SOUTH CENTRAL REGIONAL MEDICAL CENTER
Laurel, Mississippi

Audited Financial Statements
As of and for the Years Ended
September 30, 2019 and 2018

SOUTH CENTRAL REGIONAL MEDICAL CENTER

Laurel, Mississippi

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HORNE
CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
South Central Regional Medical Center
Laurel, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of South Central Regional Medical Center (the "Medical Center"), a component unit of Jones County, Mississippi, as of and for the years ended September 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Medical Center, as of September 30, 2019 and 2018, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Medical Center's basic financial statements. The Schedule of Surety Bonds for Officers and Employees on page 39 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Surety Bonds for Officers and Employees has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2019, on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Medical Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.

Horne LLP

Ridgeland, Mississippi
November 26, 2019

This section of South Central Regional Medical Center's ("Medical Center") annual financial report presents background information and our analysis of the Medical Center's financial performance during the fiscal years that ended on September 30, 2019 and 2018. Please read it in conjunction with the financial statements in this report. The amounts contained within this section are rounded to the nearest thousand.

2019

FINANCIAL HIGHLIGHTS

The Medical Center's total net position increased by $2,696,000 or 2.3 percent, from the prior year. All of this increase results from the recognition of revenue over expenses.

At the end of the 2019 fiscal year, the assets of the Medical Center exceeded liabilities by $117,509,000. Of this excess amount, $81,928,000 (unrestricted) may be used to meet ongoing obligations to the Medical Center's employees, patients and creditors, $32,980,000 is invested in capital assets, net of related debt and $2,601,000 is restricted for debt service, for self-insurance and for minority interest in blended component unit. The Medical Center is self-insured for general and professional liability claims and has established a self-insurance fund in accordance with the requirements of the Mississippi Tort Claims Board. At September 30, 2019, the Medical Center had $1,716,000 deposited into this restricted account to be used exclusively for general and professional liability claims and related claim defense expenses. All related liabilities and incurred but not reported ("IBNR") amounts are recorded in the financial statements and further defined in the notes to the financial statements. At September 30, 2019, the Medical Center had a current ratio exceeding 4.8.

Total operating revenue increased $9.7 million or 5.5 percent. This was due primarily to an increase of $9.5 million in net patient service revenue which consisted primarily of increases in inpatient and outpatient volumes. Operating expenses, excluding depreciation and amortization, increased by $10.5 million from 2018 to 2019. This increase was due primarily to increases in salaries and employee benefits of $4.9 million and an increase in supplies of $5.8 million, primarily in pharmaceuticals.

2018

FINANCIAL HIGHLIGHTS

The Medical Center's total net position increased by $2,801,000 or 2.5 percent, from the prior year. All of this increase results from the recognition of revenue over expenses.

At the end of the 2018 fiscal year, the assets of the Medical Center exceeded liabilities by $114,813,000. Of this excess amount, $76,583,000 (unrestricted) may be used to meet ongoing obligations to the Medical Center's employees, patients and creditors, $35,110,000 is invested in capital assets, net of related debt and $3,120,000 is restricted for debt service, for self-insurance and for minority interest in blended component unit. The Medical Center is self-insured for general and professional liability claims and has established a self-insurance fund in accordance with the requirements of the Mississippi Tort Claims Board. At September 30, 2018, the Medical Center had $1,732,000 deposited into this restricted account to be used exclusively for general and professional liability claims and related claim defense expenses. All related liabilities and incurred but not reported ("IBNR") amounts are recorded in the financial statements and further defined in the notes to the financial statements. At September 30, 2018, the Medical Center had a current ratio exceeding 4.1.

Total operating revenue increased $19.3 million or 12.2 percent. This was due primarily to an increase of $19.3 million in net patient service revenue which consisted primarily of increases in inpatient and outpatient volumes. Operating expenses, excluding depreciation and amortization, increased by $21.8 million from 2017 to 2018. This increase was due primarily to increases in salaries and employee benefits of $17.6 million and an increase in supplies of $3.5 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four components - the Management's Discussion and Analysis of Financial Condition and Operating Results (this section), the Independent Auditor's Report, the Financial Statements and Supplementary Information.

The *Financial Statements* of the Medical Center report the financial position of the Medical Center and the results of its operations and its cash flows. The financial statements are prepared on the accrual basis of accounting. These statements offer short-term and long-term financial information about the Medical Center's activities.

The *Statements of Net Position* include all of the Medical Center's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the Medical Center's creditors (liabilities) for both the current year and the prior year. They also provide the basis for evaluating the capital structure of the Medical Center, and assessing the liquidity and financial flexibility of the Medical Center.

All of the current year's revenues and expenses are accounted for in the *Statements of Revenue and Expenses and Changes in Net Position.* These statements measure the performance of the Medical Center's operations over the past two years and can be used to determine whether the Medical Center has been able to recover all of its costs through its patient service revenue and other revenue sources.

The primary purpose of the *Statements of Cash Flows* is to provide information about the Medical Center's cash from operations, investment and financial activities. The statements of cash flows outline where the cash comes from, what the cash is used for and the changes in the cash balance during the reporting period.

The annual report also includes *Notes to the Financial Statements* that are essential to gain a full understanding of the data provided in the financial statements. The notes to the financial statements can be found immediately following the basic financial statements in this report. Following the notes to the financial statements is a section containing supplementary information that provides additional information as required.

FINANCIAL ANALYSIS OF THE MEDICAL CENTER

The statements of net position and the statements of revenue and expenses and changes in net position report information about the Medical Center's activities. These statements report the net position of the Medical Center and changes in them. Increases or improvements, as well as decreases or declines in the net position, are one indicator of the financial state of the Medical Center. Other non-financial factors that should also be considered include changes in economic conditions, population growth (including uninsured and working poor) and new or changed government legislation.

2019

Net Position

A summary of the Medical Center's statements of net position is presented in the following table:

Condensed Statements of Net Position
(In Thousands)

	Fiscal Year 2019	Fiscal Year 2018	Dollar Change	Total Percent Change
Current and other assets	$ 111,445	$ 118,199	$ (6,754)	-5.7%
Capital assets	96,517	84,719	11,798	13.9%
Total assets	$ 207,962	$ 202,918	$ 5,044	2.5%
Long-term debt outstanding	$ 72,299	$ 66,488	$ 5,811	8.7%
Other liabilities	18,154	21,617	(3,463)	-16.0%
Total liabilities	90,453	88,105	2,348	2.7
Investment in capital assets, net of related debt	32,980	35,110	(2,130)	-6.1%
Restricted	2,601	3,120	(519)	-16.6%
Unrestricted	81,928	76,583	5,345	7.0%
Total net position	117,509	114,813	2,696	2.3%
Total liabilities and net position	$ 207,962	$ 202,918	$ 5,044	2.5%

Total assets increased 2.5 percent due to an increase in capital assets of $11.8 million. The increase in capital assets is due to construction on the Medical Center expansion (the "Project"). The Project consists of a 67,980 square foot three-floor addition to the easterly end of the Medical Center to house a new emergency department and to shell in two floors for future expansion, the construction of a 67,815 square foot four-floor medical office building, new parking areas and drives, and a paved heliport. The cost of the Project is estimated at approximately $35,600,000.

