

**Singing River Health System**  
**(A Component Unit of Jackson County, Mississippi)**

**Independent Auditor's Reports and Financial Statements**

**September 30, 2020 and 2019**

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## Independent Auditor's Report

Board of Trustees  
Singing River Health System  
Pascagoula, Mississippi

### Report on the Financial Statements

We have audited the accompanying financial statements of Singing River Health System (the Health System), a component unit of Jackson County, Mississippi, as of and for the years ended September 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Health System's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Health System, as of September 30, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

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

***Other Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Health System's basic financial statements. The Schedule of Surety Bonds for Officials and Employees, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements.

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we also have issued our report dated December 4, 2020, on our consideration of the Health System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Health System'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 Health System's internal control over financial reporting and compliance.

***BKD, LLP***

Jackson, Mississippi  
December 4, 2020

**Singing River Health System**  
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**Management’s Discussion and Analysis**  
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**Introduction**

This discussion and analysis provides management’s analysis of Singing River Health System’s (the “Health System”) financial performance for the fiscal years ended September 30, 2020 and 2019. Unless otherwise indicated, all financial and statistical information included herein relates to continuing operations. The following analysis should be read in conjunction with the accompanying financial statements and supplementary information.

**Overview of the Financial Statements**

This annual report consists of financial statements and notes to the financial statements of the Health System. The Health System is a governmental entity organized and existing pursuant to the applicable statutes of the State of Mississippi, an instrumentality of Jackson County (“the County”), which operates on a not-for-profit basis and operates two hospitals organized as county hospitals under provisions of the statutes of the State of Mississippi. The Health System is exempt from federal and state income taxes.

The Board of Trustees, appointed by the County Board of Supervisors, is charged with the maintenance, operations, and management of the Health System, its finances and staff. The Health System’s primary mission is to improve health and save lives through the health care services it provides to the citizens of its service area, which includes the County and the surrounding areas, through its acute, primary and specialty care facilities.

The financial statements include the accounts and transactions of the Health System which includes Pascagoula Hospital, Ocean Springs Hospital, various outpatient facilities, and its blended component units Anesthesia Services, LLC and SRHS Ambulatory Services, Inc. SRHS Ambulatory Services, Inc. is comprised of its minority interest in Mississippi Coast Endoscopy and Ambulatory Surgical Center, LLC and Ocean Springs Surgical and Endoscopy Center, LLC.

Like all Health Systems around the world, 2020 operations have been most impacted by the COVID pandemic. A task force was set up on March 9, the date of our first COVID positive patient, with weekly meetings held to ensure all personnel were equipped and informed to handle all issues related to the pandemic. The facilities department converted 49 additional rooms to negative air pressure to ensure patient and team member safety. Personal protective equipment control and restricted visitor policies were developed quickly. Convalescent plasma transfusion protocols, other pharmaceutical programs and testing criteria were developed early on. Patients were initially cohorted at one location to ensure proficiency, and technology for virtual monitoring and visits with family members was developed. The clinical and administrative teams worked proactively with the State Department to Health, Mississippi Emergency Management Agency and other organizations and produced serious community education efforts that helped the local population keep the trend below the regional average. A team of quality and infection prevention nurses developed a contact tracing process to help slow the spread. Telehealth efforts were accelerated, and thousands of hotline calls were fielded. Daily social media briefings were developed to help extend communication to the community. Through September 30, we performed 38,185 tests, with 4,113 positive results. We served several hundred inpatients, and while most battles

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were won, we did experience 78 deaths. Most notable are the 2,600 team members who exemplified our core values and were true heroes during this pandemic.

**Industry Highlights**

Several uncertainties exist as the health care industry is going through a period of evolution. National efforts around health care reform abound. Regulatory changes are expected to continue, resulting in payment reductions and increased administrative documentation burdens.

The Health System will continue its successful strategy of improving access, maximizing proficiency with high quality, low cost care, growing in areas of core clinical competency and marketing its leading services. These efforts will allow the Health System to maintain financial stability. Some industry items of note:

- The Coronavirus Aid, Relief and Economic Security Act (CARES Act) and Paycheck Protection Program and Health Care Enhancement Act (Enhancement Act) provided over \$2 trillion in economic financial stimulus in the form of financial aid to individuals, business, nonprofit entities, states and municipalities. The purpose of this aid related to health care providers was to help offset lost revenues/volumes and additional expenses incurred due to the COVID-19 pandemic.
- The Centers for Medicare and Medicaid Services (CMS) finalized their proposal to reduce Medicare reimbursement for separately payable Part B drugs purchased via the 340B program from average sales price (ASP) plus 6% to ASP minus 22.5%. The close to 30% reduction went into effect January 2018, and while there have been legal challenges filed to reverse the cuts, they remain in place. The lower drug reimbursement was partially offset by a corresponding 3% increase in the Medicare Outpatient Prospective Payment System (OPPS) rates to attempt to make the cuts budget neutral for CMS. These cuts will continue into 2021 under a final government rule that was issued in November 2018. In August 2020, the Department of Health and Human Services (HHS) proposed a rule to cut reimbursement by an additional 6% in 2021. In extending the cuts into 2021, CMS acknowledged the ongoing lawsuit and sought public comment.
- The executive branch of the federal government continues to explore avenues to reduce drug expenditures for the federal government and Medicare beneficiaries. During October 2018, CMS published an Advanced Notice of Proposed Rulemaking outlining their plan to create an International Pricing Index (IPI) for Part B drugs. The IPI would require third-party vendors to purchase separately payable Part B drugs for which they, and not the hospital, would be reimbursed by Medicare based on prices paid in other designated countries. Hospitals would no longer purchase or hold title to these drugs and would receive an administration fee and a drug add-on to compensate the hospital for administering the drugs to patients. The current proposal is subject to revision or withdrawal after public comments are received. It is too early to know whether we will be selected to participate, or to quantify the impact the IPI program would have on our Health System.

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- The Medicare Access and Chip Reauthorization Act (MACRA) went into effect in 2017, posing immediate implications to all Health Systems' financial performance by imposing a value based payment modifier, theoretically emphasizing the importance of making patient outcomes and quality of care a governmental priority. The law provides greater flexibility to the Secretary of the Department of HHS in the timing of the implementation of the Merit-based Incentive Payment System (MIPS) under MACRA's Quality Payment Program (QPP). The new law modifies provisions of MACRA so that MIPS payment adjustments will apply only to services billed to Part B, thereby excluding payments for Part B drugs from MIPS payment adjustments.
- Medicare sequestration cuts, previously slated to expire in 2021, have been extended three times through 2027. The CARES Act temporarily suspends the 2% sequestration payment adjustment on Medicare fee-for-service payment. This will be in effect for claims with dates of service from May 1, 2020 through December 31, 2020.
- To offset the financial effects of treating Medicaid and other indigent patients, the Health System receives additional funding through the Mississippi Hospital Access Program (MHAP), formerly Upper Payment Limit (UPL) and Disproportionate Share Hospital (DSH) programs, administered by the Mississippi Division of Medicaid (DOM). Under the Patient Protection and Affordable Care Act of 2010, reductions of DSH allotments are scheduled to continue through 2025, reducing the amount of funds received for treating Medicaid and other indigent patients.
- The Mississippi DOM is phasing in a new MHAP program in the state for fiscal year 2020 referred to as the Quality Incentive Payment Program (QIPP), which will base payments partly on readmission rates. While readmission rates can be partially indicative of quality due to wide variations in case mix activity, they may not be. Hospitals with higher activity and more diverse variations in case mix could experience a detrimental impact to their distribution.
- Increasing wages in the industry due to shortage of qualified health care workers in our region, particularly in nursing, is expected to continue.
- Increased costs in medical supplies and pharmaceuticals continue to adversely impact net margin in the health care industry.

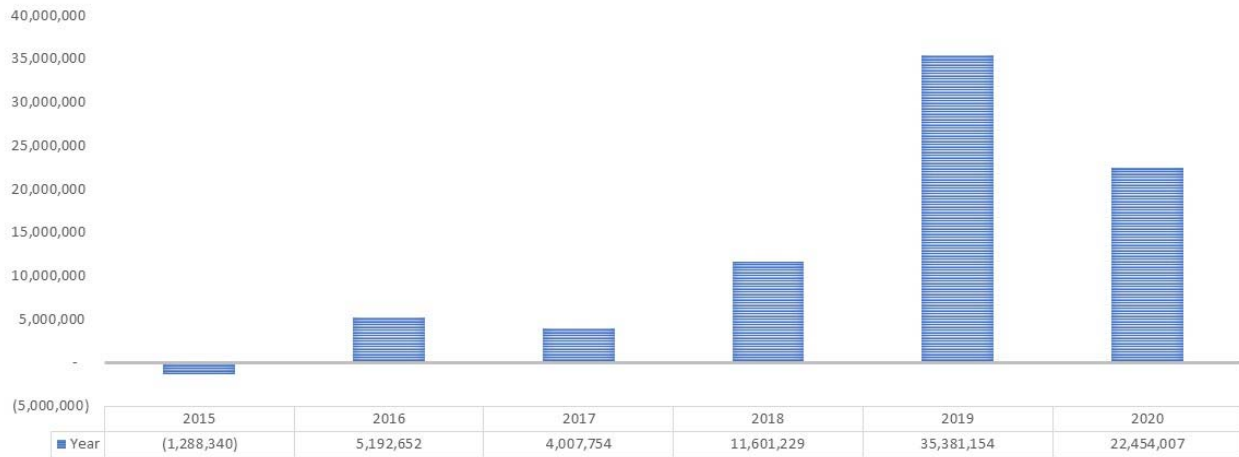
**Financial Highlights**

- The Health System's net position increased by \$12.1 million (6.6%) in fiscal year 2020 compared to an increase of \$47.4 million (35.2%) in 2019 and an increase of \$262.2 million (205.8%) in 2018. The 2019 and 2018 changes in net position were significantly impacted by non-cash entries related to Governmental Accounting Standards Board (GASB) Statement No. 68. Excluding accounting entries related to GASB 68 and other infrequently recurring events, the increase in net position would have been \$35.4 million and \$11.6 million in fiscal year 2019 and fiscal year 2018, respectively. The current year increase in net position is primarily related to increases in volumes in some areas offset by other areas experiencing decreases related to the pandemic, with an overall strategy for improvements in efficiencies that will directly result in a reduction in expenses. Surgical services have increased 2.8% and 1.4% in fiscal years 2020 and

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2019, respectively. Primary Care Clinic visits have increased 14.6% and 13.1% during fiscal years 2020 and 2019, respectively. Rheumatology visits have increased 13.4% and 45.0% during fiscal years 2020 and 2019, respectively. Both of the latter service lines were a direct result of ongoing strategic growth of recruiting providers in those areas.

**ANNUAL PROFIT/(LOSS) - EXCLUDING INFREQUENTLY OCCURRING EVENTS**



- Current assets, primarily attributed to increases in cash and cash equivalents and prepaid expenses and other, increased \$74.9 million in fiscal year 2020 and \$26.7 million in fiscal year 2019. As part of the COVID-19 pandemic response programs by the federal and state government, the Health System received \$52.9 million from the Accelerated Advanced Payment (AAP) program and \$8.9 million in Provider Relief Funds (PRF). The AAP funds will be recouped via future Medicare remittance reductions, whereas the PRF funds will not require repayment, pending certain financial impact tests.
- Long-term debt, excluding current portion, decreased approximately \$8.3 million (16.2%) in fiscal year 2020 and \$15.3 million (23.0%) in fiscal year 2019. The Health System refinanced outstanding debt of over \$64.0 million in 2019 in order to reduce interest expense.
- During fiscal years 2020 and 2019, the Health System invested \$23.4 million and \$20.3 million, respectively, in facility infrastructure projects, critical information technology, and medical equipment.



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**Financial Statements**

- The Health System's financial statements are prepared on the accrual basis of accounting, based upon when services are provided or obligations are incurred, not when cash is received or bills are paid. The financial statements consist of three statements: (1) balance sheets, (2) statements of revenues, expenses and changes in net position and (3) statements of cash flows. The balance sheets and the statements of revenues, expenses and changes in net position reflect the Health System's financial position at the end of the fiscal year and report the net position and changes as a result of the revenues and expenses for the year. The balance sheet presents the assets, deferred outflows of resources, liabilities, and net position of the Health System as of the end of the year. The net position section presents assets plus deferred outflows of resources, less liabilities and less deferred inflows of resources. Increases or decreases in net position are an indicator of whether financial health is improving or deteriorating. Other non-financial factors should be considered, however, in evaluating financial health, such as changes in the Health System's patient base, changes in economic conditions and changes in government legislation. The statement of cash flows reports cash receipts, cash payments and net changes in cash resulting from operating, investing and noncapital/capital financing activities. The statement explains where cash came from, how it was used and the change in cash balance during the year.

