

**SOUTHWEST MISSISSIPPI
REGIONAL MEDICAL CENTER**

Financial Statements


For the Year Ended September 30, 2019



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Southwest Mississippi Regional Medical Center
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For the Year Ended September 30, 2019

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Southwest Mississippi Regional Medical Center (the "Medical Center"), as of and for the year ended September 30, 2019, 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control

relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 – 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Medical Center's basic financial statements. The schedule of expenditures of federal awards required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information on pages 40 to 44 and the schedule of expenditures of federal awards on page 50 is the responsibility of management and were derived from and relate directly

to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2020, on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing, and not to provide an opinion on the effectiveness of the Medical Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.

Cary Riggs & Ingram, L.L.C.

Laurel, Mississippi
March 27, 2020

Southwest Mississippi Regional Medical Center Management's Discussion and Analysis

Our discussion and analysis of Southwest Mississippi Regional Medical Center's (the "Medical Center") annual performance provides an overview of the entity's financial activities for the fiscal year ended September 30, 2019. This information should be used in conjunction with the Medical Center's financial statements, which begin on page 11.

Background and Overview

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

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

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

Using This Annual Report

The Medical Center's financial statements consist of three statements – a statement of net position; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These financial statements and related notes provide information about the activities of the Medical Center, including resources held by the Medical Center but restricted for purposes by contributors, grantors, or enabling legislation. The financial statements presented herein also include the activities of its blended component unit. Complete financial statements for the blended component unit can be requested from the Medical Center's chief financial officer.

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

Southwest Mississippi Regional Medical Center Management's Discussion and Analysis

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

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

Financial Highlights

The Medical Center's overall financial position showed an overall decrease in net position of \$6 million.

Positive factors affecting financial results included:

- Disproportionate Share ("DSH") and Mississippi Hospital Access Program ("MHAP") net revenues were \$6 million.
- New USDA bonds were issued, which will reduce future debt costs.

Negative factors affecting financial results included:

- Increasing payor requirements to move services from inpatient to outpatient, resulting in decreased inpatient census.
- Payments received from the federal Medicare program continue to be negatively impacted by the federal government's sequestration cuts and other changes mandated by the Affordable Care Act.
- Continuing shift in payment responsibility from third-party payors to patients through higher deductibles and copays resulting in additional bad debt estimates.

At the end of the 2019 fiscal year, the assets of the Medical Center exceeded liabilities by approximately \$21.1 million. Of this excess amount, approximately \$15 million (unrestricted net position) may be used to meet ongoing obligations to the Medical Center's employees, patients and creditors. The Medical Center is self-insured for general and professional liability claims and has established a self-insurance fund in accordance with the requirements of the Mississippi Tort Claims Board. At September 30, 2019, the Medical Center had \$1 million deposited into this restricted account.

Southwest Mississippi Regional Medical Center Management's Discussion and Analysis

Condensed Financial Information

Summary of Net Position

A summary of the Medical Center's Statements of Net Position for September 30, 2019 and 2018 are presented in the following table:

Condensed Statements of Net Position (In Thousands)

	Fiscal Year	
	2019	2018
Current and other assets	\$ 42,421	\$ 48,987
Capital assets	32,145	33,023
Total assets	\$ 74,566	\$ 82,010
Total deferred outflow of resources	\$ -	\$ 63
Long-term debt	\$ 27,037	\$ 30,211
Other liabilities	26,405	24,706
Total liabilities	\$ 53,442	\$ 54,917
Net investment in capital assets	\$ 6,087	\$ 7,883
Unrestricted	15,037	19,273
Total net position	\$ 21,124	\$ 27,156

Total assets decreased by approximately \$7.4 million. Some of the more significant changes were:

- Net accounts receivable decreased \$5.8 million primarily due to an increasing the allowance for uncollectible accounts for self-pay payors.
- Capital assets decreased \$877,000 as a result of current year depreciation in excess of current year additions.

Total liabilities decreased by approximately \$1.5 million. Accounts payable decreased \$745,000 and long-term debt decreased \$893,000.

Southwest Mississippi Regional Medical Center Management's Discussion and Analysis

Summary of Revenue Expenses, and Changes in Net Position

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

	Fiscal Year	
	2019	2018
Operating revenue		
Net patient service revenue	\$ 126,694	\$ 121,410
Other operating income	2,721	2,572
Total operating income	129,415	123,982
Operating expenses		
Salaries, wages, and benefits	74,840	78,091
Supplies and other operating expenses	54,603	56,037
Depreciation and amortization expense	5,599	6,002
Total operating expenses	135,042	140,130
Income (loss) from operations	(5,627)	(16,148)
Nonoperating revenue (expense)	(404)	1,591
Change in net position	\$ (6,031)	\$ (14,557)

Operating Revenues

During fiscal year 2019, the Medical Center derived 98% of its total operating revenues from net patient service revenues. Such revenues included revenues from Medicare (44%) and Medicaid (13%) programs, and patients or their third-party carriers (43%), who pay for care in the Medical Center's facilities. Operating revenues are discussed further in the notes to the financial statements.

Southwest Mississippi Regional Medical Center Management's Discussion and Analysis

Operating Results and Financial Performance

The following summarizes the Medical Center's operating results and financial performance between 2019 and 2018:

- Gross patient revenues decreased \$14.1 million or 3.7% primarily due to the continuing decreased inpatient census in 2019.
- Net patient service revenue increased by \$5.2 million or 4.4% primarily as a result of the change in the Medical Center's method of estimating the allowance for uncollectible accounts in 2018.
- Revenue deductions for contractual adjustments and bad debt expense decreased from 68% of gross patient revenues in 2018 to 65.3% of gross patient revenues in 2019, primarily as a result of the change to the bad debt estimate in 2018.
- Total operating expenses decreased \$5.1 million. Of this amount, salaries, wages, benefits, and contract salaries decreased \$3.2 million primarily as a result of staffing reductions to mirror patient volume changes, ongoing efforts to reduce contract salary costs, and not replacing physician and other staff members upon their retirement or termination.

Capital Assets

The following summarizes the Medical Center's investment in capital assets as of September 30, 2019 and 2018:

	Capital Assets (In Thousands)	
	Fiscal Year	
	2019	2018
Land	\$ 355	\$ 334
Construction in progress	19	3,483
Land improvements	3,074	3,073
Buildings and improvements	62,382	58,371
Leasehold improvements	1,410	1,368
Equipment	3,300	3,182
Major moveable equipment	97,365	95,433
Subtotal	167,905	165,244
Less accumulated depreciation	(135,760)	(132,221)
Capital assets, net	\$ 32,145	\$ 33,023

The change in net capital assets consists of additions of \$4.6 million primarily for completion of the upgrades to the HVAC system, electronic health records system, implementation of a new fleet vehicle program and other major moveable equipment. These additions were offset by \$5.5 million

Southwest Mississippi Regional Medical Center Management's Discussion and Analysis

of depreciation. More detailed information about capital assets is presented in the notes to the financial statements.

