Delta Regional Medical Center
A Component Unit of Washington County, Mississippi

Independent Auditor's Report and Financial Statements

September 30, 2018 and 2017

BKD

CPAs & Advisors

Delta Regional Medical Center
A Component Unit of Washington County, Mississippi
September 30, 2018 and 2017

Contents

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Independent Auditor's Report

Board of Trustees
Delta Regional Medical Center
Greenville, Mississippi

Report on Financial Statements

We have audited the accompanying financial statements of Delta Regional Medical Center (the Medical Center), a component unit of Washington County, Mississippi, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Prior Year Audited by Other Auditors

The 2017 financial statements were audited by other auditors, and their report thereon, dated January 23, 2018, expressed an unmodified opinion.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Medical Center's basic financial statements. The Schedule of Surety Bonds for Officers and Employees is presented for 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 audit of the basic financial statements, and accordingly, we do not express an opinion on it or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated January 31, 2019, on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Medical Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.

BKD, LLP

Jackson, Mississippi
January 31, 2019

Delta Regional Medical Center
A Component Unit of Washington County, Mississippi
Management's Discussion and Analysis
September 30, 2018 and 2017

Introduction

This management's discussion and analysis of the financial performance of Delta Regional Medical Center (the Medical Center) provides an overview of the Medical Center's financial activities for the years ended September 30, 2018 and 2017. It should be read in conjunction with the accompanying financial statements of the Medical Center.

Financial Highlights

- Cash and investments decreased in 2018 and 2017 by approximately $13,301,000 and $12,512,000, or 28.3% and 21.0%, respectively.
- The Medical Center's net position decreased in 2018 by approximately $18,767,000, or 29.3% and increased in 2017 by approximately $1,215,000, or 1.9%.
- The Medical Center's net patient service revenue decreased by approximately $21,275,000 and $6,013,000, or 18.2% and 4.9%, for 2018 and 2017, respectively.
- The Medical Center reported an operating loss in 2018 of approximately $17,863,000 and operating income in 2017 of approximately $1,777,000.

Using This Annual Report

The Medical Center's financial statements consist of three statements—a statement of net position; 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 Medical Center, including resources held by the Medical Center but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Medical Center 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 Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any Medical Center's finances is "Is the Medical Center as a whole better or worse off as a result of the year's activities?" The statement of net position and the statement of revenues, expenses and changes in net position report information about the Medical Center's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities 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 Medical Center's net position and changes in them. The Medical Center's total net position—the difference between assets and liabilities—is one measure of the Medical Center's financial health or financial position. Over time, increases or decreases in the Medical Center's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Medical Center's patient base, changes in legislation and 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 Medical Center.

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 Medical Center's Net Position

The Medical Center's net position is the difference between its assets and liabilities reported in the statements of net position. The Medical Center's net position decreased by ($18,767,058) (29.3%) from 2017 to 2018, and increased by $1,215,118 (1.9%) from 2016 over 2017, as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2018	2017	2016
Assets			
Cash and investments	$ 33,654,236	$ 46,955,262	$ 59,467,328
Patient accounts receivable, net	12,889,692	18,112,733	17,718,110
Capital assets, net	41,694,980	45,539,720	38,471,749
Other assets	6,651,212	5,709,713	4,063,804
Total assets	94,890,120	116,317,428	119,720,991
Deferred Outflows of Resources	692,559	1,451,919	826,423
Total assets and deferred outflows of resources	$ 95,582,679	$ 117,769,347	$ 120,547,414

	2018	2017	2016
Liabilities			
Long-term debt, excluding current maturities	$ 27,300,025	$ 28,569,235	$ 29,773,412
Net pension liability	9,131,126	9,867,350	8,788,285
Other current and noncurrent liabilities	13,568,028	15,336,942	19,092,638
Total liabilities	49,999,179	53,773,527	57,654,335
Deferred Inflows of Resources	356,705	1,967	114,344
Net Position			
Invested in capital assets	15,904,908	18,543,138	7,648,507
Restricted expendable	5,539,023	4,844,651	8,899,946
Unrestricted	23,782,864	40,606,064	46,230,282
Total net position	45,226,795	63,993,853	62,778,735
Total liabilities, deferred inflows of resources and net position	$ 95,582,679	$ 117,769,347	$ 120,547,414

Fiscal Year Ended September 30, 2018

Cash and investments decreased by approximately $13,301,000, or 28.3% from 2017 to 2018. The decrease in cash and investments was due to slow down of cash collections from the system conversion in September 2017. Net patient accounts receivable decreased by approximately $5,223,000, or 28.8% from 2017 to 2018, due to difficulties in collections from the system conversion, as well as limited collections from uninsured and indigent patients during the year.

Fiscal Year Ended September 30, 2017

Cash and investments decreased by approximately $12,512,000 or 21.0% from 2016 to 2017. The most significant change in the Medical Center's financial position in 2017 was the increase in capital assets for implementation of a new fully integrated electronic health records (EHR) system in September 2017, as discussed in the Capital Assets section.

Operating Results and Changes in the Medical Center's Net Position

In 2018, the Medical Center's net position decreased by $18,767,058, or 29.3%, as shown in Table 2. This decrease is made up of several different components and represents a decline of $19,982,176 compared with the net position for 2017 of $1,215,118. The Medical Center's change in net position decreased from $4,232,560 in 2016 to $1,215,118 in 2017, a decrease of $3,017,442.

