

Forrest County General Hospital

(A Component Unit of Forrest County, Mississippi)

Independent Auditor's Report and Financial Statements

September 30, 2019 and 2018

Forrest County General Hospital
(A Component Unit of Forrest County, Mississippi)
September 30, 2019 and 2018

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Independent Auditor's Report

Board of Trustees
Forrest County General Hospital
Hattiesburg, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of Forrest County General Hospital (the Hospital), a component unit of Forrest County, Mississippi, as of and for the years ended September 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 Forrest County General Hospital as of September 30, 2019 and 2018, and the changes in its

financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The Schedule of Surety Bonds for Officials and Employees, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Surety Bonds for Officials and Employees information has not been subjected to the auditing procedures applied in the audits 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 have also issued our report dated November 26, 2019, on our consideration of the Hospital'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 Hospital'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 Hospital's internal control over financial reporting and compliance.

BKD, LLP

Jackson, Mississippi
November 26, 2019

Forrest County General Hospital
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Management's Discussion and Analysis
September 30, 2019 and 2018

Introduction

This management's discussion and analysis of the financial performance of Forrest County General Hospital (the Hospital) provides an overview of the Hospital's financial activities for the fiscal years that ended on September 30, 2019 and 2018. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

2019

- Total operating revenues decreased 0.8%. Current year changes impacting operating revenues include:
 - Demand for services decreased, as admissions and surgery cases decreased 1.75% and .67%, respectively.
- Operating expenses increased 1.5%. Current year changes impacting operating expenses include:
 - Salaries, wages and employee benefits increased approximately 1.6%, due to increase in full-time equivalents (FTEs) at one of the regional facilities and changes in staffing at the main hospital that resulted in significant overtime until staffing levels could be normalized.
 - Medical supplies increased approximately 1.5%, due primarily to high dollar implants needed for surgical cases and pharmaceuticals needed to treat cancer patients.

2018

- Total operating revenues increased 0.1%. Current year changes impacting operating revenues include:
 - Demand for services decreased, as admissions and surgery cases decreased 1.3% and 5.6%, respectively.
- Operating expenses increased 2.0%. Current year changes impacting operating expenses include:
 - Salaries, wages and employee benefits increased approximately 2.0%, due to a retention payment made to all employees during fiscal year 2018.
 - Medical supplies increased approximately 3.0%, due primarily to volume increases in pharmaceuticals and implants needed for surgical cases.

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- Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment benefits Other Than Pensions*, was adopted in fiscal year 2018.

Using This Annual Report

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

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

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

These two statements report the Hospital’s net position and changes in it. The Hospital’s total net position—the difference between assets, liabilities and deferred inflows and outflows of resources—is one measure of the Hospital’s financial health or financial position. Over time, increases or decreases in the Hospital’s net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital’s patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

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

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The Hospital's Net Position

The Hospital's net position is the difference between its assets, liabilities and deferred inflows and outflows of resources reported in the balance sheet. The Hospital's net position increased by approximately \$9,000,000 (2%) in 2019 over 2018, and by approximately \$19,600,000 (4.4%) in 2018 over 2017, as shown in Table A-1 and Table A-2.

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

	2019	2018	Dollar Change	Percentage Change
Assets and Deferred Outflows of Resources				
Cash and other current assets	\$ 132.8	\$ 137.8	\$ (5.0)	-3.6%
Patient accounts receivable, net	53.5	53.3	0.2	0.4%
	<u>186.3</u>	<u>191.1</u>	<u>(4.8)</u>	<u>-2.5%</u>
Investments and other assets	270.8	255.9	14.9	5.8%
Capital assets	313.8	326.8	(13.0)	-4.0%
Deferred outflows of resources	<u>12.6</u>	<u>6.9</u>	<u>5.7</u>	<u>82.6%</u>
 Total assets and deferred outflows of resources	 <u>\$ 783.5</u>	 <u>\$ 780.7</u>	 <u>\$ 2.8</u>	 <u>0.4%</u>
Liabilities and Deferred Inflows of Resources				
Current liabilities	\$ 66.2	\$ 68.0	\$ (1.8)	-2.6%
Long-term liabilities	241.5	248.2	(6.7)	-2.7%
Deferred inflows of resources	<u>5.9</u>	<u>3.6</u>	<u>2.3</u>	<u>63.9%</u>
 Total liabilities and deferred inflows of resources	 <u>313.6</u>	 <u>319.8</u>	 <u>(6.2)</u>	 <u>-1.9%</u>
Net Position				
Net investment in capital assets	166.8	173.5	(6.7)	-3.9%
Unrestricted	<u>303.1</u>	<u>287.4</u>	<u>15.7</u>	<u>5.5%</u>
 Total net position	 <u>469.9</u>	 <u>460.9</u>	 <u>9.0</u>	 <u>2.0%</u>
 Total liabilities, deferred inflows of resources and net position	 <u>\$ 783.5</u>	 <u>\$ 780.7</u>	 <u>\$ 2.8</u>	 <u>0.4%</u>

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Table A-1 above shows net cash and other current assets decreased by approximately \$5,000,000 from 2018 to 2019. Investments and other assets reflect an increase of approximately \$14,900,000 for the same time period. These changes are due primarily to increases in the assets held under trust agreement for the 457(f) plan discussed in *Note 2*, as well as increases in board designated investments from unrealized gains. Deferred outflows of resources increased by approximately \$5,700,000, due primarily to differences between net investment gains on pension plan assets and assumed gains and refinancing of 2010 bonds.

Long-term liabilities decreased approximately \$6,700,000, due primarily to refinancing of long-term debt (*Note 4*) and decreases in the net pension and OPEB liabilities (*Notes 11 and 12*).

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

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

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

Long-term liabilities decreased approximately \$10,800,000, due primarily to debt forgiveness (*Note 4*) and a decrease in the net pension liability (*Note 11*), offset by changes in OPEB liability from adoption of GASB 75 (*Note 12*).

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

	2019	2018	Dollar Change	Percentage Change
Operating Revenues				
Net patient service revenue	\$ 535.0	\$ 537.4	\$ (2.4)	-0.4%
Other	11.3	13.5	(2.2)	-16.3%
Total operating revenues	546.3	550.9	(4.6)	-0.8%
Operating Expenses				
Salaries, wages and employee benefits	265.2	261.1	4.1	1.6%
Supplies and other expenses	245.4	241.8	3.6	1.5%
Depreciation and amortization	32.9	32.7	0.2	0.6%
Total operating expenses	543.5	535.6	7.9	1.5%
Operating Income	2.8	15.3	(12.5)	-81.7%
Nonoperating Revenues (Expenses), Net	6.2	4.3	1.9	44.2%
Increase in Net Position	9.0	19.6	(10.6)	-54.1%
Beginning Net Position	460.9	441.3	19.6	4.4%
Ending Net Position	\$ 469.9	\$ 460.9	\$ 9.0	2.0%

Table A-3 above shows net patient service revenue decreased by approximately \$2,400,000 from 2018 to 2019. The change was primarily the result of a decrease in overall patient volume.

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Salaries, wages and employee benefits increased \$4,100,000, due to increased FTEs at one of the regional facilities and changes in staffing at the main hospital that resulted in significant overtime until staff levels could be normalized. Supplies, contractual services, repairs and maintenance, and other expenses increased by approximately 1.5%, due primarily to increases in cancer-related pharmaceutical prices and high dollar implants.

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

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

Table A-4 above shows net patient service revenue increased by approximately \$3,600,000 from 2017 to 2018. The change is primarily the result of an increase in overall patient volume and improved payer mix.

Salaries, wages and employee benefits increased \$5,100,000, due to increase in full-time equivalent employees related to volume combined with employee retention payments made in 2018. Supplies, contractual services, repairs and maintenance, and other expenses increased by approximately 3.0%, due primarily to increases in cancer-related pharmaceutical prices and use of contract labor to fill nursing shortages.

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Capital Assets and Debt Financing

Capital Assets

The Hospital's investment in a variety of net capital assets was approximately \$313,800,000 as of September 30, 2019 and approximately \$326,800,000 as of September 30, 2018, as shown in Table A-5 below.

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

	2019	2018	2017
Land and land improvements	\$ 31.0	\$ 31.6	\$ 30.9
Buildings	326.6	321.5	338.1
Furniture, fixtures and equipment	312.4	293.5	310.2
	<hr/>	<hr/>	<hr/>
Total capital assets	670.0	646.6	679.2
Accumulated depreciation	(370.9)	(341.0)	(365.7)
Construction in progress	14.7	21.2	6.6
	<hr/>	<hr/>	<hr/>
Capital assets, net	<u>\$ 313.8</u>	<u>\$ 326.8</u>	<u>\$ 320.1</u>

Debt Financing

The Hospital refunded the Series 2010 bonds payable by issuing refunding bonds in July 2019 (*Note 4*).

During 2018, the Hospital paid off certain capital lease obligations by entering promissory notes with a bank (*Note 5*).

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

Next Year's Operating Plan

The Hospital's Board of Trustees adopted the fiscal year 2020 operating plan in August 2019. The operating plan for 2020 assumes that inpatient admissions will remain consistent with 2019. The plan includes an increase in net assets of approximately \$6,600,000.

Management continues to anticipate changes from the Patient Protection and Affordable Care Act (PPACA) legislation passed by Congress. Proposed changes call for reduction in payments to all

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hospitals for Medicare disproportionate share to help pay for proposed legislation. Other revenue reductions could come in the form of higher deductible plans, readmission penalties, Recovery Audit Contract (RAC) audits, value-based purchasing requirements, bundled payments, etc. Over the next 12 months, management will continue its focus on becoming more efficient with resources, while striving to achieve the highest level of quality of care.

