# **Memorial Hospital at Gulfport**

# **FINANCIAL STATEMENTS**

September 30, 2020 and 2019



# Memorial Hospital at Gulfport Gulfport, Mississippi

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## **INDEPENDENT AUDITORS' REPORT**

Board of Trustees Memorial Hospital at Gulfport Gulfport, Mississippi

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of Memorial Hospital at Gulfport (the "Hospital"), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

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

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

# Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 auditors' 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 auditors consider 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 Hospital as of September 30, 2020, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Other Matters**

#### Prior Period Financial Statements

The financial statements of the Hospital as of and or the year ended September 30, 2019 were audited by other auditors whose report dated December 18, 2019, expressed an unmodified opinion on those statements.

#### Restated Prior Period Financial Statements

As part of our audit of the 2020 financial statements, we also audited the adjustments described in Note 2 that were applied to restate the 2019 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2019 financial statements of the Hospital other than with respect to the adjustments and accordingly, we do not express an opinion or any other form of assurance on the 2019 financial statements as a whole.

#### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Changes in Net Pension Liability and Related Ratios, Schedule of Employer Contributions, and Notes to Required Supplementary Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an

opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2020, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Laurel, Mississippi December 11, 2020

Can Rigge & Ingram, L.L.C.

This discussion and analysis provides management's analysis of the financial performance of Memorial Hospital at Gulfport (the "Hospital") for the fiscal years ended September 30, 2020 and 2019. The intent of this discussion and analysis is to provide further information regarding the Hospital's financial performance as a whole. It should be read in conjunction with the Hospital's financial statements, which begin on page 12.

#### **Industry Highlights**

The healthcare industry is in a continuous state of various transitions that are transforming the healthcare business model. The biggest challenge for the industry in 2020 has been the outbreak of the COVID pandemic which has created capacity, supply, and workforce challenges. These challenges include supply chain and distribution, changes in the workplace environment to protect patients and our workforce, and increased expenses and capital outlays. Not only have healthcare systems incurred costly preparations to deal with COVID patients, but they have also seen declines to revenue from reductions in non-urgent patients, primarily at the beginning of the pandemic. The industry must prepare for the continued need of health professionals, supplies, and equipment to deal with the ongoing pandemic, as well as prepare for storage and administration of vaccines. Most importantly is the stress the COVID event has placed on the workforce. Hospitals must continue to look for ways to lessen the fatigue within the workforce.

The COVID event has changed the healthcare landscape by accelerating the virtual medicine presence far beyond anything seen in the past. Other areas of transition include consumer choice, technology and innovation, value initiatives, and mergers and acquisitions which are all closely entwined. With new guidelines for price transparency for drugs and for hospital costs and innovative new care models which include virtual or additional telehealth models, consumers are helping to drive the future of the industry. Technology will drive some of the care delivery models and is enabling increased financial independence for patients in their health care decisions. The consumer's demand for convenience and quantifiable information about the value of the services they are receiving will influence the success or failure of health plans and providers.

Value based payment models are designed to reduce costs while improving outcomes. Compared to fee-for service (FFS), these models place greater accountability for clinical and cost outcomes on the organizations/providers delivering the care. It is widely accepted throughout the industry that the traditional fee-for-service, or volume-based healthcare business model is economically unsustainable. With the creation of the Center for Medicare and Medicaid Innovation (CMMI) through the Affordable Care Act to study the impact of new models and reduce expenditures, new models that have been developed include Alternative Payment Models (APM), Accountable Care Organizations (ACO), and Bundled Payments and Primary Care Initiatives. Although we do not know what the outcome will be, a shift to value-based insurance design (VBID) will once again become the focus once the COVID event is under control. Health plans, hospitals, and physician practices need to collaborate to create equitable payment models that reward all stakeholders only when high-quality, resource-efficient, cost-effective care is provided to the patient.

As health systems and providers look to provide value and positive outcomes to patients, many continue to look to consolidate or form strategic partnerships. These consolidations can provide additional access points for patients as well as structural changes which include back office function consolidation in areas such as IT, revenue cycle, supply chain and general operations that lower costs and support value based payment initiatives.

Healthcare is an ever-changing industry. It is important for organizations to stay ahead of the curve with respect to innovations in clinical care delivery and healthcare business processes that could reshape the competitive landscape. At stake is market share in both emerging and existing markets.

# **General Description of Services**

Memorial Hospital at Gulfport (the "Hospital") provides comprehensive services including 24-hour emergency services, general medicine, critical care, surgical, and obstetrics/gynecology services. These services are complemented by a complete range of diagnostic and therapeutic services. Memorial is licensed for 303 beds and currently staffs 281.

#### **Historical Utilization**

Year Ended September 30,	2020	2019	2018
Admissions - (excludes nursery)			
Acute	12,984	13,382	13,063
ICU	1,327	1,577	1,640
NICU	181	199	226
Total	14,492	15,158	14,929
			_
Patient Days - (excludes nursery)			
Acute	63,134	63,411	62,737
ICU	2,813	2,237	2,215
NICU	4,135	4,199	4,679
Total	70,082	69,847	69,631
Average daily census	190.99	191.3	190.8
Emergency Department visits	63,367	67,007	65,747
Outpatient surgeries	5,519	3,384	3,378
Nursing home days	99,073	13,924	-
Deliveries	1,233	1,314	1,276

## **Revenues by Payor**

Memorial receives payment for services from commercial insurers and other private payors, the State of Mississippi under the Medicaid program, Health Maintenance Organizations ("HMO's"), other managed care entities, including Medicaid managed care, the federal government, under the Medicare program, and directly from patients.

