A (F)	14,705,195	-	-	-	14,705,195	343,465
Mercy Loan Note B (G)	4,694,805	-	-	-	4,694,805	159,162
ECD Note A (H)	7,225,257	-	-	-	7,225,257	168,758
ECD Note B (I)	1,549,743	-	-	-	1,549,743	52,539
GO Zone Revenue Bond (J)	847,489	-	673,640	-	173,849	173,849
Equipment Note (K)	40,831	-	40,831	-	-	-
Zoll Equipment Note (L)	930,700	-	186,140	-	744,560	186,140
Unamortized Bond Premium	1,112,086	-	-	(142,409)	969,677	-
	<u>\$ 141,623,093</u>	<u>\$ -</u>	<u>\$ 7,272,598</u>	<u>\$ (142,409)</u>	<u>\$ 134,208,086</u>	<u>\$ 3,028,913</u>

(A) Series 2009 Revenue Refunding Bonds, bearing interest at 5.25%; collateralized by Hospital revenues; due on January 1, 2030. The Series 2009 Bonds were issued through the Mississippi Hospital Equipment and Facilities Authority (MHEFA). The Series 2009 Bond proceeds were used to refund all amounts outstanding under the Series 2007A variable rate revenue bonds (Series 2007A Bonds) and included a premium of \$2,283,000. The owner of the Series 2007A Bonds agreed to accept \$37,528,000 for settlement of the outstanding bonds with a par amount of \$45,555,000. The economic gain (generally defined as the present value of the net cash flow differential discounted at the effective interest rate of the new debt) on the refunding transaction totaled approximately \$6,250,000. The Series 2009 Bonds may be redeemed at the option of the

# **Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)**

## **Notes to Financial Statements**

**September 30, 2018 and 2017**

Hospital on any date on or after January 1, 2020, at a redemption price of par plus accrued interest to the redemption date. The Hospital recognized a gain on the refunding of the Series 2007A Bonds, which is being recognized over the term of the Series 2009 Bonds. The unamortized gain was \$2,399,160 and \$2,785,541 at September 30, 2018 and 2017, respectively, and is included in the balance sheets as a deferred inflow of resources. Upon the issuance of the Series 2009 Bonds, there was also a termination of a cost of funds swap (*Note 8*). The termination payment of \$7,690,000 has been deferred and is being amortized over the term of the Series 2009 Bonds. The unamortized loss on the swap termination was \$2,812,856 and \$3,265,860 at September 30, 2018 and 2017, respectively, and is included in the balance sheets as a deferred outflow of resources.

- (B) Promissory note, bearing interest at 4.35%; collateralized by various real property. This note was paid in full in September 2017.
- (C) Series 2010 Build America Revenue Bonds; bearing interest at 7.265% to 7.390%; collateralized by Hospital revenue; due on January 1, 2040. The Series 2010 Bonds were issued through MHEFA. The Series 2010 Bond proceeds were used to fund campus renovations and equipment purchases, as well as construction of a replacement hospital facility for Highland Community Hospital in Picayune, Mississippi. The Series 2010 Bonds may be redeemed at the option of the Hospital on any date on or after January 1, 2020, at a redemption price of par plus accrued interest to the redemption date. The Series 2010 Bonds were issued as Direct Payment Build America Bonds (BABs) for the purposes of the American Recovery and Reinvestment Act of 2009 (the Act), and the Hospital expects to receive a cash subsidy payment from the United States Treasury pursuant to the Act equal to 35% of the interest payable on the Series 2010 Bonds on or about each interest payment date. As a result of federal sequestration, the cash subsidy was reduced by approximately 6.6% in fiscal year 2018.
- (D) Promissory note, bearing interest at 3.66%; collateralized by various real property; due on November 15, 2018. The note proceeds were used to fund facility construction for AAA Ambulance Service, Inc. This note was paid in full in September 2017.
- (E) Promissory note, bearing interest at 1.66% below prime rate as published in *The Wall Street Journal*; collateralized by various equipment. The note proceeds were used to fund facility capital equipment purchases. This note was paid in full in September 2017.
- (F) Promissory note dated December 28, 2010, bearing interest at 4.91%; collateralized by real property; due from February 5, 2018 to January 5, 2036. On the 10<sup>th</sup> and 20<sup>th</sup> anniversary of the note, the interest rate will adjust to a rate that is based on a U.S. Treasury rate plus a fixed percentage. This note was paid in full in January 2018 as part of the dissolution of Pointe Properties, LLC.
- (G) Promissory note, bearing interest at 1.00%; collateralized by real property; due from February 5, 2018 to January 5, 2036. This was forgiven in January 2018 as part of the dissolution of Pointe Properties, LLC. A gain of \$4,694,805 was recognized by the

# **Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)**

## **Notes to Financial Statements**

**September 30, 2018 and 2017**

Hospital in 2018 and included within gain on debt forgiveness in the statement of revenues, expenses and changes in net position.

- (H) Promissory note dated December 28, 2010, bearing interest at 4.91%; collateralized by real property; due from February 5, 2018 to January 5, 2036. On the 10<sup>th</sup> and 20<sup>th</sup> anniversary of the note, the interest rate will adjust to a rate that is based on a U.S. Treasury rate plus a fixed percentage. This note was paid in full in January 2018 as part of the dissolution of Pointe Properties, LLC.
- (I) Promissory note, bearing interest at 1.00%; collateralized by real property; due from February 5, 2018 to January 5, 2036. This was forgiven in January 2018 as part of the dissolution of Pointe Properties, LLC. A gain of \$1,549,743 was recognized by the Hospital in 2018 and included within gain on debt forgiveness in the statement of revenues, expenses and changes in net position.
- (J) Series 2010B Gulf Opportunity Zone Revenue Bond, bearing interest at 5.05%; collateralized by real property; due from January 15, 2013 to December 15, 2017. This note was paid in full in December 2017.

Promissory notes F through I and the Series 2010B Gulf Opportunity Zone Revenue Bond were assumed through the acquisition of Pointe Properties, LLC, discussed in *Note 1*. This debt was originally issued as part of an integrated financing structure developed under the New Market Tax Credit (NMTC) program pursuant to Section 45D of the Internal Revenue Code and the regulations, compliance and reporting requirements thereunder.

- (K) Promissory note, bearing interest at 0%; collateralized by equipment. This note was paid in full in July 2017.
- (L) Note payable to vendor for equipment, due in equal annual installments of \$206,736, which includes an interest rate of 11% through November 1, 2020.
- (M) Promissory note dated January 25, 2018, bearing interest at 3.55%; collateralized by Hospital revenues; due from February 20, 2018 to January 20, 2033.
- (N) Promissory note dated April 9, 2018, bearing interest at 4.17%; collateralized by real property; due from May 9, 2018 to April 9, 2028.
- (O) Promissory note dated August 31, 2018, bearing interest at 4.57%; collateralized by real property; due from September 30, 2018 to August 31, 2027.
- (P) Promissory note dated May 30, 2018, bearing interest at 4.00%; collateralized by real property; due from July 5, 2018 to June 5, 2023.

# Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)

## Notes to Financial Statements

September 30, 2018 and 2017

The loan agreements for the Series 2010 Bonds and Series 2009 Bonds contain certain terms and restrictive covenants typical of such agreements, including maintenance of certain debt service coverage and liquidity levels and limitations on additional indebtedness.

Debt service requirements associated with the Hospital's long-term debt are shown below. Interest payments included in this table do not include the interest subsidy from the BABs discussed previously.

Years Ending September 30	Principal	Interest	Total
2019	\$ 5,632,225	\$ 8,558,757	\$ 14,190,982
2020	5,874,835	8,310,448	14,185,283
2021	6,142,934	8,041,455	14,184,389
2022	6,231,861	7,743,730	13,975,591
2023	6,454,108	7,453,810	13,907,918
2024 - 2028	34,060,005	32,634,848	66,694,853
2029 - 2033	34,826,621	23,203,915	58,030,536
2034 - 2038	33,335,000	11,371,270	44,706,270
2039 - 2040	15,264,411	859,180	16,123,591
	<u>\$ 147,822,000</u>	<u>\$ 108,177,413</u>	<u>\$ 255,999,413</u>

### Note 5: Capital Leases

During 2012, the Hospital entered into the capital lease of a parking facility on the main campus in Hattiesburg with Eagle Parking & Development, LLC. In June 2018, the Hospital purchased the parking facility and terminated the capital lease for \$10,336,992, of which \$10,297,000 was financed through a long-term note payable.

During 2009, the Hospital entered into a capital lease for the support services building with Twenty-Eighth Place, LLC, which houses various administrative and support departments of the Hospital. In March 2018, the Hospital purchased the support services building and terminated the capital lease for \$24,063,298, of which \$13,000,000 was financed through a long-term note payable.

**Forrest County General Hospital**  
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**Notes to Financial Statements**  
**September 30, 2018 and 2017**

A schedule of changes in the Hospital's capital lease obligation balances for 2018 and 2017 follows.

