SOUTHWEST MISSISSIPPI REGIONAL MEDICAL CENTER

McComb, Mississippi

Financial Statements

Year Ended September 30, 2018

CONTENTS

WM. F. HORNE
& *Company, PLLC*
CPAs • Business Advisors

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Southwest Mississippi Regional
Medical Center
McComb, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Southwest Mississippi Regional Medical Center (the "Medical Center"), 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 the *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 business-type activities of the Medical Center as of September 30, 2018, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Medical Center changed the estimation process for the calculation of the allowance for uncollectible accounts during the year ended September 30, 2018. 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 on pages 4 – 10 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 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, 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.

Wm. F. Holt & Co. PLLC

Laurel, Mississippi
April 9, 2019

Our discussion and analysis of Southwest Mississippi Regional Medical Center's (the "Medical Center") annual performance provides an overview of the entity's financial activities for the fiscal year ended September 30, 2018. This information should be used in conjunction with the Medical Center's financial statements, which begin on page 11.

Background and Overview

The Medical Center, located in McComb, Mississippi, was established in 1969 and serves a seven-county area of Mississippi. The Medical Center also draws from two parishes in neighboring eastern Louisiana. According to the most recent Certificate of Needs records, the Medical Center's extended service area is a largely rural population of 170,000 people.

The Medical Center has developed an integrated health system that provides comprehensive, state-of-the-art healthcare to a population that typically would have to travel 60 to 100 miles to Jackson, Mississippi, New Orleans or Baton Rouge, Louisiana for such levels of service.

The Medical Center includes the 160-bed Southwest Mississippi Regional Medical Center with over 1,000 employees and 70 physicians on staff; the Cardiovascular Institute of Mississippi providing comprehensive cardiovascular care, the Mississippi Cancer Institute for the treatment and prevention of cancer; and a home health service serving 12 counties. The Medical Center owns and operates 11 clinics, including rural health clinics, and an outpatient rehabilitation center. The Medical Center also manages and operates Lawrence County Hospital in Monticello, Mississippi. In addition, St. Luke Foundation and its component units provide home health services to clients living in Pike, Amite, Franklin, Copiah, Lawrence, Walthall, Covington, Marion, Lamar, Jeff Davis, Simpson and Smith Counties.

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 financial statements and related notes provide information about the activities of the Medical Center, including resources held by the Medical Center but restricted for purposes by contributors, grantors, or enabling legislation. The financial statements presented herein also include the activities of its blended component unit. Complete financial statements for the blended component unit can be requested from the Medical Center's chief financial officer.

The statement of net position includes all of the Medical Center's assets and liabilities, using the accrual basis of accounting, as well as an indication about which assets can be utilized for general purposes and which assets are limited as to use as a result of bond covenants or other restrictions. The makeup, changes thereto and general comments regarding how the changes occurred will be discussed later. The Medical Center's statement of net position indicates a very strong financial position.

The statement of revenues, expenses, and changes in net position reports all of the revenues and expenses for the period. Revenues measure and represent the volume and types of services provided to the Medical Center's customers, the patients we serve. This statement also reflects the costs of providing those services enumerated by the various categories of and types of expenses incurred. This statement further reveals how the Medical Center was able to manage its business to either provide the services at a profit or loss.

The final required statement is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The above-mentioned categories specify the cash funding by the Medical Center.

Financial Highlights

The Medical Center's overall financial position showed an overall decrease in net position of $14.6 million.

Positive factors affecting financial results included:

- Disproportionate Share ("DSH") and Mississippi Hospital Access Program ("MHAP") net revenues were $4.5 million.
- Settlement of litigation over the prior EMR conversion of $3 million, less legal fees incurred in 2017 and 2018 of approximately $1 million.
- New USDA loans were issued, which will reduce future debt costs.

Negative factors affecting financial results included:

- Disproportionate Share ("DSH") and Mississippi Hospital Access Program ("MHAP") net revenues decreased by $3.9 million compared to fiscal year 2017.
- Increasing payor requirements to move services from inpatient to outpatient, resulting in decreased inpatient census.
- Payments received from the federal Medicare program continued to be negatively impacted by the federal government's sequestration cuts and other changes mandated by the Affordable Care Act.
- Continuing shift in payment responsibility from third-party payors to patients through higher deductibles and copays resulting in additional bad debt estimates.
- Issuance costs of approximately $600,000 for new USDA loans.

At the end of the 2018 fiscal year, the assets of the Medical Center exceeded liabilities by approximately $27.2 million. Of this excess amount, approximately $19.3 million (unrestricted net position) may be used to meet ongoing obligations to the Medical Center's employees, patients and creditors. The Medical Center is self-insured for general and professional liability claims and has established a self-insurance fund in accordance with the requirements of the

Mississippi Tort Claims Board. At September 30, 2018, the Medical Center had $1 million deposited into this restricted account.

Condensed Financial Information

Summary of Net Position

A summary of the Medical Center's Statements of Net Position for September 30, 2018 and 2017 are presented in the following table:

Condensed Statements of Net Position
(In Thousands)

	Fiscal Year 2018	Fiscal Year 2017
Current and other assets	$ 48,987	$ 56,232
Capital assets	33,023	31,758
Total assets	$ 82,010	$ 87,990
Total deferred outflow of resources	$ 63	$ -
Long-term debt	$ 30,211	$ 22,297
Other liabilities	24,706	23,980
Total liabilities	$ 54,917	$ 46,277
Net investment in capital assets	$ 7,883	$ 9,903
Restricted	-	2,323
Unrestricted	19,273	29,487
Total net position	$ 27,156	$ 41,713

Total assets decreased by approximately $5.98 million. Some of the more significant changes were:

- Cash decreased $2.3 million due to normal operating activities.
- Current restricted cash and cash equivalents increased $5 million. These are unspent note proceeds for the capital improvement projects.
- Noncurrent restricted cash, cash equivalents, and investments decreased $3.1 million due reserves and sinking funds being used to refund the 2003 bond issue.
- Net accounts receivable decreased $6.9 million primarily due to an increase in the allowance for uncollectible accounts.
- Capital assets increased $1.26 million as a result of current year additions in excess of current year depreciation expense.

Total liabilities increased by approximately $8.64 million. $7.91 million of this increase was due to new long-term debt issued for capital improvements, less current debt service payments on old debt.