Long-Term Debt

The following summarizes the Medical Center's long-term debt as of September 30, 2019 and 2018:

	Fiscal Year	
	2019	2018
USDA Bonds payable	\$ 18,353	\$ -
Notes payable	4,321	23,687
Capital lease obligations	6,644	6,524
Long-term debt	\$ 29,318	\$ 30,211

During the year, the Medical Center issued the USDA Hospital Revenue Bonds, Series 2019 to current refund the Hospital Revenue Notes, Series 2018A and 2018B, in the amounts of \$13,265,000 and \$5,310,000, respectively. More detailed information about the Medical Center's long-term debt is presented in the notes to the financial statements.

Economic Factors and Next Year's Budget

While the annual budget of the Medical Center is not presented within these financial statements, the Medical Center's Board and management considered many factors when setting the fiscal year 2020 budget. While the financial outlook for the Medical Center is improving, the 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 and regulatory changes.
- Medicaid reimbursement changes, as well as the continuation at the current level of the Disproportionate Share and Mississippi Hospital Access Payment programs.
- Increased regulatory requirements for enhanced information technology.
- Ability to reverse the negative trends experienced in collections due to the system conversions.
- Increased number of uninsured and working poor.
- Ability to manage the increase in patient portions of billings for services seen in the newer high deductible insurance plans.
- Ongoing competition for services.
- Workforce shortages primarily in nursing and other clinically skilled positions.
- Rising cost of supplies, including pharmaceuticals.

Southwest Mississippi Regional Medical Center Management's Discussion and Analysis

- Ability to continue recruiting medical staff physicians.

Contacting Medical Center's Financial Management

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

Southwest Mississippi Regional Medical Center
Statement of Net Position

September 30,	2019
ASSETS	
Current assets	
Cash and cash equivalents	\$ 2,786,230
Investments	3,614,264
Restricted cash and cash equivalents	9,259,719
Restricted investments	1,077,419
Accounts receivable, patients, net of allowance for uncollectible accounts of \$21,199,836	16,595,285
Other receivables	1,280,381
Inventories	4,541,333
Estimated third-party payor settlements	722,420
Prepaid expenses and other current assets	1,481,176
Total current assets	41,358,227
Noncurrent assets	
Equity interest in Medical Arts Building, LLC	535,776
Capital assets	
Capital assets not being depreciated	374,153
Capital assets, net of accumulated depreciation	31,771,132
Capital assets, net	32,145,285
Other noncurrent assets	
Due from physicians	498,392
Other assets	28,547
Total noncurrent assets	33,208,000
Total assets	\$ 74,566,227

Southwest Mississippi Regional Medical Center
Statement of Net Position

September 30,	2019
LIABILITIES	
Current liabilities	
Accounts payable	\$ 11,307,190
Line of credit	6,000,000
Salaries and benefits payable	1,971,583
Other accrued expenses	32,520
Accrued compensated absences	2,079,864
Estimated claims payable	909,897
Current portion of capital lease obligations	2,517,236
Current portion of notes payable	907,282
Current portion of bonds payable	679,654
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Total current liabilities	26,405,226
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Long-term liabilities	
Estimated claims payable	1,822,795
Capital lease obligations, less current portion	4,126,796
Notes payable, less current portion	3,413,278
Bonds payable, less current portion	17,673,652
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Total long-term liabilities	27,036,521
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Total liabilities	53,441,747
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NET POSITION	
Net investment in capital assets	6,087,106
Unrestricted	15,037,374
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Total net position	\$ 21,124,480
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The notes to the financial statements are integral part of the financial statements.

Southwest Mississippi Regional Medical Center
Statement of Revenues, Expenses, and Changes in Net Position

September 30,	2019
Operating revenue	
Patient service revenue, net of contractual allowances and discounts	\$ 143,152,953
Provision for bad debts	(16,459,098)
Net patient service revenue less provision for bad debts	126,693,855
Other operating revenue	2,721,611
Total operating revenue	129,415,466
Operating expenses	
Salaries and wages	53,424,342
Contract employee salaries	9,738,850
Professional fees	1,967,982
Employee benefits	11,676,552
Supplies	27,750,981
Maintenance and repairs	7,831,090
Other operating expense	17,053,329
Depreciation and amortization	5,599,276
Total operating expenses	135,042,402
Loss from operations	(5,626,936)
Nonoperating revenues (expenses)	
Debt issuance costs	(53,000)
Grants and contributions	170,354
Investment income	542,877
Interest expense	(1,016,588)
Gain on disposal of capital assets	1,438
Other expense	(49,164)
Total nonoperating revenues (expenses)	(404,083)
Change in net position	(6,031,019)
Net position, beginning of year	27,155,499
Net position, end of year	\$ 21,124,480

The notes to the financial statements are integral part of the financial statements.

Southwest Mississippi Regional Medical Center
Statement of Cash Flows

<i>September 30,</i>	2019
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Cash flows from operating activities	
Cash from and on behalf of patients	\$ 134,411,990
Cash paid to employees	(62,687,999)
Cash paid to suppliers	(65,898,442)
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Net cash provided by operating activities	5,825,549
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Cash flows from noncapital financing activities	
Noncapital grants and contributions	170,354
Other receipts and payments, net	(49,164)
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Net cash provided by noncapital financing activities	121,190
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Cash flows from capital and related financing activities	
Proceeds from bonds payable	18,575,000
Principal paid on capital lease obligations	(2,460,965)
Principal paid on notes payable	(19,815,610)
Proceeds from sale of capital assets	11,212
Purchase of capital assets	(1,854,610)
Debt issue costs	(53,000)
Interest paid on long-term debt	(1,022,112)
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Net cash (used) by capital and related financing activities	(6,620,085)
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Cash flows from investing activities	
Purchases of investments	(731,128)
Sales of investments	6,505,000
Investment income	440,075
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Net cash provided by investing activities	6,213,947
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Net increase in cash and cash equivalents	5,540,601
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Cash and cash equivalents	
Beginning of year	6,505,348
<hr/>	
End of year	\$ 12,045,949
<hr/>	

Southwest Mississippi Regional Medical Center
Statement of Cash Flows

<i>September 30,</i>	2019
Reconciliation of loss from operations to net cash provided by operating activities	
Loss from operations	\$ (5,626,936)
Adjustments to reconcile loss from operations to net cash provided by operating activities	
Depreciation and amortization	5,599,276
Changes in assets and liabilities	
(Increase) decrease in assets	
Patient accounts receivable	5,805,987
Other receivables	(566,372)
Inventories	1,000,799
Prepaid expenses and other current assets	250,870
Estimated third-party payor settlements	(236,563)
Other noncurrent assets	180,767
Increase (decrease) in liabilities	
Accounts payable	(745,484)
Salaries and payroll taxes payable	297,806
Accrued compensated absences	(695)
Estimated claims payable	144,416
Other accrued expenses	(278,322)
Net cash provided by operating activities	\$ 5,825,549
Reconciliation of cash and cash equivalents to the statement of net position	
Cash and cash equivalents included in current assets	\$ 2,786,230
Restricted cash and cash equivalents in current assets	9,259,719
Total	\$ 12,045,949
Supplemental disclosures of noncash financing activities	
Capital assets financed through capital lease obligations	\$ 2,580,493
Capital assets financed through notes payable	\$ 227,613
Unrealized gain (loss) on investments	\$ 102,802

The notes to the financial statements are integral part of the financial statements.