Description	Interest Rate	Date of Issuance/ Assumption	Balance October 1, 2017	Additions	Payments/ Adjustments	Balance September 30, 2018	Due Within One Year
Parking garage	5.91%	July 2012	\$ 10,647,185	\$ -	\$ 10,647,185	\$ -	\$ -
Support services building	5.85%	March 2008	13,299,735	-	13,299,735	-	-
			<u>\$ 23,946,920</u>	<u>\$ -</u>	<u>\$ 23,946,920</u>	<u>\$ -</u>	<u>\$ -</u>

Description	Interest Rate	Date of Issuance/ Assumption	Balance October 1, 2016	Additions	Payments	Balance September 30, 2017	Due Within One Year
Parking garage	5.91%	July 2012	\$ 11,565,484	\$ -	\$ 918,299	\$ 10,647,185	\$ 973,686
Support services building	5.85%	March 2008	13,998,618	-	698,883	13,299,735	829,628
			<u>\$ 25,564,102</u>	<u>\$ -</u>	<u>\$ 1,617,182</u>	<u>\$ 23,946,920</u>	<u>\$ 1,803,311</u>

Capital assets totaling approximately \$33,889,000 at September 30, 2017, are related to the above capital lease obligations. Related accumulated amortization was approximately \$12,228,000 at September 30, 2017.

**Note 6: Line of Credit**

On September 6, 2017, AAA Ambulance Service, Inc. (AAA) obtained a line of credit from a bank with maximum available funds of \$1,160,000. The amount payable to the bank is \$581,856 at September 30, 2017, due on September 6, 2018. The proceeds were used to fund facility construction for AAA. In 2018, the balance on this line of credit was consolidated into a long-term note payable as described in *Note 4*.

**Forrest County General Hospital  
(A Component Unit of Forrest County, Mississippi)**

**Notes to Financial Statements  
September 30, 2018 and 2017**

**Note 7: Other Accrued Expenses**

Other accrued expenses consist of the following:

	<b>2018</b>	<b>2017</b>
Patient credit balances	\$ 3,366,607	\$ 4,677,722
Reserve for incurred but not reported employee health claims	1,861,000	1,792,000
Workers' compensation and professional liability reserves	1,145,739	1,406,900
Advanced revenue	1,294,155	862,101
Accrued interest expense	1,783,303	1,958,464
Construction retainage	-	74,976
Other	1,264,833	1,543,871
	\$ 10,715,637	\$ 12,316,034

**Note 8: Interest Rate Swap Agreements**

Accounting principles generally accepted in the United States of America (GAAP) requires the Hospital to recognize the fair value of a derivative instrument on its balance sheets. The change in fair value is either recorded as a deferred amount on the Hospital's balance sheets (if the derivative agreement qualifies for hedge accounting) or as a component of investment income on the accompanying statements of revenues, expenses and changes in net position.

The Hospital entered into two interest rate swap agreements in June 2007. The Hospital accounted for a cost of funds swap as a hedging derivative instrument and accounts for a basis swap as an investment derivative. The terms of the swaps are more fully described below.

The changes in fair value of the basis swap is shown in the following table.

	<b>Basis Swap</b>
Fair value, September 30, 2016	\$ 79,056
Change in fair value	(181,818)
Fair value, September 30, 2017	(102,762)
Change in fair value	104,541
Fair value, September 30, 2018	\$ 1,779

# **Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)**

## **Notes to Financial Statements**

**September 30, 2018 and 2017**

The cost of funds swap was terminated in conjunction with the issuance of the Series 2009 Bonds. The termination payment of \$7,690,000 has been deferred and is being amortized as discussed in *Note 4*. At September 30, 2018 and 2017, only the basis swap remained in effect.

The fair value of the basis swap was estimated by the counterparty, which uses a proprietary pricing model to compute the fair value.

- **Objective of the Interest Rate Swaps** – While the Hospital’s long-term debt at September 30, 2018 and 2017, is a fixed rate, the Hospital’s asset/liability strategy in the past has included a mixture of fixed and variable rate debt to take advantage of market fluctuations. As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations and to lower its borrowing costs when compared against fixed rate debt at the time of issuance, the Hospital utilized two interest rate swap agreements to convert its variable rate debt exposure to a fixed rate for the retired Series 2007A Revenue bonds. The intention of the terminated cost of funds swap was to effectively change the Hospital’s variable interest rate on this note to a synthetic fixed rate of 5.02%. The intention of the basis swap was to provide additional interest rate savings over time.
- **Terms** – The basis swap agreement matures on January 1, 2030. The basis swap includes an amortizing notional amount through January 1, 2030. The notional amount was \$33,540,000 and \$35,545,000 at September 30, 2018 and 2017, respectively. The swaps were entered into at the same time the bonds were issued (June 2007). The swaps were comprised of the cost of funds swap, which was terminated in the 2009 refunding issue and a basis swap. Under the basis swap, the Hospital pays the counterparty a variable payment computed at the Securities Industry and Financial Market Association (SIFMA) Swap Index and receives a variable payment computed as 67% of one-month LIBOR plus 24 basis points.
- **Credit Risk** – The Hospital is exposed to credit risk on the amount of the derivative’s fair value. The swap’s counterparty was rated A+ by Standard & Poor’s and AA- by Fitch as of September 30, 2018.
- **Interest Rate Risk** – The cost of funds swap exposed the Hospital to interest rate risk prior to its termination. As LIBOR increased, the aggregate payments under the swap increased. However, the interest payments on the hedged 2007 revenue bonds also decreased by a corresponding amount.
- **Basis Risk** – The Hospital is exposed to basis risk on the basis swap because the variable rate payments received by the Hospital are based on a different index than the benchmark interest rate used to determine the Hospital’s payments on the swap. As of September 30, 2018, the SIFMA rate, which is paid to the counterparty by the Hospital, was 1.56%, whereas 67.00% of one-month LIBOR plus 24 basis points (which is received by the Hospital) was 1.75%.

# Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)

## Notes to Financial Statements

September 30, 2018 and 2017

- **Termination Risk** – The derivative contracts use the International Swaps and Derivatives Association, Inc. Master Agreement, which includes standard termination events, such as failure to pay, failure to perform under the terms of the contract and bankruptcy. The swaps may be terminated by the Hospital if the counterparty’s credit quality rating falls below a rating “Baa3” by Moody’s Investors Service or “BBB” by Standard & Poor’s. If, at the time of termination, the basis swap has a negative fair value, the Hospital would be liable to the counterparty for a payment equal to the swap’s fair value.
- **Swap Payments** – Using rates as of September 30, 2018, future net receipts under the basis swap are as follows:

2019	\$	113,447
2020		105,101
2021		96,311
2022		87,055
2023		77,417
2024 - 2028		228,450
2029 - 2030		9,926
		9,926
	\$	717,707

As rates fluctuate, payments under the basis swap will vary.

### Note 9: Operating Leases

The Hospital, as a lessee, leases certain property from other outside parties. Rent expense under all operating leases was approximately \$8,815,000 and \$9,917,000 in 2018 and 2017, respectively.

### Note 10: Net Patient Service Revenue

The Hospital has agreements with governmental and other third-party payers that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital’s billings at established rates for services and amounts reimbursed by third-party payers. A summary of the basis for reimbursement with major third-party payers follows.

- **Medicare** – Substantially all acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic and other factors. Certain other Medicare reimbursement items are paid based on other retroactive-determination methodologies. WGH and JDGH are classified as critical access hospitals and are reimbursed based on the

# **Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)**

## **Notes to Financial Statements**

**September 30, 2018 and 2017**

reasonable costs of providing care to Medicare program beneficiaries. MGH and HCH are not classified as critical access hospitals, but are receiving payments based on reasonable costs through the Rural Community Hospital Demonstration Project. The demonstration project ends on September 30, 2022 for HCH and September 30, 2021 for MGH. The Hospital is reimbursed for retroactively determined items at tentative rates, with final settlement determined after submission of annual cost reports by the Hospital and audits by the Medicare fiscal intermediary. Revenue from the Medicare program (including Medicare managed care) accounted for approximately 49% and 50% of the Hospital's net patient service revenue for the years ended September 30, 2018 and 2017, respectively.

- **Medicaid** – Inpatient and certain outpatient services rendered to Medicaid program beneficiaries are generally paid based upon prospective reimbursement methodologies established by the state of Mississippi. Inpatient services are reimbursed using a prospective-payment system based on All Patient Refined Diagnosis Related Groups (APR-DRG). Outpatient services are reimbursed using an Ambulatory Payment Classification (APC) methodology, similar to the Medicare payment model. The Hospital is reimbursed for retroactively determined items at tentative rates, with final settlement determined after submission of annual cost reports by the Hospital and audits by the state of Mississippi Medicaid Program.

Revenue from the Medicaid program (including Medicaid managed care) accounted for approximately 24% and 22% of the Hospital's net patient service revenue for the years ended September 30, 2018 and 2017, respectively. This includes revenue from the programs described below.