Summary of Revenue Expenses, and Changes in Net Position

The following table presents a summary of the Medical Center's revenue and expenses for the fiscal years ended September 30, 2018 and 2017:

Condensed Statements of Revenues, Expenses, and Changes in Net Position
(In Thousands)

	Fiscal Year 2018	Fiscal Year 2017
Operating revenue		
Net patient service revenue	$ 121,410	$ 137,126
Other operating income	2,572	1,886
Total operating income	123,982	139,012
Operating expenses		
Salaries, wages, and benefits	78,091	83,858
Supplies and other operating expenses	56,037	56,534
Depreciation and amortization expense	6,002	6,698
Total operating expenses	140,130	147,090
Income (loss) from operations	(16,148)	(8,078)
Nonoperating revenue (expense)	1,591	(635)
Change in net position	$ (14,557)	$ (8,713)

Operating Revenues

During fiscal year 2018, the Medical Center derived 98 percent of its total operating revenues from net patient service revenues. Such revenues included revenues from Medicare (46 percent) and Medicaid (18 percent) programs, and patients or their third-party carriers (36 percent), who pay for care in the Medical Center's facilities. Operating revenues are discussed further in the notes to the financial statements.

Operating Results and Financial Performance

The following summarizes the Medical Center's operating results and financial performance between 2018 and 2017:

- Gross patient revenues decreased $13.2 million or 3.3 percent and net patient service revenue decreased by $15 million or 10.8 percent. The decrease in revenues is primarily due to the decreased inpatient census in 2018.
- Revenue deductions for contractual adjustments and bad debt expense increased from 65.1 percent of gross patient revenues in 2017 to 68 percent of gross patient revenues in 2018, primarily as a result of the change to the bad debt estimate in 2018.
- Total operating expenses decreased $6.96 million. Of this amount, salaries, wages, benefits, and contract salaries decreased $5.77 million primarily as a result of staffing reductions to mirror patient volume changes, changing certain patient accounting functions from a contract basis to employee basis, ongoing efforts to reduce contract salary costs, and not replacing physician and other staff members upon their retirement or termination.

Capital Assets

The following summarizes the Medical Center's investment in capital assets as of September 30, 2018 and 2017:

Capital Assets
(In Thousands)

	Fiscal Year 2018	Fiscal Year 2017
Land	$ 334	$ 334
Construction in progress	3,483	651
Land improvements	3,073	3,073
Buildings and improvements	58,371	57,656
Leasehold improvements	1,368	1,368
Equipment	3,182	2,965
Major moveable equipment	95,433	93,658
Subtotal	165,244	159,705
Less accumulated depreciation	(132,221)	(127,947)
Capital assets, net	$ 33,023	$ 31,758

The change in net capital assets consists of additions of $7.34 million primarily for upgrades to the HVAC system, electronic health records system, and other major moveable equipment, including new mammography equipment. These additions were offset by $6 million of depreciation. More detailed information about capital assets is presented in the notes to the financial statements.

Long-Term Debt

The following summarizes the Medical Center's long-term debt as of September 30, 2018 and 2017:

Long-term Debt
(In Thousands)

	Fiscal Year	
	2018	**2017**
Bonds payable	$ -	$ 11,183
Notes payable	23,687	4,375
Capital lease obligations	6,524	6,739
Long-term debt	$ 30,211	$ 22,297

During 2018, the Medical Center refunded the Mississippi Hospital Equipment and Facilities Authority Hospital Refunding and Improvement Revenue Bonds, Series 2003, with $8.136 million of new note proceeds plus other bond sinking funds and reserves. In addition, the Medical Center received an additional $12.439 million in note proceeds to pay the costs of certain capital improvements, funding capitalized interest, and paying the costs of issuance related to the notes. More detailed information about the long-term debt is presented in the notes to the financial statements.

Economic Factors and Next Year's Budget

While the annual budget of the Medical Center is not presented within these financial statements, the Medical Center's Board and management considered many factors when setting the fiscal year 2019 budget. While the financial outlook for the Medical Center is improving, the primary importance in setting the 2019 budget is the status of the economy and the healthcare environment, which takes into account market forces and environmental factors such as:

- Medicare reimbursement and regulatory changes.
- Medicaid reimbursement changes, as well as the continuation at the current level of the Disproportionate Share and Mississippi Hospital Access Payment programs.
- Increased regulatory requirements for enhanced information technology.
- Ability to reverse the negative trends experienced in collections due to the system conversions.
- Increased number of uninsured and working poor.

- Ability to manage the increase in patient portions of billings for services seen in the newer high deductible insurance plans.
- Ongoing competition for services.
- Workforce shortages primarily in nursing and other clinically skilled positions.
- Rising cost of supplies, including pharmaceuticals.
- Ability to continue recruiting medical staff physicians.

Contacting Medical Center's Financial Management

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Medical Center's finances. If you have any questions about this report or need additional financial information, please contact the Chief Financial Officer, Southwest Mississippi Regional Medical Center, 215 Marion Avenue, McComb, Mississippi 39648.

SOUTHWEST MISSISSIPPI REGIONAL MEDICAL CENTER
Statement of Net Position
September 30, 2018

ASSETS		
Current assets		
Cash	$	1,434,297
Investments		9,290,361
Restricted cash and cash equivalents		5,071,051
Restricted investments		1,004,653
Accounts receivable, patients, net of allowance for uncollectible accounts of $34,395,865		22,401,272
Other receivables		714,009
Inventories		5,542,132
Estimated third-party payor settlements		485,857
Prepaid expenses and other current assets		1,732,046
Total current assets		47,675,678
Noncurrent assets		
Equity interest in Medical Arts Building, LLC		522,845
Capital assets		
Capital assets not being depreciated		3,817,773
Capital assets, net of accumulated depreciation		29,205,395
Capital assets, net		33,023,168
Other noncurrent assets		
Due from physicians		616,283
Other assets		172,093
Total noncurrent assets		34,334,389
Total assets		82,010,067
Deferred outflow - deferred charge of refunding debt	$	62,928

LIABILITIES		
Current liabilities		
Accounts payable	$	12,052,674
Line of credit		6,000,000
Salaries and benefits payable		1,673,777
Other accrued expenses		310,842
Accrued compensated absences		2,080,559
Estimated claims payable		856,234
Current maturities of capital lease obligations		2,181,262
Current maturities of notes payable		19,503,256
Total current liabilities		44,658,604
Long-term liabilities		
Estimated claims payable		1,732,042
Capital lease obligations, less current maturities		4,343,242
Notes payable, less current maturities		4,183,608
Total long-term liabilities		10,258,892
Total liabilities		54,917,496
NET POSITION		
Net investment in capital assets		7,882,851
Unrestricted		19,272,648
Total net position	$	27,155,499

See accompanying notes.