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Reporting Entity

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

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

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

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

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity

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

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

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

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

Basis of Accounting

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

Use of Estimates

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

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Cash and Cash Equivalents

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

Investments

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

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

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

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Cash and Investments

Restricted cash and investments consist of assets held by the Medical Center in trust accounts subject to a borrowing agreement with the United States Department of Agriculture, funds held under self-insurance arrangements, and funds held as collateral for the Foundation's line of credit.

Equity Interest in Medical Arts Building, LLC

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

Patient Receivables

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

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

Inventories

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

Prepaid Expenses

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

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

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

Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. Accordingly, the total amount of interest that was capitalized as of September 30, 2019 was \$46,609.

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

Useful lives for major asset classes follows:

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

Cost of Borrowing

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

Due from Physicians

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

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimated Malpractice Costs

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

Compensated Absences

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

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

Net position

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

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

Operating Revenues and Expenses

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

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 1: - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient Service Revenue

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, and includes estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are considered in the recognition and accrual of revenue on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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

Charity Care

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

Grants and Contributions

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

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Pronouncements Issued Not Yet Adopted

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

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

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

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

NOTE 2: BANK DEPOSITS AND INVESTMENTS

Bank Deposits

The collateral for public entity deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation ("FDIC"). All deposits with financial institutions must be collateralized in an amount equal to 105% of uninsured deposits. At September 30, 2019, the Medical Center had \$1,032,533 in bank deposits held in a financial institution that is part of this program.

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 2: BANK DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the Medical Center's deposits might not be recovered. The Medical Center has a deposit policy for custodial credit risk that requires deposits to be part of the collateral pool administered by the State, as noted above. However, cash deposits with The St. Luke Foundation are not part of this pool and are exposed to custodial credit risk. Uninsured and uncollateralized cash deposits with financial institutions totaled \$5,793,796 as September 30, 2019.

Deposits and investments are reported on the statement of net position at September 30, 2019 as follows:

Cash and cash equivalents	\$ 2,786,230
Restricted cash and cash equivalents	9,259,719
Total cash and cash equivalents	12,045,949
Investments	3,614,264
Restricted investments	1,077,419
Total investments	4,691,683
Total	\$ 16,737,632

Cash, Cash Equivalents and Investments

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

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 2: BANK DEPOSITS AND INVESTMENTS (CONTINUED)

The Medical Center's cash, cash equivalents and investments consist of the following at September 30, 2019:

	Value	Percentage	Maturity	Interest Rate	Rating
Cash	\$ 2,544,670	15.20%	N/A	N/A	Not Rated
Money market funds	9,501,279	56.77%	<1 year	.30% - 1.79%	Not Rated
MHA Investment Pool					
MHA Intermediate Duration	2,285,975	13.65%	4.8 years	N/A	Aa1/AA
MHA Short Duration Trust	1,907,318	11.40%	2.9 years	N/A	AA1/AA2
U.S. Treasury bills	498,390	2.98%	< 1 year	0.00%	Not Rated
Total	\$ 16,737,632	100.00%			

At September 30, 2019, funds in the amount \$1,077,419, were restricted for purposes of self-insurance arrangements and were reported as restricted investments in the statement of net position.

At September 30, 2019, cash equivalents in the amount of \$3,259,718, were restricted subject to a borrowing agreement with the United States Department of Agriculture for federal funds.

At September 30, 2019, cash equivalents in the amount of \$6,000,000 were restricted since these funds are collateral for the Foundation's line of credit.

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

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

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 3: FAIR VALUE DISCLOSURES

Under the GASB's authoritative guidance on fair value measurements, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance establishes a hierarchy of inputs to valuation techniques used to measure fair value into three levels.

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

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

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

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

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 3: FAIR VALUE DISCLOSURES (CONTINUED)

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

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

NOTE 4: CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2019 was as follows:

	Beginning	Additions	Retirements	Ending
Capital assets not being depreciated:				
Land	\$ 334,399	\$ 20,831	\$ -	\$ 355,230
Construction in progress	3,483,374	397,490	(3,861,941)	18,923
Total capital assets, not being depreciated	3,817,773	418,321	(3,861,941)	374,153
Capital assets being depreciated:				
Land improvements	3,072,643	1,392	-	3,074,035
Building and improvements	58,371,317	4,020,772	(9,372)	62,382,717
Leasehold improvements	1,368,483	41,367	-	1,409,850
Equipment	3,181,400	119,436	(1,460)	3,299,376
Major moveable equipment	95,433,017	3,921,393	(1,988,985)	97,365,425
Total capital assets being depreciated	161,426,860	8,104,360	(1,999,817)	167,531,403
Less accumulated depreciation:				
Land improvements	2,546,581	91,169	-	2,637,750
Building and improvements	41,499,765	1,210,721	(9,373)	42,701,113
Leasehold improvements	764,373	86,187	-	850,560
Equipment	2,809,585	91,699	(526)	2,900,758
Major moveable equipment	84,601,161	4,051,048	(1,982,119)	86,670,090
Total accumulated depreciation	132,221,465	5,530,824	(1,992,018)	135,760,271
Total capital assets being depreciated, net	29,205,395	2,573,536	(7,799)	31,771,132
Total capital assets, net	\$ 33,023,168	\$ 2,991,857	\$ (3,869,740)	\$ 32,145,285

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 4: CAPITAL ASSETS (CONTINUED)

Depreciation expense for the year ended 2019 totaled \$5,530,824.

NOTE 5: LONG-TERM LIABILITIES

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

USDA Hospital Revenue Bonds, Series 2019, issued in the amount of \$18,575,000, to refund the outstanding Hospital Revenue Notes, Series 2018A and 2018B, at an annual interest rate of 3.25%, maturing in May 2039, secured by the revenue and receivables of the Medical Center.	\$ 18,353,306
Notes payable issued in the amount of \$2,000,000 to pay the costs of certain capital improvements, at an annual interest rate of 3.94%, maturing January 30, 3033, secured by a pledge of revenues. Two years of interest only payments followed by thirteen years of monthly principal payments of \$12,821, \$21,821 plus interest.	2,000,000
Note payable for the purchase of land and a building with annual principal and interest payments of \$29,023 at an interest rate of 4.95% maturing April 1, 2029, secured by real estate.	220,404
Construction Revenue Notes, Series 2007, with principal and interest payable in monthly installments of \$16,429 and \$9,365, at annual interest rates of 4.15% and 2.33%, maturing in April 2022 and August 2022, secured by a pledge of revenues.	799,650
Note payable with principal only payments of \$41,666, maturing in March 2021, unsecured.	1,300,506
Capital lease obligations for equipment, at interest rates ranging from 0.99% to 8.80%, with lease terms from 36 months to 120 months, collateralized by the leased equipment.	6,644,032
Total	29,317,898
Current portion of long-term debt	(4,104,172)
Long-term debt, net of current portion	\$ 25,213,726

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 5: LONG-TERM LIABILITIES (CONTINUED)

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

Year Ended September 30,	Long-Term Debt	
	Principal	Interest
2020	\$ 1,586,936	\$ 697,909
2021	1,972,359	658,546
2022	1,116,073	618,258
2023	924,366	584,431
2024	950,159	552,577
2025 - 2029	5,157,410	2,253,255
2030 - 2035	6,640,553	1,503,218
2036-2039	4,326,010	265,849
Total	\$ 22,673,866	\$ 7,134,043

Current Refunding

The Medical Center issued the USDA Hospital Revenue Bonds, Series 2019 to current refund the Hospital Revenue Notes, Series 2018A and 2018B, in the amounts of \$13,265,000 and \$5,310,000, respectively. The reacquisition price and carrying amount of the old debt were equal.