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

Year Ended September 30,	2020	2019	2018
Medicare	56.4 %	56.6 %	56.2 %
Medicaid (includes Medicaid Managed Care)	8.5	10.1	10.6
Managed Care	25.8	24.2	24.4
Private pay and charity	9.3	9.1	8.8
Total gross charges	100.0 %	100.0 %	100.0 %

# Summary of Assets, Liabilities, and Net Position (in millions of dollars)

September 30,	2020	2019	2018
Assets			
Unrestricted Cash	\$ <b>138.1</b> \$	38.6 \$	66.1
Other current assets	117.3	98.7	106.1
Total current assets	255.3	137.3	172.2
Noncurrent assets	126.5	141.6	90.6
Capital assets	162.2	164.3	173.5
Total assets	544.0	443.2	436.3
Deferred outflows	8.6	12.8	11.2
Liabilities			
Current liabilities	147.2	56.0	56.9
Net pension liability	39.3	52.5	49.7
Long-term liabilities	47.6	52.8	58.4
Total liabilities	234.1	161.3	165.0
Deferred inflows	7.3	0.2	0.2
Net Position			
Net investment in capital assets	110.3	106.8	110.1
Restricted	6.8	6.6	6.8
Unrestricted	 194.1	181.1	165.4
Total net position	\$ <b>311.2</b> \$	294.5 \$	282.3

# Summary of Revenues, Expenses, and Changes in Net Position (in millions of dollars)

For the years ended September 30,	2020	2019	2018
Operating Revenues  Net patient service revenue  Other operating revenue	\$ 610.3 6.7	\$ 550.1 \$ 5.8	5 524.2 9.3
Total operating revenues	617.0	555.9	533.5
Operating Expenses Salaries and wages and employee benefits Physician and professional fees Depreciation and amortization	325.5 301.7 22.7	276.2 248.2 25.7	263.7 234.2 29.5
Total operating expenses	650.0	550.1	527.4
Operating income (loss)	(33.0)	5.8	6.1
Nonoperating revenues Increase in net position	49.7 16.7	6.4 12.2	12.9 19.0
Net position, beginning of year (restated)	294.5	282.3	263.3
Net position, end of year (restated)	\$ 311.2	\$ 294.5 \$	282.3

## Management's Discussion and Analysis of Recent Financial Performance

## Changes from 2019 to 2020

The Hospital recorded an increase in net position of \$16.7 million and \$12.2 million in 2020 and 2019, respectively. The increase in net position in 2020 included \$41 million in nonoperating revenue as a result of the CARES Act for COVID. Total operating revenues, consisting of both net patient service revenues and other operating revenues, were \$617 million and \$555.9 million in fiscal years 2020 and 2019, respectively. The increase in operating revenues in 2020 over 2019 is attributable to acquisitions made in late 2019 and early 2020 which included Stone County Hospital, three nursing home locations, two surgery centers, and numerous physician practices. In 2020 and 2019, the Hospital recorded Medicaid supplemental payments of \$48.1 million and \$49.7 million, respectively. Overall inpatient volumes (excluding nursery) increased from 2019 to 2020; while total inpatient admissions were down by 4.5% and inpatient days increased .34%. This was driven by an increase of 25.7% in ICU days which is largely attributable to COVID. Emergency Department (ED) visits decreased by 5.4% to 63,367. This decline was also driven by COVID with large month over month decreases of 40.3% and 21.6% in April and May, respectively. Deliveries decreased 6.16% from 2019 to 2020 ending at 1,233. NICU discharges were 288, a decrease of 27 from 2019 to 2020. NICU days totaled 4,135 in 2020, a decrease of 64 from 2019. The Hospital's employed physician network's 2020 ambulatory visits increased 15.1% to 561,193 ambulatory visits in 2020. As a result of COVID, we also

saw an increase in telehealth visits from 49 in 2019 to 28,345 in 2020. Associated unadjusted ambulatory patient service revenues increased by \$10.5 million over 2019.

In 2019, Memorial began nursing home operations at three locations. These three locations are in the three counties of Harrison, Hancock and Stone. In June of 2019, the Hospital began nursing home operations as Memorial Driftwood Nursing Home in Harrison County. In September of 2019, Memorial began nursing home operations as Memorial Woodland Village Nursing Center in Hancock County and Memorial Stone County Nursing and Rehab Center in Stone County. Stone County Hospital and Cedar Lake Surgery Center operations also began in September of 2019. Gulf South Surgery Center was added in September 2020. These, as well as new clinic operations, are attributable to increased revenue and expenses in 2020.

The provision for bad debts, as a percentage of gross patient service revenues was 3.5% in fiscal years 2020 and 2019.

Total operating expenses were \$649.9 million and \$550.1 million in fiscal years 2020 and 2019 respectively. The increase in total operating expenses from 2019 to 2020 was \$99.8 million or 18.1%, the components of which are described below.

Salary and employee benefits increased \$49.3 million or 17.8% from 2019 to 2020 of which \$8.2 million was due to merit and market adjustments, \$6.6 million was due to new operations in Stone County, \$11.9 million was due to nursing home operations that started in late 2019, and \$11.9 million, was due to COVID related activities. There was a \$1.9 million increase in the self-funded health insurance expense in 2020 as compared to 2019. Total benefits increased 9.4 % or \$3.4 million. Total benefit expense (as a percent of salaries) decreased from 14.8% in 2019 to 13.6% in 2020. The Hospital fully funded the defined benefit pension obligation of \$11.1 million and the net pension liability decreased 25.2% in fiscal year 2020 from \$52.5 million in fiscal year 2019 to \$39.2 million in fiscal year 2020.

Purchased services, supplies and other expenses increased \$53.5 million from 2019 to 2020 or 21.6%. Purchased services increased by \$17.4 million from 2019 to 2020 most of which is due to provider expansion. In addition, the new surgery center operations increased \$76 thousand, the new Stone County Hospital operations increased \$1.28 million, and outside lab services related to COVID testing increased \$878 thousand. Supply and other expenses increased \$34.8 million from 2019 to 2020. Supply cost related to COVID accounted for \$2.9 million. Drug costs increased \$10.8 million from 2019 to 2020 which included an increase of \$7.7 million in drug expenses related to outpatient pharmacy operations. Nursing home supply expense increased \$1.6 million in 2020 over 2019. Professional fees increased by \$1.4 million from 2019 to 2020 largely due to legal and professional services related to various merger and acquisition activity. Depreciation expense decreased by \$3.M due to certain IT capital assets being fully depreciated. Interest expense increased by \$0.2 million.