Contacting the Hospital's Financial Management

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

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Balance Sheets

September 30, 2019 and 2018

Assets and Deferred Outflows of Resources

	2019	2018
Current Assets		
Cash and cash equivalents	\$ 112,312,961	\$ 119,094,399
Funds held by trustee for self-insurance funding – current	321,967	255,739
Patient accounts receivable, net of allowance for doubtful accounts of \$66,302,000 in 2019 and \$65,591,000 in 2018	53,504,000	53,316,623
Other receivables	3,353,693	2,803,953
Supplies	10,825,035	9,855,303
Prepaid expenses and other	5,964,755	5,828,943
Total current assets	186,282,411	191,154,960
Noncurrent Cash and Investments		
Funds held by trustee for self-insurance funding	4,208,489	4,573,285
Funds held by trustee under deferred fee agreement	76,212,633	73,655,132
Funds designated by the Board for discretionary purposes	179,110,193	168,878,033
Total noncurrent assets	259,531,315	247,106,450
Capital Assets, Net	313,807,287	326,826,581
Other Assets	11,317,966	8,762,946
Deferred Outflows of Resources	12,575,641	6,878,038
Total assets and deferred outflows of resources	\$ 783,514,620	\$ 780,728,975

Liabilities, Deferred Inflows of Resources and Net Position

	<u>2019</u>	<u>2018</u>
Current Liabilities		
Current installments of long-term debt	\$ 5,874,835	\$ 5,632,225
Accounts payable	26,001,696	25,761,899
Salaries and wages payable	12,970,038	12,129,901
Payroll taxes and withholdings	3,281,299	2,927,221
Due to third-party payers	7,852,412	10,852,165
Other accrued expenses	<u>10,241,839</u>	<u>10,715,637</u>
Total current liabilities	66,222,119	68,019,048
Long-term debt	139,713,051	143,024,949
Workers' compensation and professional liability reserves	3,424,131	3,952,257
Net other postemployment benefit liability	2,604,901	5,826,558
Net pension liability	19,211,366	20,205,966
Deferred compensation	<u>76,462,633</u>	<u>75,164,474</u>
Total liabilities	<u>307,638,201</u>	<u>316,193,252</u>
Deferred Inflows of Resources	<u>5,920,939</u>	<u>3,627,769</u>
Net Position		
Net investment in capital assets	166,848,674	173,525,857
Unrestricted	<u>303,106,806</u>	<u>287,382,097</u>
Total net position	<u>469,955,480</u>	<u>460,907,954</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 783,514,620</u>	<u>\$ 780,728,975</u>

Forrest County General Hospital
(A Component Unit of Forrest County, Mississippi)
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2019 and 2018

	2019	2018
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts of \$61,758,000 in 2019 and \$55,666,000 in 2018	\$ 534,967,487	\$ 537,371,323
Other	11,290,317	13,474,683
Total operating revenues	546,257,804	550,846,006
Operating Expenses		
Salaries, wages and employee benefits	265,199,696	261,095,036
Supplies	121,717,547	117,995,575
Contractual services	77,009,146	78,659,284
Repairs, maintenance and other	34,955,874	34,718,004
Insurance	2,186,073	1,659,228
Lease and rentals	9,498,662	8,814,668
Depreciation and amortization	32,872,048	32,673,738
Total operating expenses	543,439,046	535,615,533
Operating Income	2,818,758	15,230,473
Nonoperating Revenues (Expenses)		
Net investment income	13,830,111	1,002,097
Interest expense	(5,793,464)	(6,716,528)
Noncapital grants and gifts received and other	908,121	870,922
Noncapital grants and gifts paid to others	(1,615,027)	(1,495,212)
Gain on forgiveness of debt	-	6,244,548
Net gain on disposal of capital assets	(1,009,780)	3,029,857
Other	(91,193)	1,350,030
Total nonoperating revenues (expenses)	6,228,768	4,285,714
Increase in Net Position	9,047,526	19,516,187
Net Position, Beginning of Year	460,907,954	441,391,767
Net Position, End of Year	\$ 469,955,480	\$ 460,907,954

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Statements of Cash Flows
Years Ended September 30, 2019 and 2018

	2019	2018
Operating Activities		
Receipts from and on behalf of patients	\$ 531,857,747	\$ 536,609,123
Other cash received	10,055,702	15,331,324
Cash paid to suppliers and others	(244,798,600)	(243,894,047)
Cash paid to or on behalf of employees	(273,672,562)	(267,631,737)
Net cash provided by operating activities	23,442,287	40,414,663
Noncapital Financing Activities		
Noncapital grants and gifts received and other	958,121	863,572
Noncapital grants and gifts paid to others	(1,615,027)	(1,495,212)
Net cash used in noncapital financing activities	(656,906)	(631,640)
Capital and Related Financing Activities		
Principal paid on long-term debt	(77,580,584)	(25,558,454)
Principal paid on capital lease obligations	-	(1,123,108)
Purchase of capital assets	(24,971,350)	(38,873,561)
Proceeds from issuance of long-term debt	71,950,737	22,980,925
Proceeds from insurance recovery	-	1,493,531
Proceeds from sale of capital assets	3,943,000	4,643,318
Interest paid on long-term debt and capital lease obligations	(6,469,904)	(7,235,865)
Net cash used in capital and related financing activities	(33,128,101)	(43,673,214)
Investing Activities		
Interest and dividends on investments	6,829,146	6,139,429
Proceeds from sale of investments	42,162,278	12,108,611
Purchase of investments	(46,536,272)	(16,477,927)
Net cash provided by investing activities	2,455,152	1,770,113
Decrease in Cash and Cash Equivalents	(7,887,568)	(2,120,078)
Cash and Cash Equivalents, Beginning of Year	134,727,196	136,847,274
Cash and Cash Equivalents, End of Year	\$ 126,839,628	\$ 134,727,196

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Statements of Cash Flows (Continued)
Years Ended September 30, 2019 and 2018

	2019	2018
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 2,818,758	\$ 15,230,473
Items not requiring cash		
Depreciation and amortization	32,872,048	32,673,738
Provision for uncollectible accounts	61,758,078	55,665,821
Changes in		
Patient accounts receivable, net	(61,945,455)	(57,051,372)
Accounts payable and accrued liabilities	2,306,683	(929,562)
Amounts due to and from third-party payers	(2,999,753)	(231,380)
Net pension liability	(994,600)	(7,105,958)
Net other postemployment benefit liability	(3,221,657)	(833,247)
Other assets, deferred outflows, liabilities and deferred inflows	(7,151,815)	2,996,150
Net cash provided by operating activities	\$ 23,442,287	\$ 40,414,663
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 112,312,961	\$ 119,094,399
Cash and cash equivalents in funds internally designated and held by trustee for capital acquisition and deferred fee agreements	9,996,211	12,227,018
Cash and cash equivalents in funds held by trustee for self-insurance funding	4,530,456	3,405,779
Total cash and cash equivalents	\$ 126,839,628	\$ 134,727,196
Noncash Investing, Capital and Financing Activities		
Capital asset purchases included in accounts payable	\$ 2,643,443	\$ 3,273,941
Gain on forgiveness of debt	\$ -	\$ 6,244,548
Refinancing of capital leases to bank financing due to purchase of buildings	\$ -	\$ 22,823,812

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

Notes to Financial Statements September 30, 2019 and 2018

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

Nature of Operations and Reporting Entity

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

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

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

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

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

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

Notes to Financial Statements September 30, 2019 and 2018

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

Basis of Accounting and Presentation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, deferred outflows and inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

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

Notes to Financial Statements **September 30, 2019 and 2018**

Patient Accounts Receivable

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

Supplies

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

Designated Funds and Funds Held by Trustees

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

Investments and Investment Income

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

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

Capital Assets

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

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

Notes to Financial Statements September 30, 2019 and 2018

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

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

Capital Asset Impairment

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

Compensated Absences

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

Risk Management

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

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

Notes to Financial Statements September 30, 2019 and 2018

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

Deferred Outflows/Inflows of Resources

Transactions not meeting the definition of an asset or liability that result in the consumption or acquisition of net position in one period that are applicable to future periods are reported as deferred outflows of resources and deferred inflows of resources. At September 30, 2019 and 2018, deferred outflows of resources and deferred inflows of resources were comprised of the following:

	Deferred Outflows of Resources	
	2019	2018
Deferred loss on swap termination <i>(Note 4)</i>	\$ 2,387,847	\$ 2,812,856
Deferred loss on refunding <i>(Note 4)</i>	1,928,406	-
Pension plan <i>(Note 11)</i>	4,729,213	3,354,042
OPEB plan <i>(Note 12)</i>	3,530,175	711,140
	\$ 12,575,641	\$ 6,878,038

	Deferred Inflows of Resources	
	2019	2018
Gain on debt refunding <i>(Note 4)</i>	\$ 2,036,661	\$ 2,399,162
Pension plan <i>(Note 11)</i>	349,264	1,111,918
OPEB plan <i>(Note 12)</i>	3,535,014	116,689
	\$ 5,920,939	\$ 3,627,769

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

Notes to Financial Statements September 30, 2019 and 2018

Defined Benefit Pension Plan

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

Defined Benefit Other Postemployment Benefit Plan

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

Net Position

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

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

The Hospital had no material restricted net position at September 30, 2019 or 2018.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations.

Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as

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

Notes to Financial Statements
September 30, 2019 and 2018

adjustments become known or as years are no longer subject to such audits, reviews and investigations

Charity Care

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

Income Taxes

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

Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 presentation. The reclassifications had no effect on the changes in financial position.

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

**Notes to Financial Statements
September 30, 2019 and 2018**

Note 2: Deposits, Investments and Investment Income

The Hospital's deposits and investments are summarized below as of September 30, 2019 and 2018:

	2019	2018
Cash and cash equivalents	\$ 112,312,961	\$ 119,094,399
Designated funds and funds held by trustees		
Cash and cash equivalents	7,777,305	9,030,815
Money market mutual funds	6,749,362	6,601,982
U.S. agency securities	24,373,242	24,652,425
U.S. Treasury securities	5,342,909	196,048
State municipal securities	17,558,505	20,425,615
Open-end mutual funds	69,642,710	68,593,277
Corporate debt securities	37,927,659	33,417,633
Pooled investment securities	90,481,590	84,444,394
	259,853,282	247,362,189
	\$ 372,166,243	\$ 366,456,588

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

Credit Risk

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

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

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

Notes to Financial Statements September 30, 2019 and 2018

A summary of cash and investments is as follows:

September 30, 2019	Fair Value	Percentage	Credit Rating
Cash and cash equivalents, operating funds	\$ 112,312,961	30.18%	Exempt from disclosure
Cash and cash equivalents, designated and held by trustee	7,777,305	2.09%	Exempt from disclosure
Money market mutual funds	6,749,362	1.81%	Aaa
U.S. agency securities	24,373,242	6.55%	Exempt from disclosure
U.S. Treasury securities	5,342,909	1.44%	Exempt from disclosure
State municipal securities	17,558,505	4.72%	Exempt from disclosure
Open-end mutual funds	69,642,710	18.71%	*
Corporate debt securities	37,927,659	10.19%	Aaa - A3
Pooled investment securities	<u>90,481,590</u>	<u>24.31%</u>	**
Total cash and investments	<u>\$ 372,166,243</u>	<u>100.00%</u>	

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

* The open-end mutual funds primarily represent funds that the Hospital holds on behalf of Hattiesburg Clinic Professional Association (HCPA) for certain deferred fees as part of a 457(f) plan. The Hospital does not make investment decisions on these funds, and the entirety of the funds is due to HCPA. Mutual funds included in board designated accounts totaled \$0 and \$314,552 at September 30, 2019 and 2018, respectively.