Debt Covenants

In connection the USDA Hospital Revenue Bonds, Series 2019, the Medical Center has agreed to certain debt covenants. The Medical Center's debt service coverage ratio must be at least equal to 1:15 to 1 and they must maintain a minimum 75 days cash on hand. The Medical Center was not in compliance with the debt service coverage ratio or the day's cash on hand for the year ended September 30, 2019. If the debt service coverage ratio and day's cash on hand are below these thresholds based on the annual audit, the Medical Center must provide Rural Development a fiscal strategy report which documents how the debt service requirement will be achieved.

Capital Lease Obligations

The Medical Center has entered into lease agreements for financing the acquisition of various major moveable equipment. These agreements qualify as capital leases for accounting purposes, and, therefore, are recorded at the present value of future minimum lease payments as of the lease inception date.

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 5: LONG-TERM LIABILITIES (CONTINUED)

Major moveable equipment under capital leases included in capital assets at September 30, 2019 includes the following:

Major moveable equipment	\$ 12,653,360
Less accumulated depreciation	(6,137,252)
Net major moveable equipment	\$ 6,516,108

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2019, were as follows:

2020	\$ 2,677,147
2021	2,152,766
2022	1,458,868
2023	639,492
2024	48,652
Total minimum lease payments	6,976,925
Less amount representing interest	(332,893)
Present value of minimum lease payments	\$ 6,644,032

Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended September 30, 2019 are as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Amounts Due Within One Year
USDA bonds	\$ -	\$ 18,575,000	\$ (221,694)	\$ 18,353,306	\$ 679,654
Notes payable	23,686,864	227,612	(19,593,916)	4,320,560	907,282
Capital lease obligations	6,524,504	2,580,493	(2,460,965)	6,644,032	2,517,236
Estimated claims	2,588,276	7,532,170	(7,387,754)	2,732,692	-
Total long-term debt	\$ 32,799,644	\$ 28,915,275	\$ (29,664,329)	\$ 32,050,590	\$ 4,104,172

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 6: REVOLVING LINE OF CREDIT

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

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

Beginning balance	\$ 6,000,000
Additions	-
Reductions	-
Ending balance	\$ 6,000,000

NOTE 7: RETIREMENT PLANS

Defined Contribution Plan – Medical Center

The Medical Center contributes to the Southwest Mississippi Regional Medical Center Retirement Matching Plan (the "Plan") for the benefit of its employees. Effective November 1, 2017, the Medical Center adopted a Section 457(b) deferred compensation plan. The Plan is administered by The Variable Annuity Life Insurance Company ("VALIC"). The Plan provides retirement and disability benefits to Plan members and death benefits to beneficiaries of Plan members. Under provisions of the Plan, all employees with one year of service, and who are at least 21 years old, are eligible to participate. Plan provisions and Medical Center contributions are amended by the Board of Trustees. The Medical Center's contribution to the Plan for the year ended September 30, 2019 was \$356,732.

Employees must contribute to the Plan in order to receive any matching contributions from the Medical Center. Employees are permitted to make contributions up to applicable Internal Revenue Code limits. The Medical Center is required to contribute 50% of a participant's elective deferral contributions up to 4% of a participant's compensation.

Employees are immediately vested in their own contributions and earnings on those contributions. Employees become 100% vested in Medical Center contributions and earnings on Medical Center contributions after the completion of five years of creditable service. Non-vested contributions are forfeited upon termination of employment and such forfeitures are used to reduce future Medical Center contributions. For the year ended September 30, 2019, there were no forfeitures that reduced the Medical Center's contribution expense.

All required contributions were made to the Plan during the year and the Medical Center's liability to the Plan at September 30, 2019 was \$76,898.

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 7: RETIREMENT PLANS (CONTINUED)

Defined Contribution Plan – St. Luke Home Health

St. Luke Home Health (SLHH) contributes to the St. Luke Home Health Retirement Savings Plan (the "Plan"), a single-employer 403(b) defined contribution plan, for the benefit of its employees. The Plan is administered by Variable Annuity Life Insurance Company ("VALIC"). The Plan provides retirement and disability benefits to Plan members and death benefits to beneficiaries of Plan members. Under provisions of the Plan, all employees are eligible to make salary deferral contribution elections as of their employment commencement date. Employees are eligible for employer contributions upon attainment of age 21 and completion of one year of service. Plan provisions and SLHH contributions are amended by the Board of Directors. SLHH's contributions to the Plan for the year ended September 30, 2019 was \$64,782.

Employees must contribute to the Plan in order to receive any matching contributions from SLHH. Employees are permitted to make contributions up to applicable Internal Revenue Code limits. SLHH is required to contribute 50% of a participant's elective deferral contributions up to 6% of a participant's compensation.

Employees are immediately vested in their own contributions and earnings on those contributions. Employees become 100% vested in employer contributions and earnings on those contributions after the completion of three years of creditable service. Non-vested contributions are forfeited upon termination of employment and such forfeitures are used to reduce future employer contributions.

At September 30, 2019, the Foundation had a liability to the plan totaling \$69,626, which included employer contributions and employee deferrals. All required contributions were not made to the Plan during the year.

NOTE 8: INSURANCE PROGRAMS

Risk Management

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

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 8 - INSURANCE PROGRAMS (CONTINUED)

Self-Funded Professional Liability and General Liability

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

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

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

Consistent with these insurance program changes (and in accordance with the process described below), the Medical Center recorded an accrual for self-insured losses totaling \$1,822,795 at September 30, 2019. The future assertion of claims for occurrences prior to year-end is reasonably possible and may occur; however, management does not anticipate any material impact on the financial statements.

Incurred losses identified through the Medical Center incident reporting system and incurred but not reported losses are accrued based on estimates that incorporate the Medical Center's current inventory of reported claims and historical experiences, as well as considerations such as the nature of each claim or incident, relevant trend factors and advice from consulting actuaries. The Medical Center has established a self-insurance trust fund for payment of liability claims. The balance of the account at September 30, 2019 was \$1,077,419.