Table 2: Operating Results and Changes in Net Assets

	2018	2017	2016
Operating Revenues			
Net patient service revenue	$ 95,715,027	$ 116,990,281	$ 123,003,348
Other operating revenue	2,268,373	1,937,198	2,545,951
Total operating revenues	97,983,400	118,927,479	125,549,299
Operating Expenses			
Salaries and wages and employee benefits	59,897,938	61,244,812	62,845,881
Purchased services and professional fees	16,053,282	14,133,625	17,471,540
Depreciation	8,520,935	7,003,959	6,439,583
Other operating expenses	31,373,778	34,768,101	33,959,175
Total operating expenses	115,845,933	117,150,497	120,716,179
Operating Income (Loss)	(17,862,533)	1,776,982	4,833,120
Nonoperating Revenues (Expenses)			
Noncapital grants and contributions	275,000	376,982	295,997
Investment income	190,415	424,216	620,117
Interest expense	(1,369,940)	(1,363,062)	(1,516,674)
Total nonoperating revenues (expenses)	(904,525)	(561,864)	(600,560)
Increase (Decrease) in Net Position	$ (18,767,058)	$ 1,215,118	$ 4,232,560

Operating Income or Loss

The first component of the overall change in the Medical Center's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2018, the Medical Center had an operating loss of $17,862,533 compared to operating income of $1,776,982 in 2017. The primary components of the change in operating performance are:

The operating loss for 2018 increased by $19,639,515, as compared to 2017. The primary components of the increased operating loss are:

- A decrease in net patient service revenue of approximately $21,275,000, or 18.2%, attributed to:
    - Decreases in observation days and emergency room visits of 14.5% and 21.2%, respectively.
    - The provision for uncollectible accounts increased by $3,027,000 or, 11.7%, due to an increase in uncollectible patient accounts from the conversion to a new EHR system in September 2017.
    - Decreases in funding from the Mississippi Hospital Access Program (MHAP) of approximately $4,417,000 and decreased state provider tax of approximately $2,558,000 from 2017 and 2018.
- An increase in purchased services and professional fees for the Medical Center of approximately $1,920,000, or 13.6%.
- An increase in depreciation expense of approximately $1,517,000, or 21.7%, due to a full year of additional depreciation from new EHR system implementation.

The operating income for 2017 decreased by $3,056,138, as compared to 2016. The primary components of the decreased operating income are:

- A decrease in net patient service revenue of approximately $6,013,000, or 4.9%. The decrease was offset by increased funding from the MHAP of approximately $4,041,000 and increased state provider tax of approximately $2,449,000 from 2016 to 2017.
- A decrease in purchased services and professional fees for the Medical Center of approximately $3,338,000, or 19.1%.
- An increase in depreciation expense and other operating expenses of approximately $564,000, or 8.8%, and $809,000 or 2.4%, respectively, from 2016 to 2017.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of noncapital grants and contributions, investment income and interest expense, of which noncapital grants and gifts and interest expense have remained relatively constant from 2016 to 2018. The Medical Center has recognized decreases in its investment income from 2016 to 2018, resulting primarily from decreased cash and investments over this period and changes in fair values.

The Medical Center's Cash Flows

Cash provided by (used in) operating activities was approximately ($6,126,000), $4,808,000, and $11,483,000 for 2018, 2017 and 2016, respectively. The primary reason for decreases in cash provided by (used in) operating activities relates to the decline in cash receipts from and on behalf of patients of $13,180,000 from 2017 to 2018 and $10,225,000 from 2016 to 2017. In addition, cash used in capital and related financing activities decreased by approximately $9,416,000 between 2017 and 2018, primarily due to decreased capital expenditures. Cash used in capital and related financing activities between 2016 and 2017 increased approximately $8,716,000, primarily related to the capital expenditures for EHR system implementation during 2017.

Capital Asset and Debt Administration

Capital Assets

At the end of 2018, the Medical Center had $41,694,980 invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In 2015, the Medical Center began evaluating a new EHR system due to the current costs of their existing system. At the end of 2017, the Medical Center completed its implementation of a new fully integrated new EHR system costing approximately $14,000,000. The Medical Center evaluated its previous system and estimated information technology savings of approximately $4,000,000 over the next ten years.

Debt

At September 30, 2018, the Medical Center had $28,465,072 in bonds and capital lease obligations outstanding, including current maturities. The Medical Center had no new debt in 2018. The Medical Center's formal debt issuances and bonds are subject to limitations imposed by state law and the Housing and Urban Development due to existing outstanding debt.

Other Economic Factors

Many economic and environmental factors are considered by the Board of Trustees and management. Of primary importance is the status of the local economy and the overall health care environment, which takes into account market forces and environmental factors such as:

- Medicare and Medicaid reimbursement changes, including continuation or adjustment of disproportionate share programs, such as MHAP.
- Declining population growth in our service area and increasing uninsured and indigent.
- Ability to recruit and retain qualified medical staff, physicians, nurses and other skilled clinical positions and related pressures on salaries and benefits.

- Increasing costs of supplies and pharmaceuticals.

- Stability of the existing local and regional industry and the ability of the community to attract new industry.

Contacting the Medical Center's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Medical Center's finances and to show the Medical Center's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Medical Center Business Administration at 662.378.3783 or at 1400 East Union Street, Greenville, MS 38073.

Delta Regional Medical Center
A Component Unit of Washington County, Mississippi
Statements of Net Position
September 30, 2018 and 2017

	2018	2017
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	$ 10,939,727	$ 24,908,856
Internally designated - current	614,355	499,189
Patient accounts receivable, net of allowance; 2018 - $20,642,000, 2017 - $14,604,000	12,889,692	18,112,733
Supplies	2,165,757	1,941,671
Prepaid expenses	514,469	852,124
Other current assets	1,123,979	423,173
Total current assets	28,247,979	46,737,746
Noncurrent Cash and Investments		
Restricted for debt service	8,437,307	7,752,761
Internally designated capital improvements	12,204,102	12,385,243
Internally designated for self-insurance	1,458,745	1,409,213
Total noncurrent cash and investments	22,100,154	21,547,217
Capital Assets, Net	41,694,980	45,539,720
Other Assets	2,847,007	2,492,745
Deferred Outflows of Resources	692,559	1,451,919
Total assets and deferred outflows of resources	$ 95,582,679	$ 117,769,347

	2018	2017
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Current maturities of long-term debt	$ 1,165,047	$ 1,102,347
Accounts payable, trade and other	2,814,357	2,824,121
Estimated amounts due to third-party payors	1,125,230	1,630,869
Accrued salaries and wages	3,527,969	3,589,051
Accrued self-insurance - current	614,355	499,189
Other accrued expenses	2,562,652	4,318,508
Total current liabilities	11,809,610	13,964,085
Net Pension Liability	9,131,126	9,867,350
Accrued Self-Insurance	1,758,418	1,372,857
Long-term Debt, Net of Current Maturities	27,300,025	28,569,235
Total liabilities	49,999,179	53,773,527
Deferred Inflows of Resources	356,705	1,967
Net Position		
Net investment in capital assets	15,904,908	18,543,138
Restricted - expendable for debt service	5,539,023	4,844,651
Unrestricted	23,782,864	40,606,064
Total net position	45,226,795	63,993,853
Total liabilities, deferred inflows of resources and net position	$ 95,582,679	$ 117,769,347