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

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

Notes to Financial Statements September 30, 2019 and 2018

Concentration of Credit Risk

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

Concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer (an investment that represents more than 5% of the market value of the total investment portfolio). At September 30, 2019, approximately 10% and 7% of the Hospital's investment portfolio concentrations (exclusive of funds held for HCPA or designated for deferred compensation arrangements) was invested in bonds of the State of Mississippi and Federal National Mortgage Association, respectively. At September 30, 2018, approximately 12% and 8% of the Hospital's investment portfolio concentrations (exclusive of funds held for HCPA or designated for deferred compensation arrangements) was invested in bonds of the State of Mississippi and Federal National Mortgage Association, respectively.

Custodial Credit Risk

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

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

- In accordance with statutes of the state of Mississippi, the Hospital maintains its deposits at financial institutions authorized by the Board of Trustees.
- The collateral for public entity deposits in financial institutions is held in the name of the State Treasurer of Mississippi under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 of the Mississippi Code Annotated (1972). Under this program, the Hospital's funds are protected through a collateral pool administered by the State Treasurer.
- Financial institutions holding deposits of public funds must pledge securities as collateral against these deposits.

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

Notes to Financial Statements September 30, 2019 and 2018

- In the event of a financial institution's failure, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. At September 30, 2019 and 2018, deposits and investments requiring custodial credit risk disclosure totaled approximately \$176,891,000 and \$165,985,000, respectively, all of which were insured or collateralized in accordance with state statute.

Interest Rate Risk

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

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

The following is a summary of the Hospital's segmented time distribution investment maturities in years by investment type as of September 30, 2019 and 2018.

September 30, 2019	Fair Value	Years			
		< 1	1 – 5	6 – 10	More than 10
U.S. agency securities	\$ 24,373,242	\$ 6,876,334	\$ 16,496,899	\$ 1,002,649	\$ -
U.S. Treasury securities	5,342,909	99,785	5,243,124	-	-
State municipal securities	17,558,505	4,485,230	12,031,376	1,039,259	-
Corporate debt securities	37,927,659	7,740,775	17,651,074	12,535,810	-
	<u>\$ 85,202,315</u>	<u>\$ 19,202,124</u>	<u>\$ 51,422,473</u>	<u>\$ 14,577,718</u>	<u>\$ -</u>

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

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

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

Notes to Financial Statements September 30, 2019 and 2018

The intent of the trust agreement is to provide for the deferred payment by the Hospital to HCPA of certain fees earned by HCPA for services rendered to the Hospital and to be the nonprofit vehicle through which related investments are held on behalf of HCPA. The Hospital is liable to HCPA for the entirety of the investment.

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

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

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

The amount of the deferred fees that the Hospital deposits on behalf of HCPA in the trust account for the deferred compensation plan was \$258,250 and \$248,650 per month for 2019 and 2018, respectively. Periodically, usually in January, HCPA notifies the Hospital of the deferral amount based on the enrollment of HCPA physicians.

At September 30, 2019 and 2018, the fair value of the assets held under the trust agreement for the 457(f) plan that are included in money market mutual funds and open-end mutual funds and the corresponding liability was approximately \$76,213,000 and \$73,655,000, respectively. The amounts have been reflected on the accompanying balance sheets.

Investment Income

Investment income for the years ended September 30, 2019 and 2018 consisted of:

	2019	2018
Interest and dividend income	\$ 7,073,190	\$ 6,255,017
Realized losses on investments, net	(425,052)	(465,248)
Unrealized gains (losses) on investments	7,181,973	(4,787,672)
	\$ 13,830,111	\$ 1,002,097

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

Notes to Financial Statements September 30, 2019 and 2018

Note 3: Capital Assets

Capital assets and related activity for the year ended September 30, 2019, consist of the items shown below.

	Balance October 1, 2018	Transfers in and Additions	Transfers Out and Retirements	Balance September 30, 2019
Capital assets not being depreciated				
Land	\$ 16,736,267	\$ 650,000	\$ (2,112,301)	\$ 15,273,966
Construction in progress	21,233,488	23,941,927	(30,504,810)	14,670,605
Total book value of capital assets not being depreciated	<u>37,969,755</u>	<u>24,591,927</u>	<u>(32,617,111)</u>	<u>29,944,571</u>
Capital assets being depreciated				
Land improvements	14,882,984	862,589	(61,101)	15,684,472
Leasehold improvements	5,169,909	-	-	5,169,909
Buildings	321,454,788	9,508,331	(4,397,555)	326,565,564
Fixed equipment	49,172,809	2,937,862	(57,799)	52,052,872
Movable equipment	234,611,420	17,318,361	(1,136,563)	250,793,218
Automotive equipment	4,568,851	116,638	(159,299)	4,526,190
Total book value of capital assets being depreciated	<u>629,860,761</u>	<u>30,743,781</u>	<u>(5,812,317)</u>	<u>654,792,225</u>
Less accumulated depreciation for				
Land improvements	9,069,405	759,853	(33,605)	9,795,653
Leasehold improvements	3,183,989	423,247	-	3,607,236
Buildings	146,476,602	11,437,426	(1,621,713)	156,292,315
Fixed equipment	24,578,897	2,954,953	(49,939)	27,483,911
Movable equipment	154,498,286	16,891,005	(1,081,918)	170,307,373
Automotive equipment	3,196,756	405,564	(159,299)	3,443,021
Total accumulated depreciation	<u>341,003,935</u>	<u>32,872,048</u>	<u>(2,946,474)</u>	<u>370,929,509</u>
Capital assets, being depreciated, net	<u>288,856,826</u>	<u>(2,128,267)</u>	<u>(2,865,843)</u>	<u>283,862,716</u>
Capital assets, net	<u>\$ 326,826,581</u>	<u>\$ 22,463,660</u>	<u>\$ (35,482,954)</u>	<u>\$ 313,807,287</u>

Construction in progress at September 30, 2019, consists of expenditures associated with renovation of acute care areas of the main facility and the cancer center. Budgeted costs to complete these projects are \$7,000,000 in fiscal year 2020.

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

Notes to Financial Statements September 30, 2019 and 2018

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

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

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Note 4: Long-term Debt

A summary of long-term obligation transactions for the Hospital for the years ended September 30, 2019 and 2018 follows.

Description	Balance October 1, 2018	Additions	Retired	Amortization	Balance September 30, 2019	Due Within One Year
Series 2009 (A)	\$ 32,200,000	\$ -	\$ 2,045,000	\$ -	\$ 30,155,000	\$ 2,150,000
Series 2019 (B)	-	63,530,000	-	-	63,530,000	-
Series 2010 (C)	70,000,000	-	70,000,000	-	-	-
BancorpSouth (D)	21,174,769	-	1,150,215	-	20,024,554	1,190,336
BancorpSouth (E)	12,561,986	-	1,086,544	-	11,475,442	1,132,080
BancorpSouth (F)	10,219,423	-	947,955	-	9,271,468	991,656
Zoll Equipment Note (G)	558,420	-	186,140	-	372,280	186,140
The First (H)	1,107,402	-	215,797	-	891,605	224,623
Unamortized Bond Premium	835,174	9,256,065	-	(223,702)	9,867,537	-
	<u>\$ 148,657,174</u>	<u>\$ 72,786,065</u>	<u>\$ 75,631,651</u>	<u>\$ (223,702)</u>	<u>\$ 145,587,886</u>	<u>\$ 5,874,835</u>

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

- (A) Series 2009 Revenue Refunding Bonds, bearing interest at 5.25%; collateralized by Hospital revenues; due on January 1, 2030. The Series 2009 Bonds were issued through the Mississippi Hospital Equipment and Facilities Authority (MHEFA). The Series 2009 Bond proceeds were used to refund all amounts outstanding under the Series 2007A variable rate revenue bonds (Series 2007A Bonds) and included a premium of \$2,283,000. The owner of the Series 2007A Bonds agreed to accept \$37,528,000 for settlement of the outstanding bonds with a par amount of \$45,555,000. The economic gain (generally defined as the present value of the net cash flow differential discounted at the effective interest rate of the new debt) on the refunding transaction totaled approximately \$6,250,000. The Series 2009 Bonds may be redeemed at the option of the Hospital on any date on or after January 1, 2020, at a redemption price of par plus accrued interest to the redemption date. The Hospital recognized a gain on the refunding

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of the Series 2007A Bonds, which is being recognized over the term of the Series 2009 Bonds. The unamortized gain was \$2,036,661 and \$2,399,160 at September 30, 2019 and 2018, respectively, and is included in the balance sheets as a deferred inflow of resources. Upon the issuance of the Series 2009 Bonds, there was also a termination of a cost of funds swap (*Note 7*). The termination payment of \$7,690,000 has been deferred and is being amortized over the term of the Series 2009 Bonds. The unamortized loss on the swap termination was \$2,387,847 and \$2,812,856 at September 30, 2019 and 2018, respectively, and is included in the balance sheets as a deferred outflow of resources.

Subsequent to September 30, 2019, on October 3, 2019, the Hospital issued \$26,365,000 in Series 2019B Revenue Refunding Bonds (Forward Delivery) bearing interest at 5.0% to advance refund the aggregate remaining principal of \$30,155,000 on the Series 2009 Revenue Refunding Bonds and pay certain expenses incurred in connection with the issuance of the bonds. The net proceeds of \$30,828,713 (after payment of \$390,221 in underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. The Series 2019B Bonds will mature through January 30, 2030.