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 8: INSURANCE PROGRAMS (CONTINUED)

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

	2019	2018
Claims liability, beginning of year	\$ 1,732,042	\$ 1,827,727
Current year claims and changes in estimates	170,753	(90,485)
Claims payments	(80,000)	(5,200)
Claims liability, end of year	<u>\$ 1,822,795</u>	<u>\$ 1,732,042</u>

Self-Funded Health Insurance Claim Liability

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

	2019	2018
Claims liability, beginning of year	\$ 856,234	\$ 900,000
Current year claims and changes in estimates	7,361,417	6,848,239
Claims payments	(7,307,754)	(6,892,005)
Claims liability, end of year	<u>\$ 909,897</u>	<u>\$ 856,234</u>

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 9: NET POSITION – NET INVESTMENT IN CAPITAL ASSETS

The portion of net position classified as net investment in capital assets is as follows at September 30, 2019:

Capital assets	\$ 167,905,556
Less accumulated depreciation	(135,760,271)
Less debt outstanding related to capital assets	(26,058,179)
Net investment in capital assets	\$ 6,087,106

NOTE 10: CONCENTRATION OF CREDIT RISK

The Medical Center grants credit without collateral to its patients, most of who are local residents and are insured under third-party payors agreements. The percentage mix of net accounts receivable from patients and major third-party payors at September 30, 2019 was as follows:

Patients	23%
Commercial insurance	23%
Medicare	36%
Medicaid	14%
Other	4%
	100%

NOTE 11: PATIENT SERVICE REVENUE

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

Medicare

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

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 11: PATIENT SERVICE REVENUE (CONTINUED)

Medicaid

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

The Medical Center participates in the Mississippi Intergovernmental Transfer Program as a Medicaid Disproportionate Share Hospital ("DSH"). Under the program, the Medical Center receives enhanced reimbursement through a matching mechanism. For the fiscal year ended September 30, 2019, the Medical Center reported approximately \$831,000, in enhanced reimbursement through the DSH program. DSH amounts are shown as a reduction of contractual adjustments with related assessments of approximately \$483,000.

The Medical Center participates in the Division of Medicaid ("DOM") Mississippi Hospital Access Payment ("MHAP") program. The MHAP program is administered by the DOM through the Mississippi CAN coordinated care organizations ("CCO"). The CCO's subcontract with hospitals throughout the state for distribution of the MHAP for the purpose of protecting patient access to hospital care. For the fiscal year ended September 30, 2019, the Medical Center reported approximately \$7,777,000 in enhanced reimbursements, and assessments of approximately \$2,053,000 through the MHAP program. MHAP amounts are reported as a reduction of contractual adjustments.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near-term. For the year ended September 30, 2019, the Medical Center's net patient revenues increased approximately \$434,000 due to prior year retroactive adjustments for amounts previously estimated. As of September 30, 2019, the Medical Center's Medicare cost reports have been settled through September 30, 2010.

Other

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

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 11: PATIENT SERVICE REVENUE (CONTINUED)

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

Gross patient service revenue	\$ 365,577,473
Less provisions for	
Bad debts	(16,459,098)
Contractual adjustments under third-party reimbursement programs	(222,424,520)
Net patient service revenue	\$ 126,693,855

A summary of the changes in the allowance for uncollectible accounts for the year ended September 30, 2019 follows:

Allowance for uncollectible accounts, beginning	\$ 34,395,865
Write-offs	(29,296,010)
Change in estimate	16,099,981
Allowance for uncollectible accounts, ending	\$ 21,199,836

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

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

	Amount	Percentage
Medicare	\$ 62,030,861	44%
Medicaid	19,212,616	13%
Blue Cross Blue Shield	14,904,785	10%
Other	47,004,691	33%
Patient service revenue, net of contractual allowances	\$ 143,152,953	100%

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 12: CHARITY CARE

The amount of charges foregone under the Medical Center's charity care policy for services and supplies furnished under the Medical Center's charity care policy totaled \$7,212,766 for the year ended September 30, 2019.

The net cost of charity care provided was approximately \$1,884,505 for 2019. The net cost of charity care is determined by multiplying the ratio of cost to gross charges and applying this ratio to the gross uncompensated charges associated in providing care to charity patients.

NOTE 13: OPERATING LEASES

The Medical Center leases various equipment and facilities under operating leases expiring at various dates through the fiscal year 2023. Rental expense for the year ended September 30, 2019, for all operating leases totaled approximately \$1,737,187.

The following is a schedule of future minimum lease payments under noncancellable operating leases as of September 30, 2019, that have initial or remaining lease terms in excess of one year:

Year Ending September 30,	
2020	\$ 592,395
2021	233,703
2022	125,624
2023	83,076
2021	80,276
Total	<u>\$ 1,115,074</u>

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 14: BLENDED COMPONENT UNIT

The St. Luke Foundation, Inc.

Condensed component unit information for The St. Luke Foundation, Inc., the Medical Center's blended component unit, for the year ended September 30, 2019, are as follows:

Condensed Statement of Net Position

Assets	
Current assets	\$ 10,530,135
Due from Medical Center	11,500,987
Capital assets, net	2,976,143
Other assets	547,504
Total assets	25,554,769
Liabilities	
Current liabilities	6,980,280
Noncurrent liabilities	873,383
Total liabilities	7,853,663
Net position	
Net investment in capital assets	1,901,555
Unrestricted	15,799,614
Total net position	\$ 17,701,106

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

Operating revenues	\$ 11,208,428
Operating expenses	
Operations	9,383,816
Depreciation	355,870
Total operating expenses	9,739,686
Operating income	1,468,742
Nonoperating revenues (expenses)	116,487
Change in net position	1,585,229
Net position, beginning of year	16,115,877
Net position, end of year	\$ 17,701,106

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 14: BLENDED COMPONENT UNIT (CONTINUED)

Condensed Statement of Cash Flows

Net cash provided (used) by	
Operating activities	\$ 2,097,378
Noncapital financing activities	(315,623)
Capital and related financing activities	(493,407)
Investing activities	6,021,431
Net decrease in cash and cash equivalents	7,309,779
Cash and cash equivalents, beginning of year	1,313,381
Cash and cash equivalents, end of year	\$ 8,623,160

NOTE 15: COMMITMENTS AND CONTINGENCIES

Litigation

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

Financing Arrangements

Effective April 30, 2018, the Medical Center entered into an agreement with First Bank for the sale of patient accounts receivable in an amount not to exceed \$1,500,000. All patient notes purchased by the bank are purchased with recourse to the Medical Center. The Medical Center acknowledges and agrees to repurchase from the bank any patient note that has been in default for more than 60 days from the payment due date. The Medical Center is required to hold a reserve account equal to 20% of the unpaid balance of all active loans made under this agreement. As of September 30, 2019, the Medical Center had approximately \$74,842 in patient receivables purchased by the bank. As of September 30, 2019, the Hospital has discontinued providing this service to the patients of the Medical Center. Loans in funded status are still being serviced by bank.

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 16: SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 27, 2020, the date which the financial statements were available to be issued.

Vehicle Leases

Subsequent to year-end, the Foundation entered into leases under a master lease agreement for vehicles to be used in its operations that qualify as capital leases. As of the report date, future minimum lease payments under this agreement are as follows:

<i>Year Ended September 30,</i>	
2020	\$ 22,993
2021	29,416
2022	29,416
2023	29,416
2024	30,311
Total minimum lease payments	141,552
Less amount representing interest	(22,118)
Present value of minimum lease payments	\$ 119,434

Debt Restructuring

Subsequent to year-end, the Foundation restructured a portion of the line of credit into a secure note payable in the amount of \$630,000. The loan is to be paid in 60 monthly payments of \$4,642 and a balloon payment in the amount of \$459,716 is due on December 26, 2024.