Prior to July 1, 2015, the state of Mississippi operated the Medicaid Upper Payment Limit (UPL) program for providers participating in the state Medicaid program. Beginning July 1, 2015, UPL payments were phased out, and the Division of Medicaid (DOM) implemented the Mississippi Hospital Access Payment (MHAP) program in its place. The program is administered by DOM through the Mississippi CAN coordinated care organizations (CCO). The CCO subcontracts with hospitals throughout the state for distribution of the MHAP for the purpose of protecting patient access to hospital care. The net benefit for the Hospital associated with the MHAP program was \$25,783,000 and \$22,503,000 for the years ended September 30, 2018 and 2017, respectively.

The Hospital also participates in a voluntary disproportionate share program available to certain qualifying hospitals in the state Medicaid program. The net program benefit for the Hospital of approximately \$1,978,000 and \$2,999,000 for 2018 and 2017, respectively, is recognized as net patient service revenue in the accompanying statements of revenues, expenses and changes in net position.

The Medicaid programs described above are subject to review and scrutiny by both the Mississippi legislation and The Centers for Medicare and Medicaid Services (CMS), and the programs could be modified or terminated based on new legislation or regulation in future periods.

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**Notes to Financial Statements**

**September 30, 2018 and 2017**

The Hospital has also entered into other reimbursement arrangements with third-party payers that provide for payments under various methodologies, including prospectively determined rates per discharge, per diem amounts and discounts from established charges.

The composition of net patient service revenue follows.

	<b>2018</b>	<b>2017</b>
Gross patient service revenue		
Less provisions for		
Contractual, charity and other adjustments	\$ 1,822,402,961	\$ 1,776,128,670
Bad debts	(1,229,365,817)	(1,180,948,528)
	(55,665,821)	(61,364,807)
Net patient service revenue	\$ 537,371,323	\$ 533,815,335

**Note 11: Charity Care**

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies and equivalent service statistics. The level of charity care provided for 2018 and 2017 is shown in the table below. The estimated cost to provide charity care is based on a ratio of overall operating expenses to gross patient service revenue applied to charges foregone under established rates.

	<b>2018</b>	<b>2017</b>
Charges foregone, based on established rates	\$ 29,229,612	\$ 22,985,242
Estimated costs and expenses incurred to provide charity care	8,590,764	6,797,582
Equivalent percentage of charity care patients to all patients served	1.60%	1.29%

**Note 12: Pension Plans**

***Defined Contribution Pension Plan***

The Hospital has a defined contribution pension plan that allows for employee and employer contributions. The plan was established on July 1, 2011, and only full-time employees hired after that date are eligible to receive Hospital contributions to the plan. Hospital contributions were \$1,363,000 and \$1,232,000 during 2018 and 2017, respectively. The Hospital's contributions are

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## Notes to Financial Statements

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vested after five years of service. Forfeitures are used to offset future employer contributions. At September 30, 2018 and 2017, forfeitures were approximately \$234,000 and \$142,000, respectively. Employee contributions were \$3,416,000 and \$3,043,000 during 2018 and 2017, respectively.

### ***Defined Benefit Pension Plan***

The Hospital contributes to the Forrest County General Hospital Pension Plan (the Plan), a single-employer defined benefit pension plan, which was frozen effective July 1, 2011, thereby excluding new entrants into the Plan. The Plan's fiscal year ends June 30. Actuarial valuations are performed annually on July 1. The Plan is administered by the Hospital's Human Resources Support Department, whose work on the Plan is overseen by the Pension Committee of the Hospital's Board of Trustees. The Hospital retains Capital Research and Planning in an advisory capacity for the Plan's matters. The Plan issues a financial report available for all participants that includes financial statements and required supplementary information. The report may be obtained at [www.mshospitaltransparency.com](http://www.mshospitaltransparency.com) when issued or by writing the administration of the Hospital at P.O. Box 16389, Hattiesburg, Mississippi 39404 or calling 601.288.7000.

### ***Benefits Provided***

The Plan provides retirement and disability benefits and death benefits to plan members and beneficiaries. Benefit provisions are established by the Hospital's Board of Trustees. Retirement benefits for employees are calculated at 1.5% times average monthly compensation times years of service. Death benefits are equal to the single sum present value of the vested accrued benefit otherwise payable at the normal retirement date. Disability benefits are equal to the vested accrued benefit payable at normal retirement age or an actuarially reduced benefit paid immediately.

The terms of the Plan provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustments for cost-of-living are 2.5% per year.

The employees covered by the Plan at June 30, 2018 and 2017, follow:

	<b>2018</b>	<b>2017</b>
Active participants	1,215	1,321
Vested former employees	1,174	1,135
Retirees and beneficiaries	516	491
	2,905	2,947

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### ***Contributions***

The Hospital's Board of Trustees has the authority to establish and amend the contribution requirements of the Hospital. The Board of Trustees establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Plan members are not required or permitted to contribute any portion of their salary to fund the Plan. The Hospital is required to contribute to the plan at actuarially determined rates at a percentage of annual covered payroll. For the fiscal year ended September 30, 2018, the Hospital contributed \$10,063,476 (or 14% of covered payroll) to the Plan. For the fiscal year ended September 30, 2017, the Hospital contributed \$30,063,476 (or 39% of covered payroll) to the Plan.

### ***Net Pension Liability***

The Hospital's net pension liability was measured as of June 30, 2018 and 2017, as reported as of September 30, 2018 and 2017, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2018 and 2017, respectively.

The total pension liability in the June 30, 2018 and 2017, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	2.0% - 4.5%, based on age, including inflation
Ad hoc cost of living adjustments	2.5% per year
Investment rate of return	7.25%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Mortality Table, projected to 2018 using scale AA.

The Hospital has not performed a recent experience study. Due to the frozen nature of the Plan, the benefits of an experience study are estimated by the actuary to be minimal.

The long-term expected rate of return on pension plan investments was based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

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The target allocation and best estimates of rates of return for each major asset class are summarized in the following table.

<b>Asset Class</b>	<b>Target Allocations</b>			<b>Tactical Asset Allocation Portfolio</b>
	<b>Tier One Near-Term Sub Portfolio</b>	<b>Tier Two Mid-Term Sub Portfolio</b>	<b>Tier Three Long-term Sub Portfolio</b>	
Cash/fixed income	60.00%	40.00%	20.00%	57.45%
Equities	40.00%	60.00%	80.00%	42.55%
Total	100.00%	100.00%	100.00%	100.00%

<b>Asset Class</b>	<b>Long-Term Expected Rate of Return (Arithmetic Mean)</b>
Cash/fixed income	2.00%
Equities	7.00% - 8.00%

***Discount Rate***

The discount rate used to measure the total pension liability was 7.25% for both years ended June 30, 2018 and 2017. The projection of cash flows used to determine the discount rate assumed that Hospital contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

# Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)

## Notes to Financial Statements September 30, 2018 and 2017

Changes in the total pension liability, plan fiduciary net position and the net pension liability follow.

	<b>2018</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) - (b)</b>
Balance, beginning of year	\$ 205,188,094	\$ 177,876,170	\$ 27,311,924
Changes for the year			
Service cost	3,091,562	-	3,091,562
Interest	14,823,878	-	14,823,878
Experience gains	(587,916)	-	(587,916)
Contributions	-	10,063,476	(10,063,476)
Net investment income	-	14,722,571	(14,722,571)
Benefit payments	(7,624,734)	(7,624,734)	-
Administrative expense	-	(352,565)	352,565
Net changes	9,702,790	16,808,748	(7,105,958)
Balance, end of year	<u>\$ 214,890,884</u>	<u>\$ 194,684,918</u>	<u>\$ 20,205,966</u>
	<b>2017</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) - (b)</b>
Balance, beginning of year	\$ 194,351,662	\$ 136,103,415	\$ 58,248,247
Changes for the year			
Service cost	3,302,712	-	3,302,712
Interest	14,098,001	-	14,098,001
Experience gains	(165,919)	-	(165,919)
Contributions	-	30,063,476	(30,063,476)
Net investment income	-	18,424,809	(18,424,809)
Benefit payments	(6,398,362)	(6,398,362)	-
Administrative expense	-	(317,168)	317,168
Net changes	10,836,432	41,772,755	(30,936,323)
Balance, end of year	<u>\$ 205,188,094</u>	<u>\$ 177,876,170</u>	<u>\$ 27,311,924</u>

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The net pension liability (asset) of the Hospital has been calculated using a discount rate of 7.25%. The following presents the net pension liability (asset) using a discount rate 1% higher and 1% lower than the current rate.