Delta Regional Medical Center
A Component Unit of Washington County, Mississippi
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2018 and 2017

	2018	2017
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2018 - $28,770,000, 2017 - $25,743,000	$ 95,715,027	$ 116,990,281
Other operating revenue	2,268,373	1,937,198
Total operating revenues	97,983,400	118,927,479
Operating Expenses		
Salaries and wages	49,022,986	49,870,840
Employee benefits	10,874,952	11,373,972
Purchased services and professional fees	16,053,282	14,133,625
Supplies and other	25,844,025	26,680,288
State provider tax	5,529,753	8,087,813
Depreciation	8,520,935	7,003,959
Total operating expenses	115,845,933	117,150,497
Operating Income (Loss)	(17,862,533)	1,776,982
Nonoperating Revenues (Expenses)		
Noncapital grants and contributions	275,000	376,982
Investment income	190,415	424,216
Interest expense	(1,369,940)	(1,363,062)
Total nonoperating revenues (expenses)	(904,525)	(561,864)
Increase (Decrease) in Net Position	(18,767,058)	1,215,118
Net Position, Beginning of Year	63,993,853	62,778,735
Net Position, End of Year	$ 45,226,795	$ 63,993,853

Delta Regional Medical Center
A Component Unit of Washington County, Mississippi
Statements of Cash Flows
Years Ended September 30, 2018 and 2017

	2018	2017
Operating Activities		
Receipts from and on behalf of patients	$ 100,432,429	$ 113,611,199
Payments to suppliers and others	(48,545,095)	(49,417,713)
Payments to or on behalf of employees	(59,581,146)	(61,323,029)
Other operating receipts	1,567,566	1,937,198
Net cash provided by (used in) operating activities	(6,126,246)	4,807,655
Noncapital Financing Activities		
Noncapital grants and gifts	275,000	376,982
Net cash provided by noncapital financing activities	275,000	376,982
Capital and Related Financing Activities		
Interest payments on capital debt and leases	(1,471,108)	(1,533,777)
Principal payments on long-term debt	(1,105,342)	(1,046,835)
Purchase of capital assets	(4,660,416)	(14,071,930)
Net cash used in capital and related financing activities	(7,236,866)	(16,652,542)
Investing Activities		
Purchases of investments, net	2,433,278	(479,792)
Purchase of interest in provider-sponsored health plan	-	(1,750,000)
Premiums paid to capital account for worker's compensation subscription	(403,329)	-
Investment income	375,607	462,812
Net cash provided by (used in) investing activities	2,405,556	(1,766,980)
Decrease in Cash and Cash Equivalents	(10,682,556)	(13,234,885)
Cash and Cash Equivalents, Beginning of Year	26,817,258	40,052,143
Cash and Cash Equivalents, End of Year	$ 16,134,702	$ 26,817,258

Delta Regional Medical Center
A Component Unit of Washington County, Mississippi
Statements of Cash Flows (Continued)
Years Ended September 30, 2018 and 2017

	2018	2017
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Cash and cash equivalents	$ 10,939,727	$ 24,908,856
Restricted cash - current	614,355	499,189
Noncurrent cash and investments	4,580,620	1,409,213
Total cash and cash equivalents	$ 16,134,702	$ 26,817,258
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	$ (17,862,533)	$ 1,776,982
Depreciation	8,520,935	7,003,959
Accrued self-insurance costs	500,727	(164,994)
Provision for uncollectible accounts	28,769,620	25,743,213
Changes in operating assets and liabilities		
Patient accounts receivable	(23,546,579)	(26,137,836)
Accounts payable and accrued expenses	(1,842,481)	(735,097)
Estimated amounts due to third-party payors	(505,639)	(2,984,459)
Net pension liability	(736,224)	341,192
Deferred inflows of resources	354,738	(112,377)
Deferred outflows of resources	759,360	(625,496)
Other assets and liabilities	(538,170)	702,568
Net cash provided by (used in) operating activities	$ (6,126,246)	$ 4,807,655
Noncash Capital and Financing Activities		
Capital assets acquisitions included in accounts payable	$ 15,779	$ -
Unrealized loss on investments	$ (202,116)	$ (38,596)

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

Nature of Operations and Reporting Entity

Delta Regional Medical Center (the Medical Center) is an acute care Medical Center located in Greenville, Mississippi. The Medical Center is a component unit of Washington County (the County) and the Board of County Commissioners appoints members to the Board of Trustees (the Board) of the Medical Center. The Medical Center primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Washington County area. It also operates physician, outpatient and rehabilitation facilities in the same geographic area.

Budgetary Information

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

Basis of Accounting and Presentation

The financial statements of the Medical Center 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 and county appropriations) 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 (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Medical Center 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, deferred outflows of resources and liabilities and deferred 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.

Cash Equivalents

The Medical Center considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2018 and 2017, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposits.

Risk Management

The Medical Center is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice, workers' compensation and employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Medical Center 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 medical malpractice, workers' compensation and employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

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.

Patient Accounts Receivable

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

Supplies

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The following estimated useful lives are being used by the Medical Center:

Land improvements	5 - 20 years
Buildings and leasehold improvements	5 - 40 years
Fixed equipment	5 - 25 years
Major moveable equipment	5 - 20 years

Deferred Outflows of Resources

The Medical Center reports increases in net position that relate to future reporting periods as deferred outflows of resources in a separate section of its statements of net position.

Compensated Absences

Medical Center policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned, whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs, and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statements of net position date, plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Defined Benefit Pension Plan

The Medical Center has a single-employer defined benefit pension plan, Delta Regional Medical Center Pension Plan (the Plan). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, 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 are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

The Medical Center reports decreases in net position that relate to future reporting periods as deferred inflows of resources in a separate section of its statements of net position.

Net Position

Net position of the Medical Center is classified in three components. Net investment in capital assets, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Medical Center, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted expendable.

Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Medical Center provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As an essential government function of the County, the Medical Center is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Medical Center is subject to federal income tax on any unrelated business taxable income.

Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 presentation. The reclassifications had no effect on the changes in financial position.