COVID-19

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a pandemic. As a result, significant changes have been made to operations at the Medical Center and uncertainties have arisen that may have a significant negative impact on the operating activities of the Medical Center and the results of its operations. The occurrence and extent of such an impact will depend on future developments, such as the duration and spread of the virus, government quarantine measures, the effect on financial markets, public health funding provided by the United States Government, and the overall effects on the economy and patients served. Due to these uncertainties, the Medical Center is assessing on an ongoing basis the impact of the COVID-19 outbreak on the operations of our business. The extent to which these events will affect the amounts reported in future financial statements remains uncertain.

Southwest Mississippi Regional Medical Center
Schedule of Gross Patient Service Revenue

Year Ended September 30, 2019	Inpatient	Outpatient	Total
Nursing services			
Medical and surgical	\$ 5,624,549	\$ 1,335,875	\$ 6,960,424
Newborn nursery	72,296	499	72,795
Intensive care	3,422,271	202,945	3,625,216
Total nursing services	9,119,116	1,539,319	10,658,435
Other professional services			
Ambulatory surgery center	1,221,298	15,369,196	16,590,494
Cardiac cath lab	5,963,263	8,312,655	14,275,918
Cardiac surgery	3,477,516	65,116	3,542,632
Cardiology	2,392,848	10,367,933	12,760,781
Central supply	3,852,528	5,461,391	9,313,919
Continuing emergency room	-	15,312	15,312
Dialysis	539,689	89,600	629,289
EEG-Neurology	15,762	23,688	39,450
Emergency services	8,753,489	36,175,719	44,929,208
GI Endosuite	612,617	12,484,536	13,097,153
Health watch	-	167	167
Home health and hospice	-	10,473,220	10,473,220
Hyperbarics	-	1,681,670	1,681,670
Intensive outpatient program	-	1,591,125	1,591,125
Labor, delivery, recovery and postpartum	3,588,098	644,153	4,232,251
Laboratory	9,229,113	24,740,771	33,969,884
MS Cancer Institute - medical oncology	87,368	51,289,480	51,376,848
MS Cancer Institute - radiation therapy	24,083	6,656,944	6,681,027
Non-emergency transport	80	400	480
Nursing procedures	3,112,591	1,286,424	4,399,015
Occupational therapy	394,027	28,557	422,584
Operating and recovery services	6,622,582	9,207,988	15,830,570
Outpatient rehabilitation	-	1,271,566	1,271,566
Outpatient services	-	56,973	56,973
Pharmacy	12,177,167	20,354,081	32,531,248
Physical therapy	778,292	48,272	826,564
Physician clinics	-	20,309,114	20,309,114
Pulmonary rehabilitation	-	342,392	342,392
Radiology	2,940,010	39,176,829	42,116,839
Respiratory therapy	12,908,873	2,189,678	15,098,551
Rural health clinics	-	2,743,731	2,743,731
Sleep lab	-	981,829	981,829
Total other professional services	78,691,294	283,440,510	362,131,804
Total including charity	\$ 87,810,410	\$ 284,979,829	372,790,239
Less charity			7,212,766
Total			\$ 365,577,473

Southwest Mississippi Regional Medical Center Schedule of Operating Expenses

<i>Year Ended September 30, 2019</i>	Salaries and Wages	Contract Employee Salaries	Employee Benefits	Professional Fees	Supplies	Maintenance and Repairs	Other Operating Expense	Total
Nursing services								
Medical and surgical	\$ 4,650,372	\$ -	\$ 262,864	\$ -	\$ 480,409	\$ 208,475	\$ 95,564	\$ 5,697,684
Newborn nursery	912	-	923	-	43,063	21,953	6,206	73,057
Intensive care	2,426,397	-	218,927	-	468,300	106,700	60,876	3,281,200
Swing bed unit	52,900	-	4,575	-	716	-	1,135	59,326
Total nursing services	7,130,581	-	487,289	-	992,488	337,128	163,781	9,111,267
Other professional services								
Ambulatory surgery center	771,956	105,000	62,535	-	1,372,626	146,714	19,160	2,477,991
Anesthesiology	-	1,294,159	-	-	45,096	65,886	8,942	1,414,083
Cardiac cath lab	500,564	-	41,987	-	2,974,191	305,318	43,013	3,865,073
Cardiac surgery	233,484	662,866	25,385	-	829,719	79,067	27,982	1,858,503
Cardiology	518,795	-	35,112	-	135,415	84,801	53,340	827,463
Central supply	252,607	-	14,969	-	(261,318)	41,132	24,286	71,676
Dialysis	-	-	-	-	5,126	1,157	314,169	320,452
EEG-Neurology	32,765	70	-	-	2,815	4,158	502	40,310
Emergency services	3,299,419	2,456,683	276,552	-	624,477	316,214	117,298	7,090,643
GI Endosuite	839,200	-	65,976	-	410,670	127,437	27,540	1,470,823
Health watch	-	-	-	-	984	222	14	1,220
Home health and hospice	5,127,002	254,118	1,180,692	67,775	721,194	352,290	1,328,214	9,031,285
Hyperbarics	-	-	-	-	40,023	340	345,795	386,158
Inpatient services	-	-	-	-	-	-	3,220	3,220
Intensive outpatient program	179,611	48,000	17,638	-	12,511	-	223,921	481,681
Labor, delivery, and recovery	1,380,126	-	120,738	-	334,662	121,485	23,954	1,980,965
Laboratory	1,929,776	332,500	167,160	-	2,019,115	110,541	1,041,299	5,600,391
MS Cancer Institute - medical oncology	1,245,340	613,064	78,391	-	6,380,046	30,686	10,847	8,358,374
MS Cancer Institute - radiation therapy	703,321	-	58,513	-	22,143	341,700	4,240	1,129,917
Non-emergency transport	22,103	-	2,804	-	115	491	362	25,875
Occupational therapy	76,799	-	5,251	-	31	-	-	82,081
Operating and recovery services	1,122,385	-	106,674	-	3,112,523	185,159	25,316	4,552,057
Outpatient rehabilitation	504,784	33,495	46,178	-	12,370	4,801	13,186	614,814
Outpatient services	90,926	-	8,863	-	12,274	-	-	112,063
Pharmacy	1,044,679	-	98,456	-	4,277,227	17,383	319,014	5,756,759
Physical therapy	189,169	220,162	18,923	-	4,961	1,635	74	434,924
Physicians' clinics	10,416,456	1,004,144	372,957	5,744	213,122	64,251	777,022	12,853,696
Pulmonary rehabilitation	104,279	-	9,135	-	5,615	1,761	567	121,357
Radiology	2,111,149	20,625	185,402	-	659,450	782,933	743,107	4,502,666
Respiratory therapy	1,112,906	-	92,240	-	273,489	87,242	39,554	1,605,431
Rural health clinics	2,255,408	-	155,464	-	120,572	20,081	339,467	2,890,992
Sleep lab	-	-	-	-	875	1,477	200,390	202,742
Total other professional services	36,065,009	7,044,886	3,247,995	73,519	24,362,119	3,296,362	6,075,795	80,165,685

Southwest Mississippi Regional Medical Center
Schedule of Operating Expenses (Continued)