	<b>1% Decrease</b>	<b>Current Discount Rate (7.25%)</b>	<b>1% Increase</b>
Hospital's net pension liability (asset)	\$ 50,481,099	\$ 20,205,966	\$ (4,856,635)

***Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

For the years ended September 30, 2018 and 2017, the Hospital recognized pension expense of \$5,345,492 and \$7,682,449, respectively. At September 30, 2018 and 2017, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>2018</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 838,173	\$ 564,398
Net difference between projected and actual earnings on pension plan investments	-	547,520
Hospital's contributions made subsequent to the measurement date of the net pension liability	2,515,869	-
	\$ 3,354,042	\$ 1,111,918
	<b>2017</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 1,317,881	\$ 191,616
Net difference between projected and actual earnings on pension plan investments	987,958	-
Hospital's contributions made subsequent to the measurement date of the net pension liability	2,515,869	-
	\$ 4,821,708	\$ 191,616

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At both September 30, 2018 and 2017, the Hospital reported \$2,515,869 as deferred outflows of resources related to pensions resulting from Hospital contributions subsequent to the measurement date and prior to year-end that will be recognized as a reduction of the net pension liability in future periods. Other amounts reported as deferred outflows of resources and deferred inflows of resources at September 30, 2018, related to pensions will be recognized in pension expense as follows:

2019		\$ 1,468,677
2020		683,857
2021		(2,078,999)
2022		(347,280)
		(273,745)
		\$ (273,745)

**Note 13: Other Postemployment Benefit Plan**

***Plan Description***

The Hospital contributes to the Forrest County General Hospital Employee Health Benefit Plan (the OPEB Plan), a single-employer, defined benefit other postemployment benefit (OPEB) plan sponsored and administered by the Hospital. The OPEB Plan provides medical and drug benefits to eligible retirees and their dependents. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital’s governing body. The Hospital does not issue a publicly available financial report that includes financial statements and required supplementary information for the OPEB Plan.

***Benefits Provided***

The OPEB Plan provides medical and drug benefits to eligible retirees and their dependents. Benefits are provided through a third-party insurer. Monthly contributions are required by retirees who are eligible for coverage. The Hospital pays for costs in excess of required retiree contributions.

Monthly contributions required by retirees depend on the service period at time of retirement and the type of coverage (single or family). Employees are eligible to retire and receive medical benefits under the plan if their age plus years of service are greater than or equal to 70 (Rule of 70). Qualifying retirees may only participate in the medical plans offered to active employees until the

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earlier of age 65, or the date the retiree becomes Medicare eligible. Employees covered by the benefit terms as of the measurement date of September 30, 2017 were as follows:

Actives (covered)	2,627
Actives (not covered)	72
Retirees (covered)	39

The following table summarizes the monthly contribution rates for employees retiring on or after January 1, 2018.

Coverage Options	Plan A	Plan B	Plan C
Single	\$ 184	\$ 249	\$ 290
Retiree + 1 child	274	374	445
Retiree + 2 children	333	466	567
Retiree + spouse	321	427	528
Family	368	488	612

Plans A, B and C represent three health plan options available to all Hospital employees and vary based on the amount of deductibles and copays required for covered services.

Only employees retiring before calendar year 2010 are eligible to receive the reduced retiree rates if they qualify under the Rule of 70. Effective January 1, 2010, only those employees age 59 or older with 30 years of service with the Hospital (the 59 and 30 eligibility requirement) will be offered health coverage at the reduced retiree rates. Retirees that do not meet the 59 and 30 eligibility requirement may participate in the OPEB Plan, but must pay the COBRA rate.

### **Contributions**

The Hospital's governing body has the authority to establish and amend the contribution requirements of the Hospital and active employees. The governing body establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the years ended September 30, 2018, and 2017, the Hospital contributed \$711,140 and \$1,493,458, respectively, to the OPEB Plan.

### **Net OPEB Liability**

The Hospital's net OPEB liability of \$5,826,558 and \$6,659,805 was measured as of September 30, 2017 and 2016 for the years ended September 30, 2018 and 2017, respectively, and the total OPEB liability used to calculate the net OPEB liability was determined by actuarial valuations as of October 1, 2017 and 2016, respectively. There were no changes between the measurement date of

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## **Notes to Financial Statements**

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the net OPEB liability and the Hospital's reporting date that are expected to have a significant effect on the net OPEB liability.

The total OPEB liability in the October 1, 2017 and 2016 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5%
Salary increases	3.0%, average, including inflation
Health care cost trend rates	8.0% for 2017, decreasing uniformly over 12 years to an ultimate rate of 5.0%
Investment rate of return	6.0%, net of OPEB plan investment expense, including inflation
Retirees' share of benefit-related costs	81% of projected health insurance premiums for retirees choosing Plan A; 90% of projected health insurance premiums for retirees choosing Plan B; 100% of projected health insurance premiums for retirees choosing Plan C

Mortality rates were based on the RP-2000 Mortality Table, projected to 2017 using scale AA.

The Hospital has not performed a recent experience study. Due to the small number of retirees within the plan, the benefits of an experience study are estimated by the actuary to be minimal.

The long-term expected rate of return on the OPEB Plan investments was based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information. The target allocation for each major asset class is 60% equities and 40% fixed income. The beginning estimate of rates of return for each major asset class is 7.00% to 8.00% annually for equities and 3.00% for fixed income.

### ***Discount Rate***

The discount rate used to measure the total OPEB liability was 6.0% at October 1, 2017 and 2016. The projection of cash flows used to determine the discount rate assumed that Hospital contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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***Changes in the Net OPEB Liability***

Changes in the total OPEB liability, OPEB Plan fiduciary net position and the net OPEB liability are:

	<b>2018</b>		
	<b>Total OPEB Liability (a)</b>	<b>OPEB Plan Fiduciary Net Position (b)</b>	<b>Net OPEB Liability (a) - (b)</b>
Balance, beginning of year	\$ 8,880,372	\$ 2,220,567	\$ 6,659,805
Changes for the year			
Service cost	410,388	-	410,388
Interest	519,745	-	519,745
Contributions - employer	-	1,493,458	(1,493,458)
Net investment income	-	269,922	(269,922)
Benefit payments	(574,046)	(574,046)	-
Net changes	356,087	1,189,334	(833,247)
Balance, end of year	<u>\$ 9,236,459</u>	<u>\$ 3,409,901</u>	<u>\$ 5,826,558</u>
	<b>2017</b>		
	<b>Total OPEB Liability (a)</b>	<b>OPEB Plan Fiduciary Net Position (b)</b>	<b>Net OPEB Liability (a) - (b)</b>
Balance, beginning of year	\$ 8,584,284	\$ 976,961	\$ 7,607,323
Changes for the year			
Service cost	390,846	-	390,846
Interest	497,299	-	497,299
Contributions - employer	-	1,595,051	(1,595,051)
Net investment income	-	240,612	(240,612)
Benefit payments	(592,057)	(592,057)	-
Net changes	296,088	1,243,606	(947,518)
Balance, end of year	<u>\$ 8,880,372</u>	<u>\$ 2,220,567</u>	<u>\$ 6,659,805</u>

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***Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Health Care Cost Trend Rates***

The net OPEB liability of the Hospital has been calculated using a discount rate of 6.0%. The following presents the net OPEB liability using a discount rate 1% higher and 1% lower than the current discount rate.

	<b>1% Decrease</b>	<b>Current Discount Rate (6.0%)</b>	<b>1% Increase</b>
Hospital's net OPEB liability	\$ 6,873,316	\$ 5,826,558	\$ 4,914,856

The net OPEB liability of the Hospital has been calculated using health care cost trend rates of 8.0% to grade uniformly to 5.0% over a 12-year period. The following presents the net OPEB liability using health care cost trend rates 1% higher and 1% lower than the current health care cost trend rates.

	<b>7% decreasing to 4% over 12 years</b>	<b>8% decreasing to 5% over 12 years</b>	<b>9.0% decreasing to 6% over 12 years</b>
Hospital's net OPEB liability	\$ 4,238,169	\$ 5,826,558	\$ 7,733,044

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***OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

For the years ended September 30, 2018 and 2017, the Hospital recognized OPEB expense of and \$1,177,557 and \$733,435, respectively. At September 30, 2018 and 2017, the Hospital reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>2018</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net difference between projected and actual earnings on OPEB plan investments	\$ -	\$ 116,689
Hospital's contributions made subsequent to the measurement date of the net OPEB liability	711,140	-
	\$ 711,140	\$ 116,689
	<b>2017</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net difference between projected and actual earnings on OPEB plan investments	\$ -	\$ 85,902
Hospital's contributions made subsequent to the measurement date of the net OPEB liability	1,493,458	-
	\$ 1,493,458	\$ 85,902

At September 30, 2018, the Hospital reported \$711,140 as deferred outflows of resources related to OPEB resulting from Hospital contributions subsequent to the measurement date and prior to year-end that will be recognized as a reduction of the net OPEB liability at September 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources at September 30, 2018, related to OPEB will be recognized in OPEB expense as follows:

2019	\$ (34,542)
2020	(34,542)
2021	(34,542)
2022	(13,063)
	\$ (116,689)

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**Notes to Financial Statements  
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***OPEB Plan's Fiduciary Net Position***

At the September 30, 2017 and 2016 measurement dates, trust assets were comprised of the following:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 97,217	\$ 109,908
Equity securities		
Tweedy Browne Gloval Value	383,102	160,004
Vanguard Russell 2000 Index Institutional Share Class	575,505	360,198
Vanguard Russell 1000 Index Institutional Share Class	1,074,299	689,114
Fixed income securities		
PIMCO Foreign Bond Funds	243,273	163,088
Vanguard Short-term Bonds Index	133,329	49,276
Vanguard Bond Index	903,176	688,979
	<u>\$ 3,409,901</u>	<u>\$ 2,220,567</u>

**Note 14: Concentrations of Credit Risk**

The Hospital grants credit to patients, substantially all of whom are Hospital service area residents. The Hospital generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans or policies (*e.g.*, Medicare, Medicaid, Blue Cross and commercial insurance policies).