- (B) On July 25, 2019, the Hospital issued \$63,530,000 in Series 2019A Revenue Refunding Bonds bearing interest at 3.0% to 5.0% to advance refund \$70,000,000 of Series 2010 Build America Revenue Bonds and to pay certain expenses incurred in connection with the issuance of the bonds. The total bond proceeds were \$72,786,065, resulting in an issuance premium of \$9,256,065. The net proceeds of \$71,950,737 (after payment of \$835,328 in underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 2010 Build America Revenue Bonds. As a result, the 2010 Series bonds are considered to be defeased, and the liability for those bonds has been removed from the Hospital's balance sheets.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,948,933. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged to interest expense through the year 2039 using the effective interest method. The Hospital completed the advance refunding to reduce its total debt service payments over the next 20 years by \$18,442,057 and to obtain an economic gain between the present values of the old and new debt service payments of \$12,081,158.

- (C) Series 2010 Build America Revenue Bonds; bearing interest at 7.265% to 7.390%; collateralized by Hospital revenue; due on January 1, 2040. The Series 2010 Bonds were issued through MHEFA. The Series 2010 Bond proceeds were used to fund campus renovations and equipment purchases, as well as construction of a replacement hospital facility for Highland Community Hospital in Picayune, Mississippi. The Series 2010 Bonds may be redeemed at the option of the Hospital on any date on or after January 1, 2020, at a redemption price of par plus accrued interest to the redemption date. The

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Series 2010 Bonds were issued as Direct Payment Build America Bonds (BABs) for the purposes of the American Recovery and Reinvestment Act of 2009 (the Act), and the Hospital expects to receive a cash subsidy payment from the United States Treasury pursuant to the Act equal to 35% of the interest payable on the Series 2010 Bonds on or about each interest payment date. As a result of federal sequestration, the cash subsidy was reduced by approximately 6.6% in fiscal year 2019.

As noted in (B), the Series 2010 Bonds were defeased on July 25, 2019 with the issuance of the Series 2019A Bonds.

- (D) Promissory note dated January 25, 2018, bearing interest at 3.55%; collateralized by Hospital revenues; due from February 20, 2018 to January 20, 2033.
- (E) Promissory note dated April 9, 2018, bearing interest at 4.17%; collateralized by real property; due from May 9, 2018 to April 9, 2028.
- (F) Promissory note dated August 31, 2018, bearing interest at 4.57%; collateralized by real property; due from September 30, 2018 to August 31, 2027.
- (G) Note payable to vendor for equipment, due in equal annual installments of \$206,736, which includes an interest rate of 11% through November 1, 2020.
- (H) Promissory note dated May 30, 2018, bearing interest at 4.00%; collateralized by real property; due from July 5, 2018 to June 5, 2023.
- (I) Promissory note dated December 28, 2010, bearing interest at 4.91%; collateralized by real property; due from February 5, 2018 to January 5, 2036. On the 10th and 20th anniversary of the note, the interest rate will adjust to a rate that is based on a U.S. Treasury rate plus a fixed percentage. This note was paid in full in January 2018 as part of the dissolution of Pointe Properties, LLC.
- (J) Promissory note, bearing interest at 1.00%; collateralized by real property; due from February 5, 2018 to January 5, 2036. This note was forgiven in January 2018 as part of the dissolution of Pointe Properties, LLC. A gain of \$4,694,805 was recognized by the Hospital in 2018 and included within gain on debt forgiveness in the statements of revenues, expenses and changes in net position.
- (K) Promissory note dated December 28, 2010, bearing interest at 4.91%; collateralized by real property; due from February 5, 2018 to January 5, 2036. On the 10th and 20th anniversary of the note, the interest rate will adjust to a rate that is based on a U.S. Treasury rate plus a fixed percentage. This note was paid in full in January 2018 as part of the dissolution of Pointe Properties, LLC.

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- (L) Promissory note, bearing interest at 1.00%; collateralized by real property; due from February 5, 2018 to January 5, 2036. This note was forgiven in January 2018 as part of the dissolution of Pointe Properties, LLC. A gain of \$1,549,743 was recognized by the Hospital in 2018 and included within gain on debt forgiveness in the statements of revenues, expenses and changes in net position.
- (M) Gulf Opportunity Zone Revenue Bond, bearing interest at 5.05%; collateralized by real property; due from January 15, 2013 to December 15, 2017. This note was paid in full in December 2017.

Promissory notes I through L and the Gulf Opportunity Zone Revenue Bond were assumed through the acquisition of Pointe Properties, LLC, in August 2015. This debt was originally issued as part of an integrated financing structure developed under the New Market Tax Credit (NMTC) program pursuant to Section 45D of the Internal Revenue Code and the regulations, compliance and reporting requirements thereunder.

The loan agreements for the Series 2019 Bonds, Series 2010 Bonds and Series 2009 Bonds contain certain terms and restrictive covenants typical of such agreements, including maintenance of certain debt service coverage and liquidity levels and limitations on additional indebtedness.

Debt service requirements associated with the Hospital's long-term debt are shown below.

Years Ending September 30	Principal	Interest	Total
2020	\$ 5,874,835	\$ 3,760,657	\$ 9,635,492
2021	6,142,934	2,887,911	9,030,845
2022	6,231,861	2,590,186	8,822,047
2023	6,454,108	2,300,266	8,754,374
2024	6,445,032	4,795,926	11,240,958
2025 - 2028	27,294,972	16,031,157	43,326,129
2029 - 2033	33,011,621	12,799,237	45,810,858
2034 - 2038	30,760,000	5,359,575	36,119,575
2039 - 2040	13,504,986	410,050	13,915,036
	<u>\$ 135,720,349</u>	<u>\$ 50,934,965</u>	<u>\$ 186,655,314</u>

Note 5: Capital Leases

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

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

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

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

Note 6: Other Accrued Expenses

Other accrued expenses consist of the following:

	<u>2019</u>	<u>2018</u>
Patient credit balances	\$ 3,933,682	\$ 3,366,607
Reserve for incurred but not reported employee health claims	1,391,000	1,861,000
Workers' compensation and professional liability reserves - current	1,271,967	1,145,739
Advanced revenue	804,470	1,294,155
Accrued interest expense	1,067,332	1,783,303
Construction retainage	76,633	-
Other	1,696,755	1,264,833
	<u>\$ 10,241,839</u>	<u>\$ 10,715,637</u>

Note 7: Interest Rate Swap Agreements

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

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

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

	Basis Swap
Fair value, September 30, 2017	\$ (102,762)
Change in fair value	104,541
Fair value, September 30, 2018	1,779
Change in fair value	169,108
Fair value, September 30, 2019	\$ 170,887

The cost of funds swap was terminated in conjunction with the issuance of the Series 2009 Bonds. The termination payment of \$7,690,000 has been deferred and is being amortized as discussed in *Note 4*. At September 30, 2019 and 2018, only the basis swap remained in effect.

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

- **Objective of the Interest Rate Swaps** – While the Hospital’s long-term debt at September 30, 2019 and 2018, is a fixed rate, the Hospital’s asset/liability strategy in the past has included a mixture of fixed and variable rate debt to take advantage of market fluctuations. As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations and to lower its borrowing costs when compared against fixed rate debt at the time of issuance, the Hospital utilized two interest rate swap agreements to convert its variable rate debt exposure to a fixed rate for the retired Series 2007A Revenue Bonds. The intention of the terminated cost of funds swap was to effectively change the Hospital’s variable interest rate on this note to a synthetic fixed rate of 5.02%. The intention of the basis swap was to provide additional interest rate savings over time.
- **Terms** – The basis swap agreement matures on January 1, 2030. The basis swap includes an amortizing notional amount through January 1, 2030. The notional amount was \$31,435,000 and \$33,540,000 at September 30, 2019 and 2018, respectively. The swaps were entered into at the same time the bonds were issued (June 2007). The swaps were comprised of the cost of funds swap, which was terminated in the 2009 refunding issue and a basis swap. Under the basis swap, the Hospital pays the counterparty a variable payment computed at the Securities Industry and Financial Market Association (SIFMA) Swap Index and receives a variable payment computed as 67% of one-month LIBOR plus 24 basis points.

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- **Credit Risk** – The Hospital is exposed to credit risk on the amount of the derivative’s fair value. The swap’s counterparty was rated A+ by Standard & Poor’s and AA- by Fitch as of September 30, 2019.
- **Interest Rate Risk** – The cost of funds swap exposed the Hospital to interest rate risk prior to its termination. As LIBOR increased, the aggregate payments under the swap increased. However, the interest payments on the hedged 2007 revenue bonds also decreased by a corresponding amount.
- **Basis Risk** – The Hospital is exposed to basis risk on the basis swap because the variable rate payments received by the Hospital are based on a different index than the benchmark interest rate used to determine the Hospital’s payments on the swap. As of September 30, 2019, the SIFMA rate, which is paid to the counterparty by the Hospital, was 1.58%, whereas 67.00% of one-month LIBOR plus 24 basis points (which is received by the Hospital) was 1.59%.
- **Termination Risk** – The derivative contracts use the International Swaps and Derivatives Association, Inc. Master Agreement, which includes standard termination events, such as failure to pay, failure to perform under the terms of the contract and bankruptcy. The swaps may be terminated by the Hospital if the counterparty’s credit quality rating falls below a rating “Baa3” by Moody’s Investors Service or “BBB” by Standard & Poor’s. If, at the time of termination, the basis swap has a negative fair value, the Hospital would be liable to the counterparty for a payment equal to the swap’s fair value.
- **Swap Payments** – Using rates as of September 30, 2019, future net receipts under the basis swap are as follows:

2020	\$	7,354
2021		6,739
2022		6,091
2023		5,417
2024		4,728
2025-2030		11,950
	\$	42,279

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

Note 8: Operating Leases

The Hospital, as a lessee, leases certain property from outside parties. Rent expense under all operating leases was approximately \$9,499,000 and \$8,815,000 in 2019 and 2018, respectively.