2018

Net Position

A summary of the Medical Center's statements of net position is presented in the following table:

Condensed Statements of Net Position
(In Thousands)

	Fiscal Year 2018	Fiscal Year 2017	Dollar Change	Total Percent Change
Current and other assets	$ 118,199	$ 127,367	$ (9,168)	-7.2%
Capital assets	84,719	68,486	16,233	23.7%
Total assets	$ 202,918	$ 195,853	$ 7,065	3.6%
Long-term debt outstanding	$ 66,488	$ 66,875	$ (387)	-0.6%
Other liabilities	21,617	16,966	4,651	27.4%
Total liabilities	88,105	83,841	4,264	5.1%
Investment in capital assets, net of related debt	35,110	34,527	583	1.7%
Restricted	3,120	4,314	(1,194)	-27.7%
Unrestricted	76,583	73,171	3,412	4.7%
Total net position	114,813	112,012	2,801	2.5%
Total liabilities and net position	$ 202,918	$ 195,853	$ 7,065	3.6%

Total assets increased 3.6 percent due to an increase in capital assets of $16.2 million. The increase in capital assets is due to construction on the Medical Center expansion (the "Project"). The Project consists of a 67,980 square foot three-floor addition to the easterly end of the Medical Center to house a new emergency department and to shell in two floors for future expansion, the construction of a 67,815 square foot four-floor medical office building, new parking areas and drives, and a paved heliport. The cost of the Project is estimated at approximately $35,600,000.

2019

Summary of Revenue and Expenses

The following table presents a summary of the Medical Center's historical revenues and expenses for each of the fiscal years ended September 30, 2019 and 2018:

Condensed Statements of Revenue and Expenses
(In Thousands)

	Fiscal Year 2019	Fiscal Year 2018	Dollar Change	Total Percent Change
Net patient service revenue	$ 184,257	$ 174,758	$ 9,499	5.4%
Other operating revenue excluding interest income	3,119	2,905	214	7.4%
Total operating revenue	187,376	177,663	9,713	5.5%
Salaries and benefits	112,362	107,472	4,890	4.6%
Professional fees, supplies, maintenance, other	66,165	60,530	5,635	9.3%
Total operating expenses before depreciation/amortization	178,527	168,002	10,525	6.3%
Earnings before interest depreciation and amortization ("EBITDA")	8,849	9,661	(812)	-8.4%
Depreciation and amortization expense	7,838	7,896	(58)	-0.7%
Operating net income	1,011	1,765	(754)	-42.7%
Investment and grant income	2,038	1,423	615	43.2%
Income from joint ventures	240	84	156	185.7%
Gain on sale of capital assets	3	10	(7)	-70.0%
Distributions to minority interest	(100)	(152)	52	34.2%
Interest expense	(496)	(329)	(167)	-50.8%
Total non-operating revenues	1,685	1,036	649	62.6%
Increase in net position	$ 2,696	$ 2,801	$ (105)	-3.7%

2019

Operating Revenue

During fiscal year 2019, the Medical Center derived approximately 98.3 percent of its total operating revenues from net patient service revenues. Operating revenues include revenues from the Medicare and Medicaid programs, patients or their third-party carriers who pay for care in the Medical Center's facilities.

The following table represents the relative percentage of gross charges billed for patient services by payor for the fiscal years ended September 30, 2019 and 2018:

	Fiscal Year 2019	Fiscal Year 2018
Medicare	51.7%	51.4%
Medicaid	17.4%	16.9%
Other	30.9%	31.7%
	100.0%	100.0%

2019

OPERATING AND FINANCIAL PERFORMANCE

The following summarizes the changes in the Medical Center's statements of revenue and expenses and changes in net position for 2019 as compared to 2018:

- During 2019, the Medical Center had patient days and admissions of 36,650 and 8,133, respectively. As compared to 2018, patient days decreased by 3.9 percent while admissions decreased by 5.4 percent.
- Outpatient and emergency registrations were 49,671 and 40,148, respectively, in 2019 which corresponds to an increase of 1.0 percent and 0.9 percent, respectively, as compared to 2018.
- Surgical cases decreased by 7.1 percent to 3,485 in 2019 from 3,753 in 2018.
- Net patient service revenue increased as stated in the Financial Highlights. Net patient service revenue increased to $184.3 million in 2019 from $174.8 million in 2018.
- Salaries increased $4.5 million to $97.2 million in 2019 from $92.7 million in 2018. The increase is primarily due to the acquisition of Jefferson Medical Associates ("JMA").

2018

Summary of Revenue and Expenses

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

Condensed Statements of Revenue and Expenses
(In Thousands)

	Fiscal Year 2018	Fiscal Year 2017	Dollar Change	Total Percent Change
Net patient service revenue	$ 174,758	$ 155,482	$ 19,276	12.4%
Other operating revenue excluding interest income	2,905	2,901	4	0.1%
Total operating revenue	177,663	158,383	19,280	12.2%
Salaries and benefits	107,472	89,839	17,633	19.6%
Professional fees, supplies, maintenance, other	60,530	56,355	4,175	7.4%
Total operating expenses before depreciation/amortization	168,002	146,194	21,808	14.9%
Earnings before interest depreciation and amortization ("EBITDA")	9,661	12,189	(2,528)	-20.7%
Depreciation and amortization expense	7,896	8,350	(454)	-5.4%
Operating net income	1,765	3,839	(2,074)	-54.0%
Investment and grant income	1,423	656	767	116.9%
Income from joint ventures	84	101	(17)	-16.8%
Gain on sale of capital assets	10	-	10	100.0%
Distributions to minority interest	(152)	(589)	437	74.2%
Debt issuance costs	-	(1,130)	1,130	100.0%
Interest expense	(329)	(846)	517	-61.1%
Total non-operating expenses	1,036	(1,808)	2,844	157.4%
Increase in net position	$ 2,801	$ 2,031	$ 770	37.9%

2018

Operating Revenue

During fiscal year 2018, the Medical Center derived approximately 98.4 percent of its total operating revenues from net patient service revenues. Operating revenues include revenues from the Medicare and Medicaid programs, patients or their third-party carriers who pay for care in the Medical Center's facilities.

The following table represents the relative percentage of gross charges billed for patient services by payor for the fiscal years ended September 30, 2018 and 2017:

	Fiscal Year 2018	Fiscal Year 2017
Medicare	51.4%	49.4%
Medicaid	16.9%	19.8%
Other	31.7%	30.8%
	100.0%	100.0%

2018

OPERATING AND FINANCIAL PERFORMANCE

The following summarizes the changes in the Medical Center's statements of revenue and expenses and changes in net position for 2018 as compared to 2017:

- During 2018, the Medical Center had patient days and admissions of 38,133 and 8,594, respectively. As compared to 2017, patient days increased by 13.8 percent while admissions increased by 6.4 percent.
- Outpatient and emergency registrations were 49,206 and 39,794, respectively, in 2018 which corresponds to an increase of 3.2 percent and 25.9 percent, respectively, as compared to 2017; however, outpatient laboratory and radiology increased.
- Surgical cases increased by 3.3 percent to 3,753 in 2018 from 3,631 in 2017.
- Net patient service revenue increased as stated in the Financial Highlights. Net patient service revenue increased to $174.8 million in 2018 from $155.5 million in 2017.
- Salaries increased $15.9 million to $92.7 million in 2018 from $76.8 million in 2017. The increase is primarily due to the acquisition of Jefferson Medical Associates ("JMA").