For the years ended September 30, 2018 and 2017, admissions by physicians employed by a large, multi-specialty physician practice located adjacent to the Hospital accounted for approximately 77% and 78%, respectively, of the Hospital's gross revenues.

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The mix of receivables from patients and third-party payers as of each fiscal year-end follows.

	<b>2018</b>		<b>2017</b>	
Medicare	\$ 34,588,589	29.1 %	\$ 33,844,502	28.1 %
Medicaid	13,240,718	11.1	12,204,634	10.2
Other third-party payers	34,023,129	28.6	40,081,847	33.3
Patients	37,054,961	31.2	34,086,775	28.4
	118,907,397	100.0	120,217,758	100.0
Less allowance for uncollectible accounts	65,590,774	55.2	68,286,686	56.8
	\$ 53,316,623	44.8 %	\$ 51,931,072	43.2 %

**Note 15: Risk Management**

***Medical Malpractice and General Liability Risks***

Annual estimated provisions are accrued for the self-insured portion of medical malpractice and general liability claims, including an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Effective March 1, 2003, the Hospital became self-insured at its Hattiesburg campus for all medical malpractice claims incurred on or after that date. In accordance with the provisions of Title 11, Chapter 46 of the Mississippi Code, a trust fund was established based on an actuarially determined funding level. Effective July 1, 2001, Code 11-46-15 of the Mississippi Code established that the liability for public entities falling under the State Tort Act would not exceed \$500,000 for all single occurrence claims. Effective May 1, 2014, HCH became self-insured under the Hospital's self-insured program.

The following is a summary of changes in the Hospital's self-insurance liability for professional and general liability costs for fiscal 2018 and 2017.

	<b>2018</b>		<b>2017</b>	
Balance, October 1	\$ 3,993,476		\$ 4,304,649	
Provisions for claims reported and claims incurred but not reported		(367,631)		412,774
Claims and related expenses paid		(309,330)		(723,947)
Balance, September 30	\$ 3,316,515		\$ 3,993,476	

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis for WGH, JDGH, MGH and AAA. GAAP requires a health care provider to accrue

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the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience at these locations, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

### ***Employee Health Insurance***

The Hospital has an agreement with a third-party administrator to administer the Hospital's group health plan and to manage employee medical benefits and claims. The Hospital plan is funded by the Hospital and by contributions of employees.

A summary of changes in the Hospital's self-insurance liability for employee health coverage (included in other accrued expenses in the accompanying balance sheets) for fiscal 2018 and 2017, follows.

	<b>2018</b>	<b>2017</b>
Balance, October 1	\$ 1,792,000	\$ 1,575,000
Provisions for claims reported and claims incurred but not reported	14,976,618	13,929,569
Claims paid	(14,907,618)	(13,712,569)
Balance, September 30	\$ 1,861,000	\$ 1,792,000

### ***Workers' Compensation***

The Hospital is self-insured for a workers' compensation plan with a stop loss binder limit of \$325,000.

The following is a summary of changes in the Hospital's self-insurance liability for workers' compensation coverage for fiscal 2018 and 2017.

	<b>2018</b>	<b>2017</b>
Balance, October 1	\$ 2,053,356	\$ 1,276,711
Provisions for claims reported and claims incurred but not reported	511,988	1,606,403
Claims paid	(783,863)	(829,758)
Balance, September 30	\$ 1,781,481	\$ 2,053,356

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**Note 16: Deferred Compensation**

The following is a summary of changes in the Hospital's deferred compensation liability for the 457(f) plan payable to HCPA (see *Note 2*).

	<b>2018</b>	<b>2017</b>
Balance, October 1	\$ 65,042,349	\$ 56,816,453
Contributions	2,983,650	2,890,452
Investment gain	7,401,391	8,128,366
Withdrawals	(1,772,258)	(2,792,922)
Balance, September 30	\$ 73,655,132	\$ 65,042,349

**Note 17: Disclosures About Fair Value of Assets and Liabilities**

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

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## Notes to Financial Statements September 30, 2018 and 2017

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall as of September 30, 2018 and 2017.

		<b>Fair Value Measurements Using</b>		
		<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>September 30, 2018</b>	<b>Fair Value</b>			
<b>Investments by fair value level</b>				
Money market mutual funds	\$ 6,601,982	\$ 6,601,982	\$ -	\$ -
U.S. agency securities	24,652,425	-	24,652,425	-
U.S. Treasury securities	196,048	-	196,048	-
State municipal securities	20,425,615	-	20,425,615	-
Open-end mutual funds	68,593,277	68,593,277	-	-
Corporate debt securities	33,417,633	-	33,417,633	-
Pooled investments	84,444,394	-	84,444,394	-
Total investments by fair value level	<u>\$ 238,331,374</u>	<u>\$ 75,195,259</u>	<u>\$ 163,136,115</u>	<u>\$ -</u>
<b>Interest rate swap</b>	<u>\$ 1,779</u>	<u>\$ -</u>	<u>\$ 1,779</u>	<u>\$ -</u>
		<b>Fair Value Measurements Using</b>		
		<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>September 30, 2017</b>	<b>Fair Value</b>			
<b>Investments by fair value level</b>				
Money market mutual funds	\$ 8,829,427	\$ 8,829,427	\$ -	\$ -
U.S. agency securities	21,119,708	-	21,119,708	-
U.S. Treasury securities	200,895	-	200,895	-
State municipal securities	20,847,803	-	20,847,803	-
Open-end mutual funds	59,455,608	59,455,608	-	-
Corporate debt securities	37,146,699	-	37,146,699	-
Pooled investments	85,373,001	-	85,373,001	-
	<u>\$ 232,973,141</u>	<u>\$ 68,285,035</u>	<u>\$ 164,688,106</u>	<u>\$ -</u>
<b>Interest rate swap</b>	<u>\$ (102,762)</u>	<u>\$ -</u>	<u>\$ (102,762)</u>	<u>\$ -</u>

# **Forrest County General Hospital** **(A Component Unit of Forrest County, Mississippi)**

## **Notes to Financial Statements** **September 30, 2018 and 2017**

### ***Investments***

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Hospital holds no Level 3 investments.

### ***Interest Rate Swap Agreement***

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

### **Note 18: Change in Accounting Principle**

In 2018, the Hospital changed its method of accounting for its postemployment benefits other than pensions as a result of implementing GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which became effective for reporting periods beginning after June 15, 2017.

The impact of the change in accounting principle was to improve accounting and financial reporting for OPEB. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expenses. The statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Changes made to comply with adoption of GASB 75 were reported as an adjustment to beginning net position as of October 1, 2016 and restatement of the

# Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)

## Notes to Financial Statements

September 30, 2018 and 2017

2017 financial statements. The following financial statement line items for fiscal year 2017 were affected by restatement:

	As Restated	As Previously Reported	Effect of Change from Restatement
<b>Assets and Deferred Outflows of Resources</b>			
Funds designated by the Board for discretionary purposes	\$ 173,222,410	\$ 176,628,189	\$ (3,405,779)
Deferred outflows of resources	9,581,026	8,087,568	1,493,458
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>			
Net postemployment benefit liability	6,659,805	5,142,535	1,517,270
Deferred inflows of resources	3,063,059	2,977,157	85,902
Total net position	441,391,767	444,907,260	(3,515,493)
<b>Statement of Revenues, Expenses and Changes in Net Position</b>			
Salaries, wages and employee benefits	255,968,095	256,051,492	(83,397)
Net investment income	549,645	821,574	(271,929)
Net position, beginning of year	423,772,903	427,099,864	(3,326,961)
<b>Statement of Cash Flows</b>			
Cash paid to or on behalf of employees	(280,962,199)	(280,047,419)	(914,780)
Interest and dividends on investments	4,608,547	4,880,476	(271,929)
Purchase of investments	(32,830,567)	(33,924,181)	1,093,614
Total cash and cash equivalents	136,847,274	136,940,369	(93,095)

### Note 19: Future Change in Accounting Principle

GASB recently issued Statement No. 87, *Leases* (GASB 87). GASB 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Hospital expects to first apply GASB 87 during the year ending September 30, 2021. The impact of applying GASB 87 has not been determined.

### Note 20: Condensed Combining Information

The following tables include condensed balance sheet information for the Hospital and its blended component units as of September 30, 2018 and 2017.

# Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)

## Notes to Financial Statements September 30, 2018 and 2017

September 30, 2018

	Forrest County General Hospital	South Mississippi Health Services, Inc.	Forrest General Health Services, Inc.	Clean Earth, Inc.	Forrest General Managed Care Services, Inc.	AAA Ambulance Service, Inc.	Forrest General Healthcare Foundation, Inc.	Eliminations	Total
<b>Assets and Deferred Outflows of Resources</b>									
Current assets	\$ 181,843,959	\$ 1,485,210	\$ 14,421	\$ 995,329	\$ -	\$ 4,089,840	\$ 2,726,201	\$ -	\$ 191,154,960
Noncurrent cash and investments	242,609,345	-	-	-	-	4,497,105	-	-	247,106,450
Capital assets, net	317,039,788	2,750,115	18,972	707,887	-	6,306,919	2,900	-	326,826,581
Other assets	147,342,342	-	206,051	-	859,704	12,035	10,000	(139,667,186)	8,762,946
Deferred outflows of resources	6,878,038	-	-	-	-	-	-	-	6,878,038
	<u>6,878,038</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,878,038</u>
Total assets and deferred outflows of resources	<u>\$ 895,713,472</u>	<u>\$ 4,235,325</u>	<u>\$ 239,444</u>	<u>\$ 1,703,216</u>	<u>\$ 859,704</u>	<u>\$ 14,905,899</u>	<u>\$ 2,739,101</u>	<u>\$ (139,667,186)</u>	<u>\$ 780,728,975</u>
<b>Liabilities and Deferred Inflows of Resources</b>									
Current liabilities	\$ 197,055,569	\$ 4,685,404	\$ -	\$ 4,566,752	\$ -	\$ 1,376,009	\$ 2,500	\$ (139,667,186)	\$ 68,019,048
Long-term liabilities	246,910,900	-	-	-	-	1,263,304	-	-	248,174,204
Deferred inflows of resources	3,627,769	-	-	-	-	-	-	-	3,627,769
	<u>3,627,769</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,627,769</u>
Total liabilities and deferred inflows of resources	<u>447,594,238</u>	<u>4,685,404</u>	<u>-</u>	<u>4,566,752</u>	<u>-</u>	<u>2,639,313</u>	<u>2,500</u>	<u>(139,667,186)</u>	<u>319,821,021</u>
<b>Net Position</b>									
Net investment in capital assets	165,425,741	2,750,115	18,972	707,887	-	4,620,242	2,900	-	173,525,857
Unrestricted	282,693,493	(3,200,194)	220,472	(3,571,423)	859,704	7,646,344	2,733,701	-	287,382,097
	<u>282,693,493</u>	<u>(3,200,194)</u>	<u>220,472</u>	<u>(3,571,423)</u>	<u>859,704</u>	<u>7,646,344</u>	<u>2,733,701</u>	<u>-</u>	<u>287,382,097</u>
Total net position	<u>448,119,234</u>	<u>(450,079)</u>	<u>239,444</u>	<u>(2,863,536)</u>	<u>859,704</u>	<u>12,266,586</u>	<u>2,736,601</u>	<u>-</u>	<u>460,907,954</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 895,713,472</u>	<u>\$ 4,235,325</u>	<u>\$ 239,444</u>	<u>\$ 1,703,216</u>	<u>\$ 859,704</u>	<u>\$ 14,905,899</u>	<u>\$ 2,739,101</u>	<u>\$ (139,667,186)</u>	<u>\$ 780,728,975</u>

# Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)

## Notes to Financial Statements September 30, 2018 and 2017

### September 30, 2017 (Restated - Note 18)

	Forrest County General Hospital	South Mississippi Health Services, Inc.	Forrest General Health Services, Inc.	Clean Earth, Inc.	Forrest General Managed Care Services, Inc.	AAA Ambulance Service, Inc.	Forrest General Healthcare Foundation, Inc.	Eliminations	Total
<b>Assets and Deferred Outflows of Resources</b>									
Current assets	\$ 182,453,412	\$ 317,203	\$ 14,440	\$ 788,688	\$ -	\$ 5,430,602	\$ 2,392,939	\$ -	\$ 191,397,284
Noncurrent cash and investments	238,830,486	-	-	-	-	4,066,285	-	-	242,896,771
Capital assets, net	309,238,020	4,296,519	35,275	782,462	-	5,780,333	3,691	-	320,136,300
Other assets	142,636,304	-	9,261,762	-	779,876	12,035	-	(145,874,790)	6,815,187
Deferred outflows of resources	9,581,026	-	-	-	-	-	-	-	9,581,026
<b>Total assets and deferred outflows of resources</b>	<b><u>\$ 882,739,248</u></b>	<b><u>\$ 4,613,722</u></b>	<b><u>\$ 9,311,477</u></b>	<b><u>\$ 1,571,150</u></b>	<b><u>\$ 779,876</u></b>	<b><u>\$ 15,289,255</u></b>	<b><u>\$ 2,396,630</u></b>	<b><u>\$ (145,874,790)</u></b>	<b><u>\$ 770,826,568</u></b>
<b>Liabilities and Deferred Inflows of Resources</b>									
Current liabilities	\$ 190,958,249	\$ 6,949,627	\$ 9,049,679	\$ 4,399,904	\$ -	\$ 1,959,868	\$ -	\$ (145,874,790)	\$ 67,442,537
Long-term liabilities	258,370,786	-	-	-	-	558,419	-	-	258,929,205
Deferred inflows of resources	3,063,059	-	-	-	-	-	-	-	3,063,059
<b>Total liabilities and deferred inflows of resources</b>	<b><u>452,392,094</u></b>	<b><u>6,949,627</u></b>	<b><u>9,049,679</u></b>	<b><u>4,399,904</u></b>	<b><u>-</u></b>	<b><u>2,518,287</u></b>	<b><u>-</u></b>	<b><u>(145,874,790)</u></b>	<b><u>329,434,801</u></b>
<b>Net Position</b>									
Net investment in capital assets	148,788,977	4,296,519	35,275	782,462	-	4,434,897	3,691	-	158,341,821
Unrestricted	281,558,177	(6,632,424)	226,523	(3,611,216)	779,876	8,336,071	2,392,939	-	283,049,946
<b>Total net position</b>	<b><u>430,347,154</u></b>	<b><u>(2,335,905)</u></b>	<b><u>261,798</u></b>	<b><u>(2,828,754)</u></b>	<b><u>779,876</u></b>	<b><u>12,770,968</u></b>	<b><u>2,396,630</u></b>	<b><u>-</u></b>	<b><u>441,391,767</u></b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b><u>\$ 882,739,248</u></b>	<b><u>\$ 4,613,722</u></b>	<b><u>\$ 9,311,477</u></b>	<b><u>\$ 1,571,150</u></b>	<b><u>\$ 779,876</u></b>	<b><u>\$ 15,289,255</u></b>	<b><u>\$ 2,396,630</u></b>	<b><u>\$ (145,874,790)</u></b>	<b><u>\$ 770,826,568</u></b>

# Forrest County General Hospital

## (A Component Unit of Forrest County, Mississippi)

### Notes to Financial Statements

September 30, 2018 and 2017

The following tables include condensed combining statements of revenues, expenses and changes in net position information for the Hospital and its blended component units for the years ended September 30, 2018 and 2017.

	<b>September 30, 2018</b>								
	<b>Forrest County General Hospital</b>	<b>South Mississippi Health Services, Inc.</b>	<b>Forrest General Health Services, Inc.</b>	<b>Clean Earth, Inc.</b>	<b>Forrest General Managed Care Services, Inc.</b>	<b>AAA Ambulance Service, Inc.</b>	<b>Forrest General Healthcare Foundation, Inc.</b>	<b>Eliminations</b>	<b>Total</b>
<b>Operating Revenues</b>									
Net patient service revenue	\$ 522,693,682	\$ -	\$ -	\$ -	\$ -	\$ 15,465,244	\$ -	\$ (787,603)	\$ 537,371,323
Other	10,226,584	312,293	-	1,283,592	-	1,976,650	1,442,700	(1,767,136)	13,474,683
<b>Total operating revenues</b>	<b>532,920,266</b>	<b>312,293</b>	<b>-</b>	<b>1,283,592</b>	<b>-</b>	<b>17,441,894</b>	<b>1,442,700</b>	<b>(2,554,739)</b>	<b>550,846,006</b>
<b>Operating Expenses</b>									
Other operating expenses	486,025,889	109,379	6,145	1,190,737	26,783	17,005,447	1,101,938	(2,524,523)	502,941,795
Depreciation and amortization	31,415,387	202,812	16,303	132,183	-	906,262	791	-	32,673,738
<b>Total operating expenses</b>	<b>517,441,276</b>	<b>312,191</b>	<b>22,448</b>	<b>1,322,920</b>	<b>26,783</b>	<b>17,911,709</b>	<b>1,102,729</b>	<b>(2,524,523)</b>	<b>535,615,533</b>
<b>Operating Income (Loss)</b>	<b>15,478,990</b>	<b>102</b>	<b>(22,448)</b>	<b>(39,328)</b>	<b>(26,783)</b>	<b>(469,815)</b>	<b>339,971</b>	<b>(30,216)</b>	<b>15,230,473</b>
<b>Nonoperating Revenues (Expenses)</b>									
Net investment income	967,852	7,445	94	4,546	-	22,160	-	-	1,002,097
Interest expense	(6,657,813)	-	-	-	-	(58,715)	-	-	(6,716,528)
Other	7,983,051	1,878,279	-	-	106,611	1,988	-	30,216	10,000,145
<b>Total nonoperating revenues (expenses)</b>	<b>2,293,090</b>	<b>1,885,724</b>	<b>94</b>	<b>4,546</b>	<b>106,611</b>	<b>(34,567)</b>	<b>-</b>	<b>30,216</b>	<b>4,285,714</b>
<b>Increase (Decrease) in Net Position</b>	<b>17,772,080</b>	<b>1,885,826</b>	<b>(22,354)</b>	<b>(34,782)</b>	<b>79,828</b>	<b>(504,382)</b>	<b>339,971</b>	<b>-</b>	<b>19,516,187</b>
<b>Net Position, Beginning of Year</b>	<b>430,347,154</b>	<b>(2,335,905)</b>	<b>261,798</b>	<b>(2,828,754)</b>	<b>779,876</b>	<b>12,770,968</b>	<b>2,396,630</b>	<b>-</b>	<b>441,391,767</b>
<b>Net Position, End of Year</b>	<b>\$ 448,119,234</b>	<b>\$ (450,079)</b>	<b>\$ 239,444</b>	<b>\$ (2,863,536)</b>	<b>\$ 859,704</b>	<b>\$ 12,266,586</b>	<b>\$ 2,736,601</b>	<b>\$ -</b>	<b>\$ 460,907,954</b>