Income from operations was (\$33) million and \$5.8 million in fiscal years 2020 and 2019, respectively. The income translates into operating margins of -5.3% and 1.0% for fiscal years 2020 and 2019, respectively.

Total nonoperating income was \$49.7 million in 2020 and \$6.4 million in 2019. \$40.9 million is recorded income from the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Recorded income from the 20% ownership in Encompass Health (Formerly Health South) was flat year over year at \$1.1 million 2020 and 2019.

The Hospital's unrestricted liquidity represented by cash, cash equivalents, and investments ended at \$254.1 million, \$172 million, and \$148.8 million in fiscal year end 2020, 2019, and 2018, respectively. This equates to 147.9, 119.68, and 109 days cash on hand, for 2020, 2019, and 2018, respectively.

#### **Changes from 2018 to 2019**

The Hospital recorded an increase in net position of \$12.2 million and \$19.0 million in 2019 and 2018, respectively. The increase in net position in 2018 included a one-time gain on the sale of Memorial Behavioral Health of \$12.4 million as well as a non-recurring FEMA grant of \$2.3 million. Total operating revenues, consisting of both net patient service revenues and other operating revenues, were \$556.0 million and \$533.5 million in fiscal years 2019 and 2018, respectively. The increase from 2018 to 2019 was attributable to an increase in service utilization, including inpatient, outpatient, and ambulatory services. In 2019 and 2018, the Hospital recorded Medicaid supplemental payments of \$49.7 million and \$50.7 million, respectively. Overall inpatient volumes (excluding nursery) increased from 2018 to 2019. Inpatient admissions increased by 1.5% and inpatient days were up 0.5%. Emergency department (ED) visits increased by 1.5% from 65,747 to 67,007. These increases are attributed to the expansion of the Hospital's market position and associated footprint throughout Southern Mississippi. ED admissions increased 2.4%, which was disproportionally up compared to ED visit increases indicating an overall increase in acuity. Deliveries increased 3.0% from 2018 to 2019 from 1,276 to 1,314 from 2018 to 2019, respectively. 2019 NICU discharges were 315, a decrease of 23 from 2018 to 2019. NICU days totaled 4,199 in 2019, a decrease of 480 from 2018. The Memorial employed physician network's 2019 ambulatory visits increased 1.5% to 487,319 from 2018 and the associated ambulatory patient service revenues increased by \$49.2 million or 8.4% from 2018. Memorial Behavioral Health Operations were divested at the beginning of FY 2018.

In 2019, the Hospital began nursing home operations at three locations. These three locations are in the counties of Harrison, Hancock and Stone. In June of 2019, the Hospital began nursing home operations as Memorial Driftwood Nursing Home in Harrison County. In September of 2019 the Hospital began nursing home Operations as Memorial Woodland Village Nursing Center in Hancock County and Memorial Stone County Nursing and Rehab Center in Stone County.

Other operating revenues declined by \$3.1 million from 2018 to 2019 due primarily to a non-recurring FEMA grant.

The provision for bad debts, as a percentage of gross patient service revenues, was 3.5% and 4.6% in fiscal years 2019 and 2018, respectively. The favorable 2019 rate, as compared to 2018, is attributable to continued improvement in accelerated collection practices.

Total operating expenses were \$549.7 million and \$527.4 million in fiscal years 2019 and 2018 respectively. The increase in total operating expenses from 2018 to 2019 was \$22.3 million (4.3%), the components of which are described below.

Salary and employee benefits have increased \$12.3 million or 4.7% from 2018 to 2019. Of the increase in salary and employee benefits, \$7.6 million was due to merit and market adjustments, \$1.7 million was due to ambulatory and employed physician network and support staff growth, \$1.3 million was due to nursing home startup operations, and \$2.2 million was due to the increase in self-funded health insurance expense. Total benefit expense increased 4.5% or \$1.5 million. Total benefit expense (as a percent of salaries) remained steady at 14.6% for 2019 and 2018, respectively. The Hospital funded the pension plan by \$10.9 million and the net pension liability increased 5.6% to \$52.5 million from \$49.7 million in 2018.

Purchased services, supplies and other increased \$14.3 million from 2018 to 2019 or 6.1%. Purchased services increased by \$3.7 million from 2018 to 2019, most of which is due to provider expansion. Supply and other expenses increased \$9.3 million from 2018 to 2019. The increase in supply and other expenses was due to increased drug costs of \$3.9 million from 2018 to 2019, \$2.1 million increase in outpatient pharmacy operations expense, increased implant supplies expense of \$3.1 million, and increased other medical supplies of \$0.6 million. The reason for the increases represents a blend of utilization and inflationary increases. The estimated inflationary increase of overall supply expense is approximately \$2.9 million. Other expenses, consisting mainly of professional fees, increased by \$1.4 million from 2018 to 2019 for two primary reasons. First, outsourcing of collection services, which in turn enhanced overall collections to the hospital, and second, other legal and professional services related to various merger and acquisition activity. Depreciation expense decreased by \$3.9 million mostly due to certain IT capitalized equipment becoming fully depreciated. Interest expense decreased by \$0.1 million.

Income from operations was \$5.8 million and \$6.1 million in fiscal years 2019 and 2018, respectively. The income translates into operating margins of 1.0% and 1.1% in the same fiscal years, respectively.

Total nonoperating income was \$6 million in 2019 and \$12.9 million in 2018. The Hospital recorded a non-recurring gain on sale of Memorial Behavioral Health of \$12.4 million in 2018. In 2019, the Hospital's income from the 20% ownership in Encompass Health (formerly Health South) was \$1.1 million and \$0.3 million in 2019 and 2018, respectively.