SOUTHWEST MISSISSIPPI REGIONAL MEDICAL CENTER
Statement of Revenue, Expenses
and Changes in Net Position
Year Ended September 30, 2018

Operating revenue	
Patient service revenue, net of contractual allowances and discounts	$ 146,599,673
Provision for bad debts	(25,189,392)
Net patient service revenue less provision for bad debts	121,410,281
Other operating revenue	2,571,378
Total operating revenue	123,981,659
Operating expenses	
Salaries and wages	55,059,929
Contract employee salaries	11,259,746
Professional fees	3,450,170
Employee benefits	11,771,531
Supplies	28,791,978
Maintenance and repairs	7,948,225
Other operating expense	15,846,804
Depreciation and amortization	6,001,614
Total operating expenses	140,129,997
Loss from operations	(16,148,338)
Nonoperating revenues (expenses)	
Debt issuance costs	(579,814)
Grants and contributions	32,413
Investment income	200,974
Interest expense	(1,014,794)
Loss on disposal of capital assets	(36,994)
Other income	2,989,564
Total nonoperating revenues (expenses)	1,591,349
Change in net position	(14,556,989)
Net position, beginning of year	41,712,488
Net position, end of year	$ 27,155,499

See accompanying notes.

SOUTHWEST MISSISSIPPI REGIONAL MEDICAL CENTER
Statement of Cash Flows
Year Ended September 30, 2018

Cash flows from operating activities	
Cash from and on behalf of patients	$ 130,770,254
Cash paid to employees	(78,684,027)
Cash paid to suppliers	(55,221,450)
Net cash (used) by operating activities	(3,135,223)
Cash flows from noncapital financing activities	
Advances on line of credit	693,000
Noncapital grants and contributions	32,413
Other receipts and payments, net	2,989,564
Net cash provided by noncapital financing activities	3,714,977
Cash flows from capital and related financing activities	
Proceeds from notes payable	20,575,000
Funds placed in escrow to refund debt	(11,295,000)
Principal paid on capital lease obligations	(2,684,793)
Principal paid on notes payable	(1,263,806)
Proceeds from sale of capital assets	41,093
Purchase of capital assets	(4,874,481)
Debt issue costs	(579,814)
Interest paid on long-term debt	(1,138,635)
Net cash (used) by capital and related financing activities	(1,220,436)
Cash flows from investing activities	
Purchases of investments	(6,457,077)
Sales of investments	8,784,388
Investment income	293,689
Net cash provided by investing activities	2,621,000
Net increase in cash and cash equivalents	1,980,318
Cash and cash equivalents	
Beginning of year	4,525,030
End of year	$ 6,505,348

Reconciliation of loss from operations to net cash provided by operating activities		
Loss from operations	$	(16,148,338)
Adjustments to reconcile loss from operations to net cash (used) by operating activities		
Depreciation and amortization		6,001,614
Changes in assets and liabilities		
(Increase) decrease in assets		
Patient accounts receivable		6,965,624
Other receivables		2,445
Inventories		249,494
Prepaid expenses and other current assets		(91,997)
Estimated third-party payor settlements		(290,646)
Other noncurrent assets		(29,322)
Increase (decrease) in liabilities		
Accounts payable		677,166
Salaries and payroll taxes payable		(318,134)
Accrued compensated absences		(136,360)
Estimated claims payable		(139,451)
Other accrued expenses		122,682
Net cash (used) by operating activities	$	(3,135,223)
Reconciliation of cash and cash equivalents to the statement of net position		
Cash and cash equivalents included in current assets	$	1,434,297
Cash and cash equivalents included in restricted cash and cash equivalents in current assets		5,071,051
Total	$	6,505,348
Supplemental disclosures of noncash financing activities		
Capital assets financed through capital lease obligations	$	2,470,243
Deferred charge of refunding	$	107,414
Amortization of deferred charge of refunding	$	44,486

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

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

Nature of Operations and Reporting Entity

Southwest Mississippi Regional Medical Center (the "Medical Center") consists of an acute-care hospital and related outpatient facilities jointly owned by the City of McComb, Mississippi, Amite County, Mississippi and Pike County, Mississippi. The Medical Center operates in the form of a government authority, governed by a Board of Trustees pursuant to Sections 41-13-15 et seq. of Mississippi Code of 1972, as amended, consisting of members from the city and counties. It is an independent enterprise held and operated separate and apart from all other assets and activities of the city and counties. It is not a taxable entity and does not file an income tax return.

The Medical Center provides inpatient, outpatient, rehabilitation and emergency care services primarily for residents of the City of McComb, Mississippi, Amite County, Mississippi, Lawrence County, Mississippi and Pike County, Mississippi and the surrounding area. Admitting physicians are primarily practitioners in the same area.

The Medical Center operates a critical access facility in Monticello, Mississippi. This division of the Medical Center offers short-term acute care and swing bed services to patients. To operate this facility, the Medical Center entered into a lease with the Lawrence County Board of Supervisors to lease the Lawrence County Hospital (the "Hospital"). The lease was renewed in September 2016 for an additional five-year period. The lease calls for annual payments of approximately $130,000. The Medical Center has the right to terminate the lease in the event that the Medical Center is unable to maintain the Hospital's designation as a critical access hospital or if the hospital is unable to maintain its accreditation. In addition, if the Medical Center determines, in its sole discretion, that the healthcare regulatory environment has changed to the extent that the provision of health services by the Medical Center at the Hospital has become cost prohibitive or otherwise not financially feasible, the Medical Center can terminate the lease with 365 days prior written notice.

The basic financial statements of the Medical Center have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB has issued a codification of governmental accounting and financial reporting standards. This codification and subsequent GASB pronouncements are recognized GAAP for governments.

Following this section, are the significant accounting policies used by the Medical Center in preparing and presenting its financial statements.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Reporting Entity

The accompanying financial statements present the Medical Center and its blended component unit, The St. Luke Foundation (the "Foundation"), an entity for which the Medical Center is considered to be financially accountable. Blended component units are, in substance, part of the reporting entity's operations, even though they are legally separate entities. The Foundation, a not-for-profit organization, was created and operated exclusively for the purpose of owning and operating St. Luke Home Health Services, LLC for the Medical Center. The Medical Center is the sole member of the Foundation. The Foundation is included as a blended component unit in the financial statements.

Included within the reporting entity of the Foundation is St. Luke Home Health Services, LLC, which provides home health care to the Southwest Mississippi community. The Foundation is the sole member of St. Luke Home Health, LLC. All significant intercompany balances and transactions have been eliminated.

Separate audited financial statements are issued for the Foundation. These financial statements may be obtained through a written request to the Chief Financial Officer at Southwest Mississippi Regional Medical Center, 215 Marion Avenue, McComb, Mississippi 39648.

Basis of Accounting

Basis of accounting refers to when revenues, expenses and related assets and liabilities are recognized in the accounts and reported in the financial statements. The Medical Center uses the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, substantially all revenues and expenses are subject to accrual. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like activities are generally recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange activities are generally recognized when all applicable eligibility requirements, including timing requirements, are met.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses, as well as 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. Significant estimates and assumptions are used for, but are not limited to, contractual allowances for revenue adjustments, allowance for doubtful accounts, depreciable and economic lives of capital assets, and fair value of leased assets.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

The accounting estimates used in the preparation of the financial statements will change as new events occur, as more experience is acquired and as additional information is obtained. Future events and their effects cannot be predicted with certainty; accordingly, accounting estimates require the exercise of judgment. In particular, laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates related to these programs will change by a material amount in the near term.