# Forrest County General Hospital

## (A Component Unit of Forrest County, Mississippi)

### Notes to Financial Statements

September 30, 2018 and 2017

	September 30, 2017 (Restated - Note 18)								
	Forrest County General Hospital	South Mississippi Health Services, Inc.	Forrest General Health Services, Inc.	Clean Earth, Inc.	Forrest General Managed Care Services, Inc.	AAA Ambulance Service, Inc.	Forrest General Healthcare Foundation, Inc.	Eliminations	Total
<b>Operating Revenues</b>									
Net patient service revenue	\$ 519,039,079	\$ -	\$ -	\$ -	\$ -	\$ 15,389,996	\$ -	\$ (613,740)	\$ 533,815,335
Other	14,986,030	554,458	-	1,226,691	-	1,880,040	1,231,944	(3,509,432)	16,369,731
Total operating revenues	<u>534,025,109</u>	<u>554,458</u>	<u>-</u>	<u>1,226,691</u>	<u>-</u>	<u>17,270,036</u>	<u>1,231,944</u>	<u>(4,123,172)</u>	<u>550,185,066</u>
<b>Operating Expenses</b>									
Other operating expenses	476,887,811	114,269	3,623	1,221,919	38,677	15,728,528	885,812	(4,123,172)	490,757,467
Depreciation and amortization	33,289,188	234,217	16,303	116,338	-	768,267	1,450	-	34,425,763
Total operating expenses	<u>510,176,999</u>	<u>348,486</u>	<u>19,926</u>	<u>1,338,257</u>	<u>38,677</u>	<u>16,496,795</u>	<u>887,262</u>	<u>(4,123,172)</u>	<u>525,183,230</u>
<b>Operating Income (Loss)</b>	<u>23,848,110</u>	<u>205,972</u>	<u>(19,926)</u>	<u>(111,566)</u>	<u>(38,677)</u>	<u>773,241</u>	<u>344,682</u>	<u>-</u>	<u>25,001,836</u>
<b>Nonoperating Revenues (Expenses)</b>									
Net investment income	530,894	-	-	-	-	17,712	1,039	-	549,645
Interest expense	(7,492,290)	-	-	-	-	(42,320)	-	-	(7,534,610)
Other	(327,038)	(258,716)	-	-	127,280	60,467	-	-	(398,007)
Total nonoperating revenues (expenses)	<u>(7,288,434)</u>	<u>(258,716)</u>	<u>-</u>	<u>-</u>	<u>127,280</u>	<u>35,859</u>	<u>1,039</u>	<u>-</u>	<u>(7,382,972)</u>
<b>Increase (Decrease) in Net Position</b>	<u>16,559,676</u>	<u>(52,744)</u>	<u>(19,926)</u>	<u>(111,566)</u>	<u>88,603</u>	<u>809,100</u>	<u>345,721</u>	<u>-</u>	<u>17,618,864</u>
<b>Net Position, Beginning of Year, as Previously Reported</b>	417,114,439	(2,283,161)	281,724	(2,717,188)	691,273	11,961,868	2,050,909	-	427,099,864
<b>Cumulative Effect of Change in Accounting Principle</b>	<u>(3,326,961)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,326,961)</u>
<b>Net Position, Beginning of Year, as Restated</b>	<u>413,787,478</u>	<u>(2,283,161)</u>	<u>281,724</u>	<u>(2,717,188)</u>	<u>691,273</u>	<u>11,961,868</u>	<u>2,050,909</u>	<u>-</u>	<u>423,772,903</u>
<b>Net Position, End of Year</b>	<u>\$ 430,347,154</u>	<u>\$ (2,335,905)</u>	<u>\$ 261,798</u>	<u>\$ (2,828,754)</u>	<u>\$ 779,876</u>	<u>\$ 12,770,968</u>	<u>\$ 2,396,630</u>	<u>\$ -</u>	<u>\$ 441,391,767</u>

# Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)

## Notes to Financial Statements September 30, 2018 and 2017

The following tables include condensed combining statements of cash flows information for the Hospital and its blended component units for the years ended September 30, 2018 and 2017.

	<b>September 30, 2018</b>								
	<b>Forrest County General Hospital</b>	<b>South Mississippi Health Services, Inc.</b>	<b>Forrest General Health Services, Inc.</b>	<b>Clean Earth, Inc.</b>	<b>Forrest General Managed Care Services, Inc.</b>	<b>AAA Ambulance Service, Inc.</b>	<b>Forrest General Healthcare Foundation, Inc.</b>	<b>Eliminations</b>	<b>Total</b>
<b>Net Cash Provided by (Used in) Operating Activities</b>	\$ 41,933,059	\$ (2,061,309)	\$ (113)	\$ 139,397	\$ (106,611)	\$ 166,978	\$ 343,262	\$ -	\$ 40,414,663
<b>Net Cash Used in Noncapital Financing Activities</b>	(624,290)	-	-	-	-	-	(7,350)	-	(631,640)
<b>Net Cash Provided by (Used in) Capital and Related Financing Activities</b>	(45,718,065)	3,221,871	-	(57,608)	-	(1,119,412)	-	-	(43,673,214)
<b>Net Cash Provided by (Used in) Investing Activities</b>	<u>1,666,129</u>	<u>7,445</u>	<u>94</u>	<u>4,546</u>	<u>106,611</u>	<u>(14,712)</u>	<u>-</u>	<u>-</u>	<u>1,770,113</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(2,743,167)	1,168,007	(19)	86,335	-	(967,146)	335,912	-	(2,120,078)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>128,535,945</u>	<u>317,203</u>	<u>14,440</u>	<u>530,303</u>	<u>-</u>	<u>5,109,212</u>	<u>2,340,171</u>	<u>-</u>	<u>136,847,274</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 125,792,778</u></u>	<u><u>\$ 1,485,210</u></u>	<u><u>\$ 14,421</u></u>	<u><u>\$ 616,638</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,142,066</u></u>	<u><u>\$ 2,676,083</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 134,727,196</u></u>

# Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)

## Notes to Financial Statements September 30, 2018 and 2017

September 30, 2017 (Restated - Note 18)

	Forrest County General Hospital	South Mississippi Health Services, Inc.	Forrest General Health Services, Inc.	Clean Earth, Inc.	Forrest General Managed Care Services, Inc.	AAA Ambulance Service, Inc.	Forrest General Healthcare Foundation, Inc.	Eliminations	Total
Net Cash Provided by (Used in) Operating Activities	\$ 26,559,329	\$ 360,067	\$ (52)	\$ 315,860	\$ (127,280)	\$ 1,688,539	\$ 346,132	\$ -	\$ 29,142,595
Net Cash Provided by (Used in) Noncapital Financing Activities	(283,753)	-	-	-	-	-	45,976	-	(237,777)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(32,516,657)	(12,916)	(1)	(190,095)	-	(1,548,362)	11,873	-	(34,256,158)
Net Cash Provided by (Used in) Investing Activities	<u>(2,307,053)</u>	<u>(258,716)</u>	<u>-</u>	<u>-</u>	<u>127,280</u>	<u>34,291</u>	<u>1,039</u>	<u>-</u>	<u>(2,403,159)</u>
Increase (Decrease) in Cash and Cash Equivalents	(8,548,134)	88,435	(53)	125,765	-	174,468	405,020	-	(7,754,499)
Cash and Cash Equivalents, Beginning of Year	<u>137,084,079</u>	<u>228,768</u>	<u>14,493</u>	<u>404,538</u>	<u>-</u>	<u>4,934,744</u>	<u>1,935,151</u>	<u>-</u>	<u>144,601,773</u>
Cash and Cash Equivalents, End of Year	<u>\$ 128,535,945</u>	<u>\$ 317,203</u>	<u>\$ 14,440</u>	<u>\$ 530,303</u>	<u>\$ -</u>	<u>\$ 5,109,212</u>	<u>\$ 2,340,171</u>	<u>\$ -</u>	<u>\$ 136,847,274</u>