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**Balance Sheets**

The following table provides a summary of the Health System's total assets, total liabilities and total net position at September 30, 2020, 2019 and 2018:

**Condensed Balance Sheets**  
(In Millions)

	2020	2019	Change	Total Percentage Change	2018	Change	Total Percentage Change
<b>Assets and Deferred Outflows of Resources</b>							
Current assets	\$ 244.9	\$ 170.0	\$ 74.9	44.1%	\$ 143.3	\$ 26.7	18.6%
Internally designated and trusteeed bond funds	3.6	3.7	(0.1)	-2.7%	13.8	(10.1)	-73.2%
Capital assets, net	200.0	197.7	2.3	1.2%	198.8	(1.1)	-0.6%
Other assets	10.0	10.1	(0.1)	-1.0%	7.7	2.4	31.2%
<b>Total assets</b>	<b>458.5</b>	<b>381.5</b>	<b>77.0</b>	<b>20.2%</b>	<b>363.6</b>	<b>17.9</b>	<b>4.9%</b>
Deferred outflows of resources	3.1	3.6	(0.5)	-13.9%	1.2	2.4	200.0%
<b>Total assets and deferred outflows of resources</b>	<b>\$ 461.6</b>	<b>\$ 385.1</b>	<b>\$ 76.5</b>	<b>19.9%</b>	<b>\$ 364.8</b>	<b>\$ 20.3</b>	<b>5.6%</b>
<b>Liabilities</b>							
Current liabilities	\$ 86.4	\$ 52.2	\$ 34.2	65.5%	\$ 62.7	\$ (10.5)	-16.7%
Long-term debt	42.9	51.2	(8.3)	-16.2%	66.5	(15.3)	-23.0%
Capital lease obligations	26.9	26.9	-	0.0%	27.6	(0.7)	-2.5%
Other long-term liabilities	111.1	72.6	38.5	53.0%	73.2	(0.6)	-0.8%
<b>Total liabilities</b>	<b>267.3</b>	<b>202.9</b>	<b>64.4</b>	<b>31.7%</b>	<b>230.0</b>	<b>(27.1)</b>	<b>-11.8%</b>
<b>Net Position</b>							
Net investment in capital assets	122.7	113.8	8.9	7.8%	96.4	17.4	18.0%
Restricted expendable	6.8	8.1	(1.3)	-16.0%	21.8	(13.7)	-62.8%
Unrestricted (deficit)	64.8	60.3	4.5	7.5%	16.6	43.7	263.3%
<b>Total net position</b>	<b>194.3</b>	<b>182.2</b>	<b>12.1</b>	<b>6.6%</b>	<b>134.8</b>	<b>47.4</b>	<b>35.2%</b>
<b>Total liabilities and net position</b>	<b>\$ 461.6</b>	<b>\$ 385.1</b>	<b>\$ 76.5</b>	<b>19.9%</b>	<b>\$ 364.8</b>	<b>\$ 20.3</b>	<b>5.6%</b>

Total net position represents the residual interest in the Health System's assets and deferred outflows after liabilities are deducted. Net position increased \$12.1 million from fiscal year 2019 to fiscal year 2020, compared to an increase of \$47.4 million during fiscal year 2019.

The Health System had \$164.4 million, \$115.1 million, and \$86.2 million in total unrestricted cash and investments as of September 30, 2020, 2019 and 2018.

Net patient accounts receivable (AR) increased \$4.3 million from \$39.6 million at September 30, 2019 to \$43.9 million at September 30, 2020. This increase is directly related to increased service line volumes offset by improved cash collections on revenue cycle.

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Prepaid expenses increased \$18.7 million from fiscal year 2019 to fiscal year 2020. The purchase of Garden Park Medical Center (the Center), located in Gulfport, Mississippi, was funded by a transfer of \$18.6 million on September 30, 2020, for the purchase price and to fund working capital. The Center was owned by a subsidiary of HCA Healthcare. Per the contractual terms, the transfer of ownership of the Center was effective on October 1, 2020.

The Health System had capital assets, net of accumulated depreciation of \$200.0 million, \$197.7 million, and \$198.8 million at September 30, 2020, 2019 and 2018, increasing \$2.3 million in fiscal year 2020 and decreasing \$1.1 million in fiscal year 2019. Depreciation expense was \$23.0 million and capital additions equaled \$23.4 million in 2020, compared to depreciation expense of \$21.2 million and capital additions of \$20.3 million in 2019. The table below outlines increases and decreases in capital assets.

	<b>2020</b>	<b>2019</b>	<b>2018</b>
Land	\$ 6,072,289	\$ 5,797,289	\$ 5,597,289
Land improvements	2,284,428	1,448,681	1,538,662
Buildings and improvements	112,892,712	116,264,621	121,929,115
Fixed equipment	1,296,301	1,471,045	1,646,382
Moveable equipment	72,575,149	65,719,919	58,430,094
Construction in progress	4,866,901	7,032,355	9,629,390
	<u>\$ 199,987,780</u>	<u>\$ 197,733,910</u>	<u>\$ 198,770,932</u>

Deferred outflows of resources consist of unamortized losses on refunding of debt. Deferred outflows of resources decreased \$0.5 million (13.9%) from \$3.6 million as of September 30, 2019 to \$3.1 million as of September 30, 2020. The decrease in 2020 represents the current period amortization.

Total liabilities increased \$65.7 million (32.4%) in fiscal year 2020 and decreased \$27.1 million (11.8%) in fiscal year 2019.

- Current liabilities increased \$34.2 million (65.5%) and decreased \$10.5 million (16.7%) in fiscal years 2020 and 2019, respectively. The COVID-19 pandemic related AAP funds of \$52.9 million are held in reserve until the repayment period commences. In addition, in fiscal year 2020, the Health System recorded a liability for potential overpayments totaling \$17.7 million related to the DSH program for fiscal years 2020, 2019, and 2018.
- Long-term debt decreased \$8.3 million (16.2%) and \$15.3 million (23.0%) in fiscal years 2020 and 2019, respectively, in relation to ongoing normal debt payments and in conjunction with the refinancing in fiscal year 2019 further delineated below.
- Bond covenants require the Health System maintain 65 days cash on hand (DCOH) and a maximum annual debt service (MADS) ratio above 1.2. The Health System's focus over the previous years has been in strengthening the Health System's cash position, but utilizing cash

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reserves when strategic decisions result in opportunities to expand the Health System and the provision of services. The purchase of Garden Park Medical Center on September 30, 2020 for \$18.6 million of cash reserves presents evidence of a strategic opportunity. The Health System had DCOH of 113, 125, and 99 at September 30, 2020, 2019 and 2018, respectively. The MADS ratio was 2.63, 3.34 and 2.27 at September 30, 2020, 2019 and 2018, respectively. The Health System is in compliance with both bond covenants at September 30, 2020.

On December 19, 2018, the Health System completed a \$21,347,000 Limited Tax Hospital Revenue Refunding Bond transaction in conjunction with Jackson County, Series 2018 (the "Series 2018 Bonds") to refund the Mississippi Development Bank Special Obligation Bonds, Series 2011 (Jackson County, Mississippi Limited Tax Note). The bonds were issued for the purpose of refinancing the Series 2011 bonds in order to reduce interest rates for debt service savings. The 2018 Bonds were issued by First Internet Public Finance Corp. (the "Purchaser"). The Series 2018 Bonds are supported by a five mill pledge on the assessed value of real property by Jackson County. The 2018 Series Bonds carry a fixed rate of interest of 3.79%. Interest payments are made semiannually (January 1 and July 1), and principal is paid annually (July 1) and mature on July 1, 2035. The Series 2018 Bonds are initially issued at the Taxable Fixed Rate (as defined in the Indenture), but on April 2, 2021 (the "Tax-Exempt Reissuance Date"), will be reissued at the Tax-Exempt Fixed Rate as defined in the Indenture.

On April 2, 2019, the Health System completed a \$43,119,000 Limited Tax Hospital Revenue Refunding Bond transaction in conjunction with Jackson County, Series 2019 (the "Series 2019 Bonds") to refund the Mississippi Development Bank Special Obligation Bonds, Series 2009 A and B (Jackson County, Mississippi Limited Tax Note). The bonds were issued for the purposes of refinancing the Series 2009 A&B bonds in order to reduce interest rates for debt service savings. The 2019 Bonds were issued by Capital One Public Funding, LLC (the "Purchaser"). The Series 2019 Bonds are supported by a five mill pledge on the assessed value of real property by Jackson County. The Series 2019 Bonds carry a fixed rate of interest of 3.95%. Interest payments are made semiannually (January 1 and July 1), and principal is paid annually (July 1) and mature on July 1, 2038.

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

The following table summarizes the Health System's revenues and expenses for the years ended September 30, 2020, 2019 and 2018 and the changes in net position during each of those years:

**Condensed Statements of Revenues, Expenses and Changes in Net Position**  
(in Millions)

	2020	2019	Change	Total Percentage Change	2018	Change	Total Percentage Change
<b>Operating Revenues</b>							
Net patient service revenue	\$ 367.2	\$ 382.6	\$ (15.4)	-4.0%	\$ 345.5	\$ 37.1	10.7%
Other revenues	23.4	13.8	9.6	69.6%	9.8	4.0	40.8%
Total operating revenues	<u>390.6</u>	<u>396.4</u>	<u>(5.8)</u>	-1.5%	<u>355.3</u>	<u>41.1</u>	11.6%
<b>Operating Expenses</b>							
Salaries and wages	144.0	140.4	3.6	2.6%	133.5	6.9	5.2%
Employee benefits	25.8	27.9	(2.1)	-7.5%	27.0	0.9	3.3%
(Contra) pension expense	-	(5.2)	5.2	-100.0%	(248.5)	243.3	-97.9%
Professional fees	5.5	4.8	0.7	14.6%	4.7	0.1	2.1%
Supplies	103.8	92.7	11.1	12.0%	79.4	13.3	16.8%
Purchased services	37.7	35.7	2.0	5.6%	36.5	(0.8)	-2.2%
Other expenses	36.6	35.4	1.2	3.4%	34.3	1.1	3.2%
Depreciation and amortization	24.4	23.1	1.3	5.6%	21.2	1.9	9.0%
Total operating expenses	<u>377.8</u>	<u>354.8</u>	<u>23.0</u>	6.5%	<u>88.1</u>	<u>266.7</u>	302.7%
<b>Operating Income</b>	<u>12.8</u>	<u>41.6</u>	<u>(28.8)</u>	-69.2%	<u>267.2</u>	<u>(225.6)</u>	-84.4%
<b>Nonoperating Revenues (Expenses)</b>							
Investment income, net	2.1	4.0	(1.9)	-47.5%	1.2	2.8	233.3%
Interest expense	(10.2)	(10.6)	0.4	-3.8%	(6.5)	(4.1)	63.1%
Earnings on equity investments	0.3	0.5	(0.2)	-40.0%	0.3	0.2	66.7%
State of MS grant	2.6	-	2.6	100.0%	-	-	-
CARES Act grants	4.3	-	4.3	100.0%	-	-	-
Bond issuance costs	-	(0.8)	0.8	0.0%	-	(0.8)	0.0%
Noncapital contributions - Jackson County	0.3	12.7	(12.4)	-97.6%	-	12.7	0.0%
Loss on disposal of capital assets	(0.1)	-	(0.1)	0.0%	-	-	0.0%
Total non-operating revenues (expenses)	<u>(0.7)</u>	<u>5.8</u>	<u>(6.5)</u>	-112.1%	<u>(5.0)</u>	<u>10.8</u>	-216.0%
<b>Increase in Net Position</b>	<u>12.1</u>	<u>47.4</u>	<u>(35.3)</u>	-74.5%	<u>262.2</u>	<u>(214.8)</u>	-81.9%
<b>Net Position, Beginning of Year</b>	<u>182.2</u>	<u>134.8</u>	<u>47.4</u>	35.2%	<u>(127.4)</u>	<u>262.2</u>	-205.8%
<b>Net Position, End of Year</b>	<u>\$ 194.3</u>	<u>\$ 182.2</u>	<u>\$ 12.1</u>	6.6%	<u>\$ 134.8</u>	<u>\$ 47.4</u>	35.2%

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**Net Patient Service Revenue**

Net patient service revenue decreased \$15.4 million (4.0%) to approximately \$367.2 million in fiscal year 2020, compared to \$382.6 million in fiscal year 2019 and \$345.5 million in fiscal year 2018. The decrease from 2019 to 2020 reflects a substantial decrease in overall volumes beginning in early 2020 due to the COVID-19 pandemic. Several areas of hospital operations were affected, specifically in the Emergency Room and several outpatient services. Offsetting the effects of the pandemic, the Health System experienced a slight increase in total surgeries and service line visits, including Primary Care, Endocrinology, Pulmonary, and Behavioral Health.

To offset the financial effects of treating Medicaid and other indigent patients, the Health System receives additional funding through the MHAP (formerly UPL) and DSH programs administered by the Mississippi DOM. Through participation in the MHAP and UPL programs, the Health System received gross reimbursement of approximately \$17.4 million during State Fiscal Years (SFY) 2020, \$17.4 million during SFY 2019, and \$16.7 million during SFY 2018, respectively. The Health System received Medicaid DSH payments of approximately \$7.5 million, \$11.6 million, and \$10.3 million for fiscal years 2020, 2019, and 2018, respectively.