During the year ended September 30, 2018, the Medical Center changed the estimation process for the calculation of the allowance for uncollectible accounts based on a look back of collections for prior years. This change in estimate increased the allowance for uncollectible accounts $5.2 million.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

Investments

Investments consist of money market investments, the Mississippi Hospital Association (MHA) investment pool, and U.S. Treasury obligations. Money market investments are reported at amortized cost which approximates fair value, investments in the MHA pool are reported at net asset value per share which approximates fair value, and U.S. Treasury obligations are measured at fair value based on quoted prices for similar assets in active markets. Investment income on investments, including realized and unrealized gains and losses, is reported in the statement of revenues, expenses, and changes in net position as nonoperating revenues (expenses).

The MHA investment pool is authorized to invest in bonds or other direct obligations of the U.S., the State of Mississippi, or of any approved county, school district or municipality of the state; obligations issued or guaranteed in full by the U.S. which are subject to a repurchase agreement with a financial institution certified as a qualified depository; U.S. Government agency instruments which are fully guaranteed by the U.S. Government; any open-end or closed-end management type investment company (money market and mutual funds) or trust funds that invest in direct obligations of the U.S. or repurchase agreements that are fully collateralized by these direct obligations; and any commercial paper, corporate notes and bonds that have an "A" rating or better.

The MHA investment pool is an investment program developed for member hospitals of the MHA. The investments are managed by an investment advisor registered with the Securities and Exchange Commission. The investment advisor is approved by the MHA board of trustees.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Restricted Cash and Investments

Restricted cash and investments consist of assets held by the Medical Center in trust accounts subject to a borrowing agreement with the United States Department of Agriculture and funds held under self-insurance arrangements.

Equity Interest in Medical Arts Building, LLC

The Foundation has a 16.67 percent ownership interest in Medical Arts Building, LLC (LLC) which is organized for the purpose of owning, managing, and leasing real property for clinics and other related space. Since the Foundation has an ongoing financial interest in the LLC, the Foundation's ownership in the LLC is being accounted for as an equity interest. The Foundation's equity interest is adjusted for its share of the LLC's change in financial position, regardless of whether the amount is actually remitted. Any distributions to the Foundation by the LLC reduce the equity interest. Separate financial statements are not issued.

Patient Receivables

Patient receivables are reported at estimated net realizable amounts from federal and state agencies (under the Medicare and Medicaid programs), managed health plans, commercial insurance companies, workers' compensation, employers and patients, after deduction of allowances for estimated uncollectible amounts and third-party contractual discounts.

The allowance for doubtful accounts is based on historical losses and analysis of currently outstanding amounts. This account is generally increased by charges to a provision for bad debts and decreased by write-offs of accounts determined by management to be uncollectible. The allowance for third-party discounts is based on the estimated differences between the Medical Center's established rates and the actual amounts to be received under each contract.

Inventories

Inventories, consisting primarily of pharmaceuticals and medical supplies, are stated at the lower of cost or market based on the first-in, first-out method, whichever is lower.

Prepaid Expenses

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

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital asset acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Assets under capital lease obligations are recorded at the lower of the present value of the minimum lease payments or the fair value of the leased asset and are depreciated on the straight-line method over the shorter period of the lease term or the estimated useful life of the assets. Contributed property and equipment is recorded at acquisition value (an entry price) at the date of donation.

Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. Accordingly, the total amount of interest that was capitalized as of September 30, 2018 was $19,365.

In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Reserve* ("GASB 42"), management evaluates assets for potential impairment when a significant, unexpected decline in the service utility of capital assets occurs.

Useful lives for major asset classes follows:

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

Cost of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Premiums or discounts incurred in connection with the issuance of bonds and indentures are amortized over the life of the obligations using the effective interest method, and the unamortized amount is included in the balance of the outstanding debt.

Due from Physicians

The Medical Center advances funds to physicians in connection with agreements with the physicians to establish their practices in the McComb, Mississippi area. The amounts advanced are to be repaid over a stipulated period in the agreement. The Medical Center will accept, in lieu of the monthly payment by the physician, continuous service by the physician over the repayment period. Repayment in the form of services provided is recorded as a component of salaries and wages for employed physicians or as an other operating expense.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Deferred Outflow

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an expense until such time. The Medical Center is reporting a deferred charge of refunding debt which is the difference between the acquisition price and net carrying amount of the old debt that was refunded. This expense is being recognized in a systematic and rational manner over the remaining life of the new debt. See Note 5 for more information.

Estimated Malpractice Costs

The Medical Center considers the need for recording a liability for malpractice claims. When determined to be necessary, the provision for estimated malpractice claims and the cost associated with litigation and settlement includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Compensated Absences

Employees employed prior to August 1, 2014 are granted both vacation and sick leave. Accumulated vacation pay is accrued at the balance sheet date because it is payable upon termination of employment. Sick pay accrues but is not reflected as a liability because it is not payable upon termination of employment.

Paid time off ("PTO") is provided to all full-time employees who become employed on or after August 1, 2014. Accumulated PTO is accrued at the balance sheet date since it is probable that the Medical Center will compensate the employees for the benefits through paid time off.

Net position

Net position of the Medical Center is classified in two components: (1) Net investment in capital assets consists of cash restricted for purchase of capital assets and capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. (2) Unrestricted net position which is the remaining net position that does not meet the definition of net investment in capital assets or restricted.

When both restricted and unrestricted resources are available to finance a particular program, it is the Medical Center's policy to use the restricted resources before using the unrestricted resources.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Operating Revenues and Expenses

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

Patient Service Revenue

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 adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are considered in the recognition and accrual of revenue on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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

Charity Care

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

Grants and Contributions

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

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Accounting Pronouncements Issued Not Yet Adopted

Governmental Accounting Standards Board Statement No. 87 ("GASB 87")

The Medical Center will adopt GASB 87, *Leases,* in fiscal year 2021 with any changes applied retroactively. This statement will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. In accordance with this statement, all leases are required to be recognized as assets and liabilities with associated deferred inflows and outflows of resources on the financial statements. Furthermore, the statement defines a lease and details the consideration for determining the lease term. The Medical Center is currently assessing the impact of the adoption of this GASB and its effect on the Medical Center's financial position and results of operations.

Governmental Accounting Standards Board Statement No. 88 ("GASB 88")

The Medical Center will adopt GASB 88, *Certain Disclosure Related to Debt, including Direct Borrowings and Direct Placements,* in fiscal year 2019. This statement requires additional information related to debt be disclosed in the notes to the financial statements, including unused lines of credit; assets pledged as collateral for the debt; the terms specified in debt agreements related to significant events of default or termination with finance-related consequences and significant acceleration clauses. With the inclusion of this information, users will better understand the effects of debt on a government's future resource flows. The Medical Center is currently assessing the impact of the adoption of this GASB and its effect on the Medical Center's financial position and results of operations.