## **Required Supplementary Information**

**Forrest County General Hospital**  
**(A Component Unit of Forrest County, Mississippi)**  
**Schedule of Changes in the Hospital's Net Pension Liability and Related Ratios**  
**Years Ended September 30,**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Total Pension Liability</b>					
Service cost	\$ 3,091,562	\$ 3,302,712	\$ 3,530,410	\$ 3,740,713	\$ 3,832,463
Interest	14,823,878	14,098,001	13,267,635	12,440,681	11,696,789
Differences between expected and actual experience	(587,916)	(165,919)	1,186,135	1,333,643	(187,704)
Benefit payments	<u>(7,624,734)</u>	<u>(6,398,362)</u>	<u>(6,207,933)</u>	<u>(5,589,011)</u>	<u>(4,389,427)</u>
Net change in total pension liability	9,702,790	10,836,432	11,776,247	11,926,026	10,952,121
Total pension liability - beginning	<u>205,188,094</u>	<u>194,351,662</u>	<u>182,575,415</u>	<u>170,649,389</u>	<u>159,697,268</u>
Total pension liability - ending (a)	<u>\$ 214,890,884</u>	<u>\$ 205,188,094</u>	<u>\$ 194,351,662</u>	<u>\$ 182,575,415</u>	<u>\$ 170,649,389</u>
<b>Plan Fiduciary Net Position</b>					
Contributions	\$ 10,063,476	\$ 30,063,476	\$ 10,063,476	\$ 9,782,490	\$ 10,496,076
Net investment income	14,722,571	18,424,809	(2,210,133)	5,766,222	14,838,259
Benefit payments	(7,624,734)	(6,398,362)	(6,207,933)	(5,589,011)	(4,389,427)
Administrative expense	<u>(352,565)</u>	<u>(317,168)</u>	<u>(295,012)</u>	<u>(338,826)</u>	<u>(397,436)</u>
Net change in plan fiduciary net position	16,808,748	41,772,755	1,350,398	9,620,875	20,547,472
Plan fiduciary net position - beginning	<u>177,876,170</u>	<u>136,103,415</u>	<u>134,753,017</u>	<u>125,132,142</u>	<u>104,584,670</u>
Plan fiduciary net position - ending (b)	<u>\$ 194,684,918</u>	<u>\$ 177,876,170</u>	<u>\$ 136,103,415</u>	<u>\$ 134,753,017</u>	<u>\$ 125,132,142</u>
Net pension liability - ending (a) - (b)	\$ 20,205,966	\$ 27,311,924	\$ 58,248,247	\$ 47,822,398	\$ 45,517,247
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	91%	87%	70%	74%	73%
<b>Covered Employee Payroll</b>	\$ 72,436,009	\$ 76,926,859	\$ 80,727,008	\$ 84,626,337	\$ 86,263,018
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	28%	36%	72%	57%	53%

Note to Schedule:

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

**Forrest County General Hospital**  
**(A Component Unit of Forrest County, Mississippi)**

**Schedule of the Hospital's Pension Contributions**  
**Years Ended September 30,**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 6,237,738	\$ 7,986,740	\$ 8,551,127	\$ 8,845,316	\$ 10,106,942
Contributions in relation to the actuarially determined contribution	<u>10,063,476</u>	<u>30,063,476</u>	<u>10,063,476</u>	<u>9,782,490</u>	<u>10,496,076</u>
Contribution excess	<u>\$ (3,825,738)</u>	<u>\$ (22,076,736)</u>	<u>\$ (1,512,349)</u>	<u>\$ (937,174)</u>	<u>\$ (389,134)</u>
Covered employee payroll	\$ 72,436,009	\$ 76,926,859	\$ 80,727,008	\$ 84,626,337	\$ 86,263,018
Contributions as a percentage of covered employee payroll	14%	39%	12%	12%	12%

Methods and assumptions used to determine contribution rates:

Actuarial cost method: Entry age normal method (level percentage of pay)  
Amortization method: Level dollar amount, closed method  
Remaining amortization period: 16 years  
Asset valuation method: Fair market value  
Inflation: 2.5%  
Salary increases: 2.0% - 4.5%, based on age, including inflation  
Investment rate of return: 7.25%, net of pension plan investment expense, including inflation  
Retirement age: 65  
Mortality: RP-2000 Combined Healthy Mortality Table projected using scale AA  
Other information: Plan is frozen to new participants effective July 1, 2011

Note to Schedule

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

**Forrest County General Hospital**  
**(A Component Unit of Forrest County, Mississippi)**  
**Schedule of Changes in the Hospital's Net OPEB Liability and Related Ratios**  
**Years Ended September 30,**

	<u>2018</u>	<u>2017</u>
<b>Total OPEB Liability</b>		
Service cost	\$ 410,388	\$ 390,846
Interest	519,745	497,299
Benefit payments	<u>(574,046)</u>	<u>(592,057)</u>
Net change in total OPEB liability	356,087	296,088
Total OPEB liability - beginning	<u>8,880,372</u>	<u>8,584,284</u>
Total OPEB liability - ending (a)	<u><u>\$ 9,236,459</u></u>	<u><u>\$ 8,880,372</u></u>
 <b>Plan Fiduciary Net Position</b>		
Contributions	\$ 1,493,458	\$ 1,595,051
Net investment income	269,922	240,612
Refunds of contributions	<u>(574,046)</u>	<u>(592,057)</u>
Net change in plan fiduciary net position	1,189,334	1,243,606
Plan fiduciary net position - beginning	<u>2,220,567</u>	<u>976,961</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 3,409,901</u></u>	<u><u>\$ 2,220,567</u></u>
Net OPEB liability - ending (a) - (b)	<u><u>\$ 5,826,558</u></u>	<u><u>\$ 6,659,805</u></u>
 <b>Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability</b>	37%	25%
<b>Covered Payroll</b>	\$ 146,557,573	\$ 142,288,906
<b>Net OPEB Liability as a Percentage of Covered Payroll</b>	4%	5%

This schedule is presented as of the measurement date for the fiscal year (e.g. September 30, 2017 measurement date information for September 30, 2018 fiscal year).

**Forrest County General Hospital**  
**(A Component Unit of Forrest County, Mississippi)**  
**Schedule of the Hospital's OPEB Contributions**  
**Years Ended September 30,**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarially determined contribution	\$ 937,045	\$ 1,007,606	\$ 1,066,717
Contributions in relation to the actuarially determined contribution	<u>711,140</u>	<u>1,493,458</u>	<u>1,595,051</u>
Contribution (excess) deficiency	<u>\$ 225,905</u>	<u>\$ (485,852)</u>	<u>\$ (528,334)</u>
Covered employee payroll	\$ 150,954,300	\$ 146,557,573	\$ 142,288,906
Contributions as a percentage of covered payroll	1%	1%	1%

Methods and assumptions used to determine contribution rates:

Actuarial cost method: Entry age normal method (level percentage of pay)  
Amortization method: Level percentage of pay, closed method  
Remaining amortization period: 30 years  
Asset valuation method: Fair market value  
Inflation: 2.5%  
Health care cost trend rates: 8.0% to grade uniformly to 5.0% over a 12-year period  
Salary increases: 3.0%  
Investment rate of return: 6.0%, net of investment expense, including inflation  
Retirement age: 65  
Mortality: IRS Static Mortality Tables For Year of Valuation (Separate Male/Female Tables)

This schedule is presented on a fiscal year-end basis.

## **Other Information**

**Forrest County General Hospital**  
**(A Component Unit of Forrest County, Mississippi)**  
**Surety Bonds for Officials and Employees**  
**September 30, 2018**

<b>Name</b>	<b>Position</b>	<b>Company</b>	<b>Amount of Bond</b>
Richard W. Preusch	Board Chairman	Travelers Casualty & Surety	\$ 100,000
John M. Keene	Board Vice Chairman	Travelers Casualty & Surety	100,000
Eric Steele	Board Secretary	Travelers Casualty & Surety	100,000
James L. Cartlidge	Board Member	Travelers Casualty & Surety	100,000
Dr. Marcus L. Hogan	Board Member	Travelers Casualty & Surety	100,000
Amy Arrington	Board Member	Travelers Casualty & Surety	100,000
Dr. Kate N. Aseme Winborne	Board Member	Travelers Casualty & Surety	100,000
Employee Blanket Bond	All Others	Travelers Casualty & Surety	100,000