2019

CAPITAL ASSETS

Capital Assets
(In Thousands)

	Fiscal Year 2019	Fiscal Year 2018	Dollar Change	Total Percent Change
Land and land improvements	$ 7,708	$ 6,290	$ 1,418	22.5%
Building and leasehold improvements	68,851	65,574	3,277	5.0%
Equipment	76,543	79,985	(3,442)	-4.3%
Subtotal	153,102	151,849	1,253	0.8%
Less: Accumulated depreciation	(95,342)	(95,253)	(89)	-0.1%
	57,760	56,596	1,164	2.1%
Construction in progress	38,756	28,123	10,633	37.8%
Net capital asset	$ 96,516	$ 84,719	$ 11,797	13.9%

Net capital assets increased approximately $11.8 million or 13.9 percent due to the Medical Center's purchases exceeding depreciation. Before depreciation, capital assets increased $11.9 million due to construction on the Project partially offset by the fully depreciated equipment.

2019

LONG-TERM DEBT

At year-end, the Medical Center had $72.3 million in long-term debt. Total long-term debt represents 79.9 percent of the Medical Center's total liabilities as of year-end. More detailed information about the long-term debt is presented in the notes to the financial statements.

2018

CAPITAL ASSETS

Capital Assets
(In Thousands)

	Fiscal Year 2018	Fiscal Year 2017	Dollar Change	Total Percent Change
Land and land improvements	$ 6,290	$ 5,166	$ 1,124	21.8%
Building and leasehold improvements	65,574	71,526	(5,952)	-8.3%
Equipment	79,985	90,561	(10,576)	-11.7%
Subtotal	151,849	167,253	(15,404)	-9.2%
Less: Accumulated depreciation	(95,253)	(109,215)	13,962	-12.8%
	56,596	58,038	(1,442)	-2.5%
Construction in progress	28,123	10,448	17,675	169.2%
Net capital asset	$ 84,719	$ 68,486	$ 16,233	23.7%

Net capital assets increased approximately $16.2 million or 23.7 percent due to the Medical Center's purchases exceeding depreciation. Before depreciation, capital assets increased $2.3 million due to construction on the Project partially offset by the fully depreciated equipment.

2018

LONG-TERM DEBT

At year-end, the Medical Center had $66.5 million in long-term debt. Total long-term debt represents 75.5 percent of the Medical Center's total liabilities as of year-end. More detailed information about the long-term debt is presented in the notes to the financial statements.

THE MEDICAL CENTER'S CASH FLOWS

Changes in the Medical Center's cash flows are consistent with changes in operating income and non-operating revenues and expenses, discussed earlier.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

While the annual budget of the Medical Center is not presented within these financial statements, the Medical Center's Board and management considered many factors when setting the fiscal year 2020 budget. Although the financial outlook for the Medical Center is outstanding, of primary importance in setting the 2020 budget is the status of the economy and the healthcare environment, which takes into account market forces and environmental factors such as:

- Medicare reimbursement changes;
- Medicaid reimbursement changes, as well as the continuation at the current or increased level of the Disproportionate Share and Upper Payment Limit programs;
- Increased number of uninsured and working poor;
- Ongoing competition for services;
- Cost of supplies, primarily pharmaceuticals;
- Ability to continue recruiting medical staff physicians to maintain the high level of services offered to our service area;
- Continued growth of service levels in the ancillary departments;
- Continuation of the excellent working relationship between the Medical Staff, the Board and the Medical Center administration;
- Impact of Healthcare Reform as it relates to reimbursement and employee health insurance coverage.

SOUTH CENTRAL REGIONAL MEDICAL CENTER

(A Component Unit of Jones County)

Statements of Net Position

September 30, 2019 and 2018

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	$ 20,025,851	$ 15,346,970
Investments	18,989,113	17,573,709
Assets limited as to use	523,908	981,664
Patient receivables, net of allowances for uncollectible accounts of $25,621,551 in 2019 and $25,612,264 in 2018	45,855,432	46,960,996
Estimated third-party payor settlements	-	2,532,459
Inventories	5,396,190	5,706,994
Other current assets	2,693,532	2,421,494
Total current assets	93,484,026	91,524,286
Assets limited as to use, net of amount required for current liabilities	10,560,185	19,182,789
Capital assets, net	96,516,572	84,718,721
Other assets	7,401,669	7,492,106
Total assets	207,962,452	202,917,902
LIABILITIES		
Current liabilities		
Current maturities of long-term debt	1,304,544	406,126
Accounts payable, trade	8,439,924	12,226,511
Estimated third-party payor settlements	866,415	-
Accrued salaries and compensated absences	6,351,386	6,210,206
Accrued self-insurance costs	1,870,000	2,070,000
Other current liabilities	626,451	1,109,845
Total current liabilities	19,458,720	22,022,688
Long-term debt, less current maturities	70,994,340	66,081,845
Total liabilities	90,453,060	88,104,533
NET POSITION		
Net investment in capital assets	32,980,264	35,110,137
Restricted - nonexpendable for		
Minority interest in blended component unit	361,263	(84,770)
Restricted - expendable for		
Debt service	523,908	1,473,142
Use in self-insurance programs	1,715,944	1,732,040
Unrestricted	81,928,013	76,582,820
Total net position	$ 117,509,392	$ 114,813,369

See accompanying notes.

SOUTH CENTRAL REGIONAL MEDICAL CENTER

(A Component Unit of Jones County)

Statements of Revenue and Expenses and Changes in Net Position

Years Ended September 30, 2019 and 2018

	2019	2018
Operating revenues		
Net patient service revenue, net of provision for bad debts of $19,298,427 in 2019 and $17,495,817 in 2018	$ 184,257,339	$ 174,757,957
Other operating revenue	3,119,357	2,905,309
Total operating revenue	187,376,696	177,663,266
Operating expenses		
Salaries and wages	97,212,897	92,659,475
Professional fees	8,844,260	8,707,160
Employee benefits	15,149,403	14,812,207
Supplies and other	43,590,403	37,745,467
Maintenance and utilities	13,730,601	14,077,740
Depreciation and amortization	7,838,268	7,896,225
Total operating expenses	186,365,832	175,898,274
Income from operations	1,010,864	1,764,992
Nonoperating revenue (expenses)		
Interest expense	(496,188)	(328,505)
Unrestricted gifts and bequests	128,725	121,866
Gain on sale of capital assets	3,148	9,793
Joint venture income	239,937	84,538
Investment income	1,909,687	1,300,905
Total nonoperating revenues (expenses)	1,785,309	1,188,597
Distributions to minority interest	(100,150)	(152,126)
Increase in net position	2,696,023	2,801,463
Net position, beginning of year	114,813,369	112,011,906
Net position, end of year	$ 117,509,392	$ 114,813,369

See accompanying notes.

SOUTH CENTRAL REGIONAL MEDICAL CENTER
(A Component Unit of Jones County)
Statements of Cash Flows
Years Ended September 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Receipts from and on behalf of patients	$ 189,001,714	$ 168,697,411
Payments to suppliers and contractors	(70,506,042)	(58,744,600)
Payments to employees	(112,221,120)	(106,324,956)
Other receipts and payments, net	3,119,357	2,905,309
Net cash provided by operating activities	9,393,909	6,533,164
Cash flows from noncapital financing activities		
Noncapital grants and contributions	128,725	121,866
Distributions to minority interest	(100,150)	(152,126)
Net cash provided by (used in) noncapital financing activities	28,575	(30,260)
Cash flows from capital and related financing activities		
Principal payments on long-term debt	(1,000,055)	(386,598)
Proceeds from issuance of long-term debt	6,810,968	-
Interest paid on long-term debt	(496,188)	(602,635)
Purchase of capital assets	(19,664,998)	(24,119,435)
Proceeds from sale of capital assets	32,027	-
Net cash used in capital and related financing activities	(14,318,246)	(25,108,668)
Cash flows from investing activities		
Investment income	494,283	1,336,882
Net cash provided by investing activities	494,283	1,336,882
Net decrease in cash and cash equivalents	(4,401,479)	(17,268,882)
Cash and cash equivalents, beginning of year	33,979,219	51,248,101
Cash and cash equivalents, end of year	$ 29,577,740	$ 33,979,219

See accompanying notes.