To participate in the MHAP and DSH programs the Health System paid to DOM an annual assessment of \$9.8 million, \$11.1 million, and \$11.4 million, for fiscal years 2020, 2019 and 2018, respectively. The net impact of the DSH and MHAP programs to the Health System, prior to the fiscal year 2020 adjustment noted in the following paragraph, was \$15.1 million, \$17.9 million, and \$15.6 million in fiscal years 2020, 2019 and 2018, respectively.

The Health System recognized an adjustment in fiscal year 2020 to reflect the potential liability related to estimated overpayments from the DSH program for the SFY 2020, 2019, and 2018. The DSH program is measured on the information included on the Health System's required annual cost reports and annual DSH surveys. The estimated excess uncompensated cost of care overpayment is \$4.5 million for fiscal year 2020, \$8.6 million for fiscal year 2019, and \$4.6 million for fiscal year 2018.

Other operating revenues were \$23.4 million in 2020 and \$13.8 million in 2019, an increase of \$9.6 million. The increase is primarily driven by the growth in the retail and contract pharmacy revenues.

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The following table summarizes the Health System's increase (decrease) in net position excluding entries related to infrequently occurring items and GASB 45 and GASB 68 (outlined below) for the years ended September 30, 2020, 2019 and 2018:

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

	2020	2019	Change	Total Percentage Change	2018	Change	Total Percentage Change
Increase in net position, end of year	\$ 12.1	\$ 47.4	(35.3)	-74.5%	\$ 262.2	\$ (214.8)	-81.9%
Infrequently occurring events							
Construction grant revenue	-	(0.1)	0.1	-100.0%	(1.7)	1.6	94.1%
DSH overpayment SFY 2019 and SFY 2018	13.2	-	13.2	100.0%	-	-	-
Malpractice and workers' compensation actuarial adjustment	(0.4)	1.2	(1.6)	-133.3%	(0.4)	1.6	-4.0%
State of MS grants	(2.6)	-	(2.6)	100.0%	-	-	-
CARES Act grants	(4.3)	-	(4.3)	100.0%	-	-	-
Pension settlement	4.8	4.8	-	-	-	4.8	100.0%
Pension expense	-	(5.2)	5.2	100.0%	(248.5)	243.3	-97.9%
Noncapital contributions - Jackson County	(0.3)	(12.7)	12.4	-97.6%	-	(12.7)	100.0%
Total infrequently occurring events	10.4	(12.0)	22.4	-186.7%	(250.6)	238.6	95.2%
Normalized increase in net position	\$ 22.5	\$ 35.4	\$ (12.9)	-36.5%	\$ 11.6	\$ 23.8	204.8%

During fiscal years 2020, 2019 and 2018, there were a few occurrences outlined above driving the increase in net position. The settlement related to the Singing River Health System Employees Retirement Plan and Trust resulted in a \$5.2 million and \$248.5 million reduction of expenses in fiscal years 2019 and 2018, respectively. Malpractice and workers' compensation actuarial assessments, in addition to inventory of claims incurred but not reported based on historical experience, decreased expense in fiscal year 2020 by \$0.4 million, and increased expense in fiscal year 2019 by \$1.2 million. Funding received in response to the pandemic resulted in an \$6.9 million increase in net position in fiscal year 2020. Overpayments of DSH payments received from prior state fiscal years resulted in a liability of \$13.2 million in 2020. Removing all the infrequently occurring events and items related to GASB 68 listed above from the financials results in a \$13.0 million normalized increase in net position, compared to fiscal year 2019 normalized increase in net position of \$35.4 million.

**Statistics**

The global COVID-19 pandemic caused significant service and patient flow interruptions in several areas during fiscal year 2020, including admissions, ER admissions and visits, and the physical, occupational and speech therapies.

- Adult Acute Admissions were down 2.9%
- Comprehensive Rehab admissions were down 11.3%
- Intensive Care Unit admissions were down 9.8%

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- Outpatient procedures visits overall were up 1.0%
- Outpatient surgeries were up 8.6%
- Inpatient surgeries were down 2.9%
- Total days of care were down 4.9%

A summary of statistics from fiscal years 2020, 2019 and 2018 are outlined in the chart below:

**Hospital Operations**

	<u>2020</u>	<u>2019</u>	<u>Variance</u>	<u>2018</u>	<u>Variance</u>
<b>Admissions (excludes nursery)</b>					
Adult	11,587	11,939	-2.9%	11,924	0.1%
Pediatric	408	548	-25.5%	580	-5.5%
Intensive Care Unit	2,483	2,753	-9.8%	2,967	-7.2%
Comprehensive Rehab	447	504	-11.3%	503	0.2%
Behavioral Health	651	648	0.5%	741	-12.6%
Skilled Nursing Facility	550	553	-0.5%	517	7.0%
Total admissions	<u>16,126</u>	<u>16,945</u>	-4.8%	<u>17,232</u>	-1.7%
ER Admissions	11,410	12,230	-6.7%	12,332	-0.8%
Discharges	16,551	17,228	-3.9%	17,520	-1.7%
Adjusted Discharges	36,322	37,696	-3.6%	37,664	0.1%
Total Days of Care	83,451	87,714	-4.9%	85,663	2.4%
Average Daily Census	229	240	-4.6%	235	2.1%
Inpatient Physician Services	81,620	79,376	2.8%	72,262	9.8%
Deliveries	1,501	1,393	7.8%	1,362	2.3%
Observation Days	3,769	4,782	-21.2%	4,267	12.1%
Acute ALOS	4.37	4.35	0.5%	4.14	5.1%
<b>Outpatient Procedures</b>					
ER Visits	81,564	96,575	-15.5%	97,916	-1.4%
Radiology Exams	143,680	153,477	-6.4%	137,618	11.5%
Laboratory Tests	914,515	844,324	8.3%	778,597	8.4%
PT/OT/ST Treatments	351,215	401,754	-12.6%	380,942	5.5%
Other Service Line Visits	215,028	192,661	11.6%	174,136	10.6%
Total outpatient procedures	<u>1,706,002</u>	<u>1,688,791</u>	1.0%	<u>1,569,209</u>	7.6%
<b>Surgeries</b>					
Inpatient	4,906	5,052	-2.9%	5,063	-0.2%
Outpatient	5,434	5,003	8.6%	4,853	3.1%
Total surgeries	<u>10,340</u>	<u>10,055</u>	2.8%	<u>9,916</u>	1.4%



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The Medicare case mix for hospitals is a measure of Medicare inpatient acuity and has an effect on Medicare inpatient payments. Case mix levels have increased in fiscal years 2020, 2019 and 2018.

A summary of Medicare case mix indices follows:

	<b>2020</b>	<b>2019</b>	<b>2018</b>
Singing River Hospital	1.69	1.64	1.62
Ocean Springs Hospital	1.95	1.89	1.74

During fiscal years 2020 and 2019 payer class percentages remained relatively stable with slight increases in managed care offset by slight decreases in self pay and Medicaid. The impact of the COVID-19 pandemic can be seen in the increase in other due to significant volume of the screening, testing, and treatment claims covered under Health Resources and Services Administration (HRSA) programs.

Below is a chart comparing payer class percentages for fiscal years 2020, 2019 and 2018 based on volume of gross revenue:

	<b>2020</b>	<b>2019</b>	<b>2018</b>
Medicare	52.4%	52.4%	51.9%
Medicaid	12.2%	12.4%	12.4%
Blue Cross Blue Shield	13.3%	16.1%	15.6%
Managed Care	8.8%	7.0%	9.1%
Self-pay	5.5%	6.1%	6.5%
Other	7.8%	6.0%	4.5%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

**Deductions from Revenue**

Contractual and other adjustments (excluding charity and bad debts) expressed as a percentage of gross revenues, were 78.2%, 76.5% and 76.3% for fiscal years 2020, 2019, and 2018 respectively. The increase in fiscal year 2020 is due to the \$17.7 million recognition of the DSH program overpayment for fiscal years 2020, 2019, and 2018.

**Bad Debt and Charity Care**

Bad debt expense was approximately \$107.8 million and \$114.9 million in fiscal years 2020 and 2019, respectively. The \$7.1 million decrease of bad debt expense in 2020 is primarily related to improved bad debt recoveries versus prior year. Bad debt expense relates to patients with uninsured balances that do not qualify under the charity care policy as outlined by the Health System, which collection for services

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rendered will not be obtained. During fiscal year 2020, bad debt expense represents 4.6% of total gross charges, compared to 5.0% in fiscal year 2019. Charity care is defined as health care provided to patients at no cost, while meeting certain criteria as outlined by the Health System's charity care policy. Charity care adjustments were approximately \$33.9 million and \$43.6 million in fiscal years 2020 and 2019, respectively. During fiscal year 2020, charity care represents 1.5% of total gross charges, compared to 1.9% in fiscal year 2019. When combined, bad debt expense and charity care is 6.1% of total gross charges in fiscal year 2020, compared to 6.9% in fiscal year 2019.

### **Operating Expenses**

During the year ended September 30, 2020, total operating expenses increased \$23.0 million. During the year ended September 30, 2019, total operating expenses increased \$266.7 million compared to the year ended September 30, 2018. Excluding the impact of GASB 68, operating expenses increased \$18.2 million (5.4%) during the year ended September 30, 2019, compared to the year ended September 30, 2018.

- Salaries and wages increased \$3.6 million (2.6%) from fiscal year 2020, compared to fiscal year 2019. The increase is due to additional expenses related to the COVID-19 pandemic response and addition of new physicians in targeted growth areas.
- Benefits decreased \$2.1 million (7.5%) from fiscal year 2020 compared to fiscal year 2019 related to reduced employee health plan costs due to fewer claims and utilization due to the COVID-19 pandemic.
- Supplies expense increased \$11.1 million (12.0%) during fiscal year 2020 related to COVID-19 and increases in inflation of pharmaceutical supplies and other medical supplies which continue to be a challenge in the industry, in addition to increases in patient acuity and the related increase in products such as surgical implant costs and devices for the structural heart program. Supplies expense increased by \$13.3 million (16.8%) during fiscal year 2019 due to growth, increases in inflation of pharmaceutical supplies and other medical supplies.
- Depreciation and amortization has increased \$1.3 million (5.6%) and \$1.9 million (9.0%) in fiscal years 2020 and 2019, respectively. The Health System has increased capital expenditures and improvement of infrastructure. Construction projects were closed and placed into service at the end of fiscal years 2020 and 2019 and will result in depreciation and amortization increasing in future years. Capital improvements will continue to take place over the next few years related to the Health System's strategic initiatives.

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**Cash Flow**

Cash provided by operating activities was \$95.2 and \$56.1 million for fiscal years 2020 and 2019, respectively. Excluding the \$52.9 million received in AAP payment, the primary reasons for decreases in cash provided by operating activities relate to increased payments to vendors and suppliers for operating supplies and purchased services. Non-capital financing activities provided \$8.5 million and used \$3.6 million in cash for fiscal years 2020 and 2019, respectively. The amount for fiscal year 2020 includes \$11.5 million from federal and state funds for the COVID-19 pandemic response. The primary reason for the fiscal year 2019 funds relates to the agreed-upon settlement with Jackson County to aid in providing indigent care to the residents of the County. Cash used by capital and related financing activities increased approximately \$0.3 million between 2019 and 2020, primarily due to decreased cash outlay for capital expenditures, as well as a decrease in construction grant funding. In addition, cash used in investing activities decreased approximately \$1.6 million between 2019 and 2020, primarily due to the deposit of the funding for the purchase of the former Garden Park Medical Center in Gulfport, Mississippi. Ownership by the Health System is effective October 1, 2020.

Year-to-date cash collections in fiscal year 2020 were \$432.4 million compared to \$376.8 million in fiscal year 2019, an increase of \$55.6 million due to increases in volumes, primarily due to \$52.9 million received in AAP payments. Cash paid to suppliers increased \$16.6 million and \$15.8 million for fiscal years 2020 and 2019, respectively, due to volumes and inflation referenced above. Cash paid to employees increased \$7.3 and \$0.7 million for fiscal years 2020 and 2019, respectively. Increases in cash paid to employees for fiscal year 2019 are related to cancelling the outsourced environmental services contract and bringing those services in-house. The addition of newly employed physicians in several service lines also drives the increase.

**Economic Conditions and Plan for Fiscal Year 2021**

In planning for fiscal year 2021, the primary concerns are the items noted in the "Industry Highlights" section and their potential financial and operational impact on the Health System. Due to the significant financial impact in the event the Health System is no longer eligible to participate in the 340B program, the Health System applied for and was approved as a Rural Referral Center (RRC) in the fall of 2020. Classification as an RRC would mitigate some of the loss of drug savings allowed under the 340B program.

As the global COVID-19 pandemic continues to affect the entire national population and the health care industry, the Health System will continue to respond in a manner that maximizes the treatment and prevention within the service region of the Health System. In addition, as federal and state programs offer financial assistance covering pandemic related expenses and negative financial impacts, the Health System will pursue all available funding.

The purchase of the former Garden Park Medical Center in Gulfport, which the Health System assumed ownership on October 1, 2020, will maintain and expand the service area in the adjoining Harrison County.

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In order to continue to improve operations, management is working in accordance with a strategic plan centered on access, proficiency, growth and marketing. In 2021, the Health System will increase access, continue to reduce cost and maximize labor efficiencies, explore mutually beneficial partnerships, explore calculated growth and business development opportunities, and expand population health management efforts.