### **Capital Assets and Debt Administration**

Capital assets consist of the following at September 30 (in millions of dollars):

September 30,	2020	2019	2018
Lands and land improvements	\$ 11.0	\$ 11.2	\$ 11.2
Buildings and improvements	237.1	232.3	229.4
Fixed and major moveable equipment	368.8	354.3	345.2
Construction in progress	5.3	5.0	3.1
Total capital assets	622.2	602.8	588.9
Less accumulated depreciation and amortization	460.0	438.5	415.4
Capital assets, net	\$ 162.2	\$ 164.3	\$ 173.5

Total debt capitalization of the 2016 Series Bonds as of September 30, 2020 is \$49 million which includes \$5.5 million of unamortized bond premium. Principal repayment of the debt began in 2019 and continues through maturity in 2031.

## The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenues, expenses and changes in net position, discussed earlier.

#### **Contacting the Hospital Chief Executive Officer**

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Hospital's finances. If you have any questions about this report or need additional financial information, please contact the Chief Executive Officer, Memorial Hospital at Gulfport, P.O. Box 1810, Gulfport, Mississippi 39502-1810.

# Memorial Hospital at Gulfport Statements of Net Position

September 30,	2020	Restated 2019
Assets		
Current assets		
Cash and cash equivalents	\$ 138,070,570	\$ 38,601,936
Restricted cash and investment		
Held by trustee under indenture agreements	6	1,126
Held by trustee for self-insurance fund	3,330,663	3,299,669
Beneficial interest in assets held by Community Foundation	1,299,077	1,181,612
Patient accounts receivable, net of allowance		
for doubtful accounts of \$142,741,600 and		
\$144,137,641 in 2020 and 2019, respectively	92,090,412	80,493,942
Inventory	12,561,403	10,266,618
Estimated third-party payor settlements	3,734,062	938,509
Prepaid expenses and other	4,242,954	2,474,201
Total current assets	255,329,147	137,257,613
Noncurrent assets		
Investments	116,061,875	133,351,022
Beneficial interest in assets held by Community Foundation	1,880,115	1,846,537
Restricted investment		, ,
Held by trustee under indenture agreements	6,019	6,022
Other assets	8,553,733	6,350,388
Total noncurrent assets	126,501,742	141,553,969
Capital assets		
Land	6,146,386	6,271,386
Construction in progress	5,333,340	5,025,477
Depreciable capital assets, net	150,728,238	153,027,718
Total capital assets, net	162,207,964	164,324,581
Total assets	544,038,853	443,136,163
Deferred Outflows of Resources		
Deferred outflows - pensions	8,390,989	12,581,150
Deferred outflows - refunding of debt	229,043	266,722
Total deferred outflows of resources	8,620,032	12,847,872

# Memorial Hospital at Gulfport Statements of Net Position

September 30,	2020	Restated 2019
Liabilities and Net Position		
Current liabilities		
Current maturities of bonds and capital lease	\$ 4,295,685	\$ 4,760,438
Accounts payable	23,498,153	16,168,900
Accrued compensation and payroll taxes	39,407,821	27,881,498
Unearned revenue	72,391,221	-
Other accrued expenses	6,914,030	6,297,700
Accrued interest payable	742,232	896,923
Total current liabilities	147,249,142	56,005,459
Long-term liabilities		
Net pension liability	39,274,400	52,510,457
Bonds payable, net of current maturities	45,977,166	49,942,366
Capital lease obligation, net of current maturities	1,603,449	2,834,134
Total long-term liabilities	86,855,015	105,286,957
Total liabilities	234,104,157	161,292,416
Deferred Inflows of Resources		
Deferred inflows - pensions	7,306,274	176,773
Total deferred inflows of resources	7,306,274	176,773
Nick weathing		
Net position	110 221 664	100 707 042
Net investment in capital assets	110,331,664	106,787,643
Restricted - expendable for  Debt service	6.025	7 1 4 0
Self insurance programs	6,025 3,330,663	7,148 3,299,669
Hospital programs funded by the Foundation	1,614,488	1,454,711
Nonexpendable - Foundation endowments	1,814,488	1,454,711 1,846,537
Unrestricted	194,085,499	181,119,138
Total net position	\$ 311,248,454	\$ 294,514,846

# Memorial Hospital at Gulfport Statements of Revenues, Expenses and Changes in Net Position

For the years ended September 30,	2020	Restated 2019
Operating Revenues		
Patient service revenues, net of contractual allowances	\$ 767,029,522	\$ 697,674,163
Provision for bad debts	(156,751,564)	(147,578,539)
Net patient service revenue	610,277,958	550,095,624
Other operating revenue	6,693,129	5,856,955
Total operating revenue	616,971,087	555,952,579
Operating Expenses		
Salaries and wages	286,519,332	240,579,200
Supplies and other operating expense	218,927,910	184,121,055
Depreciation and amortization	22,704,059	25,728,612
Purchased services	74,416,612	56,989,236
Physician and professional fees	8,396,661	7,096,341
Employee benefits and payroll taxes	38,987,167	35,636,564
Total operating expenses	649,951,741	550,151,008
Operating income (loss)	(32,980,654)	5,801,571
Nonoperating Revenues (Expenses)		
CARES Act funds	40,953,831	-
Grants, contributions and other	3,286,564	682,977
Interest and investment income	5,685,178	6,102,662
Interest expense	(1,331,175)	(1,620,546)
Gain (loss) on disposal of sale of assets	(14,074)	163,119
Income from joint venture	1,133,938	1,131,604
Total nonoperating revenues	49,714,262	6,459,816
Change in net position	16,733,608	12,261,387
Net position - beginning of year (restated) - Note 2	294,514,846	282,253,459
Net position - end of year (restated) - Note 2	\$ 311,248,454	\$ 294,514,846