	2019	2018
Reconciliation of cash and cash equivalents to the statements of net position		
Cash and cash equivalents	$ 20,025,851	$ 15,346,970
Assets limited as to use	523,908	981,664
Assets limited as to use, net of amount required for current liabilities	9,027,981	17,650,585
Total cash and cash equivalents	$ 29,577,740	$ 33,979,219
Reconciliation of income from operations to net cash provided by operating activities		
Income from operations	$ 1,010,864	$ 1,764,992
Adjustments to reconcile income from operations to net cash provided by operating activities		
Joint venture income	239,937	84,538
Depreciation and amortization	7,838,268	7,896,225
Provision for bad debts	19,298,427	17,495,817
Changes in assets and liabilities		
Receivables	(18,192,863)	(21,434,888)
Inventories	310,804	281,581
Other current and noncurrent assets	(181,601)	(2,273,625)
Accounts payable, trade	(3,786,587)	3,074,614
Estimated third-party payor settlements	3,398,874	(2,206,013)
Accrued salaries and compensated absences	141,180	1,148,147
Other liabilities	(683,394)	701,776
Net cash provided by operating activities	$ 9,393,909	$ 6,533,164
Supplemental disclosures of noncash investing and financing activities		
Unrealized gains on investments	$ 1,415,404	$ 190,935

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Operations, Reporting Entity and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

South Central Regional Medical Center (the "Medical Center") is a regional healthcare provider established by Jones County as a special purpose government entity under the laws of the State of Mississippi. The Medical Center is owned by Jones County and is governed by a Board of Trustees pursuant to Sections 41-13-15 et. Seq. of Mississippi Code of 1972, as amended. Because of the relationship between the Medical Center and Jones County, the Medical Center has been defined as a component unit of the county.

The Medical Center provides inpatient, outpatient, emergency care services and long-term care primarily for residents of Jones County and the surrounding primary service area. Comfort Care Home Health and Hospice, multiple physician clinics and EmServ Ambulance Services are also a part of the Medical Center's operations. Admitting physicians are primarily practitioners in the same area. The Medical Center is currently licensed to provide 285 Medical Center beds, 248 nursing home beds and 12 assisted living beds.

Basis of Accounting

The Medical Center prepares its financial statements as a business-type activity in conformity with the applicable pronouncements of the Governmental Accounting Standards Board ("GASB"). The accompanying financial statements of the Medical Center have been prepared on the accrual basis of accounting using the economic resources measurement focus. In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* GASB 62 makes the GASB Accounting Standards Codification the sole source of authoritative accounting guidance for governmental entities in the United States of America.

Blended Component Units

The financial statements include the accounts of the Medical Center, the South Central Health Care Foundation (the "Foundation") and Open MRI, LLC ("Open MRI"), entities over which the Medical Center exerts control and there is a financial benefit relationship with these entities. These entities are presented as blended component units due to the governing body being substantially the same as the governing body of the Medical Center and have operational responsibility of these component units. All material intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most sensitive estimates included in these financial statements relate to contractual discounts under third-party contracts and the allowance for uncollectible accounts.

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less, including amounts limited as to use by the Board of Trustees or under trust agreements.

Patient Receivables

Patient receivables are reported at net realizable value, after deduction of allowances for estimated uncollectible accounts and third-party contractual discounts. The allowance for uncollectible accounts is based on historical losses and an analysis of currently outstanding amounts. This account is generally increased by charges to a provision for uncollectible accounts, and decreased by write-offs of accounts determined by management to be uncollectible. The allowances for third-party contractual discounts are based on the estimated differences between the Medical Center's established rates and the actual amounts to be received under each contract.

Investments

The Medical Center's investments consist of external investment pools and are carried at fair value. Interest, dividends and gains and losses on investments, both realized and unrealized, are included in nonoperating income when earned.

Investment in Joint Venture

The Medical Center has a noncontrolling 51 percent financial ownership interest in the Laurel Surgical and Endoscopy Center. This investment is accounted for using the equity method. The Medical Center does not have control of the operations of Laurel Surgical and Endoscopy Center; therefore, it is not considered a component unit of the Medical Center.

Assets Limited as to Use

Assets limited as to use include assets held by Trustees under indenture agreements, assets set aside under the Medical Center's self-insured malpractice insurance program, and assets designated for further capital improvements. Amounts that are required for obligations classified as current liabilities are reported as current assets, with the excess reported as noncurrent assets.

Inventories

Inventories, which consist primarily of medical supplies and drugs, are stated at the lower of cost based on the first-in, first-out method, or market.

Prepaid Expenses and Deferred Charges

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

Note 1. Continued

Capital Assets, Net

Capital asset acquisitions are recorded at cost, if purchased, or at fair value at the date of the gift, if donated. Depreciation is provided over the estimated useful life for each class of depreciable asset and is computed using the straight-line method.

Management evaluates assets for potential impairment when a significant, unexpected decline in the service utility of a capital asset occurs.

Cost of Borrowing

Costs incurred in connection with the obtaining of financing are expensed as incurred. Premium or discount incurred in connection with the issuance of bonds and indentures is amortized over the life of the obligations on the straight-line method, which approximates the interest method, and the unamortized amount is included in the balance of the outstanding debt.

Estimated Malpractice Costs

The Medical Center considers the need for recording a liability for malpractice claims. The provision for estimated malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Compensated Absences

Medical Center employees can accumulate earned time off, which is vested with the employee and upon termination is payable under certain circumstances. Sick leave is credited each month to eligible employees, but is not payable upon termination. Any employee who accumulates 720 hours of sick leave may be paid for excess sick leave up to a ceiling of $1,000. All vested compensated absences are recorded as of the statements of net position date.

Net Position

Net position consists of net investment in capital assets; restricted; and unrestricted. The net investment in capital assets consists of capital assets net of accumulated depreciation and the outstanding balances of any related debt that is attributable to the acquisition of the capital asset. Restricted net position are those resources that are externally restricted by creditors, grantors, contributors or laws and regulations or those restricted by constitutional provisions and enabling legislation. Unrestricted net position consists of all other resources.

Operating Revenue and Expenses

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Grants and Contributions

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

Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Patient service revenue is reported at estimated net realizable amounts from patients, third-party payors and others for services rendered, and includes estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are considered in the recognition and accrual of revenue on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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

Charity Care

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

Budgetary Information

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

Income Taxes

The Medical Center's operation is a governmental entity and, as such, is exempt from federal and state income taxes. The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. As limited liability companies, Open MRI's and Sleep Lab's taxable income or loss is allocated to its members in accordance with the operating agreement.

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

New Accounting Standards Adopted

In 2019, the Medical Center adopted the following accounting standard:

The Medical Center adopted GASB 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, in fiscal year 2019. This statement requires additional information related to debt be disclosed in the notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default or termination with finance-related consequences and significant acceleration clauses. The adoption of this statement did not have a significant impact on the financial statements of the Medical Center.