**Contacting the Health System's Financial Management**

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Health System's finances and to show the Health System's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Chief Financial Officer by telephone at 228.497.7597.

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**Balance Sheets**

**September 30, 2020 and 2019**

**Assets and Deferred Outflows of Resources**

	<b>2020</b>	<b>2019</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 111,078,134	\$ 63,211,162
Investments	53,287,792	51,880,208
Trusted bond funds - required for current liabilities	2,606,390	2,946,841
Patient accounts receivable, net of allowance; 2020 - \$64,485,012, 2019 - \$65,419,376	43,878,829	39,601,654
Other receivables	4,887,380	2,694,977
Inventories	7,594,419	6,841,792
Prepaid expenses and other	21,543,643	2,794,552
Total current assets	244,876,587	169,971,186
<b>Noncurrent Cash and Investments</b>		
Trusted bond funds	3,442	94,926
Internally designated for self-insurance funding	3,632,842	3,624,672
Investment in equity investments	4,298,729	4,314,747
Total noncurrent cash and investments	7,935,013	8,034,345
<b>Capital Assets, Net</b>	199,987,780	197,733,910
<b>Other Assets</b>		
Intangible assets, net	2,331,746	1,425,930
Other	3,393,857	4,331,648
Total other assets	5,725,603	5,757,578
Total assets	458,524,983	381,497,019
<b>Deferred Outflows of Resources</b>	3,098,391	3,610,648
Total assets and deferred outflows of resources	\$ 461,623,374	\$ 385,107,667

## Liabilities and Net Position

	<u>2020</u>	<u>2019</u>
<b>Current Liabilities</b>		
Current installments of long-term debt	\$ 8,279,000	\$ 7,882,000
Current installments of capital lease obligations	1,207,822	834,404
Current installments of other long-term liabilities	1,094,964	522,111
Current installments of pension settlement liability	4,200,000	4,200,000
Accounts payable	14,973,971	15,094,958
Accrued payroll and employee benefits	20,833,124	20,023,146
Due to third-party payers	35,316,468	3,213,831
Other accrued expenses	454,689	469,926
	<u>86,360,038</u>	<u>52,240,376</u>
<b>Other Liabilities</b>		
Long-term debt	42,913,000	51,192,000
Capital lease obligations	26,913,910	26,866,731
Other long-term liabilities	1,043,016	283,127
Accrued workers' compensation, professional and general liability costs	6,106,260	10,894,540
Due to third-party payers	41,986,286	-
Pension settlement liability	62,029,109	61,447,901
	<u>267,351,619</u>	<u>202,924,675</u>
<b>Net Position</b>		
Net investment in capital assets	122,655,147	113,801,377
Restricted expendable for debt service	2,609,832	3,041,767
Restricted expendable for indigent care	4,192,559	5,104,937
Unrestricted	64,814,217	60,234,911
	<u>194,271,755</u>	<u>182,182,992</u>
Total net position	<u>194,271,755</u>	<u>182,182,992</u>
Total liabilities and net position	<u>\$ 461,623,374</u>	<u>\$ 385,107,667</u>

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**Years Ended September 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2020 - \$107,806,448, 2019 - \$114,947,990	\$ 367,236,990	\$ 382,619,306
Other revenues	23,388,421	13,799,165
	<u>390,625,411</u>	<u>396,418,471</u>
<b>Operating Expenses</b>		
Salaries and wages	144,043,553	140,427,541
Employee benefits	25,811,370	27,945,187
(Contra) pension expense	-	(5,245,594)
Professional fees	5,470,878	4,788,254
Supplies	103,750,625	92,751,752
Purchased services	37,737,445	35,695,533
Other expenses	36,552,062	35,449,929
Depreciation and amortization	24,444,102	23,058,108
	<u>377,810,035</u>	<u>354,870,710</u>
	<u>12,815,376</u>	<u>41,547,761</u>
<b>Operating Income</b>		
<b>Nonoperating Revenues (Expenses)</b>		
Investment income, net	2,117,208	4,042,297
Interest expense	(10,233,523)	(10,552,312)
Earnings on equity investments	329,343	504,984
State of Mississippi grant	2,563,980	-
CARES Act grants	4,344,111	-
Bond issuance costs	-	(849,000)
Noncapital contribution - Jackson County	287,622	12,704,937
Loss on disposal of capital assets	(135,354)	(18,194)
	<u>(726,613)</u>	<u>5,832,712</u>
	12,088,763	47,380,473
<b>Increase in Net Position</b>		
<b>Net Position, Beginning of Year</b>	<u>182,182,992</u>	<u>134,802,519</u>
<b>Net Position, End of Year</b>	<u>\$ 194,271,755</u>	<u>\$ 182,182,992</u>

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**Statements of Cash Flows**  
**Years Ended September 30, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>Cash Flows from Operating Activities</b>		
Receipts from and on behalf of patients	\$ 432,442,528	\$ 376,831,566
Cash paid to suppliers and others	(189,216,835)	(172,595,117)
Cash paid to or on behalf of employees	(169,010,255)	(161,696,493)
Other cash received	20,942,885	13,605,291
Net cash provided by operating activities	95,158,323	56,145,247
<b>Cash Flows from Noncapital Financing Activities</b>		
Repayment of pension settlement liability	(4,200,000)	(11,200,000)
State of Mississippi grant	2,563,980	-
CARES Act grants	8,950,321	-
Noncapital contribution - Jackson County	1,200,000	7,600,000
Net cash provided by (used in) noncapital financing activities	8,514,301	(3,600,000)
<b>Cash Flows from Capital and Related Financing Activities</b>		
Purchase of capital assets	(23,426,708)	(20,345,348)
Principal paid on long-term debt	(7,717,000)	(74,448,000)
Proceeds from issuance of long-term debt	-	64,466,000
Principal paid on capital lease obligations	(929,403)	(766,299)
Repayment of other long-term liabilities	(1,449,537)	(1,686,373)
Interest paid on long-term debt and capital lease obligations	(5,154,985)	(5,544,069)
Net cash used in capital and related financing activities	(38,677,633)	(38,324,089)
<b>Cash Flows from Investing Activities</b>		
Purchase of investments	(7,781,527)	(21,587,146)
Deposit on Garden Park Medical Center acquisition	(18,606,769)	-
Proceeds from sale of investments	9,685,739	1,925,648
Investment income received	1,892,166	3,247,874
Distribution from equity method investments	345,361	357,713
Net cash used in investing activities	(14,465,030)	(16,055,911)
<b>Change in Cash and Cash Equivalents</b>	50,529,961	(1,834,753)
<b>Cash and Cash Equivalents, Beginning of Year</b>	73,552,547	75,387,300
<b>Cash and Cash Equivalents, End of Year</b>	\$ 124,082,508	\$ 73,552,547



**Singing River Health System**  
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**Statements of Cash Flows (Continued)**  
**Years Ended September 30, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>Reconciliation of Operating Income to Net Cash</b>		
<b>Provided by Operating Activities</b>		
Operating income	\$ 12,815,376	\$ 41,547,761
Items not requiring cash		
Depreciation and amortization	24,444,102	23,058,108
Provision for uncollectible accounts	107,806,448	114,947,990
Changes in		
Patient accounts receivable, net	(112,083,623)	(118,253,685)
Amounts due to and from third-party payers	74,088,923	(2,482,045)
Inventories and other assets	(7,946,695)	(1,519,010)
Accounts payable and accrued liabilities	822,072	(45,916)
Accrued workers' compensation, professional and general liability costs	(4,788,280)	(1,107,956)
Net cash provided by operating activities	\$ 95,158,323	\$ 56,145,247
 <b>Reconciliation of Cash and Cash Equivalents to the Balance Sheets</b>		
Cash and cash equivalents in current assets	\$ 111,078,134	\$ 63,211,162
Cash and cash equivalents in investments	6,761,700	3,674,946
Cash and cash equivalents in trustee bond funds	2,609,832	3,041,767
Cash and cash equivalents in trustee for self-insurance funding	3,632,842	3,624,672
Total cash and cash equivalents	\$ 124,082,508	\$ 73,552,547
 <b>Noncash Investing, Capital and Financing Activities</b>		
Intangible assets acquired through installment agreements	\$ 2,782,279	\$ 716,112
Capital assets acquired through capital lease obligations	\$ 1,350,000	\$ -
Capital assets in accounts payable	\$ 44,675	\$ 143,066

**Singing River Health System**  
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**Notes to Financial Statements**  
**September 30, 2020 and 2019**

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

***Nature of Operations and Reporting Entity***

Singing River Health System (the Health System) is a component unit of Jackson County, Mississippi, as defined by the Governmental Accounting Standards Board (GASB). The Health System's component unit relationship to the County is principally due to financial accountability as defined by GASB. The Health System is operated by a nine-member Board of Trustees, seven of whom are appointed by the Board of Supervisors of Jackson County, Mississippi. Additionally, the Chief-of-Staff of the Health System serves on the Board.

The Health System is a multidimensional health care system consisting of:

- Pascagoula Hospital, a 435-bed hospital and related outpatient care and other facilities principally in Pascagoula, Mississippi.
- Ocean Springs Hospital, a 136-bed hospital and related outpatient care and other facilities principally located in Ocean Springs, Mississippi.
- Singing River Medical Park and Ocean Springs Medical Park, state-of-the-art outpatient services facilities designed to meet the specific needs of patients outside of the hospital setting. These buildings house radiology and imaging services, cardiac rehabilitation, physical therapy, neurosciences, a branch of The Regional Cancer Center, and the Health System's Healthplex.
- The Heart Center, which offers the most comprehensive cardiology program in the region.
- The Regional Cancer Center, which offers a comprehensive and integrated approach to cancer care comprised of expert medical and radiation oncologists, surgeons, radiologists, pharmacists, nurses and dietitians.
- Five primary care clinics located along the Mississippi Gulf Coast in Hurley, Pascagoula, Vancleave, Ocean Springs and Woolmarket.

***Blended Component Units***

SRHS Ambulatory Services, Inc. (SRHSAS) is a component unit of the Health System and is presented as a blended component unit as of September 30, 2020 and 2019 in the Health System's financial statements. As the sole member of this not-for-profit organization, the Health System exerts control and has a financial benefit relationship. SRHSAS is operated by a board of directors, all of whom are appointed by the Health System's Board. As of September 30, 2020 and 2019, SRHSAS holds a noncontrolling 24.5% ownership interest in two ambulatory surgery centers, Mississippi Coast Endoscopy and Ambulatory Surgery Center, LLC (MCEASC) and Ocean Springs Surgical and Endoscopy Center, LLC (OSSEC). All significant intercompany transactions have been eliminated.

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Anesthesia Services, LLC is a component unit of the Health System and is presented as a blended component unit as of September 30, 2020 and 2019 in the Health System's financial statements. Anesthesia Services, LLC is a wholly-owned subsidiary of the Health System that previously provided management, scheduling and billing and collection services for certified registered nurse anesthetists. All significant intercompany transactions have been eliminated.

***Budgetary Information***

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

***Basis of Accounting and Presentation***

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

***Use of Estimates***

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

***Cash and Cash Equivalents***

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less when purchased. At September 30, 2020 and 2019, cash equivalents consisted primarily of money market accounts with brokers.

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***Investments and Investment Income***

Investments are carried at fair value, principally based on quoted market prices. The investment in surgery centers is reported on the equity method of accounting. Investment income from investments is reported as nonoperating revenue. Investment income includes dividend and interest income, realized gains and losses on investments and the net change for the year in the fair value of investments carried at fair value.

***Patient Accounts Receivable***

Patient accounts receivable are reported at net realizable value after deduction of allowances for estimated uncollectible accounts and third-party contractual discounts. The allowance for uncollectible accounts is based on historical collection information, existing economic conditions and an analysis of currently outstanding amounts. This account is generally increased by charges to a provision for uncollectible accounts and decreased by write-offs of accounts determined by management to be uncollectible. The allowances for third-party discounts are based on the estimated differences between the Health System's established rates and the actual amounts to be received under each contract. Changes in estimates by material amounts are reasonably possible in the near term.

***Inventories***

Inventories of drugs and other supplies are recorded at the lower of cost or market. Costs are determined using the first-in, first-out method.

***Funds Held by Trustees***

Funds held by trustees include funds held for debt service and self-insurance funding.

Funds held by trustees for debt service under debt agreements that are required for obligations classified as current liabilities are reported as current assets.

***Capital Assets, Net (Including Intangible Assets)***

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

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

Land improvements	5 - 25 years
Buildings and improvements	10 - 40 years
Fixed equipment	5 - 25 years
Movable equipment	3 - 20 years

***Capital Asset Impairment***

Capital assets are reviewed for impairment when service utility has declined significantly and unexpectedly. If such assets are no longer used, they are reported at the lower of carrying value or fair value. If such assets will continue to be used, the impairment loss is measured using an historical cost approach method that best reflects the diminished service utility of the capital asset. If a capital or lease asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, the capital asset historical cost and related accumulated depreciation are decreased proportionately such that the net decrease equals the impairment loss. No impairment losses were recognized in 2020 or 2019.