Note 2: Revisions

Revisions have been made to the 2017 financial statements to include the components of net position and allocation of employee health insurance contractual adjustments. These revisions did not have a significant impact on the financial statement line items impacted, nor impact net position for 2017.

	As Revised	As Previously Reported	Effect of Change
Statements of Net Position			
Net investment in capital assets	$ 18,543,138	$ 15,868,138	$ 2,675,000
Restricted expendable for:			
Debt service	4,844,651	7,471,138	(2,626,487)
Self-insurance	-	1,908,402	(1,908,402)
Unrestricted	40,606,064	38,746,175	1,859,889
Total net position	63,993,853	63,993,853	-
Statements of Revenues, Expenses and Changes in Net Position			
Net patient service revenue	116,990,281	118,051,249	(1,060,968)
Employee benefits	11,373,972	12,434,940	(1,060,968)
Statements of Cash Flows			
Receipts from and on behalf of patients	113,611,199	114,672,167	(1,060,968)
Payments to or on behalf of employees	(61,323,029)	(62,383,997)	(1,060,968)

Note 3: Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. These payment arrangements include:

Medicare - Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Medical Center is reimbursed for certain services at tentative rates, with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare administrative contractor.

Medicaid - Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge.

The Medical Center participates in the Mississippi Intergovernmental Transfer Program as a Medicaid Disproportionate Share Medical Center (DSH) and the Mississippi Hospital Access Payment (MHAP) program. Under these programs, the Medical Center receives enhanced reimbursement through a matching mechanism.

Effective in 2016, the Division of Medicaid (DOM) implemented the MHAP program. The MHAP program is administered by the DOM through the Mississippi CAN coordinated care organizations (CCO). The CCO's subcontract with the hospitals throughout the state for distribution of the MHAP program for the purpose of the protecting patient access to hospital care. The MHAP program began December 1, 2015, and the MHAP payments and associated tax are distributed and collected in equal monthly installments. For the fiscal years ended September 30, 2018 and 2017, the Medical Center received approximately $12,578,527 and $16,995,669, respectively, from the MHAP program. MHAP amounts are shown as a reduction of contractual adjustments with the related tax assessment of $5,529,753 and $8,087,813 recorded in operating expenses for the years ended September 30, 2018 and 2017, respectively.

Approximately 80% and 78% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2018 and 2017, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

Net patient service revenue increased by approximately $690,000 and $2,886,000, in 2018 and 2017, respectively, due to retroactive settlements of cost reports and other adjustments of estimated amounts due to third-party payor. As of September 30, 2018, cost reports for fiscal years 2013 and prior have been settled.

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

Note 4: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Medical Center's deposit policy for custodial credit risk requires compliance with the provisions of Mississippi state law. The collateral for public entities deposited in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the Medical Center's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). All deposits with financial institutions must be collateralized in an amount equal to 105 percent of uninsured deposits and are therefore fully insured. The collateralized and insured bank balance was $16,993,269 and $30,896,135 at September 30, 2018 and 2017, respectively.

Investments

The statues of the State of Mississippi restrict the authorized investments of the Medical Center to obligations of the U.S. Treasury, agencies and instrumentalities and certain other types of investments. The Medical Center's investment policy further limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

At September 30, 2018, the Medical Center had the following investments and maturities:

	September 30, 2018				
		Maturities in Years			
Type	**Fair Value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
Mortgage-backed securities	$ 3,531,078	$ -	$1,465,268	$2,065,810	$ -
U.S. Treasury securities	7,409,657	2,701,511	4,708,146	-	-
Municipal bonds	3,700,068	-	2,316,678	1,383,389	-
Money market mutual funds	778,774	778,774	-	-	-
		$3,480,285	$8,490,092	$3,449,199	$ -
Mississippi Hospital Association - Intermediate Duration Trust	2,378,731				
	$ 17,798,308				

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Medical Center's investment policy limits at least its investment portfolio to maturities not to exceed ten years. The weighted average maturity of the portfolio may not exceed five years. The money market mutual funds are presented as an investment with a maturity of less than one year because the average maturity of the funds is less than one year.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Medical Center's investment policy limits its investment in fixed income securities to maintain an overall credit rating of A or better by Moody's Investor Service and Standard & Poor's. No individual investments are to be held below investment grade (Baa/BBB). Investments include, within established guidelines and Mississippi state law, 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. At September 30, 2018, the Medical Center's average investments in municipal bonds were rated AA by Standard & Poor's. At those dates, the Medical Center's investments in money market mutual funds were rated AAAm by Standard & Poor's and Aaa-mf by Moody's Investor Service.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Medical Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk - In accordance with state statute, the Medical Center 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.

Summary of Carrying Values

The carrying values of deposits and investments are as follows:

	2018	2017
Deposits		
Cash	$ 15,355,928	$ 26,042,308
Certificate of deposit	500,000	1,993,390
	15,855,928	28,035,698
Investments		
Money market mutual funds	778,774	774,950
Mississippi Hospital Association - Intermediate Duration Trust	2,378,731	2,405,250
Debt securities	10,940,735	11,866,481
Municipal bonds	3,700,068	3,872,883
	17,798,308	18,919,564
Total	$ 33,654,236	$ 46,955,262

The carrying values of deposits and investments shown above included in the statements of net position are as follows:

	2018	2017
Cash and cash equivalents	$ 10,939,727	$ 24,908,856
Restricted cash - current	614,355	499,189
Noncurrent cash and investments	22,100,154	21,547,217
Total	$ 33,654,236	$ 46,955,262

Investment Income

Investment income for the years ended September 30 consisted of:

	2018	2017
Interest and dividend income	$ 375,607	$ 462,812
Realized gains on investments, net	16,924	-
Unrealized losses on investments	(202,116)	(38,596)
	$ 190,415	$ 424,216

Note 5: Patient Accounts Receivable

The Medical Center grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payor agreements. Patient accounts receivable at September 30 consisted of:

	2018	2017
Medicare	$ 5,423,322	$ 6,125,786
Medicaid	2,587,759	4,085,161
Other third-party payers	3,113,438	3,691,559
Patients	22,407,071	18,814,575
	33,531,590	32,717,081
Less allowance for uncollectible accounts	20,641,898	14,604,348
	$ 12,889,692	$ 18,112,733

During 2018, the Medical Center revised its methodology used to estimate net collections of patient accounts receivable. The change in estimate decreased the estimated collections of net patient receivables by approximately $2,250,000.