New Accounting Standards Yet to be Adopted

The Medical Center will be required to adopt the following new accounting standards in future years:

Governmental Accounting Standards Board Statement No. 84 ("GASB 84")

The Medical Center will adopt GASB 84, *Fiduciary Activities,* in fiscal year 2020 with any changes applied retroactively. This statement is meant to provide guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes. Fiduciary activities meeting certain criteria (i.e. pension and other employee benefit trust funds, investment trust funds, private-purpose trust funds, and custodial funds) will now be reported in a fiduciary fund as part of the basic financial statements. The Medical Center is currently assessing the impact of the adoption of this GASB and its effect on the Medical Center's financial position or results of operations.

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

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

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

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

Note 2. Cash Deposits and Investments

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Medical Center's deposits might not be recovered. The collateral for public entities' deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the Medical Center's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation ("FDIC"). All deposits with financial institutions must be collateralized in an amount equal to 105 percent of uninsured deposits and are therefore fully insured. The bank balance of the collateralized and insured balances was $21,223,824 and $15,274,834 at September 30, 2019 and 2018, respectively.

The Medical Center also has cash deposits held by a Trustee. The use of these funds is restricted for capital improvements and debt service related to the Medical Center's long-term debt. The carrying value of these deposits was $9,368,149 and $18,432,413 at September 30, 2019 and 2018, respectively. As of September 30, 2019 and 2018, $9,118,149 and $18,182,413, respectively, of the Medical Center's capital improvements and debt service fund balances was exposed to custodial credit risk.

Investments

The statutes of the State of Mississippi restrict the authorized investments of the Medical Center to obligations of the U. S. Treasury, agencies and instrumentalities of the United States and certain other types of investments. The Medical Center's investments consist of the following external investment pool funds at September 30:

	2019	2018
MHA Intermediate Duration Trust	$ 20,705,057	$ 19,305,749

The external investment pools do not have a credit rating on the overall pool and they are not insured.

Note 2. Continued

The Medical Center does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Deposits and investments are recorded and classified on the statements of net position as of September 30, 2019 and 2018, as follows:

	2019	2018
Cash and cash equivalents	$ 20,025,851	$ 15,346,970
Investments	18,989,113	17,573,709
Assets limited as to use	523,908	981,664
Assets limited as to use, net of amount required for current liabilities	10,560,185	19,182,789
Total	$ 50,099,057	$ 53,085,132

Note 3. Assets Limited as to Use

Assets limited as to use consisted of the following as of September 30, 2019 and 2018:

	2019	2018
Trustee-held funds		
Cost of issuance fund	$ 81,665	$ 79,884
Project fund	8,762,576	16,879,387
Capitalized interest fund	523,908	1,473,142
Self-insurance fund	1,715,944	1,732,040
Total cash and investments limited as to use	11,084,093	20,164,453
Less cash and investments that are required for current liabilities	523,908	981,664
Total noncurrent cash and investments, net of amount required for current liabilities	$ 10,560,185	$ 19,182,789

Amounts classified as current assets represent those assets that are anticipated to be used to satisfy current liabilities at each statements of net position date.

Note 4. Capital Assets

A summary of capital assets at September 30, 2019 and 2018 is set forth below:

	2019	2018
Land	$ 5,757,010	$ 4,374,110
Land improvements	1,951,240	1,915,029
Building	68,851,284	65,574,424
Equipment	76,542,824	79,984,907
	153,102,358	151,848,470

NOTES TO FINANCIAL STATEMENTS

Note 4. Continued

	2019	2018
Less accumulated depreciation and amortization	$ (95,341,775)	$ (95,252,594)
	57,760,583	56,595,876
Construction in progress	38,755,989	28,122,845
Capital assets, net	$ 96,516,572	$ 84,718,721

Depreciation expense for the years ended September 30, 2019 and 2018 totaled $7,838,268 and $7,896,225, respectively.

Construction in progress is principally comprised of expenditures related to the expansion and renovation of Medical Center facilities. As of September 30, 2019, the Medical Center had outstanding construction commitments of approximately $3,464,176.

Capital asset additions, retirements and balances for the year ended September 30, 2019, were as follows:

	Balance September 30, 2018	Increases	Decreases	Balance September 30, 2019
Capital assets not being depreciated				
Land	$ 4,374,110	$ 1,382,900	$ -	$ 5,757,010
Construction in progress	28,122,845	10,633,144	-	38,755,989
Total capital assets not being Depreciated	32,496,955	12,016,044	-	44,512,999
Capital assets being depreciated				
Land improvements	1,915,029	36,211	-	1,951,240
Buildings	65,574,424	3,307,114	(30,254)	68,851,284
Equipment	79,984,907	4,305,629	(7,747,712)	76,542,824
Total capital assets being Depreciated	147,474,360	7,648,954	(7,777,966)	147,345,348
Less accumulated depreciation for				
Land improvements	(1,070,269)	(114,020)	-	(1,184,289)
Buildings	(34,817,499)	(2,407,540)	-	(37,225,039)
Equipment	(59,364,826)	(5,316,708)	7,749,087	(56,932,447)
Total accumulated depreciation	(95,252,594)	(7,838,268)	7,749,087	(95,341,775)
Capital assets being depreciated, net	52,221,766	(189,314)	(28,879)	52,003,573
Capital assets, net	$ 84,718,721	$ 11,826,730	$ (28,879)	$ 96,516,572

NOTES TO FINANCIAL STATEMENTS

Note 4. Continued

Capital asset additions, retirements and balances for the year ended September 30, 2018 were as follows:

	Balance September 30, 2017	Increases	Decreases	Balance September 30, 2018
Capital assets not being depreciated				
Land	$ 3,151,110	$ 1,223,000	$ -	$ 4,374,110
Construction in progress	10,448,060	21,489,454	(3,814,669)	28,122,845
Total capital assets not being depreciated	13,599,170	22,712,454	(3,814,669)	32,496,955
Capital assets being depreciated				
Land improvements	2,014,455	168,824	(268,250)	1,915,029
Buildings	71,526,499	3,142,608	(9,094,683)	65,574,424
Equipment	90,560,449	4,419,326	(14,994,868)	79,984,907
Total capital assets being depreciated	164,101,403	7,730,758	(24,357,801)	147,474,360
Less accumulated depreciation for				
Land improvements	(1,232,052)	(106,467)	268,250	(1,070,269)
Buildings	(39,950,030)	(2,457,737)	7,590,268	(34,817,499)
Equipment	(68,032,773)	(5,357,500)	14,025,447	(59,364,826)
Total accumulated depreciation	(109,214,855)	(7,921,704)	21,883,965	(95,252,594)
Capital assets being depreciated, net	54,886,548	(190,946)	(2,473,836)	52,221,766
Capital assets, net	$ 68,485,718	$ 22,521,508	$ (6,288,505)	$ 84,718,721

NOTES TO FINANCIAL STATEMENTS

Note 5. Other Assets

The composition of other assets at September 30, 2019 and 2018 was as follows:

	2019	2018
Morris & Dickson deposit	$ 528,796	$ 528,796
CON - 60 nursing home beds	637,500	637,500
City of Laurel, lease rights	12,590	12,864
Premier Healthcare Solutions, Inc., common stock	2,567,476	3,386,903
Workers Compensation Public Pool dividend receivable	410,981	410,981
Investment in Laurel Surgical and Endoscopy Center	366,275	226,912
Clinic acquisitions – medical records	29,706	29,706
Insurance receivable	2,180,747	1,572,386
Non-current portion of note receivable	667,598	686,058
Total other assets	$ 7,401,669	$ 7,492,106

The Medical Center's group purchasing organization, Premier Healthcare Solutions, Inc. ("PHSI"), completed an initial public offering on September 26, 2013. This resulted in the Medical Center's shares of PHSI stock being converted into 103,575 shares of Class B units in the public company. The Medical Center's initial ownership interest in PHSI was recorded as an equity-based investment of $171,000 at September 30, 2013. The Class B shares are exchangeable pro rata over seven years into Class A common shares or to retain as Class B shares. As the Class B common shares are exchanged, the Class A common share value is based on the quoted market price. The carrying value of the Premier investment was approximately $2,567,000 and $3,387,000 as of September 30, 2019 and 2018, respectively.