# Memorial Hospital at Gulfport Statements of Cash Flows

For the years ended September 30,	2020	Restated 2019
Operating Activities		_
Receipts from and on behalf of patients	\$ 599,093,237	\$ 558,214,076
Payments to suppliers and contractors	(318,547,161)	(247,555,908)
Payments to and on behalf of employees	(302,938,098)	(277,120,588)
Other receipts (payments), net	5,976,998	6,276,304
Net cash provided (used) by operating activities	(16,415,024)	39,813,884
Noncapital Financing Activities		
Receipt of noncapital grants and contributions	1,997,595	263,628
Receipt of CARES Act funds	113,345,052	-
Net cash provided by noncapital financing activities	115,342,647	263,628
Capital and Related Financing Activities		·
Purchase of capital assets	(20,097,043)	(16,343,077)
Proceeds from the sale of capital assets	41,675	(10,545,077)
Interest paid on long-term debt	(2,348,387)	(2,444,441)
Principal paid on long-term debt	(4,760,438)	(4,968,947)
Net cash (used) by capital and related financing activities	(27,164,193)	(23,756,465)
Investing Activities		<u> </u>
Maturities and sales of investments	59,922,115	16,125,967
Purchase of investments	(38,515,822)	(66,153,150)
Receipt of interest and investment earnings	6,329,905	6,102,662
Net cash provided (used) by investing activities	27,736,198	(43,924,521)
Net increase (decrease) in cash and cash equivalents	99,499,628	(27,603,474)
Cash and Cash Equivalents - beginning of year	41,901,605	69,505,079
Cash and Cash Equivalents - end of year	\$ 141,401,233	\$ 41,901,605
		2012
For the years ended September 30,	2020	2019
Reconciliation of Cash to Balance Sheets		
Cash and cash equivalents, current	\$ 138,070,570	\$ 38,601,936
Bond interest fund	3,330,663	3,299,669
Cash and Cash Equivalents - end of year	\$ 141,401,233	\$ 41,901,605

# Memorial Hospital at Gulfport Statements of Cash Flows

		Restated
For the years ended September 30,	2020	2019
Reconciliation of operating income (loss) to net		
cash provided (used) by operating activities:		
Operating income (loss)	\$ (32,980,654)	\$ 5,801,571
Adjustments to reconcile operating income (loss) to		
net cash provided by (used in) operating activities:		
Depreciation and amortization	22,704,059	25,728,612
Provision for bad debts	156,751,564	147,578,539
(Increase) decrease in assets and deferred ouflows:		
Patient accounts receivable	(168,348,034)	(137,414,600)
Inventory	(2,294,785)	(1,079,720)
Estimated third-party payor settlements	(2,795,553)	(3,516,600)
Prepaid expenses and other	(1,761,996)	293,456
Other assets	(6,521,718)	(2,100,302)
Deferred outflows - pension	4,190,161	(1,658,664)
Increase (decrease) in liabilities and deferred outflows:		
Accounts payable	7,328,272	688,819
Other accrued expenses	13,420,216	2,700,191
Net pension liability	(13,236,057)	2,834,274
Deferred inflows - pension	7,129,501	(41,692)
Net cash provided (used) by operating activities	\$ (16,415,024)	\$ 39,813,884

#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Reporting Entity**

Memorial Hospital at Gulfport (the "Hospital") is an acute-care hospital organized as an enterprise (proprietary) operation. The Hospital provides inpatient, outpatient, rehabilitation, and emergency care services primarily for residents of the six coastal counties of Mississippi and surrounding area. Admitting physicians are primarily practitioners in the same Mississippi Gulf Coast area. The Hospital is currently licensed to operate 303 inpatient beds.

The Hospital is a joint venture of the City of Gulfport (the "City") and the Gulfport-West Harrison County Hospital District (the "District"). The Hospital operates in the form of a government authority, governed by a Board of Trustees pursuant to Sections 41-13-15 et seq. of Mississippi Code of 1972, as amended, consisting of members from the City and the District. The Hospital is an independent enterprise held and operated separate and apart from all other assets and activities of the City and the District. The Hospital is not a taxable entity and does not file an income tax return. Budgets are prepared on a basis consistent with accounting principles generally accepted in the United States of America with concurrence by the Hospital's Board of Trustees on an annual basis. The Hospital, however, is not required by statute to adopt a legally binding budget. Accordingly, budgetary information is not a required part of these financial statements.

#### **Blended Component Units**

Included with the reporting entity of the Hospital are five entities that have been presented as blended component units. The Hospital exerts control over these entities and there is a financial benefit relationship with these entities. All significant intercompany transactions between the Hospital and these five entities have been eliminated. These entities are as follows:

#### Memorial Hospital Ambulatory Health Services, Inc.

Memorial Hospital Ambulatory Health Services, Inc. ("MHAHS") is a wholly-owned, nonprofit component unit of the Hospital initially set up to hold an interest in an ambulatory surgery center, Gulfport Surgery Center ("GSC"), operating on the Hospital's main campus. Operations of GSC were absorbed into the Hospital.

## **Select Hospital Corporation**

Select Hospital Corporation ("SHC") is a wholly—owned subsidiary of the Hospital that was formed in 1997 for the purpose of holding the Hospital's ownership interest in Mississippi Select Health Care, LLC ("MSHC"), also formed in 1997. MSHC operates as an administrator (non-risk assuming) of the Hospital's employee medical and dental benefit plans.

#### Medical Foundation of South Mississippi, Inc.

The Medical Foundation of South Mississippi, Inc. (the "Foundation") is a 501(c)(3) tax-exempt entity formed for the purpose of providing medical care to the community of the Mississippi Gulf Coast through the ownership and operation of a number of health clinics. Effective October 1, 2008, all medical services and business operations of the Foundation were assumed by the Hospital. The transactions to sell the tangible assets owned by the Foundation to the Hospital were completed in part by September 30, 2008, with the remainder sold in fiscal year 2009. The Foundation is fiscally dependent upon the Hospital's continuing financial support and could not continue as a going concern without this support.