Governmental Accounting Standards Board Statement No. 89 ("GASB 89")

The Medical Center will adopt GASB 89, *Accounting for Interest Cost Incurred before the End of a Construction Period,* in fiscal year 2021. This statement will improve financial reporting by (1) enhancing the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and (2) simplifying accounting for interest cost incurred before the end of a construction period. This statement will supersede GASB 62, requiring that interest cost incurred before the end of construction period to be recognized as an expense in the period in which the cost was incurred. The Medical Center is currently assessing the impact of the adoption of this GASB and its effect on the Medical Center's financial position and results of operations.

Reclassification

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Bank Deposits and Investments

Bank Deposits

The collateral for public entity deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation ("FDIC"). All deposits with financial institutions must be collateralized in an amount equal to 105 percent of uninsured deposits. At September 30, 2018, the Medical Center had $294,291 in bank deposits held in a financial institution that is part of this program.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the Medical Center's deposits might not be recovered. The Medical Center has a deposit policy for custodial credit risk that requires deposits to be part of the collateral pool administered by the State, as noted above. However, cash deposits with The St. Luke Foundation are not part of this pool and are exposed to custodial credit risk. Uninsured and uncollateralized cash deposits with financial institutions totaled $825,386 as September 30, 2018.

Deposits and investments are reported on the statement of net position at September 30, 2018 as follows:

Cash	$ 1,434,297
Restricted cash and cash equivalents	5,071,051
Total cash and cash equivalents	6,505,348
Investments	9,290,361
Restricted investments	1,004,653
Total investments	10,295,014
Total	$ 16,800,362

Note 2. Bank Deposits and Investments (Continued)

Cash Equivalents and Investments

Mississippi Code 27-105-365 restricts the authorized investments of the Medical Center to obligations of the U.S. Treasury, agencies, and instrumentalities of the United States, certain open-end and closed-end management-type investment companies and trusts, and certain other trusts consisting of pooled or commingled funds of other hospitals.

The Medical Center's cash equivalents and investments consist of the following at September 30, 2018:

		Value	Percentage	Maturity	Interest Rate	Rating
MHA Investment Pool						
MHA Intermediate	$	2,131,585	13.87%	5.7 years	N/A	AA
MHA Short Duration Trust		1,804,089	11.74%	3.1 years	N/A	AA
Money market funds		5,071,051	33.00%	<1 year	1.58% - 1.59%	AAA
U.S. Treasury bills		6,359,340	41.39%	< 1 year	1.69% - 2.55%	Not Rated
Total	$	15,366,065	100.00%			

At September 30, 2018, funds in the amount $1,004,653, were restricted for purposes of self-insurance arrangements and were reported as restricted investments in the statement of net position.

At September 30, 2018, funds in the amount of $5,071,051, were restricted subject to a borrowing agreement with the United States Department of Agriculture for federal funds.

Interest Rate Risk - The Medical Center does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the Medical Center limits interest rate risk by attempting to match investment maturities with known cash needs and anticipated cash flow requirements.

Concentration of Credit Risk – The Medical Center has not established asset allocation limits for their investment portfolio to reduce concentrations of credit risk. However, Mississippi Code 27-105-365 limits the amount of investments in U.S. government agency and instrumentalities to 50 percent and the amount of investments in open-end and closed-end management-type investment companies and trusts to 20 percent for all monies invested with maturities of 30 days or longer.

Note 3. Fair Value Disclosures

Under the GASB's authoritative guidance on fair value measurements, 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. The guidance establishes a hierarchy of inputs to valuation techniques used to measure fair value into three levels.

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Medical Center has the ability to access.
- Level 2 - Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The estimated fair values of the Medical Center's short-term financial instruments including cash, cash equivalents, accounts receivable, and accounts payable arising in the ordinary course of business, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization. For liabilities such as long-term debt not accounted for at fair value and without quoted market prices, fair value is based upon estimated cash flows adjusted for credit risk which are discounted using an interest rate appropriate for the maturity of the applicable debt.

Following is a description of the valuation methodologies used for investments measured at fair value.

- *MHA Investment Pool* – Valued at the net asset value of shares held by the investment pool.
- *Treasury Bills* – Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities with similar credit ratings.
- *Money Market Funds* – Valued at the closing price reported by the fund sponsor from an actively traded exchange.

NOTES TO FINANCIAL STATEMENTS

Note 3. Fair Value Disclosures (Continued)

	Fair Value	Level 1	Level 2	Level 3
U.S. Treasury Bills	$ 6,359,340	$ -	$ 6,359,340	$ -
MHA Investment Pool	3,935,674	-	3,935,674	-
Money market funds	5,071,051	5,071,051	-	-
Total	$ 15,366,065	$ 5,071,051	$ 10,295,014	$ -

Note 4. Capital Assets

Capital assets activity for the year ended September 30, 2018 was as follows:

	Beginning	Additions	Retirements	Ending
Capital assets not being				
Land	$ 334,399	$ -	$ -	$ 334,399
Construction in progress	651,125	3,251,122	(418,873)	3,483,374
Total capital assets not depreciated	985,524	3,251,122	(418,873)	3,817,773
Capital assets being				
Land improvements	3,072,643	-	-	3,072,643
Building and	57,655,527	715,790	-	58,371,317
Leasehold improvements	1,368,483	-	-	1,368,483
Equipment	2,964,682	225,430	(8,712)	3,181,400
Major moveable	93,658,729	3,571,255	(1,796,967)	95,433,017
Total capital assets being depreciated	158,720,064	4,512,475	(1,805,679)	161,426,860
Less accumulated				
Land improvements	2,420,772	125,809	-	2,546,581
Building and	40,268,739	1,231,026	-	41,499,765
Leasehold improvements	681,373	83,000	-	764,373
Equipment	2,744,576	69,406	(4,397)	2,809,585
Major moveable equipment	81,831,983	4,492,576	(1,723,398)	84,601,161
Total accumulated	127,947,443	6,001,817	(1,727,795)	132,221,465
Total capital assets being depreciated, net	30,772,621	(1,489,342)	(77,884)	29,205,395
Total capital assets, net	$ 31,758,145	$ 1,761,780	$ (496,757)	$ 33,023,168

Depreciation expense for the year ended 2018 totaled $6,001,817. The Medical Center had $591,981 in commitments on construction contracts at September 30, 2018.