Note 6. Long-Term Debt

A summary of long-term debt, inclusive of capital lease obligations, at September 30, 2019 and 2018 follows:

	2019	2018
Loan, $567,812 original principal balance, with principal and interest due November 10, 2023 at an interest rate of 4.10 percent.	$ 371,468	$ 448,832
Loan, $8,755,000 original principal balance, with principal and interest due March 1, 2037 at an interest rate of 3.67 percent.	7,976,363	8,294,139
Loan, $4,697,567 original principal balance, with principal and interest due January 20, 2037 at an interest rate of 4.80 percent.	4,560,332	-
Loan, $1,580,400 original principal balance, with principal due December 26, 2021 with zero interest	1,185,300	-

NOTES TO FINANCIAL STATEMENTS

Note 6. Continued

During 2017, the Medical Center issued Hospital Revenue notes, Series 2017, in the amount of $57,745,000 and a promissory note with a local bank in the amount of $8,755,000 through the United States Department of Agriculture ("USDA") direct loan program and the USDA guaranty loan program, respectively. The debt proceeds were used to refund the Mississippi Medical Center Equipment and Facilities Authority bonds dated September 7, 2006, payoff the outstanding bank loans and capital lease obligations, and fund Medical Center expansion (the "Project"). The Project consists of a 67,980 square foot three-floor addition to the easterly end of the Medical Center to house a new emergency department and to shell in two floors for future expansion, the construction of a 67,815 square foot four-floor medical office building, new parking areas and drives and a paved heliport. The cost of the Project is estimated at approximately $35,600,000. Upon completion of the Project, the Medical Center anticipates the Series 2017 Hospital Revenue notes to be purchased by the USDA.

	2019	2018
Loan, $531,001 original principal balance, with principal and interest due December 21, 2022 at an interest rate of 5.33 percent.	460,421	-
Series 2017 Hospital Revenue notes dated March 1, 2017, maturing March 1, 2020, interest is due semiannually on March 1 and September 1 at a rate of 1.7 percent.	$ 57,745,000	$ 57,745,000
	72,298,884	66,487,971
Less current portion of long-term debt	1,304,544	406,126
Long-term debt, excluding current portion	$ 70,994,340	$ 66,081,845

The maturities on long-term debt are as follows:

Year Ending September 30,	Long-Term Debt Principal	Long-Term Debt Interest
2020	$ 1,304,544	516,091
2021	2,141,857	2,061,075
2022	1,802,531	2,010,604
2023	1,641,007	1,957,403
2024	1,540,136	1,904,895
2025 – 2029	8,491,275	8,692,090
2030 – 2034	9,692,778	7,177,159
2035 – 2039	7,624,756	5,713,710
2040 – 2044	7,135,000	4,734,342
2045 – 2049	8,195,000	3,683,120
2050 – 2054	9,400,000	2,475,940
2055 – 2059	10,780,000	1,094,351
2060	2,550,000	37,546
	$ 72,298,884	$ 42,058,326

Note 6. Continued

A schedule of changes in the Medical Center's long-term debt for 2019 follows:

	Balance September 30, 2018	Additions	Retirements	Balance September 30, 2019	Due Within One Year
Bonds payable 2017 indenture	$ 57,745,000	$ -	$ -	$ 57,745,000	$ -
Notes payable	8,742,971	6,810,968	(1,000,055)	14,553,884	1,304,544
Total long-term debt	$ 66,487,971	$ 6,810,968	$ (1,000,055)	$ 72,298,884	$ 1,304,544

A schedule of changes in the Medical Center's long-term debt for 2018 follows:

	Balance September 30, 2017	Additions	Retirements	Balance September 30, 2018	Due Within One Year
Bonds payable 2017 indenture	$ 57,745,000	$ -	$ -	$ 57,745,000	$ -
Notes payable	9,129,569	-	(386,598)	8,742,971	406,126
Total long-term debt	$ 66,874,569	$ -	$ (386,598)	$ 66,487,971	$ 406,126

Note 7. Retirement Plan

The Medical Center has established a 403(b) tax deferred retirement plan for the benefit of all full-time employees. Effective November 1, 2007, the Medical Center matches 100 percent of each contribution as follows: less than 10 years of participation, the Medical Center will match 100 percent of contributions up to 1.5 percent of eligible compensation; 10-15 years of participation, the Medical Center will match 167 percent of contributions up to 2.5 percent of eligible compensation; 15-20 years of participation, the Medical Center will match 200 percent of contributions up to 3 percent of eligible compensation; and greater than 20 years of participation, the Medical Center will match 233 percent of contributions up to 3.5 of eligible compensation. Participants are immediately vested in their salary reduction contributions plus earnings thereon. Participants gain 100 percent vesting in Medical Center matching contributions after 5 years of participation based on a tiered schedule. The Medical Center's matching contributions for the years ended September 30, 2019 and 2018 were approximately $930,000 and $792,000, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 8. Insurance Programs

Risk Management

The Medical Center is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health, dental and accident benefits. Commercial liability insurance is purchased for most of these risks. However, employee health and dental insurance, workers' compensation and certain general and professional liability risks are self-funded as further explained below. The Medical Center has accrued for the estimate of self-funded claims.

Self-Funded Workers Compensation

Effective July 1, 2010, the Medical Center began an individual self-funded plan for workers' compensation claims. Prior to July 1, 2010, the Medical Center participated in the Mississippi Hospital Association Public Hospital's workers' compensation pool. A liability is recorded when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. Liabilities for claims incurred are reevaluated periodically to take into consideration recently settled claims, frequency of claims and other economic and social factors. The Medical Center purchased commercial insurance that provides coverage for workers' compensation in excess of the self-funded limits. As of September 30, 2019 and 2018, the Medical Center accrued $100,000 for potential claim liabilities. Claims and related activity were not significant for the years ended September 30, 2019 and 2018.

Self-Funded Health Insurance

The Medical Center provides health and dental insurance coverage to its employees under a self-funded plan. Health claims are paid by the Medical Center as they are incurred and filed by the employee. An estimated liability for claims incurred but not reported or paid is included in accrued expenses and operating expenses in the financial statements.

The claims liability at September 30, 2019 and 2018 is based on the requirements of GASB, which requires that liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the Medical Center's claims liability amount in fiscal years 2019 and 2018 were:

Fiscal Year	October 1, Claims Liability	Current Year Claims and Changes in Estimates	Current Year Payments	September 30, Claims Liability
2019	$ 1,712,529	$ 7,910,977	$ (8,601,726)	$ 1,021,780
2018	$ 1,308,886	$ 10,021,349	$ (9,617,706)	$ 1,712,529

NOTES TO FINANCIAL STATEMENTS

Note 8. Continued

Medical Malpractice Program

The Medical Center maintains a professional and general liability insurance program under a self-funded plan. At year-end, the Medical Center accrues for the estimate of losses for malpractice claims outstanding. As of September 30, 2019 and 2018, this accrual totaled $1,250,000. The future assertion of claims for occurrences prior to year-end is reasonably possible and may occur, although it is not anticipated.