#### Memorial Properties, Inc.

Memorial Properties, Inc. ("MPI") is a wholly-owned, nonprofit component unit of the Hospital that assisted in the development of a new medical office building ("MOB") and atrium and parking deck expansion with bridge connections to the Hospital ("APD"). The Hospital appoints the Board of Directors. The Hospital, the City, and the District conveyed approximately two acres of land to MPI in order to allow for the development of the MOB and APD. The Hospital has since purchased both the APD and MOB at fair market values in 2002 and 2007, respectively. MOB activities include leasing, build-out, and rental of available space. In addition, MPI holds the Hospital's equity interest in the Encompass Health Rehabilitation Hospital at Gulfport ("Encompass") (formerly HealthSouth Rehabilitation Hospital of Gulfport, LLC) joint venture (See Note 6).

#### Memorial Hospital at Gulfport Foundation, Inc.

Memorial Hospital at Gulfport Foundation, Inc. ("MHG Foundation") is a nonstock, nonprofit corporation exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. The members of the MHG Foundation Board consist principally of persons selected from the trustees, executive staff and medical staff of the Hospital, as well as local civic leaders and professionals. The MHG Foundation is organized and operated exclusively for charitable scientific and educational purposes for the benefit of the Hospital. The primary sources of financial support for the MHG Foundation are gifts, grants and contributions from the general public, corporations, and charitable organizations.

#### Measurement Focus and Basis of Accounting

The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), as promulgated by the Governmental Accounting Standards Board (GASB). Revenues, expenses, gains, losses, assets, liabilities, and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants) are recognized when all applicable eligibility requirements are met.

#### **Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Estimates that are particularly susceptible to significant change in the near term are related to the determination of the allowances for uncollectible accounts and contractual adjustments and estimated third-party payor settlements. In particular, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs will change by a material amount in the near term.

## Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position

#### Cash and Cash Equivalents

The Hospital's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

#### Investments

Investments in debt and equity securities are carried at fair value except for investments in money market investments, certificates of deposit and participating interest-earning investment contracts with a remaining maturity of less than one year at the time of purchase. These investments are reported at amortized cost, which approximates fair value. Money market investments are short-term highly liquid instruments including commercial paper, bankers' acceptances and U.S. Treasury and agency obligations. Investment income on investments in debt and equity securities, including realized and unrealized gains and losses, is included in nonoperating revenue when earned.

#### Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (Continued)

#### **Investments**

Investments in debt and equity securities are carried at fair value except for investments in money market investments, certificates of deposit and participating interest-earning investment contracts with a remaining maturity of less than one year at the time of purchase. These investments are reported at amortized cost, which approximates fair value. Money market investments are short-term highly liquid instruments including commercial paper, bankers' acceptances and U.S. Treasury and agency obligations. Investment income on investments in debt and equity securities, including realized and unrealized gains and losses, is included in nonoperating revenue when earned.

#### **Restricted Cash and Investments**

Restricted cash and investments include assets held by trustees under indenture agreements, assets set aside under the Hospital's self-insured insurance programs, as well as amounts received in accordance with the CARES Act.

#### Patient Accounts Receivable, Net

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 losses and an analysis of currently outstanding amounts. This account is generally increased by charges to a provision for uncollectible accounts, and decreased by write-offs of accounts determined by management to be uncollectible. The allowances for third-party discounts are based on the estimated differences between the Hospital'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.

#### Inventory

Inventories, which consist primarily of medical supplies and drugs, are stated at average cost, which approximates the lower of cost or market.

#### **Prepaid Expenses**

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

#### Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (Continued)

#### **Capital Assets**

Capital assets, which includes property, plant, and equipment, are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Capital assets are defined as assets with an initial cost of more than \$500 and an estimated useful life in excess of one year. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Land and construction in progress are not depreciated. Property, plant, and equipment are depreciated using the straight line method over the estimated useful life of each asset. The following estimated useful lives are being used by the Hospital:

Land improvements	1 - 25 years
Buildings and improvements	1 - 40 years
Fixed equipment	3 - 30 years
Major moveable equipment	1 - 25 years

# Impairment of Long-Lived Assets

The Hospital evaluates, on an ongoing basis, the recoverability of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is required to be recognized if the carrying value of the asset exceeds the undiscounted future net cash flows associated with that asset. The impairment loss to be recognized is the amount by which the carrying value of the long-lived asset exceeds the asset's fair value. In most instances, the fair value is determined by discounted estimated future cash flows using an appropriate interest rate. The assessment of the recoverability of assets will be impacted if estimated future operating cash flows are not achieved. Based on management's evaluations, no long-lived assets impairments were recognized during the years ended September 30, 2020 and 2019.

## **Deferred Outflows/Inflows of Resources**

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until the future period.

#### Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (Continued)

The Hospital has two (2) items that qualify for reporting as deferred outflows of resources, the deferred amount on refunding and the deferred outflows related to pensions, both reported in the statements of net position. The deferred amount on refunding results from debt refinancing, whereby the reacquisition price of the funding debt instruments exceed their net carrying amount. The deferred amount on refunding is amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows related to pensions are an aggregate of items related to pensions as calculated in accordance with the GASB. The deferred outflows related to pensions will be recognized as either pension expense or a reduction in the net pension liability in future reporting years.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Hospital is reporting *deferred inflows related to pensions* that are an aggregate of items related to pensions as calculated in accordance with the GASB. The deferred inflows related to pensions will be recognized as a reduction to pension expense in future reporting years.

#### **Compensated Absences**

The Hospital's policies permit employees to accumulate earned but unused benefits for paid time off (PTO) and sick leave, which are eligible for payment upon termination of employment. The accumulated pay is accrued and reported in the statements of net position as earned.