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Note 9: Net Patient Service Revenue

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

- **Medicare** – Substantially all acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic and other factors. Certain other Medicare reimbursement items are paid based on other retroactive-determination methodologies. WGH and JDGH are classified as critical access hospitals and are reimbursed based on the reasonable costs of providing care to Medicare program beneficiaries. MGH and HCH are not classified as critical access hospitals, but are receiving payments based on reasonable costs through the Rural Community Hospital Demonstration Project. The demonstration project ends on September 30, 2022 for HCH and September 30, 2021 for MGH. The Hospital is reimbursed for retroactively determined items at tentative rates, with final settlement determined after submission of annual cost reports by the Hospital and audits by the Medicare fiscal intermediary. Revenue from the Medicare program (including Medicare managed care) accounted for approximately 52% and 49% of the Hospital's net patient service revenue for the years ended September 30, 2019 and 2018, respectively.
- **Medicaid** – Inpatient and certain outpatient services rendered to Medicaid program beneficiaries are generally paid based upon prospective reimbursement methodologies established by the state of Mississippi. Inpatient services are reimbursed using a prospective-payment system based on All Patient Refined Diagnosis Related Groups (APR-DRG). Outpatient services are reimbursed using an Ambulatory Payment Classification (APC) methodology, similar to the Medicare payment model. The Hospital is reimbursed for retroactively determined items at tentative rates, with final settlement determined after submission of annual cost reports by the Hospital and audits by the state of Mississippi Medicaid Program. Revenue from the Medicaid program (including Medicaid managed care) accounted for approximately 21% and 24% of the Hospital's net patient service revenue for the years ended September 30, 2019 and 2018, respectively. This includes revenue from the programs described below.

Prior to July 1, 2015, the state of Mississippi operated the Medicaid Upper Payment Limit (UPL) program for providers participating in the state Medicaid program. Beginning July 1, 2015, UPL payments were phased out, and the Division of Medicaid (DOM) implemented the Mississippi Hospital Access Payment (MHAP) program in its place. The program is administered by DOM through the Mississippi CAN coordinated care organizations (CCO). The CCO subcontracts with hospitals throughout the state for distribution of MHAP for the purpose of protecting patient access

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to hospital care. The net benefit for the Hospital associated with the MHAP program was \$23,241,000 and \$25,783,000 for the years ended September 30, 2019 and 2018, respectively.

The Hospital also participates in a voluntary disproportionate share program available to certain qualifying hospitals in the state Medicaid program. The net program benefit for the Hospital of approximately \$1,676,000 and \$1,978,000 for 2019 and 2018, respectively, is recognized as net patient service revenue in the accompanying statements of revenues, expenses and changes in net position.

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

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

The composition of net patient service revenue follows.

	2019	2018
Gross patient service revenue	\$ 1,856,914,317	\$ 1,822,402,961
Less provisions for		
Contractual, charity and other adjustments	(1,260,188,752)	(1,229,365,817)
Bad debts	(61,758,078)	(55,665,821)
Net patient service revenue	<u>\$ 534,967,487</u>	<u>\$ 537,371,323</u>

Note 10: Charity Care

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies and equivalent service statistics. The level of charity care provided for 2019 and 2018 is shown in the table below. The

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estimated cost to provide charity care is based on a ratio of overall operating expenses to gross patient service revenue applied to charges foregone under established rates.

	2019		2018
Charges foregone, based on established rates	\$ 28,913,499	\$	29,229,612
Estimated costs and expenses incurred to provide charity care	8,461,739		8,590,764
Equivalent percentage of charity care patients to all patients served	1.56%		1.60%

Note 11: Pension Plans

Defined Contribution Pension Plan

The Hospital has a defined contribution pension plan that allows for employee and employer contributions. The plan was established on July 1, 2011, and only full-time employees hired after that date are eligible to receive Hospital contributions to the plan. Hospital contributions were approximately \$1,575,000 and \$1,363,000 during 2019 and 2018, respectively. The Hospital's contributions are vested after five years of service. Forfeitures are used to offset future employer contributions. At September 30, 2019 and 2018, forfeitures were approximately \$201,000 and \$234,000, respectively. Employee contributions were \$3,807,000 and \$3,416,000 during 2019 and 2018, respectively.

Defined Benefit Pension Plan

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

Benefits Provided

The Plan provides retirement and disability benefits and death benefits to plan members and beneficiaries. Benefit provisions are established by the Hospital's Board of Trustees. Retirement

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benefits for employees are calculated at 1.5% times average monthly compensation times years of service. Death benefits are equal to the single sum present value of the vested accrued benefit otherwise payable at the normal retirement date. Disability benefits are equal to the vested accrued benefit payable at normal retirement age or an actuarially reduced benefit paid immediately.

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

The employees covered by the Plan at June 30, 2019 and 2018, follow:

	2019	2018
Active participants	1,132	1,215
Vested former employees	1,173	1,174
Retirees and beneficiaries	578	516
	2,883	2,905

Contributions

The Hospital's Board of Trustees has the authority to establish and amend the contribution requirements of the Hospital. The Board of Trustees establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Plan members are not required or permitted to contribute any portion of their salary to fund the Plan. The Hospital is required to contribute to the Plan at actuarially determined rates at a percentage of annual covered payroll. For the fiscal year ended September 30, 2019, the Hospital contributed \$10,063,476 (or 15% of covered payroll) to the Plan. For the fiscal year ended September 30, 2018, the Hospital contributed \$10,063,476 (or 14% of covered payroll) to the Plan.

Net Pension Liability

The Hospital's net pension liability was measured as of June 30, 2019 and 2018, as reported as of September 30, 2019 and 2018, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2019 and 2018, respectively.

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The total pension liability in the June 30, 2019 and 2018, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates were based on the RP-2000 Mortality Table, projected to 2019 using scale AA.

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

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

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

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

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

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Discount Rate

The discount rate used to measure the total pension liability was 7.25% for both years ended June 30, 2019 and 2018. The projection of cash flows used to determine the discount rate assumed that Hospital contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	2019		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, beginning of year	\$ 214,890,884	\$ 194,684,918	\$ 20,205,966
Changes for the year			
Service cost	2,802,670	-	2,802,670
Interest	15,507,856	-	15,507,856
Experience losses	1,514,956	-	1,514,956
Contributions	-	10,063,476	(10,063,476)
Net investment income	-	11,120,790	(11,120,790)
Benefit payments	(7,584,183)	(7,584,183)	-
Administrative expense	-	(364,184)	364,184
Net changes	12,241,299	13,235,899	(994,600)
Balance, end of year	\$ 227,132,183	\$ 207,920,817	\$ 19,211,366

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	2018		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, beginning of year	\$ 205,188,094	\$ 177,876,170	\$ 27,311,924
Changes for the year			
Service cost	3,091,562	-	3,091,562
Interest	14,823,878	-	14,823,878
Experience gains	(587,916)	-	(587,916)
Contributions	-	10,063,476	(10,063,476)
Net investment income	-	14,722,571	(14,722,571)
Benefit payments	(7,624,734)	(7,624,734)	-
Administrative expense	-	(352,565)	352,565
Net changes	9,702,790	16,808,748	(7,105,958)
Balance, end of year	\$ 214,890,884	\$ 194,684,918	\$ 20,205,966

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

	1% Decrease	Current Discount Rate (7.25%)	1% Increase
Hospital's net pension liability (asset)	\$ 50,125,577	\$ 19,211,366	\$ (6,446,726)

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

For the years ended September 30, 2019 and 2018, the Hospital recognized pension expense of \$6,931,046 and \$5,345,492, respectively. At September 30, 2019 and 2018, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,494,683	\$ 349,264
Net difference between projected and actual earnings on pension plan investments	718,661	-
Hospital's contributions made subsequent to the measurement date of the net pension liability	2,515,869	-
	\$ 4,729,213	\$ 349,264
	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 838,173	\$ 564,398
Net difference between projected and actual earnings on pension plan investments	-	547,520
Hospital's contributions made subsequent to the measurement date of the net pension liability	2,515,869	-
	\$ 3,354,042	\$ 1,111,918

At both September 30, 2019 and 2018, the Hospital reported \$2,515,869 as deferred outflows of resources related to pensions resulting from Hospital contributions subsequent to the measurement date and prior to year-end that will be recognized as a reduction of the net pension liability in future periods. Other amounts reported as deferred outflows of resources and deferred inflows of

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Notes to Financial Statements September 30, 2019 and 2018

resources at September 30, 2019, related to pensions will be recognized in pension expense as follows:

2020	\$ 1,680,169
2021	(1,082,687)
2022	649,025
2023	<u>617,573</u>
	<u><u>\$ 1,864,080</u></u>

Note 12: Other Postemployment Benefit Plan

Plan Description

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

Benefits Provided

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

Monthly contributions required by retirees depend on the service period at time of retirement and the type of coverage (single or family). Employees are eligible to retire and receive medical benefits under the plan if their age plus years of service are greater than or equal to 70 (Rule of 70). Qualifying retirees may only participate in the medical plans offered to active employees until the earlier of age 65, or the date the retiree becomes Medicare eligible. Employees covered by the benefit terms as of the measurement date of September 30, 2018 and September 30, 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Actives (covered)	2,810	2,627
Actives (not covered)	-	72
Retirees (covered)	31	39

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The following table summarizes the monthly contribution rates for employees retiring on or after January 1, 2019.

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

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

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

Contributions

The Hospital's governing body has the authority to establish and amend the contribution requirements of the Hospital and active employees. The governing body establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the years ended September 30, 2019, and 2018, the Hospital contributed \$2,603,916 and \$711,140, respectively, to the OPEB Plan.

Net OPEB Liability

The Hospital's net OPEB liability of \$2,604,901 and \$5,826,558 was measured as of September 30, 2018 and 2017 for the years ended September 30, 2019 and 2018, respectively, and the total OPEB liability used to calculate the net OPEB liability was determined by actuarial valuations as of October 1, 2017 and 2018. Due to the significance of favorable claims activity and changes in actuarial assumptions, management had an actuarial valuation completed as of October 1, 2018. There were no other changes between the measurement date of the net OPEB liability and the Hospital's reporting date that are expected to have a significant effect on the net OPEB liability.

Given that the actuarial valuation and the measurement date are different, the total OPEB liability was rolled forward using generally accepted actuarial roll forward methods, including entry age

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liability adjusted for excise tax, plus entry age normal cost and reduced by expected benefit payments. All amounts were adjusted for interest.

The total OPEB liability in the October 1, 2017 and 2018 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5%
Salary increases	3.0%, average, including inflation
Health care cost trend rates	8.0% for 2017, decreasing uniformly over 12 years to, an ultimate rate of 5.0% 8.0% for 2018, decreasing uniformly to 6.5% over 3 years, to an ultimate rate of 3.94%
Investment rate of return	6.0%, net of OPEB plan investment expense, including inflation
Retirees' share of benefit-related costs	81% of projected health insurance premiums for retirees choosing Plan A; 90% of projected health insurance premiums for retirees choosing Plan B; 100% of projected health insurance premiums for retirees choosing Plan C

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

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

The long-term expected rate of return on the OPEB Plan investments was based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information. The target allocation for each major asset class is 60% equities and 40% fixed income. The beginning estimate of rates of return for each major asset class is 7.00% to 8.00% annually for equities and 3.00% for fixed income. In 2019, the expected return for fixed income was adjusted to 2.00%.