Changes in the Medical Center's claims liability amount, including related legal fees, for the years 2019 and 2018 were as follows:

Fiscal Year	October 1, Claims Liability	Current Year Claims and Changes in Estimates	Current Year Payments	September 30, Claims Liability
2019	$ 1,250,000	$ 332,543	$ (332,543)	$ 1,250,000
2018	$ 1,200,000	$ 625,471	$ (575,471)	$ 1,250,000

The Mississippi Tort Claims Act provides a cap on the amount of damages recoverable against government entities, including governmental medical centers. For claims filed, the amount recoverable is the greater of $500,000 or the amount of liability insurance coverage that has been retained.

Note 9. Net Position

Resources invested in capital assets, net of related debt, was as follows at September 30:

	2019	2018
Capital assets	$ 191,858,347	$ 179,971,315
Less accumulated depreciation	(95,341,775)	(95,252,594)
Less debt outstanding related to capital assets	(63,536,308)	(49,608,584)
Net investment in capital assets	$ 32,980,264	$ 35,110,137

Note 10. Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

NOTES TO FINANCIAL STATEMENTS

Note 10. Continued

Medicare

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to the patient classification system that is based on clinical, diagnostic and other factors. Outpatient services related to Medicare beneficiaries are reimbursed through a prospective payment system commonly known as Ambulatory Payment Classification ("APC"). Under the APC system, certain medical devices and drugs are reimbursed at cost or average wholesale price. Long-term care services are reimbursed under a prospective payment system that considers the Medicare beneficiaries severity of illness among other clinical factors. Inpatient nonacute services are paid based on a prospective payment system. The Medical Center is reimbursed for cost-reimbursable items at a tentative rate, with final settlement determined after submission and review by the fiscal intermediary of annual cost reports.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a prospective reimbursement methodology known as an APR-DRG system. Outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a prospective reimbursement methodology known as an APC system.

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

The MHAP Program is administered by the DOM through the Mississippi CAN coordinated care organizations ("CCO"). The CCO's subcontract with hospitals throughout the state for distribution of MHAP payments for the purpose of protecting patient access to hospital care. DSH and MHAP payments and associated tax are distributed and collected in equal monthly installments. MHAP amounts are shown as a reduction of contractual adjustments and are recorded net of related taxes paid.

The Medical Center participates in the Mississippi Nursing Home UPL Program. This program is funded by Intergovernmental Transfers ("IGTs") from participating providers to the DOM. Under this program, the Medical Center receives enhanced reimbursement for nursing home services offered to the community. Unlike the Hospital UPL Program, the Nursing Home UPL Program does not prescribe specific payment timelines, therefore, creating uncertainties about both the timing and estimation of such UPL payments. Due to these uncertainties, Nursing Home UPL payments are recorded only when notified by the DOM of the imminence of such payments. UPL amounts are shown as a reduction of contractual adjustments and are recorded net of IGTs paid. Under the Hospital and Nursing Home MHAP and UPL programs, the Medical Center received enhanced reimbursement for 2019 and 2018 as follows:

	2019	2018
UPL revenue, gross	$ 3,070,673	$ 2,873,792
MHAP revenue, gross	8,927,899	9,707,513
UPL assessment	703,720	699,768
MHAP assessment	4,971,400	5,889,639
MHAP and UPL revenue, net of assessment	$ 6,323,452	$ 5,991,898

NOTES TO FINANCIAL STATEMENTS

Note 10. Continued

Medicare and Medicaid Laws and Regulations

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result of those interpretations, the 2019 and 2018 net patient service revenue increased (decreased) approximately ($1,160,112) and $112,000, respectively, due to prior year retroactive adjustments in excess of amounts previously estimated.

Other

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

A summary of gross and net patient service revenue for the years ended September 30, 2019 and 2018 follows:

	2019	2018
Gross patient service revenue	$ 460,401,354	$ 425,598,318
Less provisions for		
Contractual adjustments under third-party reimbursement programs and other deductions	256,845,588	233,344,544
Provision for bad debts	19,298,427	17,495,817
Net patient service revenue	$ 184,257,339	$ 174,757,957

Note 11. Charity Care

The Medical Center maintains records to identify and monitor the level of charity care it provides. The amount of charges foregone for services and supplies furnished under the Medical Center's charity care policy aggregated approximately $13,855,000 and $12,615,000 for the years ended September 30, 2019 and 2018, respectively. The estimated cost of charity care, estimated using a ratio of cost to gross charges, totaled approximately $5,542,000 and $5,172,000 for the years ended September 30, 2019 and 2018, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 12. Concentration of Credit Risk

Accounts Receivable

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

	2019	2018
Medicare	31.3%	32.3%
Medicaid	8.9	8.5
Commercial	33.9	34.2
Other	25.9	25.0
Total	100.0%	100.0%

Patient Service Revenue Under Contract

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

	September 30, 2019		September 30, 2018	
	Amount	Percent of Total Gross Patient Revenue	Amount	Percent of Total Gross Patient Revenue
Medicare	$ 243,280,843	52.8%	$ 218,757,535	51.4%
Medicaid	81,965,249	17.8%	72,351,714	17.0%
Other	135,155,262	29.4%	134,489,069	31.6%
Total	$ 460,401,354	100.0%	$ 425,598,318	100.0%

Note 13. Commitments and Contingencies

Operating Leases

The Medical Center leases various equipment and facilities under operating leases expiring at various dates through 2024. Total rental expense for the years ended September 30, 2019 and 2018 for all operating leases was $2,647,369 and $2,486,310, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 13. Continued

The following is a schedule, by year of expiration, of the approximate future minimum lease payments under non-cancelable operating leases as of September 30, 2019 that have initial or remaining lease terms in excess of one year:

Year Ending September 30,	Amount
2020	$ 1,081,014
2021	1,084,081
2022	1,080,811
2023	1,080,811
2024	1,080,311
	$ 5,407,028

Litigation

The Medical Center is involved in litigation and regulatory investigations arising in the normal course of business. Based on consultations with legal counsel, management is of the opinion that these matters will be resolved without material adverse effect on the Medical Center's future financial position or on the results of its future operations. See Note 8 for a description of the Medical Center's insurance programs related to claims and assessments.

Guaranty of Joint Venture Debt

The Medical Center is guarantor for the debt for one of its joint ventures. In the event of default on the debt, the Medical Center will be required to pay to the joint venture's debt holder 110 percent of 51 percent of the outstanding joint venture debt. The potential total of this payment amounted to $23,290 and $53,334 at September 30, 2019 and 2018, respectively. No liability has been recorded for this guarantee as of September 30, 2019 or 2018. In connection with the debt guarantee, the Medical Center pledged as collateral a certificate of need for the operation of an ambulatory surgery center. Substantially all of the assets of the joint venture have also been pledged as collateral for the debt.

Note 14. Blended Component Units

The Foundation is a tax-exempt, legally separate component unit of the Medical Center. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the Medical Center.

Open MRI and Sleep Lab are legally separate, taxable component units of the Medical Center. The Medical Center owns a 51 percent majority share of Open MRI. At September 30, 2019, the Medical Center owns 100 percent of Sleep Lab and, therefore, absorbed the Sleep Lab operations within the Medical Center's operations.