Note 5. Long-Term Liabilities

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

Hospital Revenue Notes, Series 2018A, issued in the amount of $13,265,000, to pay the costs of certain capital improvements, refund the outstanding Mississippi Hospital Equipment and Facilities Authority Hospital Refunding and Improvement Revenue Bonds, Series 2003, and fund capitalized interest and costs of issuance, at an annual interest rate of 2.10 percent, maturing in June 2019, secured by proceeds of USDA Direct Loan Notes.	$ 13,265,000
Taxable Hospital Revenue Notes, Series 2018B, issued in the amount of $5,310,000, to pay the costs of certain capital improvements, and fund capitalized interest and costs of issuance, at an annual interest rate of 3.25 percent, maturing in June 2019, secured by proceeds of USDA Direct Loan Notes.	5,310,000
Note payable to Regions Bank, issued in the amount of $2,000,000, to pay the costs of certain capital improvements, at an annual interest rate of 3.94 percent, maturing January 30, 2033, secured by a pledge of revenues. Two years of interest only payments followed by thirteen years of monthly principal payments of $12,821, plus interest.	2,000,000
Note payable to State Bank, with annual principal and interest payments of $71,890, at an annual interest rate of 3.95 percent, maturing in December 2018, collateralized by real estate.	68,879
Construction Revenue Notes, Series 2007, payable to Trustmark Bank, principal and interest payable in monthly installments of $16,429 and $9,365, at annual interest rates of 4.15 percent and 2.33 percent, maturing in April 2022 and August 2022, secured by a pledge of revenues.	1,075,812
Note payable to McKesson Technologies, Inc., with monthly principal only payments of $41,666, maturing in March 2021, unsecured.	1,967,173
Capital lease obligations, at interest rates ranging from 0.99 percent to 6.5 percent, with lease terms from 36 months to 60 months, collateralized by leased equipment.	6,524,504
Total	30,211,368
Less current maturities	(21,684,518)
Long-term debt, net of current maturities	$ 8,526,850

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Liabilities (Continued)

Scheduled debt service payments on long-term debt, excluding capital lease obligations are as follows:

Year Ended September 30,	Long-Term Debt Principal	Long-Term Debt Interest
2019	$ 19,503,256	$ 415,376
2020	888,885	100,820
2021	1,334,339	84,851
2022	370,640	68,715
2023	153,846	59,857
2024 - 2028	769,231	208,362
2029 - 2033	666,667	58,007
Total	$ 23,686,864	$ 995,988

Current Refunding

The Medical Center issued Hospital Revenue Notes, Series 2018A in the amount of $13,265,000 to current refund the outstanding Mississippi Hospital Equipment and Facilities Authority Hospital Refunding and Improvement Revenue Bonds, Series 2003 and pay the costs of certain capital improvements. Note proceeds of $8,136,000 plus other bond sinking funds and reserves were used to current refund $11,295,000 of the Series 2003 bonds.

The reacquisition price exceeded the carrying amount of the old debt by $107,414. This amount is being amortized over the remaining life of the new debt. The USDA has obligated funds as repayment for the Series 2018A notes that mature in June 2019 pursuant to the Community Facilities Loans and Grants program.

Capital Lease Obligations

The Medical Center has entered into lease agreements for financing the acquisition of various major moveable equipment. These agreements qualify as capital leases for accounting purposes, and, therefore, are recorded at the present value of future minimum lease payments as of the lease inception date. Lease terms range from thirty-six to sixty months.

Note 5. Long-Term Liabilities (Continued)

Major moveable equipment under capital leases included in capital assets at September 30, 2018 includes the following:

Major moveable equipment	$	29,039,214
Less accumulated depreciation		(22,576,554)
Net major moveable equipment	$	6,462,660

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2018, were as follows:

2019	$	2,281,972
2020		1,960,188
2021		1,445,052
2022		833,522
2023		219,911
Total minimum lease payments		6,740,645
Less amount representing interest		(216,141)
Present value of minimum lease payments	$	6,524,504

Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended September 30, 2018 are as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Amounts Due Within One Year
Revenue bonds	$ 11,295,000	$ -	$ (11,295,000)	$ -	$ -
Less discount on bonds	(112,260)	-	112,260	-	-
Revenue bonds	11,182,740	-	(11,182,740)	-	-
Notes payable	4,375,670	20,575,000	(1,263,806)	23,686,864	19,503,256
Capital lease	6,739,054	2,470,243	(2,684,793)	6,524,504	2,181,262
Estimated claims	1,827,727	-	(95,685)	1,732,042	-
Total long-term debt	$ 24,125,191	$ 23,045,243	$ (15,227,024)	$ 31,943,410	$ 21,684,518

Note 6. Revolving Line of Credit Note

During 2018, the Foundation renewed the $6,000,000 revolving credit note with Regions Bank that is secured by investments and real estate. The line matures May 31, 2019 and bears interest due in monthly installments at the one-month LIBOR rate plus 2.25 percent. The interest rate at September 30, 2018 is 3.48 percent.

Activity for the year ended September 30, 2018 was as follows:

Beginning balance	$ 5,307,000
Additions	693,000
Reductions	-
Ending balance	$ 6,000,000

Note 7. Retirement Plans

Defined Contribution Plan – Medical Center

The Medical Center contributes to the Southwest Mississippi Regional Medical Center Retirement Matching Plan (the "Plan") for the benefit of its employees. As of October 1, 2017, the Plan was a single-employer 403(b) defined contribution plan. Effective November 1, 2017, the Medical Center adopted a Section 457(b) deferred compensation plan to replace the 403(b) defined contribution plan. The Plan is administered by The Variable Annuity Life Insurance Company ("VALIC"). The Plan provides retirement and disability benefits to Plan members and death benefits to beneficiaries of Plan members. Under provisions of the Plan, all employees with one year of service, and who are at least 21 years old, are eligible to participate. Plan provisions and Medical Center contributions are amended by the Board of Trustees. The Medical Center's contribution to the Plan for the year ended September 30, 2018 was $427,824.

Employees must contribute to the Plan in order to receive any matching contributions from the Medical Center. Employees are permitted to make contributions up to applicable Internal Revenue Code limits. The Medical Center is required to contribute 50 percent of a participant's elective deferral contributions up to 4.00 percent of a participant's compensation.

Employees are immediately vested in their own contributions and earnings on those contributions. Employees become 100 percent vested in Medical Center contributions and earnings on Medical Center contributions after the completion of five years of creditable service. Non-vested contributions are forfeited upon termination of employment and such forfeitures are used to reduce future Medical Center contributions. For the year ended September 30, 2018, there were no forfeitures that reduced the Medical Center's contribution expense.

All required contributions were made to the Plan during the year and the Medical Center's liability to the Plan at September 30, 2018 was $82,450.