	Salaries and Wages	Contract Employee Salaries	Employee Benefits	Professional Fees	Supplies	Maintenance and Repairs	Other Operating Expense	Total
General services								
Housekeeping	\$ -	\$ 1,293,229	\$ -	\$ -	\$ 284,954	\$ 13,375	\$ 3,911	\$ 1,595,469
Laundry and linen	198,537	-	17,641	-	288,531	76,689	42	581,440
Dietary	639,506	-	53,567	-	813,767	6,397	1,466	1,514,703
Plant operation and maintenance	691,078	-	56,553	-	264,251	1,037,405	1,351,790	3,401,077
Total general services	1,529,121	1,293,229	127,761	-	1,651,503	1,133,866	1,357,209	7,092,689
Fiscal and administrative services								
Administrative	2,037,602	-	120,985	1,841,481	179,027	65,672	2,107,673	6,352,440
Patient registration	788,646	-	65,388	-	73,760	4,134	990	932,918
Auxiliary office	-	-	-	-	190	320	107	617
Bio-medical	-	-	-	-	677	9,336	12	10,025
Case management	667,044	-	60,749	-	10,952	11,308	15,033	765,086
Communications	220,472	-	16,610	-	1,064	8,343	2,520	249,009
Community education	139,271	-	12,508	-	33,871	1,253	28,463	215,366
Chaplain services	43,161	-	3,302	-	189	61	20	46,733
General accounting	468,481	-	43,282	40,022	10,110	11,977	572,206	1,146,078
Health information management	816,452	-	70,855	-	15,959	443,452	206,047	1,552,765
Human resources	201,375	-	7,131,280	-	12,266	23,171	352,382	7,720,474
Infection control	113,150	-	11,591	-	40,876	201	1,598	167,416
Information systems	191,236	468,936	18,384	12,960	26,760	2,300,586	1,877,487	4,896,349
Materials management	216,390	-	19,227	-	19,667	29,863	433,119	718,266
Medical director	-	272,500	-	-	-	-	-	272,500
MS Cancer Institute	311,504	-	24,608	-	30,410	14,580	136,222	517,324
MS Cardiovascular Institute	58,513	-	5,372	-	1,908	9,267	11,512	86,572
Pharmacy retail	-	-	-	-	160,474	670	320,372	481,516
Patient accounting	1,235,067	-	109,360	-	53,857	59,905	2,829,335	4,287,524
Physician clinic accounting	847,725	464,684	65,862	-	29,979	17,803	288,343	1,714,396
Public relations	3,944	-	302	-	20,588	-	256,170	281,004
Quality assurance/performance	242,175	194,615	22,741	-	20,334	50,626	6,123	536,614
Revenue cycle	37,501	-	6,886	-	53	-	1,301	45,741
Risk management	59,922	-	4,215	-	1,900	1,206	9,509	76,752
Total fiscal and administrative services	8,699,631	1,400,735	7,813,507	1,894,463	744,871	3,063,734	9,456,544	33,073,485
Total	\$ 53,424,342	\$ 9,738,850	\$ 11,676,552	\$ 1,967,982	\$ 27,750,981	\$ 7,831,090	\$ 17,053,329	129,443,126
Depreciation and amortization								5,599,276
Total								\$ 135,042,402

Southwest Mississippi Regional Medical Center
Schedule of Operating Revenue

Year Ended September 30, 2019

Other operating revenue		
Cafeteria sales	\$	558,277
Rental income		271,850
Other		1,891,484
<hr/>		
Total other operating revenue	\$	2,721,611

**Southwest Mississippi Regional Medical Center
Schedule of Surety Bonds for Officials and Employees**

Name	Position	Company	Amount of Bond
Renan Richmond	Trustee	CNA Surety	\$ 100,000
Debra Moore	Trustee	CNA Surety	100,000
Clifton McGowan	Trustee	CNA Surety	100,000
Stephanie Robinson	Trustee	CNA Surety	100,000
Edgar Lewis	Trustee	CNA Surety	100,000
Watkins Wild	Trustee	CNA Surety	100,000
Carroll Fortenberry	Trustee	CNA Surety	100,000
Norman Price	CEO, Administrator	CNA Surety	100,000
Charla Rowley	CFO, Administrator	CNA Surety	100,000
Richard Williams	Assistant Administrator	CNA Surety	100,000
Dr. Henry Lewis	Medical Director	CNA Surety	100,000
Phillip Langston	Assistant Administrator, Lawrence County Hospital	CNA Surety	100,000
All Other Employees		CNA Surety	10,000



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INDEPENDENT AUDITOR'S 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
Southwest Mississippi Regional
Medical Center
McComb, 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 Southwest Mississippi 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 March 27, 2020.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and questioned costs reported as items 2019-001 and 2019-002 that we consider to be significant deficiencies.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2019-003 and 2019-004.

Medical Center's Response to Findings

The Medical Center's response to the findings identified in our audit are described in the accompanying corrective action plan. The Medical Center's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Carly Riggs & Ingram, L.L.C.

Laurel, Mississippi
March 27, 2020



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Trustees
Southwest Regional Medical Center
McComb, Mississippi

Report on Compliance for Each Major Federal Program

We have audited Southwest Regional Medical Center's (the "Medical Center") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Medical Center's major federal programs for the year ended September 30, 2019. The Medical Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Medical Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Medical Center's compliance with

those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Medical Center's compliance.

Opinion on Each Major Federal Program

In our opinion, the Medical Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2019.

Report on Internal Control Over Compliance

Management of the Medical Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Medical Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-004 and 2019-005 that we consider to be material weaknesses.

The Medical Center's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Medical Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Cary Riggs & Ingram, L.L.C.

Laurel, Mississippi
March 27, 2020

**Southwest Mississippi Regional Medical Center
Schedule of Expenditures of Federal Awards**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Provided Through to Subrecipients	Total Federal Expenditures
Community Facilities Loans and Grants Cluster				
Department of Agriculture Programs				
Direct Program				
Community Facilities Loans and Grants Cluster	10.766	NA	\$ -	\$ 1,449,833
Total Expenditures of Federal Awards			\$ -	\$ 1,449,833

Southwest Mississippi Regional Medical Center Notes to Schedule of Expenditures of Federal Awards

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") represents federal grant activity of the Medical Center under programs of the federal government for the year ended September 30, 2019. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Medical Center, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Medical Center.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Expenditures reported in the Schedule are reported on the accrual basis accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate

The Medical Center did not elect to use the 10% de minimus indirect cost rate.

Loans and Loan Guarantees

The balance of loans outstanding at September 30, 2019 for the Community Facilities Loans and Grants Cluster (CFDA 10.766) was \$20,353,306.

**Southwest Mississippi Regional Medical Center
Schedule of Findings and Questioned Costs**

SECTION I: SUMMARY OF AUDITORS' RESULTS

Financial Statements

- | | |
|--|------------|
| 1. Type of auditor's report issued: | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified? | Yes |
| c. Noncompliance material to the financial statements noted? | Yes |

Federal Awards

- | | |
|---|---------------|
| 1. Type of auditors' report issued on compliance for major federal programs: | Unmodified |
| 2. Internal control over major federal programs: | |
| a. Material weaknesses identified? | Yes |
| b. Significant deficiencies identified? | None reported |
| 3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | Yes |
| 4. Identification of major programs: | |
| CFDA #10.766 - U.S. Department of Agriculture
Community Facilities Loans and Grants Cluster | |
| 5. Dollar threshold used to distinguish between Type A and Type B programs: | \$750,000 |
| 6. Auditee qualified as a low-risk auditee: | No |

Southwest Mississippi Regional Medical Center Schedule of Findings and Questioned Costs

SECTION II: FINANCIAL STATEMENT FINDINGS

FINDING 2019-001 – ACCOUNTS PAYABLE

Criteria: All unpaid invoices for goods and services received prior to year-end should be accrued and reported in accounts payable.