NOTES TO FINANCIAL STATEMENTS

Note 14. Continued

The condensed statements of net position, condensed statements of revenue, expenses and changes in net position, and the condensed statements of cash flows as of and for the years ended September 30, 2019 and 2018 for The Foundation and Open MRI are detailed as follows:

	2019 The Foundation	2019 Open MRI
Condensed Statements of Net Position		
Assets		
Current assets	$ 65,011	$ 272,532
Capital assets	-	921,880
Total assets	65,011	1,194,412
Liabilities		
Current liabilities	-	85,672
Long-term debt	-	371,468
Total liabilities	-	457,140
Net position		
Invested in capital assets, net of related debt	-	550,412
Unrestricted	65,011	186,860
Total net position	$ 65,011	$ 737,272
Condensed statements of revenue and expenses and changes in net position		
Operating revenues		
Net patient service revenues	$ -	$ 1,338,092
Other operating revenues	128,725	-
Total operating revenues	128,725	1,338,092
Operating expenses		
Depreciation expenses	-	63,464
Other operating expenses	107,717	1,021,617
Total operating expenses	107,717	1,085,081
Operating income	21,008	253,011
Nonoperating expenses		
Interest expense	-	(23,655)
Increase in net position	21,008	229,356
Net position, beginning of year	44,003	712,304
Distributions	-	(204,388)
Net position, end of year	$ 65,011	$ 737,272
Condensed Statements of Cash Flows		
Cash provided by operating activities	$ 21,008	$ 295,154
Cash used in capital and related financing Activities	-	(283,878)
Increase in cash and cash equivalents	21,008	11,276
Cash and cash equivalents, beginning of year	44,003	122,937
Cash and cash equivalents, end of year	$ 65,011	$ 134,213

NOTES TO FINANCIAL STATEMENTS

Note 14. Continued

	2018 The Foundation	2018 Open MRI
Condensed Statements of Net Position		
Assets		
Current assets	$ 44,003	$ 261,392
Capital assets	-	983,219
Total assets	44,003	1,244,611
Liabilities		
Current liabilities	-	83,475
Long-term debt	-	448,832
Total liabilities	-	532,307
Net position		
Invested in capital assets, net of related debt	-	534,387
Unrestricted	44,003	177,917
Total net position	$ 44,003	$ 712,304

	2018 The Foundation	2018 Open MRI
Condensed statements of revenue and expenses and changes in net position		
Operating revenues		
Net patient service revenues	$ -	$ 1,456,255
Other operating revenues	122,366	-
Total operating revenues	122,366	1,456,255
Operating expenses		
Depreciation expenses	-	65,344
Other operating expenses	155,258	1,050,361
Total operating expenses	155,258	1,115,705
Operating income (loss)	(32,892)	340,550
Nonoperating expenses		
Interest expense	-	(20,279)
Increase (decrease) in net position	(32,892)	320,271
Net position, beginning of year	76,895	702,497
Distributions	-	(310,464)
Net position, end of year	$ 44,003	$ 712,304
Condensed Statements of Cash Flows		
Cash provided by (used in) operating activities	$ (32,892)	$ 397,445
Cash used in capital and related financing Activities	-	(394,085)
Increase (decrease) in cash and cash equivalents	(32,892)	3,360
Cash and cash equivalents, beginning of year	76,895	119,577
Cash and cash equivalents, end of year	$ 44,003	$ 122,937

NOTES TO FINANCIAL STATEMENTS

Note 15. Fair Value

The Medical Center's investments are recorded at fair value as of September 30, 2019 and 2018. GASB Statement No. 72, Fair Value Measurement and Application, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumption about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2 Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 Investments classified as Level 3 have unobservable inputs for an asset or liability and may require a degree of professional judgment.

The following table represents the Medical Center's investments within the fair value hierarchy at September 30, 2019:

	Fair Value Measurements at September 30, 2019			
	(Level 1)	(Level 2)	(Level 3)	Total
Investments				
MHA duration trust	$ -	$ 20,705,057	$ -	$ 20,705,057

The following table represents the Medical Center's investments within the fair value hierarchy at September 30, 2018:

	Fair Value Measurements at September 30, 2018			
	(Level 1)	(Level 2)	(Level 3)	Total
Investments				
MHA duration trust	$ -	$ 19,305,749	$ -	$ 19,305,749

The fair value of the MHA investment pools are based on the closing price reported on the active market on which the individual funds are traded, and the fair value is allocated to the Medical Center based on unit ownership. Therefore, investments are considered a Level 2 category.

NOTES TO FINANCIAL STATEMENTS

Note 16. Investment in Joint Venture

The Medical Center has an ownership interest (51 percent) in a joint venture that provides surgical and endoscopy services. The Medical Center's investment in the joint venture is reflected in other assets on the accompanying statements of net position. The following is summarized unaudited financial information for the joint venture as of and for the years ended September 30, 2019 and 2018, respectively.

	2019	2018
Cash	$ 307,480	$ 214,580
Patient accounts receivable, net	290,309	208,829
Capital assets, net	118,352	148,653
Other assets	175,276	153,679
Total assets	$ 891,417	$ 725,741
Current liabilities	$ 184,683	$ 248,210
Long-term liabilities	41,515	95,069
Members' capital	665,219	382,462
Total liabilities and capital	$ 891,417	$ 725,741
Net patient service and other revenues	$ 4,897,809	$ 4,734,330
Operating expenses	(4,440,199)	(4,679,755)
Net income	$ 457,610	$ 54,575

Note 17. Risks and Uncertainties

Current Economic Conditions

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of the Medical Center's patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payors may significantly impact net patient service revenue, which could have an adverse impact on the Medical Center's future operating results. Furthermore, the effect of economic conditions on the state could have an adverse effect on cash flows related to the Medicaid program.

Patient Protection and Affordable Care Reconciliation Act

The Patient Protection and Affordable Care Act ("ACA") is the comprehensive health care reform bill passed by Congress in March 2010. The law reshapes the way health care is delivered and financed by transitioning providers from a volume-based fee-for-service system toward value-based care. Several legal challenges have been made against the legislation since it was enacted, and uncertainty exists as to the ultimate impact of the legislation on the healthcare delivery system. Potential impacts of healthcare reform include political uncertainty and volatility in Medicare and Medicaid reimbursement, fundamental changes in payment systems, increased regulation and significant required investments in healthcare information technology.

SOUTH CENTRAL REGIONAL MEDICAL CENTER

Schedule of Surety Bonds for Officers and Employees

September 30, 2019

Name	Position	Company		Amount of Bond
Becky Brewer	Trustee	Fidelity and Deposit Company of Maryland	$	100,000
Victor Jones, Jr.	Trustee	Fidelity and Deposit Company of Maryland		100,000
Lewis Goins	Trustee	Fidelity and Deposit Company of Maryland		100,000
Michael Lowe	Trustee	Fidelity and Deposit Company of Maryland		100,000
Jack M. Scoggin	Trustee	Fidelity and Deposit Company of Maryland		100,000
Arthur L. Siggers	Trustee	Fidelity and Deposit Company of Maryland		100,000
George Walters	Trustee	Fidelity and Deposit Company of Maryland		100,000
G. Douglas Higginbotham	President & Chief Executive Officer	Fidelity and Deposit Company of Maryland		100,000
All Employees		Fidelity and Deposit Company of Maryland		250,000

HORNE
CPAs & BUSINESS ADVISORS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
South Central Regional Medical Center
Laurel, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of South Central Regional Medical Center (the "Medical Center"), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements, and have issued our report thereon dated November 26, 2019

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Horne LLP

Ridgeland, Mississippi
November 26, 2019