Discount Rate

The discount rate used to measure the total OPEB liability was 6.0% at October 1, 2017 and 2018. The projection of cash flows used to determine the discount rate assumed that Hospital contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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Changes in the Net OPEB Liability

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

	2019		
	Total OPEB Liability (a)	OPEB Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance, beginning of year	\$ 9,236,459	\$ 3,409,901	\$ 5,826,558
Changes for the year			
Service cost	347,946	-	347,946
Interest	386,399	-	386,399
Difference between expected and actual experience	(4,006,538)	-	(4,006,538)
Change in actuarial assumptions	1,080,635	-	1,080,635
Contributions - employer	-	711,140	(711,140)
Net investment income	-	318,959	(318,959)
Benefit payments	(218,518)	(218,518)	-
Net changes	(2,410,076)	811,581	(3,221,657)
Balance, end of year	\$ 6,826,383	\$ 4,221,482	\$ 2,604,901
	2018		
	Total OPEB Liability (a)	OPEB Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance, beginning of year	\$ 8,880,372	\$ 2,220,567	\$ 6,659,805
Changes for the year			
Service cost	410,388	-	410,388
Interest	519,745	-	519,745
Contributions - employer	-	1,493,458	(1,493,458)
Net investment income	-	269,922	(269,922)
Benefit payments	(574,046)	(574,046)	-
Net changes	356,087	1,189,334	(833,247)
Balance, end of year	\$ 9,236,459	\$ 3,409,901	\$ 5,826,558

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

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

	1% Decrease	Current Discount Rate (6.0%)	1% Increase
Hospital's net OPEB liability	\$ 3,405,418	\$ 2,604,901	\$ 1,905,211

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

	7% Decreasing to 4% Over 12 Years	8% Decreasing to 5% Over 12 Years	9% Decreasing to 6% Over 12 Years
Hospital's net OPEB liability	\$ 1,990,498	\$ 2,604,901	\$ 3,239,160

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September 30, 2019 and 2018**

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

For the years ended September 30, 2019 and 2018, the Hospital recognized OPEB expense of and \$690,999 and \$1,177,557, respectively. At September 30, 2019 and 2018, the Hospital reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ -	\$ 100,839
Net difference between expected and actual experience	-	3,434,175
Change in actuarial assumptions	926,259	
Hospital's contributions made subsequent to the measurement date of the net OPEB liability	2,603,916	-
	\$ 3,530,175	\$ 3,535,014
	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ -	\$ 116,689
Hospital's contributions made subsequent to the measurement date of the net OPEB liability	711,140	-
	\$ 711,140	\$ 116,689

At September 30, 2019 and 2018, the Hospital reported \$2,603,916 and \$711,140, respectively, as deferred outflows of resources related to OPEB resulting from Hospital contributions subsequent to the measurement date and prior to year-end that will be recognized as a reduction of the net OPEB liability at September 30, 2020 and 2019, respectively. Other amounts reported as

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deferred outflows of resources and deferred inflows of resources at September 30, 2019, related to OPEB will be recognized in OPEB expense as follows:

2020	\$	(457,202)
2021		(457,202)
2022		(435,726)
2023		(422,660)
2024		(417,987)
Thereafter		<u>(417,978)</u>
		<u><u>\$ (2,608,755)</u></u>

OPEB Plan's Fiduciary Net Position

At the September 30, 2018 and 2017 measurement dates, trust assets were comprised of the following:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 97,685	\$ 97,217
Equity securities		
Tweedy Browne Gloval Value	579,366	383,102
Vanguard Russell 2000 Index Institutional Share Class	708,244	575,505
Vanguard Russell 1000 Index Institutional Share Class	1,348,711	1,074,299
Fixed income securities		
PIMCO Foreign Bond Funds	392,082	243,273
Vanguard Short-term Bonds Index	132,299	133,329
Vanguard Bond Index	<u>963,095</u>	<u>903,176</u>
	<u><u>\$ 4,221,482</u></u>	<u><u>\$ 3,409,901</u></u>

Note 13: Concentrations of Credit Risk

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

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

	2019		2018	
Medicare	\$ 35,156,281	29.3 %	\$ 34,588,589	29.1 %
Medicaid	12,833,340	10.7	13,240,718	11.1
Other third-party payers	35,118,604	29.3	34,023,129	28.6
Patients	36,698,187	30.7	37,054,961	31.2
	119,806,412	100.0	118,907,397	100.0
Less allowance for uncollectible accounts	66,302,412	55.3	65,590,774	55.2
	\$ 53,504,000	44.7 %	\$ 53,316,623	44.8 %

Note 14: Risk Management

Medical Malpractice and General Liability Risks

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

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

The following is a summary of changes in the Hospital's self-insurance liability for professional and general liability costs for fiscal 2019 and 2018.

	2019		2018	
Balance, October 1	\$ 3,316,515		\$ 3,993,476	
Provisions for claims reported and claims incurred but not reported		(206,049)		(367,631)
Claims and related expenses paid		(395,662)		(309,330)
		\$ 2,714,804		\$ 3,316,515

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis for WGH, JDGH, MGH and AAA. GAAP requires a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported

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

Employee Health Insurance

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

A summary of changes in the Hospital's self-insurance liability for employee health coverage (included in other accrued expenses in the accompanying balance sheets) for fiscal 2019 and 2018, follows.

	2019	2018
Balance, October 1	\$ 1,861,000	\$ 1,792,000
Provisions for claims reported and claims incurred but not reported	12,730,307	14,976,618
Claims paid	(13,200,307)	(14,907,618)
Balance, September 30	\$ 1,391,000	\$ 1,861,000

Workers' Compensation

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

The following is a summary of changes in the Hospital's self-insurance liability for workers' compensation coverage for fiscal 2019 and 2018.

	2019	2018
Balance, October 1	\$ 1,781,481	\$ 2,053,356
Provisions for claims reported and claims incurred but not reported	905,372	511,988
Claims paid	(705,559)	(783,863)
Balance, September 30	\$ 1,981,294	\$ 1,781,481

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September 30, 2019 and 2018**

Note 15: Deferred Compensation

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

	2019	2018
Balance, October 1	\$ 73,655,132	\$ 65,042,349
Contributions	3,070,200	2,983,650
Investment gain	1,330,837	7,401,391
Withdrawals	(1,843,536)	(1,772,258)
Balance, September 30	\$ 76,212,633	\$ 73,655,132

Note 16: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

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

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Notes to Financial Statements September 30, 2019 and 2018

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2019 and 2018.

	Fair Value Measurements Using			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2019				
Investments				
Money market mutual funds	\$ 6,749,362	\$ 6,749,362	\$ -	\$ -
U.S. agency securities	24,373,242	-	24,373,242	-
U.S. Treasury securities	5,342,909	-	5,342,909	-
State municipal securities	17,558,505	-	17,558,505	-
Open-end mutual funds	69,642,710	69,642,710	-	-
Corporate debt securities	37,927,659	-	37,927,659	-
Pooled investments	90,481,590	-	90,481,590	-
Total investments by fair value level	<u>\$ 252,075,977</u>	<u>\$ 76,392,072</u>	<u>\$ 175,683,905</u>	<u>\$ -</u>
Derivative Instruments				
Interest rate swap	<u>\$ 170,887</u>	<u>\$ -</u>	<u>\$ 170,887</u>	<u>\$ -</u>
September 30, 2018				
Investments				
Money market mutual funds	\$ 6,601,982	\$ 6,601,982	\$ -	\$ -
U.S. agency securities	24,652,425	-	24,652,425	-
U.S. Treasury securities	196,048	-	196,048	-
State municipal securities	20,425,615	-	20,425,615	-
Open-end mutual funds	68,593,277	68,593,277	-	-
Corporate debt securities	33,417,633	-	33,417,633	-
Pooled investments	84,444,394	-	84,444,394	-
Total investments by fair value level	<u>\$ 238,331,374</u>	<u>\$ 75,195,259</u>	<u>\$ 163,136,115</u>	<u>\$ -</u>
Derivative Instruments				
Interest rate swap	<u>\$ 1,779</u>	<u>\$ -</u>	<u>\$ 1,779</u>	<u>\$ -</u>

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Investments

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

Interest Rate Swap Agreement

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

Note 17: Contingencies

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Note 14*.

Admitting Physicians

For the years ended September 30, 2019 and 2018, admissions by physicians employed by a large, multi-specialty physician practice located adjacent to the Hospital accounted for approximately 73% and 77%, respectively, of the Hospital's gross revenues.

General Litigation

The Hospital is subject to claims and lawsuits that arose primarily in the ordinary course of its activities. Some of these allegations are in areas not covered by the Hospital's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. It is the opinion of management the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the balance sheets, change in net assets and cash flows of the Hospital. Events could occur that would change this estimate materially in the near term.

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Pension and Other Postretirement Benefit Obligations

The Hospital has a noncontributory defined benefit pension and postretirement health care plan, whereby it agrees to provide certain postretirement benefits to eligible employees. The benefit obligation is the actuarial present value of all benefits attributed to service rendered prior to the valuation date based on the projected unit credit cost method. It is reasonably possible that events could occur that would change the estimated amount of this liability materially in the near term.

Investments

The Hospital invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying balance sheets.

Note 18: Future Change in Accounting Principle

GASB recently issued Statement No. 84, *Fiduciary Activities* (GASB 84). GASB 84 clarifies whether a state or local government—including a government engaged in standalone, business-type activities—has a fiduciary responsibility. The Hospital expects to first apply GASB 84 during the year ending September 30, 2020.

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

GASB recently issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB 89). GASB 89 states all governmental entities will be required to expense interest incurred before the end of a construction period, and interest should no longer be capitalized. The Hospital expects to first apply GASB 89 during the year ending September 30, 2020.

Note 19: Condensed Combining Information

The following tables include condensed balance sheet information for the Hospital and its blended component units as of September 30, 2019 and 2018.