Note 6: Capital Assets

Capital assets activity for the years ended September 30 was:

	2018				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 4,677,347	$ -	$ -	$ -	$ 4,677,347
Land improvements	860,754	-	-	-	860,754
Building	42,858,778	-	-	70,939	42,929,717
Fixed equipment	12,077,437	-	-	-	12,077,437
Equipment	67,016,207	835,996	-	14,410,981	82,263,184
Construction in progress	12,706,754	3,840,199	-	(14,481,920)	2,065,033
	140,197,277	4,676,195	-	-	144,873,472
Less accumulated depreciation					
Land improvements	(740,709)	(22,345)	-	-	(763,054)
Building	(28,047,595)	(1,566,598)	-	-	(29,614,193)
Fixed equipment	(11,118,332)	(65,660)	-	-	(11,183,992)
Equipment	(54,750,921)	(6,866,332)	-	-	(61,617,253)
	(94,657,557)	(8,520,935)	-	-	(103,178,492)
Capital assets, net	$ 45,539,720	$ (3,844,740)	$ -	$ -	$ 41,694,980

	2017				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 4,677,332	$ 15	$ -	$ -	$ 4,677,347
Land improvements	860,754	-	-	-	860,754
Building	42,575,026	283,752	-	-	42,858,778
Fixed equipment	12,077,437	-	-	-	12,077,437
Equipment	64,735,178	2,281,029	-	-	67,016,207
Construction in progess	1,199,620	11,671,779	(164,645)	-	12,706,754
	126,125,347	14,236,575	(164,645)	-	140,197,277
Less accumulated depreciation:					
Land improvements	(716,924)	(23,785)	-	-	(740,709)
Building	(26,431,305)	(1,616,290)	-	-	(28,047,595)
Fixed equipment	(8,301,059)	(2,817,273)	-	-	(11,118,332)
Equipment	(52,204,310)	(2,546,611)	-	-	(54,750,921)
	(87,653,598)	(7,003,959)	-	-	(94,657,557)
Capital assets, net	$ 38,471,749	$ 7,232,616	$ (164,645)	$ -	$ 45,539,720

At September 30, 2018, construction in progress represents costs incurred in connection with various construction projects related to consolidating campuses. The costs for these projects will be funded through operations.

Note 7: Long-term Debt

The following is a summary of long-term obligation transactions for the Medical Center for the years ended September 30:

Description	Balance October 1, 2017	Additions	Payments	Amortization	Balance September 30, 2018	Due Within One Year
FHA-insured Mortgage Revenue Bonds, Series 2007	$ 27,680,000	$ -	$ 1,065,000	$ -	$ 26,615,000	$ 1,125,000
Sarulla property	969,708	-	40,342	-	929,366	40,047
Unamortized bond premium	1,021,874	-	-	101,168	920,706	-
	$ 29,671,582	$ -	$ 1,105,342	$ 101,168	$ 28,465,072	$ 1,165,047

Description	Balance October 1, 2016	Additions	Payments	Amortization	Balance September 30, 2017	Due Within One Year
FHA-insured Mortgage Revenue Bonds, Series 2007	$ 28,695,000	$ -	$ 1,015,000	$ -	$ 27,680,000	$ 1,065,000
Sarulla property	1,001,543	-	31,835	-	969,708	37,347
Unamortized bond premium	1,126,699	-	-	104,825	1,021,874	-
	$ 30,823,242	$ -	$ 1,046,835	$ 104,825	$ 29,671,582	$ 1,102,347

FHA-Insured Mortgage Revenue Bonds – Series 2007

The Series 2007 revenue bonds payable consist of Mississippi Medical Center Equipment and Facilities Authority, FHA-Insured Mortgage Revenue Bonds (Bonds) in the original amount of $35,725,000 dated February 2007, which bear interest at 4.7% to 6.25%. A portion of the Bond proceeds were used to refinance a $21,000,000 short-term, commercial bank loan and to make certain capital improvements to the Medical Center, including renovating, upgrading and equipping the Medical Center's existing facility. The Bonds are payable in annual installments through August 2033. The Bonds are secured by the net revenues and accounts receivable of the Medical Center and the assets restricted under the bond indenture agreement. Payments of bond principal are also secured by an insurance policy issued by a commercial insurer.

The mortgage agreement requires the Medical Center be in compliance with certain covenants. At September 30, 2018, the Medical Center was not in compliance with these covenants. In accordance with the mortgage agreement, management has developed and is executing a plan to improve operations and address noncompliance.

The debt service requirements as of September 30, 2018, were as follows:

Year Ending September 30	Total to be Paid	Principal	Interest
2019	$ 2,456,537	$ 1,125,000	$ 1,331,537
2020	2,454,538	1,180,000	1,274,538
2021	2,459,788	1,245,000	1,214,788
2022	2,456,594	1,305,000	1,151,594
2023	2,462,775	1,380,000	1,082,775
2024-2028	12,331,856	8,090,000	4,241,856
2029-2033	14,242,750	12,290,000	1,952,750
	$ 38,864,838	$ 26,615,000	$ 12,249,838

Capital Lease Obligations

The Medical Center is obligated under leases for buildings and equipment that are accounted for as capital leases. Assets under capital leases at both September 30, 2018 and 2017, totaled $1,145,500. Upon maturity of the capital lease obligation for leased land, the ownership of the land is transferred to the Medical Center.

The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 7% together with the present value of the future minimum lease payments as of September 30, 2018:

Year Ending September 30	
2019	$ 103,824
2020	105,554
2021	114,204
2022	114,204
2023	114,204
2024-2028	607,196
2029-2033	227,279
	1,386,465
Less amount representing interest	457,099
Present value of future minimum lease payments	$ 929,366

Note 8: Medical Malpractice Claims

The Medical Center is self-insured for the first $500,000 of professional and general liability insurance. The Mississippi Tort Claims Act (MCTA) provides a cap of $500,000 on the amount of damages recoverable against governmental entities, including governmental hospitals. Losses from asserted and unasserted claims identified under the Medical Center's incident reporting system are accrued based on estimates that incorporate the Medical Center's past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors. It is reasonably possible that the Medical Center's estimate of losses will change by a material amount in the near term.