***Cost of Borrowing***

Bond issuance costs are expensed as incurred. Deferred loss on refunding and bond discounts and premiums are being amortized over the terms of the related indebtedness using the interest method.

***Compensated Absences***

The Health System's employees accumulate paid time off, such as vacation, holiday and sick leave, at varying rates depending upon their years of continuous service and their payroll classification, subject to maximum limitations. Upon termination of employment, employees are paid all unused accrued vacation and holiday time at their regular rate of pay up to a designated maximum number of days. Since the employees' vacation and holiday time both accumulate and vest, an accrual for this liability is included in accrued payroll and employee benefits. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation related payments such as social security and Medicare taxes computed using rates in effect at that date.

***Deferred Outflows of Resources***

Deferred outflows of resources represent the consumption of net position that applies to future periods. At September 30, 2020 and 2019, deferred outflows of resources was comprised of deferred loss on refunding of \$3,098,391 and \$3,610,648, respectively.

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***Risk Management***

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

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

***Net Position***

Net position of the Health System is classified into the following components:

- Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of any borrowings used to finance the purchase or construction of those assets. To the extent debt has been incurred but not yet expended for capital assets, such debt is excluded from the calculation of net investment in capital assets.
- Net position restricted for debt service is amounts deposited with trustees as required by bond indentures or debt agreements.
- Net position restricted for indigent care is amounts recorded under the Health System's Contribution Agreement with the County. They are restricted until the Health System receives the funds and provides indigent care to the community.
- Unrestricted net position is remaining net position that does not meet the definition of invested in capital assets, net of related debt or restricted net position.

***Net Patient Service Revenue***

The Health System has agreements with third-party payers that provide for payments to the Health System at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per-diem payments. Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payers and others for services rendered, and includes estimated retroactive adjustments under reimbursement agreements with third-party payers and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition and accrual of revenue on an

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estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

**Charity Care**

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

**Income Taxes**

The Health System is a not-for-profit entity as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Code. The Health System is also a political subdivision of Jackson County, Mississippi and is operated as a community hospital under related statutes of the State of Mississippi.

**Note 2: Net Patient Service Revenue**

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

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

*Medicaid* - Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a prospective reimbursement methodology. The Health System is reimbursed at a prospective rate, which is adjusted annually based on published market basket update.

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

Effective in 2016, the Division of Medicaid (DOM) implemented the MHAP program. The MHAP program is administered by the DOM through the Mississippi CAN coordinated care organizations (CCO). The CCOs subcontract with the hospitals throughout the state for distribution of the MHAP program for purpose of protecting patient access to hospital care. The MHAP program began December 1, 2015, and the MHAP payments and associated tax are distributed and collected in equal monthly installments. For the fiscal years ended September 30, 2020 and 2019, the Health System received approximately \$16,963,000 and \$17,435,000, respectively, from the MHAP program. MHAP amounts are shown as a reduction of contractual adjustments, with the related tax assessment of approximately \$9,022,000 and \$8,996,000 recorded as a reduction of contractual adjustments for the years ended September 30, 2020 and 2019, respectively.

The DSH program is administered by the DOM through Mississippi CAN CCOs. The CCOs subcontract with the hospitals throughout the state for distribution of DSH payments for purpose of protecting patient access to hospital care. For the fiscal years ended September 30, 2020 and 2019, the Health System received approximately \$8,306,000 and \$11,602,000, respectively, from the MHAP program. MHAP amounts are shown as a reduction of contractual adjustments, with the related tax assessment of approximately \$2,185,000 and \$2,114,000 recorded as a reduction of contractual adjustments for the years ended September 30, 2020 and 2019, respectively.

In fiscal year 2020, the Health System recognized a liability of approximately \$17,744,000 for estimated overpayments from the DSH program due to excess uncompensated cost of care overpayments. The estimated liability was a result of excess uncompensated cost of care overpayments of approximately \$4,509,000 in 2020, \$8,570,000 in 2019 and \$4,665,000 in 2018. It is reasonably possible that this estimate could change materially in the near term.

Approximately 61% and 64% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2020 and 2019, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Health System has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations (HMOs) and PPOs. The basis for payment to the Health System under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.



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**Note 3: Deposits, Investments and Investment Income**

***Deposits***

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Health System's deposit policy for custodial credit risk requires compliance with the provisions of state law. The collateral for public entities deposited in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the Health System's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). All deposits with financial institutions must be collateralized in an amount equal to 105% of uninsured deposits and are therefore fully insured. The collateralized and insured bank balance was \$118,142,871 and \$69,288,461 at September 30, 2020 and 2019, respectively. The above amounts exclude deposits held by the Health System's blended component units with bank balances of approximately \$1,416,000 and \$1,280,000 at September 30, 2020 and 2019, respectively. As nongovernmental entities, the blended component units are not subject to collateralization requirements. At September 30, 2020, the blended component units' cash balances exceeded federally insured limits by approximately \$1,003,000.

***Investments***

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

At September 30, 2020 and 2019, the Health System had the following investments and maturities:

September 30, 2020	Fair Value	Years			
		< 1	1 – 5	6 – 10	More than 10
Money market funds	\$ 6,761,700	\$ 6,761,700	\$ -	\$ -	\$ -
Certificates of deposit	850,901	850,901	-	-	-
U.S. government obligations	10,880,470	3,163,949	7,279,600	-	436,921
Municipal obligations	4,340,427	-	4,340,427	-	-
Mortgage-backed securities	2,644,083	-	-	1,896,890	747,193
Collateralized mortgage obligations	28,491,258	547,609	5,035,399	1,059,388	21,848,862
	<u>\$ 53,968,839</u>	<u>\$ 11,324,159</u>	<u>\$ 16,655,426</u>	<u>\$ 2,956,278</u>	<u>\$ 23,032,976</u>

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September 30, 2019	Fair Value	Years			
		< 1	1 – 5	6 – 10	More than 10
Money market funds	\$ 5,446,715	\$ 5,446,715	\$ -	\$ -	\$ -
Certificates of deposit	9,182,897	9,182,897	-	-	-
U.S. government obligations	9,165,909	6,326,114	2,839,795	-	-
Municipal obligations	1,245,938	429,490	816,448	-	-
Mortgage-backed securities	28,613,622	997,500	7,947,162	2,898,767	16,770,193
	<u>\$ 53,655,081</u>	<u>\$ 22,382,716</u>	<u>\$ 11,603,405</u>	<u>\$ 2,898,767</u>	<u>\$ 16,770,193</u>

**Interest Rate Risk**

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Health System’s investment policy manages its exposure to declines in fair value by limiting the maximum effective average maturity of its investment portfolio to three years. The money market funds are presented as an investment with a maturity of less than one year because the average maturity of the funds is less than one year.

**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The Health System’s investment policy, which conforms to Mississippi state law, limits investments to those rated “A” or better by either Moody’s Investor Service or Standard & Poor’s. These authorized investments, within established guidelines, are limited to securities of the U.S. government or its agencies, U.S. government obligations, U.S. and Mississippi municipal bonds, interest-bearing accounts and certificates of deposits of financial institutions, open-end or closed-end management type investment company or investment trust and an investment trust consisting of pooled or commingled funds of other hospitals.

At September 30, 2020 and 2019, the Health System’s investments not directly guaranteed by the U.S. government were as follows:

Investment	Credit Rating
Money market funds	Not rated
Municipal obligations	Aa2
Mortgage-backed securities	Aaa
Collateralized mortgage obligations	Aaa

**Custodial Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Health System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Health System has a deposit policy for

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custodial credit risk that requires deposits to be collateralized by securities held by the pledging institution or its trust department or agent in other than the Health System's name.

**Concentration of Credit Risk**

The Health System's investment policy limits investments to those rated "A" or better by either S&P or Moody's at the time of purchase. The Health System places no limit on the amount that may be invested in any one issuer. However, investment in non-Treasury or Agency issuers is limited to a maximum of 5%. At September 30, 2020 and 2019, the Health System had no individual investments in excess of 5% of total investments.

**Summary of Carrying Values**

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	<u>2020</u>	<u>2019</u>
Carrying value		
Deposits	\$ 116,634,848	\$ 68,096,815
Investments	53,968,839	53,655,081
Cash on hand	4,913	5,913
	<u>\$ 170,608,600</u>	<u>\$ 121,757,809</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 111,078,134	\$ 63,211,162
Investments	53,287,792	51,880,208
Trusteed bond funds - required for current liabilities	2,606,390	2,946,841
Trusteed bond funds	3,442	94,926
Internally designated for self-insurance funding	3,632,842	3,624,672
	<u>\$ 170,608,600</u>	<u>\$ 121,757,809</u>

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***Investment Income***

Investment income for the years ended September 30 consisted of:

	<u>2020</u>	<u>2019</u>
Interest and dividend income	\$ 1,945,881	\$ 3,247,874
Unrealized gains on investments, net	<u>171,327</u>	<u>794,423</u>
	<u>\$ 2,117,208</u>	<u>\$ 4,042,297</u>

**Note 4: Patient Accounts Receivable**

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

	<u>2020</u>	<u>2019</u>
Medicare	\$ 11,562,212	\$ 9,565,056
Medicaid	13,475,039	12,643,744
Other third-party payers	19,753,996	18,440,309
Patients	<u>63,572,594</u>	<u>64,371,921</u>
	108,363,841	105,021,030
Less allowance for uncollectible accounts	<u>64,485,012</u>	<u>65,419,376</u>
	<u>\$ 43,878,829</u>	<u>\$ 39,601,654</u>

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**Note 5: Capital Assets**

Capital assets activity for the years ended September 30 consisted of:

	<b>2020</b>			
	<b>Beginning Balance</b>	<b>Transfers in and Additions</b>	<b>Transfers out and Retirements</b>	<b>Ending Balance</b>
Land	\$ 5,797,289	\$ 275,000	\$ -	\$ 6,072,289
Land improvements	6,498,528	1,026,063	-	7,524,591
Buildings and improvements	257,390,464	5,221,669	(146,329)	262,465,804
Fixed equipment	13,946,381	-	-	13,946,381
Movable equipment	272,849,156	21,030,304	(2,332,386)	291,547,074
Construction in progress	7,032,355	8,350,199	(10,515,653)	4,866,901
	<u>563,514,173</u>	<u>35,903,235</u>	<u>(12,994,368)</u>	<u>586,423,040</u>
Less accumulated depreciation for				
Land improvements	5,049,847	190,316	-	5,240,163
Buildings and improvements	141,125,843	8,458,224	(10,975)	149,573,092
Fixed equipment	12,475,336	174,744	-	12,650,080
Movable equipment	207,129,237	14,175,074	(2,332,386)	218,971,925
	<u>365,780,263</u>	<u>22,998,358</u>	<u>(2,343,361)</u>	<u>386,435,260</u>
Capital assets, net	<u>\$ 197,733,910</u>	<u>\$ 12,904,877</u>	<u>\$ (10,651,007)</u>	<u>\$ 199,987,780</u>

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	2019			
	Beginning Balance	Transfers in and Additions	Transfers out and Retirements	Ending Balance
Land	\$ 5,597,289	\$ 200,000	\$ -	\$ 5,797,289
Land improvements	6,390,088	108,440	-	6,498,528
Buildings and improvements	254,543,295	2,847,169	-	257,390,464
Fixed equipment	13,946,381	-	-	13,946,381
Movable equipment	254,479,732	19,595,170	(1,225,746)	272,849,156
Construction in progress	9,629,390	7,992,138	(10,589,173)	7,032,355
	<u>544,586,175</u>	<u>30,742,917</u>	<u>(11,814,919)</u>	<u>563,514,173</u>
Less accumulated depreciation for				
Land improvements	4,851,426	198,421	-	5,049,847
Buildings and improvements	132,614,180	8,511,663	-	141,125,843
Fixed equipment	12,299,999	175,337	-	12,475,336
Movable equipment	196,049,638	12,287,151	(1,207,552)	207,129,237
	<u>345,815,243</u>	<u>21,172,572</u>	<u>(1,207,552)</u>	<u>365,780,263</u>
Capital assets, net	<u>\$ 198,770,932</u>	<u>\$ 9,570,345</u>	<u>\$ (10,607,367)</u>	<u>\$ 197,733,910</u>

Construction in progress at September 30, 2020 and 2019, consists of expenditures associated with hospital building improvements.