Forrest County General Hospital

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September 30, 2019

	Forrest County General Hospital	South Mississippi Health Services, Inc.	Forrest General Health Services, Inc.	Clean Earth, Inc.	Forrest General Managed Care Services, Inc.	AAA Ambulance Service, Inc.	Forrest General Healthcare Foundation, Inc.	Eliminations	Total
Assets and Deferred Outflows of Resources									
Current assets	\$ 176,370,238	\$ 1,515,320	\$ 14,662	\$ 1,351,291	\$ -	\$ 4,639,470	\$ 2,391,430	\$ -	\$ 186,282,411
Noncurrent cash and investments	255,131,267	-	-	-	-	4,400,048	-	-	259,531,315
Capital assets, net	305,513,571	1,876,391	8,387	582,885	-	5,823,944	2,109	-	313,807,287
Other assets	164,276,260	-	209,022	-	945,576	-	-	(154,112,892)	11,317,966
Deferred outflows of resources	12,575,641	-	-	-	-	-	-	-	12,575,641
	<u>913,866,977</u>	<u>3,391,711</u>	<u>232,071</u>	<u>1,934,176</u>	<u>945,576</u>	<u>14,863,462</u>	<u>2,393,539</u>	<u>(154,112,892)</u>	<u>783,514,620</u>
Total assets and deferred outflows of resources									
Liabilities and Deferred Inflows of Resources									
Current liabilities	\$ 211,261,440	\$ 3,051,104	\$ 2,999	\$ 4,601,117	\$ -	\$ 1,416,984	\$ 1,367	\$ (154,112,892)	\$ 66,222,119
Long-term liabilities	240,562,966	-	-	-	-	853,116	-	-	241,416,082
Deferred inflows of resources	5,920,939	-	-	-	-	-	-	-	5,920,939
	<u>457,745,345</u>	<u>3,051,104</u>	<u>2,999</u>	<u>4,601,117</u>	<u>-</u>	<u>2,270,100</u>	<u>1,367</u>	<u>(154,112,892)</u>	<u>313,559,140</u>
Total liabilities and deferred inflows of resources									
Net Position									
Net investment in capital assets	159,818,837	1,876,391	8,387	582,885	-	4,560,065	2,109	-	166,848,674
Unrestricted	296,302,795	(1,535,784)	220,685	(3,249,826)	945,576	8,033,297	2,390,063	-	303,106,806
	<u>456,121,632</u>	<u>340,607</u>	<u>229,072</u>	<u>(2,666,941)</u>	<u>945,576</u>	<u>12,593,362</u>	<u>2,392,172</u>	<u>-</u>	<u>469,955,480</u>
Total net position									
Total liabilities, deferred inflows of resources and net position	<u>\$ 913,866,977</u>	<u>\$ 3,391,711</u>	<u>\$ 232,071</u>	<u>\$ 1,934,176</u>	<u>\$ 945,576</u>	<u>\$ 14,863,462</u>	<u>\$ 2,393,539</u>	<u>\$ (154,112,892)</u>	<u>\$ 783,514,620</u>

Forrest County General Hospital

(A Component Unit of Forrest County, Mississippi)

Notes to Financial Statements September 30, 2019 and 2018

	September 30, 2018								
	Forrest County General Hospital	South Mississippi Health Services, Inc.	Forrest General Health Services, Inc.	Clean Earth, Inc.	Forrest General Managed Care Services, Inc.	AAA Ambulance Service, Inc.	Forrest General Healthcare Foundation, Inc.	Eliminations	Total
Assets and Deferred Outflows of Resources									
Current assets	\$ 181,843,959	\$ 1,485,210	\$ 14,421	\$ 995,329	\$ -	\$ 4,089,840	\$ 2,726,201	\$ -	\$ 191,154,960
Noncurrent cash and investments	242,609,345	-	-	-	-	4,497,105	-	-	247,106,450
Capital assets, net	317,039,788	2,750,115	18,972	707,887	-	6,306,919	2,900	-	326,826,581
Other assets	147,342,342	-	206,051	-	859,704	12,035	10,000	(139,667,186)	8,762,946
Deferred outflows of resources	6,878,038	-	-	-	-	-	-	-	6,878,038
Total assets and deferred outflows of resources	\$ 895,713,472	\$ 4,235,325	\$ 239,444	\$ 1,703,216	\$ 859,704	\$ 14,905,899	\$ 2,739,101	\$ (139,667,186)	\$ 780,728,975
Liabilities and Deferred Inflows of Resources									
Current liabilities	\$ 197,055,569	\$ 4,685,404	\$ -	\$ 4,566,752	\$ -	\$ 1,376,009	\$ 2,500	\$ (139,667,186)	\$ 68,019,048
Long-term liabilities	246,910,900	-	-	-	-	1,263,304	-	-	248,174,204
Deferred inflows of resources	3,627,769	-	-	-	-	-	-	-	3,627,769
Total liabilities and deferred inflows of resources	447,594,238	4,685,404	-	4,566,752	-	2,639,313	2,500	(139,667,186)	319,821,021
Net Position									
Net investment in capital assets	165,425,741	2,750,115	18,972	707,887	-	4,620,242	2,900	-	173,525,857
Unrestricted	282,693,493	(3,200,194)	220,472	(3,571,423)	859,704	7,646,344	2,733,701	-	287,382,097
Total net position	448,119,234	(450,079)	239,444	(2,863,536)	859,704	12,266,586	2,736,601	-	460,907,954
Total liabilities, deferred inflows of resources and net position	\$ 895,713,472	\$ 4,235,325	\$ 239,444	\$ 1,703,216	\$ 859,704	\$ 14,905,899	\$ 2,739,101	\$ (139,667,186)	\$ 780,728,975

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

Notes to Financial Statements

September 30, 2019 and 2018

The following tables include condensed combining statements of revenues, expenses and changes in net position information for the Hospital and its blended component units for the years ended September 30, 2019 and 2018.

	September 30, 2019								
	Forrest County General Hospital	South Mississippi Health Services, Inc.	Forrest General Health Services, Inc.	Clean Earth, Inc.	Forrest General Managed Care Services, Inc.	AAA Ambulance Service, Inc.	Forrest General Healthcare Foundation, Inc.	Eliminations	Total
Operating Revenues									
Net patient service revenue	\$ 520,509,799	\$ -	\$ -	\$ -	\$ -	\$ 15,496,440	\$ -	\$ (1,038,752)	\$ 534,967,487
Other	7,576,676	186,000	-	1,255,287	-	2,169,929	1,364,836	(1,262,411)	11,290,317
Total operating revenues	<u>528,086,475</u>	<u>186,000</u>	<u>-</u>	<u>1,255,287</u>	<u>-</u>	<u>17,666,369</u>	<u>1,364,836</u>	<u>(2,301,163)</u>	<u>546,257,804</u>
Operating Expenses									
Other operating expenses	493,613,182	(4,286)	73	941,104	7,393	16,556,431	1,710,590	(2,257,489)	510,566,998
Depreciation and amortization	31,727,626	111,655	10,584	132,921	-	889,262	-	-	32,872,048
Total operating expenses	<u>525,340,808</u>	<u>107,369</u>	<u>10,657</u>	<u>1,074,025</u>	<u>7,393</u>	<u>17,445,693</u>	<u>1,710,590</u>	<u>(2,257,489)</u>	<u>543,439,046</u>
Operating Income (Loss)	<u>2,745,667</u>	<u>78,631</u>	<u>(10,657)</u>	<u>181,262</u>	<u>(7,393)</u>	<u>220,676</u>	<u>(345,754)</u>	<u>(43,674)</u>	<u>2,818,758</u>
Nonoperating Revenues (Expenses)									
Net investment income	13,616,152	30,127	285	15,333	-	166,889	1,325	-	13,830,111
Interest expense	(5,732,675)	-	-	-	-	(60,789)	-	-	(5,793,464)
Other	(2,626,746)	681,928	-	-	93,265	-	-	43,674	(1,807,879)
Total nonoperating revenues (expenses), net	<u>5,256,731</u>	<u>712,055</u>	<u>285</u>	<u>15,333</u>	<u>93,265</u>	<u>106,100</u>	<u>1,325</u>	<u>43,674</u>	<u>6,228,768</u>
Increase (Decrease) in Net Position	8,002,398	790,686	(10,372)	196,595	85,872	326,776	(344,429)	-	9,047,526
Net Position, Beginning of Year	448,119,234	(450,079)	239,444	(2,863,536)	859,704	12,266,586	2,736,601	-	460,907,954
Net Position, End of Year	<u>\$ 456,121,632</u>	<u>\$ 340,607</u>	<u>\$ 229,072</u>	<u>\$ (2,666,941)</u>	<u>\$ 945,576</u>	<u>\$ 12,593,362</u>	<u>\$ 2,392,172</u>	<u>\$ -</u>	<u>\$ 469,955,480</u>

Forrest County General Hospital

(A Component Unit of Forrest County, Mississippi)

Notes to Financial Statements

September 30, 2019 and 2018

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

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

Notes to Financial Statements

September 30, 2019 and 2018

The following tables include condensed combining statements of cash flows information for the Hospital and its blended component units for the years ended September 30, 2019 and 2018.