#### **Long-Term Obligations**

Long-term obligations are reported as liabilities in the statements of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method and are recorded as an adjustment to interest expense. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the period incurred except for prepaid insurance costs.

#### Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position, and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. More information on pension activity for the Hospital is included in Note 12.

#### Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (Continued)

#### **Net Position**

Net position of the Hospital is classified in three components, as follows:

Net investment in capital assets – consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets.

Restricted – Represents net position that is restricted by constraints placed on the use of resources either externally imposed by creditors, grantors, contributions, or law or regulations of other governments or imposed by law through enabling legislation. Restricted funds include:

- Expendable Represents funds that may be spent subject to donor, grantor, or other outside party restrictions.
- Nonexpendable Represents the nonexpendable (corpus) of endowment funds that are subject to donor, grantor, or other outside party restrictions for the benefit of various programs at MHG Foundation.

*Unrestricted* — Represents the remaining net position that does not meet the definitions of net investment in capital assets or restricted net position described above that are available for carrying out the Hospital's objectives.

As a general practice, when both restricted and unrestricted resources are available for use, it is the Hospital's policy to use restricted resources first, then unrestricted resources as they are needed.

### **Revenues and Expenses**

The Hospital's statements of revenue, expenses and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Non-exchange revenues, including investment income and grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

#### Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital 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 the estimated net realizable amounts from patients, third-party payors, and others for services rendered including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined or as years are no longer subject to such audits, reviews, and investigations.

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

#### **Charity Care**

The Hospital provides care without charge, or at a reduced charge, to patients who meet certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify pursuant to this policy, these charges are not reported as revenue. The amount of charges foregone for services and supplies furnished under the Hospital's charity care policy was approximately \$78,593,819 and \$62,027,675 for the years ended September 30, 2020 and 2019, respectively, and estimated costs and expenses incurred to provide charity care totaled approximately \$8,524,993 and \$6,798,233, respectively. The estimated costs and expenses incurred to provide charity care were determined by applying the Hospital's cost to charge ratio from its latest filed Medicare cost report to its charges foregone for charity care, at established rates.

#### **Grants and Contributions**

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

#### **Current Healthcare Environment**

The Hospital monitors economic conditions closely, both with respect to potential impacts on the healthcare industry and from a more general business perspective. Management recognizes that economic conditions may continue to impact the Hospital in a number of ways, including, but not limited to, uncertainties associated with the United States and state political landscape and rising uninsured patient volumes and corresponding increases in uncompensated care.

Additionally, the general healthcare industry environment is increasingly uncertain, especially with respect to the ongoing impacts of the federal healthcare reform legislation. Potential impacts of ongoing healthcare industry transformation include, but are not limited to:

- Significant capital investment in healthcare information technology
- Continuing volatility in state and federal government reimbursement programs
- Effective management of multiple major regulatory mandates, including the previously mentioned audit activity
- Significant potential business model changes throughout the healthcare system, including within the healthcare commercial payor industry

The business of healthcare in the current economic, legislative, and regulatory environment is volatile. Any of the above factors, along with others both currently in existence and which may or may not arise in the future, could have a material adverse impact on the Hospital's financial position and operating results.

# Reclassifications of Prior Year Presentation

Certain prior year amounts have been reclassified for consistency with current year presentation.

#### **Subsequent Events**

Management has evaluated subsequent events through the date that the financial statements were available to be issued, December 11, 2020. See Note 16 for relevant disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

#### Pronouncements Issued But Not Yet Effective

GASB has issued the following pronouncements that may affect future financial position, results of operations, cash flows, or financial presentation of the Hospital upon implementation. Management has not yet evaluated the effect of implementation of these standards.

GASB Statement No.	GASB Accounting Standard	Effective Fiscal Year
84	Fiduciary Activities	2021
87	Leases	2022
89	Accounting for Interest Cost Incurred before the End	
	of a Construction Period	2022
90	Majority Equity Interest an amendment of GASB	
	Statements No. 14 and No. 61	2021
91	Conduit Debt Obligations	2023
92	Omnibus 2020	2022
93	Replacement of Interbank Offered Rates	2022
94	Public-Private and Public-Public Partnerships and Availability	
	Payment Arrangements	2023
96	Subscription-Based Information Technology Arrangements	2024

#### **NOTE 2: RESTATEMENT**

The Hospital has restated the financial statements for fiscal year ending September 30, 2019, to reflect the correction of errors related to its amortization of a bond premium (a noncash item) and its liability for accumulated PTO and sick leave.

#### **Bond Premium**

GASB standards require that a governmental entity amortize a bond premium over the life of the debt. The Hospital was amortizing the bond premium on the 2016 revenue bond through the call date of the debt.

#### Accumulated PTO and Sick Leave Liability

The Hospital calculates accumulated PTO and sick leave liability based on prior history of the leave status of terminated employees and termination payments made. Errors were noted in the methodology and percentages used in these calculations based on prior termination activity and accrued leave policies.

# **NOTE 2: RESTATEMENT (CONTINUED)**

The effect of these corrections are summarized in the table below.

October 1, 2018 net position, previously reported	\$ 287,360,554
Adjustment to net position - bond premium	(1,503,851)
Adjustment to net position - accrued leave	(3,603,244)
Adjustment to het position decraed leave	(3,003,211)
Restated net position, October 1, 2018	\$ 282,253,459
October 1, 2019 net position, previously reported	\$ 299,589,025
Adjustment to October 1, 2018 net position above	(5,107,095)
Adjustment to net position - bond premium	(357,977)
Adjustment to net position - accrued leave	390,893
Restated net position, October 1, 2019	\$ 294,514,846

#### **NOTE 3: DEPOSITS AND INVESTMENTS**

## **Deposits**

As of September 30, 2020 and 2019, the deposits of the Hospital consisted of the following:

September 30,	2020		2019
Petty cash and undeposited cash Cash deposits with financial institutions	\$ 33,146 141,368,087	\$	31,155 41,870,450
Total cash deposits	\$ 141,401,233	\$	41,901,605
September 30,	2020		2019
Cash and cash equivalents	\$ 138,070,570	\$	38,601,936
Restricted cash held by trustee for self-insurance fund	3,330,663	•	3,299,669

Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits might not be recovered. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

## **NOTE 3: DEPOSITS AND INVESTMENTS (CONTINUED)**

The collateral for public entity deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program the Hospital's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation ("FDIC"). All deposits with financial institutions must be collateralized in an amount equal to 105 percent of uninsured deposits and are therefore fully insured. The bank balance of the collateralized and insured balances was \$142,044,354 and \$38,281,586 at September 30, 2020 and 2019, respectively.