Condition: As part of our audit, several invoices were identified for goods or services received prior to year-end that were not properly accrued.

Cause: Due to delays in paying bills, these invoices were not identified on check runs subsequent to year-end that are normally reviewed during the closing process by finance personnel for accrual adjustments.

Effect: Audit adjustments were required after year-end to record these accrued expenses.

Recommendation: We recommend that the Medical Center develop procedures to strengthen their internal controls over the financial statement close process to ensure all invoices for goods and services received prior to year-end are recorded.

Management's Response: See Corrective Action Plan.

FINDING 2019-002 – INVENTORY

Criteria: Inventories should be valued at the lower of cost or market in accordance with generally accepted accounting principles.

Condition: Our procedures disclosed that the surgery department was re-valuing their inventory based on current market prices. As a result, there were numerous items that were purchased at a discount in bulk but were valued at inflated market prices at year-end.

Cause: Lack of management oversight over the periodic inventory system.

Effect: An adjustment was required to reduce the inventory \$832,535 at year-end.

Recommendation: We recommend procedures be implemented to ensure inventory items are valued at the lower of cost or market.

Management's Response: See Corrective Action Plan.

FINDING 2019-003 – LOAN COVENANTS

Criteria: The Medical Center made covenants in securing the Hospital Revenue Bonds, Series 2019 from the United States Department of Agriculture. Some of these covenants include maintaining a

Southwest Mississippi Regional Medical Center Schedule of Findings and Questioned Costs

debt service coverage ratio of at least 1.15 and maintaining 75 days of operating cash on hand. If the financial ratios based on the annual audit fall below these levels, the Medical Center must provide Rural Development a fiscal strategy report that documents how the debt service requirements will be achieved.

Condition: Our audit procedures disclosed the Medical Center was not in compliance with the debt service coverage ratio (.13) or day's cash on hand (18 days) in accordance with the loan document.

Cause: The decrease in net position is due to the continuing decline in Medicaid related reimbursements for uncompensated care programs within the State of Mississippi.

Effect: Potential material effect on the financial statements if the loan goes into default status.

Recommendation: We recommend that a fiscal strategy report be prepared and implemented immediately documenting the Medical Center's plan of action for improving financial results in order to comply with the bond covenants and meet the debt service requirements of the bond.

Management's Response: See Corrective Action Plan

FINDING 2019-004 – REPORTING (See Section III)

SECTION III: FEDERAL AWARD FINDINGS

FINDING 2019-004 - REPORTING

CFDA Number 10.766

United State Department of Agriculture

Community Facilities Loans and Grants Cluster

Compliance Requirement: Reporting

No pass-through entity

No questioned costs

Criteria: Title 2, Section 200.303 requires the Medical Center to establish and maintain effective internal controls over Federal awards to provide reasonable assurance of compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. To ensure proper reporting, internal controls require that personnel who oversee and administer the program possess adequate knowledge of program requirements. The Continuing Disclosure Agreement between the Medical Center and Regions Bank, dated March 21, 2018, requires periodic and other reporting through EMMA.

Condition: The Medical Center did not prepare or provide the required continuing disclosure documentation as required by the loan document.

Southwest Mississippi Regional Medical Center Schedule of Findings and Questioned Costs

Cause: Finance personnel indicated that they were told in a meeting that the continuing disclosure documentation was no longer necessary; however, they were unable to provide documentation from the USDA exempting them from this requirement.

Effect: Although not considered an “event of default”, the Medical Center was not in compliance with the Federal award requirements.

Recommendation: We recommend that the Medical Center immediately prepare and submit all past and future continuing disclosure documentation required by the loan documents.

Management’s Response: See Corrective Action Plan.

FINDING 2019-005 – SPECIAL TESTS

CFDA Number 10.766

United State Department of Agriculture

Community Facilities Loans and Grants Cluster

Compliance Requirement: Special Tests

No pass-through entity

No questioned costs

Criteria: Title 2, Section 200.303 requires the Medical Center to establish and maintain effective internal controls over Federal awards to provide reasonable assurance of compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. To ensure compliance with the program, internal controls require that personnel who oversee and administer the program possess adequate knowledge of program requirements. Borrowers shall establish accounts into which borrower funds, agency loan proceeds, the revenues of the facility financed, and any other income shall be deposited in accordance with the loan resolution authorizing the incurrence of indebtedness related to the agency loan proceeds. These accounts should be maintained as long as the authorized indebtedness to the agency is outstanding.

Condition: The Medical Center did not establish a required reserve account and did not make the necessary deposits as required by the loan document.

Cause: The Medical Center was not aware that they were required to fund a reserve since the trust account was never established by the trustee.

Effect: The required reserve account was underfunded \$42,202 as of September 30, 2019. The Medical Center has submitted a plan to the USDA to fund the reserve to the required levels by September 30, 2020.

Recommendation: We recommend that management make all required deposits to the reserve fund in accordance with the plan submitted to the USDA.

Management’s Response: See Corrective Action Plan.

**Southwest Mississippi Regional Medical Center
Schedule of Findings and Questioned Costs**

SECTION IV: SUMMARY OF PRIOR YEAR AUDIT FINDINGS

FINDING 2018-001 – FINANCIAL STATEMENTS

Description: Reconciliations and analysis of several general ledger accounts were not being performed in a timely manner resulting in several audit adjustments.

Status: Corrected

Comments: Reconciliations were performed in the current year prior to the audit.

Southwest Mississippi Regional Medical Center Corrective Action Plan



Southwest Mississippi Regional Medical Center

March 30, 2020

The following is management's corrective action plan for findings identified in the 2019 audit:

Finding 2019-001 – Accounts Payable.

We are implementing new processes and changing our systems to ensure that invoices for goods and services are recorded in the correct period. These new processes include, but are not limited to, review of normal recurring expenses, updating our contract management function, and requiring the use of our electronic systems to order and purchase substantially all of our goods and services. These changes are expected to be substantially complete by mid-summer 2020.

Finding 2019-002 – Inventory.

We are implementing new processes and changing our systems to ensure that invoices for goods and services are recorded in the correct amounts. These new processes include, but are not limited to, updating our contract management function to ensure that contracts for goods are recorded at cost, and requiring the use of our electronic systems to order and purchase substantially all of our goods and services. These changes are expected to be substantially complete by mid-summer 2020.

Finding 2019-003 – Loan Covenants.

We will work with our consultants over the next year and identify ways to improve our operations so that we can continue to improve financial results and come back into compliance with the debt covenants.

Finding 2019-004 – Reporting.

All required reports were submitted 3/20/2020, and will be submitted timely in the future.

Finding 2019-005 – Special Tests.

The debt service reserve fund has been opened as of 3/19/2020, and we have communicated with USDA our plan to have the required reserve amount funded by 9/30/2020.

Please contact Charla Rowley, CEO, or Julia Leggett, Director of Finance, at (601)249-5500 with any questions.