**Note 6: Long-term Debt, Capital Leases and Other Long-term Liabilities**

The following is a summary of long-term debt transactions, other than capital leases, for the Health System for the years ended September 30:

Description	2020				
	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
Series 2018 (D)	\$ 19,727,000	\$ -	\$ 2,896,000	\$ 16,831,000	\$ 3,075,000
Series 2019 (E)	39,347,000	-	4,986,000	34,361,000	5,204,000
	<u>\$ 59,074,000</u>	<u>\$ -</u>	<u>\$ 7,882,000</u>	<u>\$ 51,192,000</u>	<u>\$ 8,279,000</u>

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Description	2019				
	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
Series 2009A (A)	\$ 28,711,925	\$ -	\$ 28,711,925	\$ -	\$ -
Series 2009B (B)	20,631,870	-	20,631,870	-	-
Series 2011 (C)	24,567,271	-	24,567,271	-	-
Series 2018 (D)	-	21,347,000	1,620,000	19,727,000	2,896,000
Series 2019 (E)	-	43,119,000	3,772,000	39,347,000	4,986,000
	<u>\$ 73,911,066</u>	<u>\$ 64,466,000</u>	<u>\$ 79,303,066</u>	<u>\$ 59,074,000</u>	<u>\$ 7,882,000</u>

(A) On April 2, 2009, the Health System issued \$35,000,000 of Special Obligation Bonds (the Series 2009A Bonds) through Mississippi Development Bank (MDB). The purpose of the bonds was to provide funding for constructing, remodeling, adding to, equipping and furnishing an addition to and expansion of the Health System; funding a debt service reserve fund for the Series 2009A Bonds; and paying cost of issuance on the Series 2009A Bonds. The bonds consist of \$6,455,000 of serial bonds and \$28,545,000 of term bonds bearing fixed rates ranging from 3.0% to 5.625% secured by a bond insurance policy provided by Assured Guaranty. When the Series 2009A Bonds were issued, they were sold at a discount of approximately \$693,500. These bonds were refunded with the issuance of the Series 2019 Bonds.

(B) On October 27, 2009, the Health System refunded the Series 2008A Bonds outstanding in the amount of \$44,000,000, with the Series 2009 B-1 and 2009 B-2 Bonds. The Series 2009 B-1 and 2009 B-2 Bonds bearing fixed rates ranging from 2% to 5%, secured by a bond insurance policy provided by Assured Guaranty and a five mill pledge of the assessed real and personal property by Jackson County. These bonds were refunded with the issuance of the Series 2019 Bonds.

The Series 2009 B-1 and B-2 Bonds were issued by MDB as fixed interest rate securities and pay interest semiannually (January 1 and July 1) and principal annually (July 1, with the exception of the 2023 payment which is March 1). The Series 2009 B-1 Bonds of \$48,340,000 mature on March 1, 2023, and the Series 2009 B-2 Bonds of \$2,395,000 matured on July 1, 2012. When the Series 2009B Bonds were issued, the bonds were sold at a discount of \$251,600. These bonds were refunded with the issuance of the Series 2019 Bonds.

(C) On July 27, 2011, the Health System issued \$36,610,000 of Special Obligation Bonds (the Series 2011 Bonds). The purpose of the Series 2011 Bonds was to provide funding for an electronic medical record system, constructing, remodeling, adding to, equipping and furnishing an addition to and expansion of the Health System; funding a debt service reserve fund; and paying capitalized interest and paying costs of issuance on the Series 2011 Bonds. The bonds are fixed rate bonds secured by a bond insurance policy provided by Assured Guaranty and a five mill pledge of the assessed real and personal property by Jackson

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County. The Series 2011 Bonds were issued by MDB and pay interest semiannually (January 1 and July 1) and principal annually (July 1). The bonds consist of \$28,255,000 Serial Bonds maturing on July 1, 2023; \$4,490,000 of Term Bonds maturing on July 1, 2031; and \$3,865,000 of Term Bonds maturing on July 1, 2036, and are at fixed rates ranging from 3% to 5.375%. When the Series 2011 Bonds were issued, they were sold at a premium of \$1,568,580. These bonds were refunded with the issuance of the Series 2018 Bonds.

- (D) On December 19, 2018, the Health System issued \$21,347,000 of Limited Tax Hospital Refunding Bonds, Series 2018 (the Series 2018 Bonds). The purpose of the Series 2018 Bonds was to refund the outstanding Series 2011 Bonds. The Series 2018 Bonds bear interest at the taxable fixed rate of 4.78% until the tax-exempt reissuance date at April 2, 2021, on which the interest rate will use the tax-exempt fixed rate of 3.79%. The Series 2018 Bonds mature on July 1, 2035. The unamortized premium on the Series 2018 Bonds at September 30, 2020 and 2019 was approximately \$1,545,000 and \$1,649,000, respectively.
- (E) On April 2, 2019, the Health System issued \$43,119,000 of Limited Tax Hospital Revenue Refunding Bonds, Series 2019 (the Series 2019 Bonds). The purpose of the Series 2019 Bonds was to refund the outstanding Series 2009 Bonds. The Series 2019 Bonds pay interest semiannually (January 1 and July 1) at a fixed rate of 3.95% and principal annually (July 1). The Series 2019 Bonds mature on July 1, 2038. The unamortized premium on the Series 2019 Bonds at September 30, 2020 and 2019 was approximately \$1,069,000 and \$1,129,000, respectively.

As the Health System is a political subdivision of the State of Mississippi and is owned by Jackson County, Mississippi (the County), legally available mills have been pledged by the County as additional security for the 2018 and 2019 Revenue Bonds. To date, no such mills have been levied to support these or any other borrowings of the Health System.

Under the terms of the respective loan agreements in connection with the Series 2018 Bonds and Series 2019 Bonds, the Health System is obligated to meet certain financial covenants on March 31 and September 30 each year, including availability of cash, debt service coverage and limitations on additional debt.

In 2019, the Health System issued the Series 2018 Bonds and Series 2019 Bonds in the principal amount of \$64,466,000, which, along with other available funds, were used to advance refund \$69,355,000 of the outstanding bonds [(A) through (C) above]. The net proceeds of \$72,143,877 (after payment of \$849,000 in underwriting fees, insurance and other issuance costs) plus an additional \$8,527,545 of sinking fund monies were used to purchase investment securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2011 and 2009 Series Bonds. As a result, the 2011 and 2009 Series Bonds are considered to be defeased, and the liability for those bonds has been removed from the Health System's balance sheets.



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The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2,823,481. This difference, reported in the accompanying financial statements as deferred outflows of resources, is being charged to interest expense through the year using the effective-interest method. The Health System completed the advance refunding to reduce its total debt service payments over the next 20 years by \$44,856 and to obtain an economic gain between the present values of the old and new debt service payments of \$6,825,268.

In prior years, the Health System defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Health System's financial statements. At September 30, 2020 and 2019, \$18,115,000 and \$21,085,000, respectively, of bonds outstanding are considered defeased, with \$18,498,004 and \$21,904,078 held in trust to pay the debt service until it can be fully retired in July 2022.

Debt service requirements on long-term debt other than capital lease obligations as of September 30, 2020, are as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2021	\$ 8,279,000	\$ 2,499,922	\$ 10,778,922
2022	8,727,000	2,163,796	10,890,796
2023	4,540,000	1,811,253	6,351,253
2024	1,610,000	1,439,005	3,049,005
2025	1,673,000	1,231,073	2,904,073
2026 - 2030	9,392,000	5,025,284	14,417,284
2031 - 2035	11,373,000	2,964,885	14,337,885
2036 - 2038	5,598,000	777,628	6,375,628
	<u>\$ 51,192,000</u>	<u>\$ 17,912,846</u>	<u>\$ 69,104,846</u>

**Capital Lease Obligations**

The Health System is obligated under leases for buildings and equipment that are accounted for as capital leases. Assets under capital leases at September 30, 2020 and 2019, totaled approximately \$31,569,000 and \$30,883,000, respectively. Related accumulated amortization was approximately \$13,718,000 and \$12,887,000 at September 30, 2020 and 2019, respectively.

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A schedule of changes in the Health System's capital lease obligation balances for the years ended September 30, is as follows:

Description	Interest Rate	Date of Issuance/ Assumption	2020				
			Beginning Balance	Additions	Payments/ Adjustments	Ending Balance	Due Within One Year
GE Capital	4.20%	April 2010	\$ 11,656	\$ -	\$ 11,656	\$ -	\$ -
Stryker	3.95%	March 2020	-	1,350,000	80,000	1,270,000	270,000
Stryker	3.95%	September 2018	1,170,000	-	284,999	885,001	270,000
Imaging Center	6.84%	August 2007	4,455,547	-	439,315	4,016,232	470,312
Medical Office Building	9.39%	February 2011	22,063,932	-	113,433	21,950,499	197,510
			<u>\$ 27,701,135</u>	<u>\$ 1,350,000</u>	<u>\$ 929,403</u>	<u>\$ 28,121,732</u>	<u>\$ 1,207,822</u>

Description	Interest Rate	Date of Issuance/ Assumption	2019				
			Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
GE Capital	4.20%	April 2010	\$ 148,412	\$ -	\$ 136,756	\$ 11,656	\$ 11,656
Stryker	3.95%	September 2018	1,350,000	-	180,000	1,170,000	270,000
Imaging Center	6.84%	August 2007	4,865,904	-	410,357	4,455,547	439,313
Medical Office Building	9.39%	February 2011	22,103,118	-	39,186	22,063,932	113,435
			<u>\$ 28,467,434</u>	<u>\$ -</u>	<u>\$ 766,299</u>	<u>\$ 27,701,135</u>	<u>\$ 834,404</u>

The following is a schedule by year of future minimum lease payments under the capital leases, including interest rates as noted above with the present value of the future minimum lease payments as of September 30, 2020:

2021	\$ 3,641,553
2022	3,712,689
2023	3,785,958
2024	3,681,425
2025	3,589,157
2026 - 2030	15,993,867
2031 - 2035	16,918,418
2036	<u>1,192,260</u>
Total minimum lease payments	<u>52,515,327</u>
Less amount representing interest	<u>24,393,595</u>
Present value of future minimum lease payments	<u><u>\$ 28,121,732</u></u>

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Rental expense for all operating leases was approximately \$3,488,000 and \$3,348,000 for the years ended September 30, 2020 and 2019, respectively. There were no significant noncancelable operating leases at September 30, 2020. Management expects that most lease agreements will be replaced, as they expire, with similar agreements.

**Other Long-term Liabilities**

The Health System is obligated under agreements for long-term liabilities. A schedule of changes in the Health System's long-term liabilities balances for the years ended September 30, is as follows:

Description	2020				
	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
MedOne	\$ 354,574	\$ -	\$ 354,574	\$ -	-
Stryker	-	746,345	248,781	497,564	248,782
ForcePoint SBITA	450,664	-	167,537	283,127	167,537
EA License	-	2,035,934	678,645	1,357,289	678,645
	<u>\$ 805,238</u>	<u>\$ 2,782,279</u>	<u>\$ 1,449,537</u>	<u>\$ 2,137,980</u>	<u>\$ 1,094,964</u>

Description	2019				
	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
MedOne	\$ 686,054	\$ -	\$ 331,480	\$ 354,574	\$ 354,574
ForcePoint SBITA	-	716,112	265,448	450,664	167,537
EA License	1,089,445	-	1,089,445	-	-
	<u>\$ 1,775,499</u>	<u>\$ 716,112</u>	<u>\$ 1,686,373</u>	<u>\$ 805,238</u>	<u>\$ 522,111</u>

**Note 7: Medical Malpractice Claims**

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

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reasonably possible that the Health System's estimate of losses will change by a material amount in the near term.

The self-insured liability for medical malpractice claims is included in accrued workers' compensation, professional and general liability costs line on the balance sheets. Activity in the Health System's accrued medical malpractice claims liability during 2020 and 2019 is summarized as follows:

	<b>2020</b>	<b>2019</b>
Balance, October 1	\$ 9,924,540	\$ 10,012,496
Provisions for claims reported and claims incurred but not reported	(1,343,280)	1,002,044
Claims and related expenses paid	<u>(4,475,000)</u>	<u>(1,090,000)</u>
Balance, September 30	<u>\$ 4,106,260</u>	<u>\$ 9,924,540</u>

**Note 8: Workers' Compensation Coverage**

The Health System purchased insurance to cover workers' compensation claims through 2002. In 2003, the Health System purchased high-deductible workers' compensation insurance with losses limited to \$500,000 per claim, which had the effect that the Health System is largely self-insured.

The self-insurance liability for workers' compensation claims is included in the accrued workers' compensation, professional and general liability costs line item on the balance sheets. The following is a summary of changes in the Health System's self-insurance liability for workers' compensation coverages for fiscal years 2020 and 2019:

	<b>2020</b>	<b>2019</b>
Balance, October 1	\$ 970,000	\$ 1,990,000
Provisions for claims reported and claims incurred but not reported	2,439,123	(544,054)
Claims paid	<u>(1,409,123)</u>	<u>(475,946)</u>
Balance, September 30	<u>\$ 2,000,000</u>	<u>\$ 970,000</u>

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**Note 9: Employee Health Claims**

Substantially all of the Health System’s employees and their dependents are eligible to participate in the Health System’s employee health insurance plan. The Health System is self-insured for the first \$350,000 for health claims of participating employees and dependents up to an annual aggregate amount. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount.

A provision is accrued for self-insured employee health claims, including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Health System’s estimate will change by a material amount in the near term.

The self-insured liability for employee health claims is included in accrued payroll and employee benefits line on the balance sheets. Activity in the Health System’s accrued employee health claims liability during 2020 and 2019 is summarized as follows:

	<b>2020</b>	<b>2019</b>
Balance, October 1	\$ 3,100,927	\$ 2,438,594
Provisions for claims reported and claims incurred but not reported	17,293,131	20,941,716
Claims paid	(18,123,078)	(20,279,383)
Balance, September 30	\$ 2,270,980	\$ 3,100,927

**Note 10: Charity Care**

The Health System maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated costs of these services and supplies, and equivalent service statistics. Charges foregone, based on established rates, were approximately \$33,893,000 and \$43,561,000 for the years ended September 30, 2020 and 2019, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges. The estimated costs incurred to provide charity care were approximately \$4,867,000 and \$6,534,000 for the years ended September 30, 2020 and 2019, respectively.