Activity in the Medical Center's accrued medical malpractice claims liability during 2018 and 2017 is summarized as follows:

	2018	2017
Balance, beginning of year	$ 1,601,210	$ 1,553,413
Current year claims incurred and changes in estimates for claims incurred in prior years	972,895	265,818
Claims and expenses paid	(596,509)	(218,021)
Balance, end of year	$ 1,977,596	$ 1,601,210

Note 9: Employee Health Claims

Substantially all of the Medical Center's employees and their dependents are eligible to participate in the Medical Center's employee health insurance plan. The Medical Center is self-insured for health claims of participating employees and dependents up to an annual aggregate amount. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims, including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Medical Center's estimate will change by a material amount in the near term.

	2018	2017
Balance, beginning of year	$ 439,206	$ 473,965
Current year claims incurred and changes in estimates for claims incurred in prior years	2,661,787	3,548,505
Claims and expenses paid	(2,622,848)	(3,583,264)
Balance, end of year	$ 478,145	$ 439,206

Note 10: Workers' Compensation Coverage

The Medical Center is insured for the risk of loss related to workers' compensation for injuries to its employees. Premiums are based upon payroll and adjusted by an experience modification factor. The Medical Center is audited for workers' compensation assessments based upon a June 30 fiscal year. No additional assessments were made for the years ended September 30, 2018 or 2017.

Note 11: Charity Care

The costs of charity care provided under the Medical Center's charity care policy were approximately $385,000 and $956,000 for 2018 and 2017, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Note 12: Operating Leases

The Medical Center leases various equipment and facilities under operating leases expiring at various dates through 2021. Total rental expense for the years ended September 30, 2018 and 2017, for all operating leases was approximately $1,043,000 and $1,073,000, respectively.

Future minimum lease payments at September 30, 2018, were:

2019	$ 877,220
2020	877,220
2021	504,416
2022	504,416
2023	504,416
Thereafter	504,416
Future minimum lease payments	$ 3,772,104

Note 13: Pension Plans

Defined Benefit Pension Plan Description

The Medical Center contributes to the Delta Regional Medical Center Pension Plan (the Plan), a single-employer defined benefit pension plan covering substantially all employees. The Plan is administered by a board of trustees appointed by the Director of the Medical Center's Department of Human Resources. Benefit provisions are contained in the plan document and were established and can be amended by action of the Medical Center's Board of Trustees. The Plan does not issue a separate report that includes financial statements and required supplementary information for the Plan.

Benefits Provided

The Plan provides retirement and death benefits to plan members and their beneficiaries who are vested and retire at or after age 65 or those who retire at age 55 with at least five years of creditable service are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 1.10 percent of their average monthly earnings. Average compensation is the average of the employee's earnings for the highest 60 consecutive calendar months preceding retirement or termination, limited as required by Internal Revenue Code Section 401(a)(17). A member may elect a reduced retirement benefit at age 55 with at least five years of consecutive service. Benefits vest upon completion of five years of continuous service.

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

	2018	2017
Active employees	353	372
Inactive employees entitled to but not yet receiving benefits	469	480
Inactive employees or beneficiaries currently receiving benefits	276	260
	1,098	1,112

Contributions

The Medical Center's Board of Trustees has the authority to establish and amend the contribution requirements of the Medical Center and active employees. 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. The Medical Center is required to contribute amounts necessary to fund the Plan at an actuarially determined rate. The current actuarially required minimum rate is 3.5 percent of annual covered payroll. For the years ended September 30, 2018 and 2017, the Medical Center contributed \$995,969 and \$953,390, respectively, to the Plan.

Net Pension Liability

The Medical Center's net pension liability was measured as of June 30, 2018 and 2017, for the years ended September 30, 2018 and 2017, respectively, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of July 1, 2017 and 2016, respectively, rolled forward to June 30, 2018 and 2017, respectively.

The total pension liability in the July 1, 2017 and 2016, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	5.00%
Ad hoc cost-of-living adjustments	None
Investment rate of return	6.50%, net of interest expense

Mortality rates were based on the RP-2000 Mortality for Employee, Healthy Annuitants and Disabled Annuitants with generational projection per Scale AA.

The Medical Center has not had a formal actuarial experience study performed.

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.

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S. cash	4.71%	0.18%
U.S. core fixed income	47.21%	2.06%
U.S. large caps	37.13%	4.30%
Global equity	8.89%	4.95%
U.S. REITs	2.06%	5.04%
	100.00%	

Discount Rate

The discount rate used to measure the total pension liability was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that the Medical Center's contributions will be made at rates equal to 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.

Changes in the total pension liability, plan fiduciary net position and the net pension liability were:

	2018		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a) - (b)**
Balance, beginning of year	$ 28,126,880	$ 18,259,530	$ 9,867,350
Changes for the year			
Service cost	42,046	-	42,046
Interest	1,789,547	-	1,789,547
Differences between expected and actual experience	(572,890)	-	(572,890)
Benefit payments	(1,295,266)	(1,295,266)	-
Employer contributions	-	1,002,664	(1,002,664)
Net investment income	-	992,263	(992,263)
Net changes	(36,563)	699,661	(736,224)
Balance, end of year	$ 28,090,317	$ 18,959,191	$ 9,131,126

	2017		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, beginning of year	$ 25,668,962	$ 16,880,677	$ 8,788,285
Changes for the year			
Service cost	56,525	-	56,525
Interest	1,751,794	-	1,751,794
Differences between expected and actual experience	1,782,929	-	1,782,929
Benefit payments	(1,133,330)	(1,133,330)	-
Employer contributions	-	1,083,329	(1,083,329)
Net investment income	-	1,428,854	(1,428,854)
Net changes	2,457,918	1,378,853	1,079,065
Balance, end of year	$ 28,126,880	$ 18,259,530	$ 9,867,350

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The net pension liability of the Medical Center has been calculated using a discount rate of 6.50 percent. The following presents the net pension liability using a discount rate 1 percent higher and 1 percent lower than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Medical Center's net pension liability	$ 12,567,053	$ 9,131,126	$ 6,286,032

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 Medical Center recognized pension expense of $1,578,539 and $1,341,188, respectively. At September 30, 2018 and 2017, the Medical Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 513,941	$ (356,705)
Net difference between projected and acutal earnings on pension plan investments	178,618	-
Contributions made subsequent to measurement date	-	-
	$ 692,559	$ (356,705)

	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 136,817	$ (1,967)
Net difference between projected and actual earnings on pension plan investments	1,148,435	-
Contributions made subsequent to measurement date	166,667	-
	$ 1,451,919	$ (1,967)

At September 30, 2018, the Medical Center reported $0 as deferred outflows of resources related to the pension resulting from the Medical Center's contributions subsequent to the measurement date and prior to year-end that will be recognized as a reduction of the net pension liability at September 30, 2019.