Note 7. Retirement Plans (Continued)

Defined Contribution Plan – St. Luke Home Health

St. Luke Home Health (SLHH) contributes to the St. Luke Home Health Retirement Savings Plan (the "Plan"), a single-employer 403(b) defined contribution plan, for the benefit of its employees. The Plan is administered by Variable Annuity Life Insurance Company ("VALIC"). The Plan provides retirement and disability benefits to Plan members and death benefits to beneficiaries of Plan members. Under provisions of the Plan, all employees are eligible to make salary deferral contribution elections as of their employment commencement date. Employees are eligible for employer contributions upon attainment of age 21 and completion of one year of service. Plan provisions and SLHH contributions are amended by the Board of Directors. SLHH's contributions to the Plan for the year ended September 30, 2018 was $82,490.

Employees must contribute to the Plan in order to receive any matching contributions from SLHH. Employees are permitted to make contributions up to applicable Internal Revenue Code limits. SLHH is required to contribute 50 percent of a participant's elective deferral contributions up to 6.00 percent of a participant's compensation.

Employees are immediately vested in their own contributions and earnings on those contributions. Employees become 100 percent vested in employer contributions and earnings on those contributions after the completion of three years of creditable service. Non-vested contributions are forfeited upon termination of employment and such forfeitures are used to reduce future employer contributions. For the year ended September 30, 2018, forfeitures reduced SLHH's contribution expense by $3,051.

All required contributions were made to the Plan during the year and SLHH had no liability to the Plan at September 30, 2018.

Note 8. Insurance Programs

Risk Management

The Medical Center is exposed to various risks of loss from torts, theft of, damage to and destruction of assets, business interruption, errors and omissions, employee injuries and illnesses, natural disasters and employee health and accident benefits. Commercial insurance coverage is purchased for most of these risks. However, certain general and professional liability risks and employee health benefits are self-funded as further explained below. There were no settlements in excess of the insurance coverage in any of the three prior fiscal years.

Note 8. Insurance Programs (Continued)

Self-Funded Professional Liability and General Liability

The Medical Center established a self-insurance program for professional and general liability exposure, effective February 1, 2003, in accordance with the provisions set forth in the Mississippi Tort Claims Act ("MTCA"). MTCA provides a cap on the amount of damages recoverable against government entities, including governmental hospitals. For claims arising from events occurring on or after July 1, 2001, the amount recoverable is the greater of $500,000 or the amount of liability insurance coverage that has been retained.

Effective December 20, 2006 the Medical Center purchased an annual aggregated stop-loss insurance policy. The aggregate stop-loss coverage will "cap" the self-insured plan's exposure for the plan/policy year. Payments under the aggregate stop-loss are in accordance with the Tort Act provisions and are limited to $500,000 per claim (indemnity plus expense) within an annual aggregate of $5 million for all claims. The policy has a retroactive date of December 20, 2008 and a maintenance deductible of $10,000.

Effective March 22, 2011 the Medical Center purchased an insurance policy for its general liability exposures only. The policy's per occurrence limit of the coverage is $500,000 with a $10,000 deductible per occurrence. This policy has a retroactive date of December 20, 2006.

Consistent with these insurance program changes (and in accordance with the process described below), the Medical Center recorded an accrual for self-insured losses totaling $1,732,042 at September 30, 2018. The future assertion of claims for occurrences prior to year-end is reasonably possible and may occur; however, management does not anticipate any material impact on the financial statements.

Incurred losses identified through the Medical Center incident reporting system and incurred but not reported losses are accrued based on estimates that incorporate the Medical Center's current inventory of reported claims and historical experiences, as well as considerations such as the nature of each claim or incident, relevant trend factors and advice from consulting actuaries. The Medical Center has established a self-insurance trust fund for payment of liability claims and makes deposits to the fund in amounts determined by the consulting actuaries.

Note 8. Insurance Programs (Continued)

Changes in the Medical Center's insurance claims liability amount, including related legal fees, for the year 2018 were as follows:

	2018	2017
Claims liability, beginning of year	$ 1,827,727	$ 1,665,632
Current year claims and changes in estimates	(90,485)	212,095
Claims payments	(5,200)	(50,000)
Claims liability, end of year	$ 1,732,042	$ 1,827,727

Self-Funded Health Insurance Claim Liability

The Medical Center provides health insurance coverage to its employees under a self-funded plan. Health claims are paid by the Medical Center as they are incurred and filed by the employee. The estimated liability for claims incurred but not reported or paid is included as a current liability on the financial statements. Commercial insurance is purchased for claims in excess of coverage provided by the Medical Center to limit the Medical Center's liability or losses under its self-insurance program. The reinsurance coverage limits the claim losses to $160,000 per covered person, with an aggregate specific deductible of $100,000. Settled claims have not exceeded this commercial insurance in the past year.

	2018	2017
Claims liability, beginning of year	$ 900,000	$ -
Current year claims and changes in estimates	6,848,239	4,727,914
Claims payments	(6,892,005)	(3,827,914)
Claims liability, end of year	$ 856,234	$ 900,000

Note 9. Net Position – Net Investment in Capital Assets

The portion of net position classified as net investment in capital assets is as follows at September 30, 2018:

Capital assets	$ 165,244,633
Less accumulated depreciation	(132,221,465)
Less debt outstanding related to capital assets	(25,140,317)
Net investment in capital assets	$ 7,882,851

Note 10. Concentration of Credit Risk

The Medical Center grants credit without collateral to its patients, most of who are local residents and are insured under third-party payors agreements. The percentage mix of net accounts receivable from patients and major third-party payors at September 30, 2018 was as follows:

Patients	26%
Commercial insurance	17%
Medicare	35%
Medicaid	18%
Other	4%
	100%

Note 11. Patient Service Revenue

The Medical Center has agreements with governmental and other third-party payors that provide for payments to the Medical Center for services rendered at amounts different from its established rates. Patient revenue is reported net of contractual adjustments arising from these third-party arrangements as well as net of provisions for uncollectible accounts. A summary of the payment arrangements with major third-party payors follows below.

Note 11. Patient Service Revenue (Continued)

Medicare

Inpatient acute rehabilitation, psychiatric services, and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge or occurrence. These rates vary according to patient classification systems that are based on clinical, diagnostic and other factors. Certain outpatient services related to Medicare beneficiaries are reimbursed based upon fee basis, depending on the service. The Medical Center is reimbursed for cost-reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary.

Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon prospective reimbursement methodologies established by the State of Mississippi. The Medical Center is reimbursed at a tentative prospective rate which is adjusted annually based on the annual cost reports as submitted by the Medical Center and audits by the Medicaid fiscal intermediary.

The Medical Center participates in the Mississippi Intergovernmental Transfer Program as a Medicaid Disproportionate Share Hospital ("DSH"). Under the program the Medical Center receives enhanced reimbursement through a matching mechanism. For the fiscal year ended September 30, 2018, the Medical Center reported approximately $583,000, in enhanced reimbursement through the DSH program. DSH amounts are shown as a reduction of contractual adjustments with related assessments of approximately $782,000.