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**Note 11: Pension Plan**

On September 26, 2018, the Fifth Circuit Court of Appeals made a final ruling to uphold a settlement of a class-action lawsuit (the Settlement) related to the Health System's funding of the Singing River Health System Employees' Retirement Plan and Trust (the Plan). The Settlement provides that the Health System fund \$156,400,000 into the Plan trust over a 35-year period. The Settlement also provides that the payment of this \$156,400,000 is the Health System's only obligation to the Plan. The Health System recorded its obligation under the Settlement, discounted at a rate of 6%. The pension settlement liability, included in the accompanying balance sheets, was approximately \$66,229,000 and \$65,648,000 as of September 30, 2020 and 2019, respectively. The following is a schedule by fiscal year of future payments to the Plan under the pension settlement liability as of September 30, 2020:

2021	\$ 4,200,000
2022	4,200,000
2023	4,200,000
2024	5,700,000
2025	5,700,000
2026 - 2030	22,500,000
2031 - 2035	22,500,000
2036 - 2040	22,500,000
2041 - 2045	22,500,000
2046 - 2050	22,500,000
2051	4,500,000
Total payments	\$ 141,000,000

The Settlement limits the amount of benefits to be paid to participants to the amount of plan fiduciary net position, which includes the future contributions from the Health System under the Settlement at its net present value.

The Plan issues separate standalone financial statements which are available at request from the Health System or on the Health System's website.

***Contra Pension Expense***

The Settlement required the Health System to escrow funds related to attorneys' fees and expenses to class counsel as part of the agreement, which the Health System accrued in 2018. Upon release of the escrow funds in 2019, the Health System released \$5,246,594 of accrued liability related to legal expenses. For the years ended September 30, 2020 and 2019, the Health System recognized

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contra pension expense of approximately \$0 and \$5,246,000, respectively, due to the recognition of the Settlement.

**Note 12: Other Retirement Plans**

The Health System maintains supplementary retirement plans under IRS Code Sections 403(b) and 457(b) which are administered by Diversified Retirement Corporation and Transamerica Retirement Solutions, respectively. The 403(b) plan is a contributory plan with the Health System matching a fixed percentage of base earnings for each eligible employee. To receive an employer contribution, eligible employees must have completed 90 days of continuous service. Contributions by eligible employees are matched by the Health System at a rate of 50% of the first 6% of each employee's eligible compensation that is contributed by the participant to the 403(b) plan. Employees contributing a portion of their eligible salary to the 457(b) plan do not receive a matching employer contribution. All employees are eligible to participate in both plans at the date of hiring. The employee contributions are made on a tax-deferred basis. The benefit to the employee under each plan is the amount contributed plus investment earnings. Employees are fully vested after four or more years of continuous employment.

The Health System's contributions to the 403(b) plan were \$1,829,272 and \$1,665,878 for the years ended September 30, 2020 and 2019, respectively. Employee contributions to the 403(b) plan totaled \$5,767,107 and \$5,239,806 for the years ended September 30, 2020 and 2019, respectively.

Employee contributions to the 457(b) plan totaled \$1,403,007 and \$1,438,603 for the years ended September 30, 2020 and 2019, respectively.

**Note 13: County Fund Receivable**

The County entered into a Contribution Agreement with the Health System to fund \$13,600,000 of indigent care provided by the Health System over ten years. The Health System received \$7,600,000 upon the Settlement (*Note 11*) and will receive \$1,200,000 per year for the next four years. As of September 30, 2020 and 2019, the Health System has recorded a receivable of \$4,800,000 and \$6,000,000, respectively, discounted at net present value over five years at the Health System's incremental borrowing rate. The county fund receivable was \$4,192,559 and \$5,104,937 at September 30, 2020 and 2019, respectively, recorded in other receivables for the current portion and other assets for the noncurrent portion on the balance sheets.

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**Note 14: Disclosures About Fair Value of Assets**

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

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

**Recurring Measurements**

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

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>2020</b>				
Money market funds	\$ 6,761,700	\$ 6,761,700	\$ -	\$ -
Certificates of deposits	850,901	-	850,901	-
U.S. government obligations	10,880,470	8,261,381	2,619,089	-
Municipal obligations	4,340,427	-	4,340,427	-
Mortgage-backed securities	2,644,083	-	2,644,083	-
Collateralized mortgage obligations	28,491,258	-	28,491,258	-
Total investments by fair value level	<u>\$ 53,968,839</u>	<u>\$ 15,023,081</u>	<u>\$ 38,945,758</u>	<u>\$ -</u>



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	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>2019</b>				
Money market funds	\$ 5,446,715	\$ 5,446,715	\$ -	\$ -
Certificates of deposits	9,182,897	-	9,182,897	-
U.S. government obligations	9,165,909	9,165,909	-	-
Municipal obligations	1,245,938	-	1,245,938	-
Mortgage-backed securities	28,613,622	-	28,613,622	-
Total investments by fair value level	<u>\$ 53,655,081</u>	<u>\$ 14,612,624</u>	<u>\$ 39,042,457</u>	<u>\$ -</u>

**Investments**

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

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**Note 15: Investments in Uncombined Entities**

SRHSAS holds a noncontrolling 24.5% ownership interest in two ambulatory surgery centers, MCEASC and OSSEC. SRHSAS accounts for the investments in uncombined entities using the equity method of accounting. SRHAS' investment in the uncombined entities was \$4,298,729 and \$4,314,747 at September 30, 2020 and 2019, respectively. Financial position and results of operations of the investee are summarized below:

	<b>MCEASC</b>	
	<b>2020</b>	<b>2019</b>
Current assets	\$ 1,255,459	\$ 707,429
Property and other long-term assets, net	14,481,306	14,869,094
Total assets	15,736,765	15,576,523
Current liabilities	492,954	240,989
Long-term liabilities	6,352,706	6,479,837
Total liabilities	6,845,660	6,720,826
Net assets - without donor restrictions	\$ 8,891,105	\$ 8,855,697
Revenues	\$ 3,361,965	\$ 3,618,060
Excess (deficit) of revenues over expenses	\$ 122,309	\$ (80,346)

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	<b>OSSEC</b>	
	<b>2020</b>	<b>2019</b>
Current assets	\$ 1,457,769	\$ 784,530
Property and other long-term assets, net	12,730,645	13,033,851
Total assets	14,188,414	13,818,381
Current liabilities	554,550	110,223
Long-term liabilities	4,832,032	4,952,638
Total liabilities	5,386,582	5,062,861
Net assets - without donor restrictions	\$ 8,801,832	\$ 8,755,520
Revenues	\$ 4,290,222	\$ 4,764,129
Excess of revenues over expenses	\$ 604,525	\$ 1,014,758

**Note 16: 340B Outpatient Drug Discount Program**

The Health System participates in the 340B outpatient drug discount program administered by the Office of Pharmacy Affairs of the Health Resources and Services Administration (HRSA). Under this program, the Health System received approximately \$18,971,000 and \$13,460,000 in benefits generated from purchases of outpatient pharmaceuticals in 2020 and 2019, respectively. The benefit is presented as a reduction of supplies and other expenses within the statements of revenues, expenses and changes in net position.

The Health System also contracts with certain local pharmacies to assist them in providing outpatient drugs to the Health System's patients. The Health System purchases outpatient drugs at 340B outpatient drug discount prices to replenish those dispensed to outpatients on the Health System's behalf. The Health System recognized revenue from these contracts of \$17,861,000 and \$8,710,000 recorded in other revenues, with associated costs of goods sold of \$6,540,000 and \$2,973,000 recorded in supplies, in 2020 and 2019, respectively.

Regulations associated with the program are complex, and eligibility for the program is determined annually. Changes in the 340B outpatient drug discount program regulations could have a significant impact on the operations of the Health System.

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**Note 17: Contingencies**

***Medical Malpractice Claims***

Estimates related to the accrual for medical malpractice claims are described in *Note 7*.

***General Litigation***

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

***Investments***

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

**Note 18: COVID-19 Pandemic and CARES Act Funding**

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 (COVID-19) as a global pandemic. Patient volumes and the related revenues for most of the Health System's services were significantly impacted by COVID-19, as various policies were implemented by federal, state and local governments in response to the pandemic that have caused many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective surgical procedures by health care facilities.

While some of these restrictions have been eased and states have lifted moratoriums on nonemergent procedures, some restrictions remain in place, and some state and local governments are reimposing certain restrictions due to increasing rates of COVID-19 cases. While patient volumes and revenues experienced gradual improvement beginning in the latter part of May and continuing through July, August and September, the Health System is unable to predict the future impact of the pandemic on the Health System's operations.

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The Health System's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. The Health System has taken precautionary steps to enhance our operational and financial flexibility, and react to the risks the COVID-19 pandemic presents to the Health System's business, including the following:

- During the year ended September 30, 2020, the Health System received approximately \$52,884,000 of accelerated Medicare payments, approximately \$8,951,000 in general and targeted Provider Relief Fund distributions, both as provided for under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, and approximately \$2,600,000 in grants from the State of Mississippi Reserve Fund.

The extent of the COVID-19 pandemic's adverse impact on the Health System's operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the Health System's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, government-imposed or recommended suspensions of elective procedures, continued declines in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure.

Because of these and other uncertainties, the Health System cannot estimate the length or severity of the impact of the pandemic on the Health System's business. Decreases in cash flows and results of operations may have an impact on the inputs and assumptions used in significant accounting estimates, including contractual allowances related to uninsured patient accounts and professional and general liability reserves.

***Provider Relief Funds***

During the year ended September 30, 2020, the Health System received approximately \$8,443,000 from the \$50 billion general distribution fund and \$508,000 of targeted distributions from the CARES Act Provider Relief Fund for a total of approximately \$8,951,000. These distributions from the Provider Relief Fund are not subject to repayment, provided the Health System is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for health care related expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services.

The Health System is accounting for such payments as voluntary nonexchange transactions. These payments are recognized as nonoperating revenue once the applicable terms and conditions required to retain the funds have been met and completion of the measurement period. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the impact of the pandemic on the Health System's operating results through September 30, 2020, the Health System recognized approximately \$4,344,000, related to these general distribution and

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targeted funds, and these payments are recorded as nonoperating revenue – CARES Act grants in our statements of revenues, expenses and changes in net position. The unrecognized amount of general distributions and targeted distributions are recorded as part of due to third-party payers in the accompanying balance sheets.

Subsequent to year-end, HHS issued guidance on the use of payments from Provider Relief Funds, through the amendment of the “Post-Payment Notice of Reporting Requirements” on October 22, 2020 and November 2, 2020, and publication of Frequently Asked Questions (FAQs) on the HHS website on October 28, 2020. This guidance significantly changes the two-step approach for reporting use of Provider Relief Fund payments received by limiting health care related expenses attributable to coronavirus to incremental expenses and expanding the lost revenue calculation to the negative change in patient care revenue from calendar year 2019 to 2020. The Health System considers the guidance issued subsequent to year-end to be substantive changes in guidance rather than clarifications of guidance existing at September 30, 2020. As a result, the amounts recorded in the financial statements compared to the Hospital’s Provider Relief Funds reporting could differ. This difference cannot be currently estimated but could be material

The Health System will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the impact of the pandemic on the Health System’s revenues and expenses. The terms and conditions governing the Provider Relief Funds are complex and subject to interpretation and change. If the Health System is unable to attest to or comply with current or future terms and conditions the Health System’s ability to retain some or all of the distributions received may be impacted. The Provider Relief Funds are subject to government oversight, including potential audits.

***Medicare Accelerated and Advanced Payment Program***

During the year ended September 30, 2020, the Health System requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. These amounts are expected to be recaptured by Centers for Medicare and Medicaid Services (CMS) according to the payback provisions.

On September 30, 2020, the payback provisions were revised and extended the payback period to begin one year after the issuance of the advance payment through a phased payback period approach. The first 11 months of the payback period will be at 25% of the remittance advice payment followed by a six-month payback period at 50% of the remittance advice payment. After 29 months, CMS expects any amount not paid back through the withhold amounts to be paid back in a lump sum or interest will begin to accrue subsequent to the 29 month at a rate of 4%.

The Health System received approximately \$52,884,000 from these accelerated Medicare payment requests during 2020, and these amounts are recorded in estimated amounts due to third-party

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payers in the accompanying balance sheets. These are not current income but rather are advanced payments that cannot be recognized as revenue until services in the future are provided.

***State Grants Agreement***

During the year ended September 30, 2020, the Health System received approximately \$2,600,000 from the State of Mississippi Reserve Fund as part of the response to the COVID-19 pandemic. These distributions from the State are not subject to repayment, provided the Health System is able to use the funds for health care related expenses attributable to COVID-19. The Health System met these requirements and recorded as revenue in fiscal year 2020.