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	$ 441,202
2020	(112,807)
2021	(29,592)
2022	37,051
2023	-
	$ 335,854

Pension Plan Assets

Following is a description of the valuation methodologies used for pension plan assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, plan assets 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 fair values of the Medical Center's pension plan assets at September 30, 2018, by asset class are as follows:

		Fair Value Measurements Using		
June 30, 2018	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Investments				
Mutual funds	$ 18,483,619	$ 18,483,619	$ -	$ -
Money market mutual funds	475,572	475,572	-	-
	$ 18,959,191	$ 18,959,191	$ -	$ -

		Fair Value Measurements Using		
June 30, 2017	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Investments				
Mutual funds	$ 17,901,470	$ 17,901,470	$ -	$ -
Money market mutual funds	358,060	358,060	-	-
	$ 18,259,530	$ 18,259,530	$ -	$ -

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Medical Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk - The Medical Center places no limit on the amount that may be invested in any one issuer.

Defined Contribution Pension Plan

The Medical Center contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Medical Center's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Director of the Medical Center's Department of Human Resources, appointed by Board of Trustees. The plan provides retirement, disability and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Medical Center's governing body. Contributions made by the Medical Center were $652,379 during 2018 and $810,500 during 2017.

Deferred Compensation Agreements

The Medical Center also provides deferred compensation agreements for certain employees. The funds are currently being held in various securities and managed by a third-party administrator. The plan is administered under Section 457(b) of the Internal Revenue Code. Upon termination or retirement, the participant may elect to withdraw their funds. As of September 30, 2018 and 2017, these assets and related liabilities are held in a separate trust.

Note 14: Commitments and Contingencies

Investigation

The Medical Center is the subject of an investigation regarding specific third-party payor program billing issues. Management believes the Medical Center's medical records fully support the codes used and billings submitted and intends to vigorously defend the Medical Center should any assertions to the contrary be made. No provision has been made in the financial statements for any adverse outcome that might ultimately result from this matter, as the amount of any such loss is not reasonably estimable. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Litigation

In the normal course of business, the Medical Center is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Medical Center's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Medical Center evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 15: 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

Recurring Measurements

The following table presents the fair value measurements of assets 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 at September 30, 2018 and 2017:

		Fair Value Measurements Using		
September 30, 2018	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Investments				
Money market mutual funds	$ 778,774	$ 778,774	$ -	$ -
Mississppi Hospital Association - Intermediate Duration Trust	2,378,731	-	2,378,731	-
Mortgage-backed securities	3,531,078	-	3,531,078	-
U.S. Treasury securities	7,409,657	-	7,409,657	-
Municipal bonds	3,700,068	-	3,700,068	-
	$ 17,798,308	$ 778,774	$ 17,019,534	$ -

		Fair Value Measurements Using		
September 30, 2017	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Investments				
Money market mutual funds	$ 774,950	$ 774,950	$ -	$ -
Mississppi Hospital Association - Intermediate Duration Trust	2,405,250	-	2,405,250	-
U.S. bond securities	11,866,481	-	11,866,481	-
Municipal bonds	3,872,883	-	3,872,883	-
	$ 18,919,564	$ 774,950	$ 18,144,614	$ -

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.

Note 16: Future Change in Accounting Principle

The Governmental Accounting Standards Board (GASB) recently issued its Statement No. 87 (GASB No. 87), *Leases*. The Statement 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 Medical Center expects to first apply GASB No. 87 during the year ending September 30, 2021. The impact of applying the Statement has not been determined.

GASB recently issued its Statement No. 84 (GASB No. 84), *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments, including pension and employee benefit trusts. The focus of the criteria generally is on (1) whether a government controls the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. GASB 84 is applicable during the year ending September 30, 2020. The impact of applying this Statement has not yet been determined.

Required Supplementary Information

Delta Regional Medical Center
A Component Unit of Washington County, Mississippi
Schedule of Changes in the Medical Center's Net Pension Liablity and Related Ratios
Years Ended September 30,

	2018	2017	2016	2015
Total Pension Liability				
Service cost	$ 42,046	$ 56,525	$ 441,695	$ 490,706
Interest	1,789,547	1,751,794	1,598,830	1,547,795
Differences between expected and actual experience	(572,890)	1,782,929	(194,015)	(95,165)
Benefit payments	(1,295,266)	(1,133,330)	(1,038,177)	(983,322)
Net change in total pension liability	(36,563)	2,457,918	808,333	960,014
Total pension liability - beginning	28,126,880	25,668,962	24,860,629	23,900,615
Total pension liability - ending	28,090,317	28,126,880	25,668,962	24,860,629
Plan Fiduciary Net Position				
Employer contributions	1,002,664	1,083,329	1,338,128	838,590
Net investment income	992,263	1,428,854	752,788	429,704
Benefit payments	(1,295,266)	(1,133,330)	(1,038,177)	(983,322)
Administrative expense	-	-	(27,241)	(28,627)
Net change in plan fiduciary net position	699,661	1,378,853	1,025,498	256,345
Plan fiduciary net position - beginning	18,259,530	16,880,677	15,855,179	15,598,834
Plan fiduciary net position - ending	18,959,191	18,259,530	16,880,677	15,855,179
Medical Center's net pension liability - ending	$ 9,131,126	$ 9,867,350	$ 8,788,285	$ 9,005,450
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	67.49%	64.92%	65.76%	63.78%
Covered Employee Payroll	N/A	$ 18,481,088	$ 20,365,267	$ 22,586,180
Net Pension Liability as a Percentage of Covered Employee Payroll	N/A	53.39%	39.87%	39.87%

Note to Schedule: This schedule is intended to show a 10-year trend and is presented on the measurement date of the net pension liability. Additional years will be reported as they become available.