The Medical Center participates in the Division of Medicaid ("DOM") Mississippi Hospital Access Payment ("MHAP") program. The MHAP program is administered by the DOM through the Mississippi CAN coordinated care organizations ("CCO"). The CCO's subcontract with hospitals throughout the state for distribution of the MHAP for the purpose of protecting patient access to hospital care. For the fiscal year ended September 30, 2018, the Medical Center reported approximately $7,931,000 in enhanced reimbursements, and assessments of approximately $3,312,000 through the MHAP program. MHAP amounts are shown as a reduction of contractual adjustments.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near-term. For the year ended September 30, 2018, the Medical Center's net patient revenues increased approximately $1,323,000 due to prior year retroactive adjustments in amounts previously estimated. As of September 30, 2018, the Medical Center's Medicare cost reports have been settled through September 30, 2010.

Note 11. Patient Service Revenue (Continued)

Other

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

A summary of gross and net patient service revenue for the year ended September 30, 2018 follows:

Gross patient service revenue	$	379,693,845
Less provisions for		
Bad debts		(25,189,392)
Contractual adjustments under third-party reimbursement programs		(233,094,172)
Net patient service revenue	$	121,410,281

A summary of the changes in the allowance for uncollectible accounts for the year ended September 30, 2018 follows:

Allowance for uncollectible accounts, beginning	$	27,638,241
Write-offs		(18,431,768)
Change in estimate		25,189,392
Allowance for uncollectible accounts, ending	$	34,395,865

Although third party payor balances in accounts receivable are used to calculate the allowance for uncollectible accounts, the uncollectible amounts for them are adjusted through contractual adjustments and not the provision of bad debt. Changes associated with third party allowance are included in the change in estimate amount.

Note 11. Patient Service Revenue (Continued)

Patient service revenue by major payor class, net of contractual allowances and before the provision for bad debts, consisted of the following for the year ended September 30:

	Amount	Percentage
Medicare	$ 67,995,183	46%
Medicaid	26,097,030	18%
Blue Cross Blue Shield	16,063,274	11%
Other	36,444,186	25%
Patient service revenue, net of contractual allowances	$ 146,599,673	100%

Note 12. Charity Care

The amount of charges foregone under the Medical Center's charity care policy for services and supplies furnished under the Medical Center's charity care policy aggregated $8,765,189 for the year ended September 30, 2018.

The net cost of charity care provided was approximately $2,300,721 for 2018. The net cost of charity care is determined by multiplying the ratio of cost to gross charges and applying this ratio to the gross uncompensated charges associated in providing care to charity patients.

Note 13. Operating Leases

The Medical Center leases various equipment and facilities under operating leases expiring at various dates through the fiscal year 2023. Rental expense for the year ended September 30, 2018, for all operating leases totaled approximately $1,840,386.

The following is a schedule of future minimum lease payments under noncancellable operating leases as of September 30, 2018, that have initial or remaining lease terms in excess of one year:

Year Ending September 30,	
2019	$ 605,092
2020	486,099
2021	128,995
2022	45,016
2023	11,018
Total	$ 1,276,220

NOTES TO FINANCIAL STATEMENTS

Note 14. Blended Component Unit

The St. Luke Foundation, Inc.

Condensed component unit information for The St. Luke Foundation, Inc., the Medical Center's blended component unit, for the year ended September 30, 2018, are as follows:

Condensed Statement of Net Position

Assets	
Current assets	$ 9,212,773
Due from Medical Center	11,006,654
Capital assets, net	1,989,438
Other assets	611,391
Total assets	22,820,256
Liabilities	
Current liabilities	6,704,379
Total liabilities	6,704,379
Net position	
Net investment in capital assets	1,920,559
Unrestricted	14,195,318
Total net position	$ 16,115,877

Condensed Statement of Revenues, Expenses, and Changes in Net Position

Operating revenues	$ 9,937,749
Operating expenses	
Operations	9,124,762
Depreciation	180,049
Total operating expenses	9,304,811
Operating income	632,938
Nonoperating revenues (expenses)	90,864
Change in net position	723,802
Net position, beginning of year	15,392,075
Net position, end of year	$ 16,115,877

Note 14. Blended Component Unit (Continued)

Condensed Statement of Cash Flows

Net cash provided (used) by		
Operating activities	$	667,345
Noncapital financing activities		(3,026,672)
Capital and related financing activities		(587,080)
Investing activities		160,139
Net decrease in cash and cash equivalents		(2,786,268)
Cash and cash equivalents, beginning of year		4,099,649
Cash and cash equivalents, end of year	$	1,313,381

Note 15. Commitments and Contingencies

Litigation

The Medical Center is involved in litigation and regulatory investigations arising in the normal course of business. Based on consultations with legal counsel, management is of the opinion that these matters will be resolved without material adverse effect on the Medical Center's future financial position or on the results of its future operations.

Series 2018 Notes

The USDA has obligated funds to the Medical Center in the amount of $18,575,000 for the purchase of USDA Direct Loan Notes, which are the primary source of repayment of the Series 2018 Notes, and a $2,000,000 Guaranteed Term Loan. The Medical Center expects that the USDA will purchase all of the USDA Direct Loan Notes and fund all of the USDA Loan prior to or on the maturity date of the Series 2018 Revenue Notes. The purchase of all of the USDA Direct Loan Notes and the funding of the USDA Loan is conditioned upon compliance with provisions contained in a Commitment Letter, including but not limited to substantial completion of the Project in accordance with USDA requirements and the Letter of Conditions. The USDA is not unconditionally bound to purchase all of the USDA Direct Loan Notes and to fully fund the USDA Loan. A breach by the Medical Center of its covenants under the Letter of Conditions could result in a decision by the USDA not to purchase all of the USDA Direct Loan Notes and fully fund the USDA Loan. If the USDA does not purchase all of the USDA Direct Loan Notes and does not fully fund the USDA Loan, the Medical Center would have to sell the USDA Direct Loan Notes to other purchasers or obtain financing from other sources. There is no assurance the Medical Center could secure financing from other sources, and such failure to sell the USDA Direct Loan Notes to another purchaser or secure financing from other sources would result in nonpayment of the Series 2018 Notes on the maturity date. As of September 30, 2018, the Medical Center was not in compliance with the Letter of Conditions.

Note 16. Financing Arrangement

Effective April 30, 2018, the Medical Center entered into an agreement with First Bank (the Bank) for the sale of patient accounts receivable in an amount not to exceed $1,500,000. All patient notes purchased by the Bank are purchased with recourse to the Medical Center. The Medical Center acknowledges and agrees to repurchase from the Bank any patient note that has been in default for more than 60 days from the payment due date. The Medical Center, is required to hold a reserve account equal to 20% of the unpaid balance of all active loans made under this agreement. As of September 30, 2018, the Medical Center had approximately $94,857 in patient receivables purchased by the Bank.

Note 17. Subsequent Events

Management has evaluated subsequent events through April 9, 2019, the date which the financial statements were available to be issued.