	September 30, 2019								Total
	Forrest County General Hospital	South Mississippi Health Services, Inc.	Forrest General Health Services, Inc.	Clean Earth, Inc.	Forrest General Managed Care Services, Inc.	AAA Ambulance Service, Inc.	Forrest General Healthcare Foundation, Inc.	Eliminations	
Net Cash Provided by (Used in) Operating Activities	\$ 24,061,378	\$ (1,444,013)	\$ (45)	\$ 231,015	\$ (93,265)	\$ 983,312	\$ (296,095)	\$ -	\$ 23,442,287
Net Cash Used in Noncapital Financing Activities	(656,906)	-	-	-	-	-	-	-	(656,906)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(33,783,073)	1,443,997	1	(7,919)	-	(781,107)	-	-	(33,128,101)
Net Cash Provided by (Used in) Investing Activities	<u>2,267,437</u>	<u>30,127</u>	<u>285</u>	<u>15,333</u>	<u>93,265</u>	<u>47,381</u>	<u>1,324</u>	<u>-</u>	<u>2,455,152</u>
Increase (Decrease) in Cash and Cash Equivalents	(8,111,164)	30,111	241	238,429	-	249,586	(294,771)	-	(7,887,568)
Cash and Cash Equivalents, Beginning of Year	<u>125,756,242</u>	<u>1,485,210</u>	<u>14,421</u>	<u>616,638</u>	<u>-</u>	<u>4,178,602</u>	<u>2,676,083</u>	<u>-</u>	<u>134,727,196</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 117,645,078</u></u>	<u><u>\$ 1,515,321</u></u>	<u><u>\$ 14,662</u></u>	<u><u>\$ 855,067</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,428,188</u></u>	<u><u>\$ 2,381,312</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 126,839,628</u></u>

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

**Notes to Financial Statements
September 30, 2019 and 2018**

September 30, 2018

	Forrest County General Hospital	South Mississippi Health Services, Inc.	Forrest General Health Services, Inc.	Clean Earth, Inc.	Forrest General Managed Care Services, Inc.	AAA Ambulance Service, Inc.	Forrest General Healthcare Foundation, Inc.	Eliminations	Total
Net Cash Provided by (Used in) Operating Activities	\$ 41,904,136	\$ (2,061,309)	\$ (113)	\$ 139,397	\$ (106,611)	\$ 195,901	\$ 343,262	\$ -	\$ 40,414,663
Net Cash Used in Noncapital Financing Activities	(624,290)	-	-	-	-	-	(7,350)	-	(631,640)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(45,689,142)	3,221,871	-	(57,608)	-	(1,148,335)	-	-	(43,673,214)
Net Cash Provided by (Used in) Investing Activities	<u>1,666,129</u>	<u>7,445</u>	<u>94</u>	<u>4,546</u>	<u>106,611</u>	<u>(14,712)</u>	<u>-</u>	<u>-</u>	<u>1,770,113</u>
Increase (Decrease) in Cash and Cash Equivalents	(2,743,167)	1,168,007	(19)	86,335	-	(967,146)	335,912	-	(2,120,078)
Cash and Cash Equivalents, Beginning of Year	<u>128,499,409</u>	<u>317,203</u>	<u>14,440</u>	<u>530,303</u>	<u>-</u>	<u>5,145,748</u>	<u>2,340,171</u>	<u>-</u>	<u>136,847,274</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 125,756,242</u></u>	<u><u>\$ 1,485,210</u></u>	<u><u>\$ 14,421</u></u>	<u><u>\$ 616,638</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,178,602</u></u>	<u><u>\$ 2,676,083</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 134,727,196</u></u>

Required Supplementary Information

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

	2019	2018	2017	2016	2015	2014
Total Pension Liability						
Service cost	\$ 2,802,670	\$ 3,091,562	\$ 3,302,712	\$ 3,530,410	\$ 3,740,713	\$ 3,832,463
Interest	15,507,856	14,823,878	14,098,001	13,267,635	12,440,681	11,696,789
Differences between expected and actual experience	1,514,956	(587,916)	(165,919)	1,186,135	1,333,643	(187,704)
Benefit payments	<u>(7,584,183)</u>	<u>(7,624,734)</u>	<u>(6,398,362)</u>	<u>(6,207,933)</u>	<u>(5,589,011)</u>	<u>(4,389,427)</u>
Net change in total pension liability	12,241,299	9,702,790	10,836,432	11,776,247	11,926,026	10,952,121
Total pension liability - beginning	<u>214,890,884</u>	<u>205,188,094</u>	<u>194,351,662</u>	<u>182,575,415</u>	<u>170,649,389</u>	<u>159,697,268</u>
Total pension liability - ending (a)	<u>\$ 227,132,183</u>	<u>\$ 214,890,884</u>	<u>\$ 205,188,094</u>	<u>\$ 194,351,662</u>	<u>\$ 182,575,415</u>	<u>\$ 170,649,389</u>
Plan Fiduciary Net Position						
Contributions	\$ 10,063,476	\$ 10,063,476	\$ 30,063,476	\$ 10,063,476	\$ 9,782,490	\$ 10,496,076
Net investment income	11,120,790	14,722,571	18,424,809	(2,210,133)	5,766,222	14,838,259
Benefit payments	(7,584,183)	(7,624,734)	(6,398,362)	(6,207,933)	(5,589,011)	(4,389,427)
Administrative expense	<u>(364,184)</u>	<u>(352,565)</u>	<u>(317,168)</u>	<u>(295,012)</u>	<u>(338,826)</u>	<u>(397,436)</u>
Net change in plan fiduciary net position	13,235,899	16,808,748	41,772,755	1,350,398	9,620,875	20,547,472
Plan fiduciary net position - beginning	<u>194,684,918</u>	<u>177,876,170</u>	<u>136,103,415</u>	<u>134,753,017</u>	<u>125,132,142</u>	<u>104,584,670</u>
Plan fiduciary net position - ending (b)	<u>\$ 207,920,817</u>	<u>\$ 194,684,918</u>	<u>\$ 177,876,170</u>	<u>\$ 136,103,415</u>	<u>\$ 134,753,017</u>	<u>\$ 125,132,142</u>
Net pension liability - ending (a) - (b)	<u>\$ 19,211,366</u>	<u>\$ 20,205,966</u>	<u>\$ 27,311,924</u>	<u>\$ 58,248,247</u>	<u>\$ 47,822,398</u>	<u>\$ 45,517,247</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	92%	91%	87%	70%	74%	73%
Covered Employee Payroll	\$ 66,860,831	\$ 72,436,009	\$ 76,926,859	\$ 80,727,008	\$ 84,626,337	\$ 86,263,018
Net Pension Liability as a Percentage of Covered Employee Payroll	29%	28%	36%	72%	57%	53%

Note to Schedule:

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

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

	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 5,568,494	\$ 6,237,738	\$ 7,986,740	\$ 8,551,127	\$ 8,845,316	\$ 10,106,942
Contributions in relation to the actuarially determined contribution	<u>10,063,476</u>	<u>10,063,476</u>	<u>30,063,476</u>	<u>10,063,476</u>	<u>9,782,490</u>	<u>10,496,076</u>
Contribution excess	<u>\$ (4,494,982)</u>	<u>\$ (3,825,738)</u>	<u>\$ (22,076,736)</u>	<u>\$ (1,512,349)</u>	<u>\$ (937,174)</u>	<u>\$ (389,134)</u>
Covered employee payroll	\$ 66,860,831	\$ 72,436,009	\$ 76,926,859	\$ 80,727,008	\$ 84,626,337	\$ 86,263,018
Contributions as a percentage of covered employee payroll	15%	14%	39%	12%	12%	12%

Methods and assumptions used to determine contribution rates:

Actuarial cost method: Entry age normal method (level percentage of pay)
Amortization method: Level dollar amount, closed method
Remaining amortization period: 15 years
Asset valuation method: Fair market value
Inflation: 2.5%
Salary increases: 2.0% - 4.5%, based on age, including inflation
Investment rate of return: 7.25%, net of pension plan investment expense, including inflation
Retirement age: 65
Mortality: RP-2000 Combined Healthy Mortality Table projected using scale AA
Other information: Plan is frozen to new participants effective July 1, 2011

Note to Schedule

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

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB Liability			
Service cost	\$ 347,946	\$ 410,388	\$ 390,846
Interest	386,399	519,745	497,299
Differences between expected and actual	(4,006,538)	-	-
Change in actuarial assumptions	1,080,635	-	-
Benefit payments	<u>(218,518)</u>	<u>(574,046)</u>	<u>(592,057)</u>
Net change in total OPEB liability	(2,410,076)	356,087	296,088
Total OPEB liability - beginning	<u>9,236,459</u>	<u>8,880,372</u>	<u>8,584,284</u>
Total OPEB liability - ending (a)	<u>\$ 6,826,383</u>	<u>\$ 9,236,459</u>	<u>\$ 8,880,372</u>
Plan Fiduciary Net Position			
Contributions	\$ 711,140	\$ 1,493,458	\$ 1,595,051
Net investment income	318,959	269,922	240,612
Refunds of contributions	<u>(218,518)</u>	<u>(574,046)</u>	<u>(592,057)</u>
Net change in plan fiduciary net position	811,581	1,189,334	1,243,606
Plan fiduciary net position - beginning	<u>3,409,901</u>	<u>2,220,567</u>	<u>976,961</u>
Plan fiduciary net position - ending (b)	<u>\$ 4,221,482</u>	<u>\$ 3,409,901</u>	<u>\$ 2,220,567</u>
Net OPEB liability - ending (a) - (b)	<u>\$ 2,604,901</u>	<u>\$ 5,826,558</u>	<u>\$ 6,659,805</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	62%	37%	25%
Covered Payroll	\$ 129,156,605	\$ 146,557,573	\$ 142,288,906
Net OPEB Liability as a Percentage of Covered Payroll	2%	4%	5%

This schedule is presented as of the measurement date for the fiscal year (e.g. September 30, 2018 measurement date information for September 30, 2019 fiscal year).

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarially determined contribution	\$ 895,211	\$ 937,045	\$ 1,007,606	\$ 1,066,717
Contributions in relation to the actuarially determined contribution	<u>2,603,916</u>	<u>711,140</u>	<u>1,493,458</u>	<u>1,595,051</u>
Contribution (excess) deficiency	<u>\$ (1,708,705)</u>	<u>\$ 225,905</u>	<u>\$ (485,852)</u>	<u>\$ (528,334)</u>
Covered employee payroll	\$ 150,954,300	\$ 129,156,605	\$ 146,557,573	\$ 142,288,906
Contributions as a percentage of covered payroll	2%	0%	1%	1%

Methods and assumptions used to determine contribution rates:

- Actuarial cost method: Entry age normal method (level percentage of pay)
- Amortization method: Level percentage of pay, closed method
- Remaining amortization period: 20 years
- Asset valuation method: Fair market value
- Inflation: 2.5%
- Health care cost trend rates: 8.0% to grade uniformly to 3.5% over a 3-year period, to ultimate rate of 3.94% in 2075
- Salary increases: 3.0%
- Investment rate of return: 6.0%, net of investment expense, including inflation
- Retirement age: 65
- Mortality: IRS Static Mortality Tables For Year of Valuation (Separate Male/Female Tables)

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

Other Information

Forrest County General Hospital
(A Component Unit of Forrest County, Mississippi)
Schedule of Surety Bonds for Officials and Employees
September 30, 2019

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

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

Independent Auditor's Report

Board of Trustees
Forrest County General Hospital
Hattiesburg, 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 Forrest County General Hospital (the Hospital), which comprise the balance sheet as of September 30, 2019, 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 November 26, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital'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 Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital'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 Hospital's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital'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 Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Jackson, Mississippi
November 26, 2019