Delta Regional Medical Center
A Component Unit of Washington County, Mississippi
Schedule of the Medical Center's Contributions
Years Ended September 30,

Year Ending September 30	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contribution as a % of Covered Payroll
2018	$ 655,860	$ 995,969	$ (340,109)	N/A	N/A
2017	953,390	953,390	-	$ 18,481,088	5.16%
2016	969,968	969,968	-	20,365,267	4.76%
2015	939,446	939,446	-	22,586,180	4.16%
2014	944,920	944,920	-	25,120,081	3.76%
2013	1,071,487	1,071,487	-	27,546,026	3.89%
2012	1,082,409	1,082,409	-	26,593,764	4.07%
2011	931,812	931,812	-	25,730,054	3.62%
2010	746,189	746,189	-	26,112,402	2.86%
2009	1,403,396	1,403,396	-	23,228,344	6.04%

Notes to Schedule:

Valuation date: July 1, 2017
Measurement date: June 30, 2018
Methods and assumptions used to determine contribution rates:
- Actuarial cost method: Entry age normal
- Amortization method: Level percentage, closed periods
- Amortization period: 18 years
- Amortization growth rate: 3.50%
- Asset valuation method:
  - Smoothing record: 3 years
  - Recognition method: non-asymptotic
  - Corridor: 80% to 120%
- Inflation: 3.00%
- Salary increases, including inflation: 5.00%
- Investment rate of return: 6.50%
- Retirement age: 65
- Mortality: RP-2000 Mortality for Employees, Healthy Annuitants, and Disabled Annuitants with generational projection per scale AA

Other Information

Delta Regional Medical Center
A Component Unit of Washington County, Mississippi
Schedule of Surety Bonds for Officers and Employees
September 30, 2018

Name	Position	Company	Amount of Bond
Sylvia Jackson	Trustee	Liberty Mutual Insurance Company	$ 100,000
Mildred Crockett	Trustee	Liberty Mutual Insurance Company	100,000
James Hollowell	Trustee	Liberty Mutual Insurance Company	100,000
Howard Sanders	Trustee	Liberty Mutual Insurance Company	100,000
Sam Newsom	Trustee	Liberty Mutual Insurance Company	100,000
Jamelda Fulton	Trustee	Liberty Mutual Insurance Company	100,000
Henry Rucker	Trustee	Liberty Mutual Insurance Company	100,000
Scott Christensen	Chief Executive Officer	Liberty Mutual Insurance Company	100,000

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Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

Board of Trustees
Delta Regional Medical Center
Greenville, Mississippi

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Delta Regional Medical Center (the Medical Center), a component unit of Washington County, Mississippi, which comprise the statement of net position as of September 30, 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 31, 2019.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2018-01 and 2018-02 that we consider to be material weaknesses.

Compliance and Other Matters

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

The Medical Center's Responses to Findings

The Medical Center's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Medical Center's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

Purpose of this Report

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

BKD, LLP

Jackson, Mississippi
January 31, 2019

Reference Number	Finding
2018-01	***Criteria or Specific Requirement*** - Management is responsible for establishing and maintaining effective internal controls over financial reporting to appropriately estimate the net collections of patient accounts receivable as of year-end.
	Condition - Estimates of net collections of patient accounts receivable were significantly understated. Adjustments were proposed and recorded to the provisions for uncollectible accounts to properly state net patient accounts receivable based on available information.
	Context - Journal entries were required to adjust the expected net collections of net patient accounts receivable at year-end.
	Effect - Valuation of net patient accounts receivable was overstated.
	Cause - The Medical Center converted electronic health records systems in September 2017, which slowed down collections of patients' accounts during 2018. Revisions to the inputs and valuation methodology were necessary to appropriately estimate expected collections of net patient accounts receivable at year-end.
	Recommendation - Management should review and revise as necessary valuation methodology utilized to estimate net collections of net patient accounts receivable.
	View of Responsible Officials and Planned Corrective Actions - Management understands the importance of reliable and accurate estimations of net collections from patient accounts receivable in order to appropriately represent the year-end financial position of the Medical Center. Management has reviewed its methodology for calculating estimates of net collections from patient accounts receivable and has made revisions. In addition to using fully adjudicated patient account data to determine the most accurate current payment rates by financial class and payor, management has implemented additional statement of financial position based analytics. These new tools mirror techniques used in the audit and are used to confirm estimated collections.

Reference Number	Finding
2018-02	***Criteria or Specific Requirement*** - Management is responsible for establishing and maintaining effective internal controls over financial reporting to appropriately represent the financial position as of year-end.

Condition - The Medical Center's financial statements required adjusting journal entries for financial presentation, and it's accounting records include other immaterial adjustments that were passed during the course of the audit.

Context - Timely and accurate account reconciliations and review of general ledger details are critical on identifying necessary adjustments.

Effect - Monthly and annual financial statements may not accurately reflect the financial position of the Medical Center.

Cause - Controls were not operating that would ensure transactions were properly recorded.

Recommendation - Management should review or enhance period end closing procedures to identify necessary journal entries to appropriately present the financial position of the Medical Center and results of operations.

View of Responsible Officials and Planned Corrective Actions - Management is concerned about ensuring that there be effective internal controls over financial reporting and understands maintaining the operation of these controls is paramount to appropriate representation of the financial position of the Medical Center. Management has reviewed the current monthly closing procedures and has made the following modifications: All statement of financial position accounts will be reviewed and reconciled each month, and any required adjusting journal entries will be made. The Controller will conduct a review of all general ledger detail each month prior to the completion of the monthly close. Additionally, management has taken several other actions to enhance internal controls. Some of these actions include: locking up blank check stock in a secure cabinet; tightening up the journal entry review and approval process to ensure segregation of entry and approval authority; additional controls over the handling of cash; and reducing the number of manual payroll related journal entries each month.

Delta Regional Medical Center
A Component Unit of Washington County, Mississippi
Summary Schedule of Prior Audit Findings
Year Ended September 30, 2017

Reference Number	Summary of Findings	Status
2017-01	Proper internal controls surrounding net patient accounts receivable, revenue and liability accounts require monthly calculations and evaluation to ensure the accuracy of accounting data and information are included in the financial statements.	Not corrected. Management continues to review current and develop new internal controls regarding its monthly reconciliations and financial reporting close process to ensure the accuracy of accounting data and information are included in the financial statements. (See 2018-01 and 2018-02)