**Note 19: Future Change in Accounting Principle**

GASB recently issued its Statement No. 87 (GASB No. 87), *Leases*. The Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Health System expects to first apply GASB No. 87 during the year ending September 30, 2022. The impact of applying the Statement has not been determined.

GASB recently issued its statement No. 84 (GASB No. 84), *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments, including pension and employee benefit trusts. The focus of the criteria generally is on (1) whether a government controls the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. GASB 84 is applicable during the year ending September 30, 2021. The impact of applying this Statement has not yet been determined.

**Note 20: Subsequent Events**

On October 1, 2020, the Health System executed an asset purchase agreement to acquire Garden Park Medical Center, a 130 licensed bed acute care hospital located in Gulfport, Mississippi. Approximately \$18,607,000 was made as a deposit on September 30, 2020, and recorded as a deposit within prepaid expense and other for the purchase price and for working capital. Management is currently evaluating the acquisition and the allocation of purchase price to acquired assets and assumed liabilities.

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***2017 Medicaid Disproportionate Share Survey Findings***

In November 2020, the Health System received a DSH examination finding related to 2017 that determined the Health System owed approximately \$7,400,000 in DSH overpayments. The Health System is currently in the process of filing a legal defense motion and does not believe this amount is a liability to the Health System. As such, no accrual has been recorded in the accompanying financial statements related to this issue; however, it is reasonably possible that estimates related to this issue could change materially in the near term.



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**Note 21: Condensed Combining Information**

The following tables include condensed balance sheet information for the Health System and its blended component units as of September 30, 2020 and 2019.

	<b>September 30, 2020</b>				
	<b>SRHS</b>	<b>SRHSAS</b>	<b>Anesthesia Services, LLC</b>	<b>Eliminations</b>	<b>Total</b>
<b>Assets and Deferred Outflows of Resources</b>					
Current assets	\$ 243,616,634	\$ 1,253,363	\$ 2,106,869	\$ (2,100,279)	\$ 244,876,587
Capital assets, net	196,772,681	3,215,099	-	-	199,987,780
Other assets	18,111,078	4,298,729	-	(8,749,191)	13,660,616
Deferred outflows of resources	3,098,391	-	-	-	3,098,391
Total assets and deferred outflows of resources	<u>\$ 461,598,784</u>	<u>\$ 8,767,191</u>	<u>\$ 2,106,869</u>	<u>\$ (10,849,470)</u>	<u>\$ 461,623,374</u>
<b>Liabilities</b>					
Current liabilities	\$ 86,485,905	\$ 18,000	\$ 1,108,605	\$ (1,252,472)	\$ 86,360,038
Long-term liabilities	180,991,581	-	-	-	180,991,581
Total liabilities	<u>267,477,486</u>	<u>18,000</u>	<u>1,108,605</u>	<u>(1,252,472)</u>	<u>267,351,619</u>
<b>Net Position</b>					
Net investment in capital assets	119,440,048	3,215,099	-	-	122,655,147
Restricted expendable	6,802,391	-	-	-	6,802,391
Unrestricted	67,878,859	5,534,092	998,264	(9,596,998)	64,814,217
Total net position	<u>194,121,298</u>	<u>8,749,191</u>	<u>998,264</u>	<u>(9,596,998)</u>	<u>194,271,755</u>
Total liabilities and net position	<u>\$ 461,598,784</u>	<u>\$ 8,767,191</u>	<u>\$ 2,106,869</u>	<u>\$ (10,849,470)</u>	<u>\$ 461,623,374</u>
<b>September 30, 2019</b>					
	<b>SRHS</b>	<b>SRHSAS</b>	<b>Anesthesia Services, LLC</b>	<b>Eliminations</b>	<b>Total</b>
<b>Assets and Deferred Outflows of Resources</b>					
Current assets	\$ 168,798,794	\$ 1,122,424	\$ 2,101,769	\$ (2,051,801)	\$ 169,971,186
Capital assets, net	194,544,466	3,189,444	-	-	197,733,910
Other assets	17,586,016	4,314,747	-	(8,108,840)	13,791,923
Deferred outflows of resources	3,610,648	-	-	-	3,610,648
Total assets and deferred outflows of resources	<u>\$ 384,539,924</u>	<u>\$ 8,626,615</u>	<u>\$ 2,101,769</u>	<u>\$ (10,160,641)</u>	<u>\$ 385,107,667</u>
<b>Liabilities</b>					
Current liabilities	\$ 52,217,709	\$ 150,000	\$ 1,108,605	\$ (1,235,938)	\$ 52,240,376
Long-term liabilities	150,684,299	-	-	-	150,684,299
Total liabilities	<u>202,902,008</u>	<u>150,000</u>	<u>1,108,605</u>	<u>(1,235,938)</u>	<u>202,924,675</u>
<b>Net Position</b>					
Net investment in capital assets	110,611,933	3,189,444	-	-	113,801,377
Restricted expendable	8,146,704	-	-	-	8,146,704
Unrestricted	62,879,279	5,287,171	993,164	(8,924,703)	60,234,911
Total net position	<u>181,637,916</u>	<u>8,476,615</u>	<u>993,164</u>	<u>(8,924,703)</u>	<u>182,182,992</u>
Total liabilities and net position	<u>\$ 384,539,924</u>	<u>\$ 8,626,615</u>	<u>\$ 2,101,769</u>	<u>\$ (10,160,641)</u>	<u>\$ 385,107,667</u>

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The following tables include condensed combining statements of revenues, expenses and changes in net position information for the Health System and its blended component units for the years ended September 30, 2020 and 2019.

	<b>September 30, 2020</b>				
	<b>SRHS</b>	<b>SRHSAS</b>	<b>Anesthesia Services, LLC</b>	<b>Eliminations</b>	<b>Total</b>
<b>Operating Revenues</b>					
Net patient service revenue	\$ 367,236,990	\$ -	\$ -	\$ -	\$ 367,236,990
Other revenues	23,380,043	-	8,378	-	23,388,421
Total operating revenues	<u>390,617,033</u>	<u>-</u>	<u>8,378</u>	<u>-</u>	<u>390,625,411</u>
<b>Operating Expenses</b>					
Other operating expenses	353,337,634	45,114	3,278	(20,093)	353,365,933
Depreciation and amortization	24,432,449	11,653	-	-	24,444,102
Total operating expenses	<u>377,770,083</u>	<u>56,767</u>	<u>3,278</u>	<u>(20,093)</u>	<u>377,810,035</u>
<b>Operating Income (Loss)</b>	12,846,950	(56,767)	5,100	20,093	12,815,376
<b>Nonoperating Revenues (Expenses)</b>	<u>(363,568)</u>	<u>329,343</u>	<u>-</u>	<u>(692,388)</u>	<u>(726,613)</u>
<b>Increase in Net Position</b>	12,483,382	272,576	5,100	(672,295)	12,088,763
<b>Net Position, Beginning of Year</b>	<u>181,637,916</u>	<u>8,476,615</u>	<u>993,164</u>	<u>(8,924,703)</u>	<u>182,182,992</u>
<b>Net Position, End of Year</b>	<u>\$ 194,121,298</u>	<u>\$ 8,749,191</u>	<u>\$ 998,264</u>	<u>\$ (9,596,998)</u>	<u>\$ 194,271,755</u>
	<b>September 30, 2019</b>				
	<b>SRHS</b>	<b>SRHSAS</b>	<b>Anesthesia Services, LLC</b>	<b>Eliminations</b>	<b>Total</b>
<b>Operating Revenues</b>					
Net patient service revenue	\$ 382,619,306	\$ -	\$ -	\$ -	\$ 382,619,306
Other revenues	13,771,372	-	27,793	-	13,799,165
Total operating revenues	<u>396,390,678</u>	<u>-</u>	<u>27,793</u>	<u>-</u>	<u>396,418,471</u>
<b>Operating Expenses</b>					
Other operating expenses	331,792,051	36,487	4,157	(20,093)	331,812,602
Depreciation and amortization	23,046,956	11,152	-	-	23,058,108
Total operating expenses	<u>354,839,007</u>	<u>47,639</u>	<u>4,157</u>	<u>(20,093)</u>	<u>354,870,710</u>
<b>Operating Income (Loss)</b>	41,551,671	(47,639)	23,636	20,093	41,547,761
<b>Nonoperating Revenues</b>	<u>5,096,731</u>	<u>504,984</u>	<u>-</u>	<u>230,997</u>	<u>5,832,712</u>
<b>Increase in Net Position</b>	46,648,402	457,345	23,636	251,090	47,380,473
<b>Net Position, Beginning of Year</b>	<u>134,989,514</u>	<u>8,019,270</u>	<u>969,528</u>	<u>(9,175,793)</u>	<u>134,802,519</u>
<b>Net Position, End of Year</b>	<u>\$ 181,637,916</u>	<u>\$ 8,476,615</u>	<u>\$ 993,164</u>	<u>\$ (8,924,703)</u>	<u>\$ 182,182,992</u>

**Singing River Health System**  
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The following tables include condensed combining statements of cash flows information for the Health System and its blended component units for the years ended September 30, 2020 and 2019.

	<b>September 30, 2020</b>				
	<b>SRHS</b>	<b>SRHSAS</b>	<b>Anesthesia Services, LLC</b>	<b>Eliminations</b>	<b>Total</b>
<b>Net Cash Provided by (Used in) Operating Activities</b>	\$ 95,367,645	\$ (214,422)	\$ 5,100	\$ -	\$ 95,158,323
<b>Net Cash Provided by Noncapital Financing Activities</b>	8,514,301	-	-	-	8,514,301
<b>Net Cash Used in Capital and Related Financing Activities</b>	(38,677,633)	-	-	-	(38,677,633)
<b>Net Cash Provided by (Used in) Investing Activities</b>	(14,810,391)	345,361	-	-	(14,465,030)
<b>Change in Cash and Cash Equivalents</b>	50,393,922	130,939	5,100	-	50,529,961
<b>Cash and Cash Equivalents, Beginning of Year</b>	72,259,874	1,122,424	170,249	-	73,552,547
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 122,653,796</u>	<u>\$ 1,253,363</u>	<u>\$ 175,349</u>	<u>\$ -</u>	<u>\$ 124,082,508</u>
	<b>September 30, 2019</b>				
	<b>SRHS</b>	<b>SRHSAS</b>	<b>Anesthesia Services, LLC</b>	<b>Eliminations</b>	<b>Total</b>
<b>Net Cash Provided by (Used in) Operating Activities</b>	\$ 56,158,098	\$ (36,487)	\$ 23,636	\$ -	\$ 56,145,247
<b>Net Cash Used in Noncapital Financing Activities</b>	(3,600,000)	-	-	-	(3,600,000)
<b>Net Cash Used in Capital and Related Financing Activities</b>	(38,324,089)	-	-	-	(38,324,089)
<b>Net Cash Provided by (Used in) Investing Activities</b>	(16,413,623)	357,712	-	-	(16,055,911)
<b>Change in Cash and Cash Equivalents</b>	(2,179,614)	321,225	23,636	-	(1,834,753)
<b>Cash and Cash Equivalents, Beginning of Year</b>	74,439,488	801,199	146,613	-	75,387,300
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 72,259,874</u>	<u>\$ 1,122,424</u>	<u>\$ 170,249</u>	<u>\$ -</u>	<u>\$ 73,552,547</u>

## **Supplementary Information**

**Singing River Health System**  
**(A Component Unit of Jackson County, Mississippi)**  
**Schedule of Surety Bonds for Officials and Employees**  
**September 30, 2020**

Name	Position	Company	Amount of Bond
Lee Bond	Chief Executive Officer	Western Surety Company	\$ 50,000
Charlie Brinkley, III	Chief Financial Officer	Western Surety Company	50,000
Dr. William Descher	Chief of Staff	Western Surety Company	50,000
Dr. David Spencer, Jr.	Chief of Staff - Elect	Western Surety Company	50,000
Jeffery Belk	Trustee	Western Surety Company	50,000
Dr. Auwilda Polk	Trustee	Western Surety Company	50,000
Don Barron	Trustee	Western Surety Company	50,000
Erich Nichols	Trustee	Western Surety Company	50,000
Steven Ates	Trustee	Western Surety Company	50,000
James Epting	Trustee	Western Surety Company	50,000
Bonnie Granger	Trustee	Western Surety Company	50,000

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

**Independent Auditor's Report**

Board of Trustees  
Singing River Health System  
Pascagoula, Mississippi

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Singing River Health System (the Health System), a component unit of Jackson County, Mississippi, which comprise the balance sheet as of September 30, 2020, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 4, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Health System's internal control over financial reporting (internal control) as a basis for designing 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 Health System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health System's internal control.

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Health System'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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

*BKD, LLP*

Jackson, Mississippi  
December 4, 2020

**Singing River Health System**  
**(A Component Unit of Jackson County, Mississippi)**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended September 30, 2020**

<b>Reference Number</b>	<b>Summary of Findings</b>	<b>Status</b>
<b>2019-01</b>	Management is responsible for establishing and maintaining effective internal controls over financial reporting to appropriately evaluate capital versus operating leases accounting treatment.	Corrected.
<b>2019-02</b>	Management is responsible for establishing and maintaining effective internal controls over financial reporting and presentation.	Corrected