The Hospital also has cash deposits held by a trustee. The use of these funds is restricted for self-insurance related to professional liability and workers' compensation claims. The carrying value of these deposits was \$3,330,663 and \$3,299,669 at September 30, 2020 and 2019, respectively.

#### **Investments**

The statutes of the State of Mississippi restrict the authorized investments of the Hospital to obligations of the U.S. Treasury, agencies, and instrumentalities of the United States and certain other types of investments. The Hospital's investment policy does not further limit types of investments available to the Hospital.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its value to changes in market interest rates. As a means of limiting exposure to interest rate risk, the Hospital diversifies its investments by security type and limits holdings in any one type of investment with any one issuer with various durations of maturities.

The Hospital's investment policy provides the following investment maturity guidelines:

	Maximum
Maturity	Investment
One to three years	50%
Three to ten years	25%
More than ten years	25%

# **NOTE 3: DEPOSITS AND INVESTMENTS (CONTINUED)**

At September 30, 2020 and 2019, the Hospital had investments in fixed income securities with the following maturities:

September 30, 2020		Fair Value		o Maturity	< 1 year		1-5 years	6-10 years	> 10 years	
Cash and cash equivalents	\$	6,319,274	\$	6,319,274	\$ -	\$	-	\$ -	\$ -	
Certificates of deposit		889,899		499,899	390,000		-	-	-	
U.S. Treasuries		43,830,990		-	12,694,700		31,136,290	-	-	
U.S. Government agency securities		18,565,524		-	-		789,024	12,638,413	5,138,087	
Mortgage-backed securities		29,481,175		-	-		7,523,325	15,471,174	6,486,676	
Collateralized mortgage obligations		7,566,262		-	-		-	-	7,566,262	
Municipal bonds		7,096,773		-	3,698,039		3,398,734	-	-	
Corporate bonds		2,145,771		-	-		2,145,771	-	-	
Common stock		172,232		172,232	-		-	-	-	
Total	\$	116,067,900	\$	6,991,405	\$ 16,782,739	\$	44,993,144	\$ 28,109,587	\$ 19,191,025	

September 30, 2019		Fair Value No Maturity		< 1 year		1-5 years	6-10 years	> 10 years		
Cash and cash equivalents	\$	26,222,783	\$	26,222,783	\$ -	\$	-	\$ -	\$	_
Certificates of deposit		6,449,596		-	5,556,213		643,218	250,165		-
U.S. Treasuries		47,455,410		-	10,965,380		36,490,030	-		-
U.S. Government agency securities		29,994,465		-	9,986,900		4,988,450	15,019,115		-
Mortgage-backed securities		17,367,971		-	-		7,410,394	9,957,577		-
Municipal bonds		3,216,403		-	-		1,284,295	1,932,108		-
Corporate bonds		2,338,316		-	-		-	2,338,316		-
Common stock		313,226		313,226	-		-	-		
Total	\$	133,358,170	\$	26,536,009	\$ 26,508,493	\$	50,816,387	\$ 29,497,281	\$	-

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

At September 30, 2020 and 2019, the credit risk for fixed income securities was as follows:

September 30, 2020	Rating	Rated	Not Rated	Total	
Certificates of deposit	-	\$ -	\$ 889,899	\$ 889,899	
U.S. Treasuries	Aaa	43,830,990	-	43,830,990	
U.S. Government agency securities	-	-	18,565,524	18,565,524	
Mortgage-backed securities	-	-	29,481,175	29,481,175	
Collateralized mortgage obligations	-	-	7,566,262	7,566,262	
Municipal bonds	Aa3/AA+ to AA	7,096,773	-	7,096,773	
Corporate bonds	-	-	2,145,771	2,145,771	

**NOTE 3: DEPOSITS AND INVESTMENTS (CONTINUED)** 

September 30, 2019	Rating	Rated	Not Rated	Total
Certificates of deposit	-	\$ -	\$ 6,449,596	\$ 6,449,596
U.S. Treasuries	Aaa	47,455,410	-	47,455,410
U.S. Government agency securities	-	-	29,994,465	29,994,465
Mortgage-backed securities	-	-	17,367,971	17,367,971
Municipal bonds	AA	3,216,403	-	3,216,403
Corporate bonds	-	-	2,338,316	2,338,316

Concentration of credit risk is defined as the risk of loss attributed to the magnitude of the Hospital investing in a single issuer. The Hospital has no formal investment policy regarding concentrations of credit risk. At September 30, 2020, the Hospital had \$7,566,262 in collateralized mortgage obligations (FEDL HOME LN MTG CRP SER) that represented investments in a single issuer in excess of 5% of total investments. At September 30, 2019, the Hospital had no investments in a single issuer in excess of 5% of total investments.

Foreign currency risk is the risk that changes in the exchange rates will adversely affect the fair value of the investments. The Hospital has no foreign currency risk exposure as all investments are in U.S. dollars.

#### Fair Value Measurements

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs, other than quoted prices, that are:
  - o observable; or
  - o can be corroborated by observable market data.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

## NOTE 3: DEPOSITS AND INVESTMENTS (CONTINUED)

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Cash and cash equivalents: Value is stated at cost, which approximates fair value.

Certificates of deposit: Value is stated at amortized cost, which approximates fair value.

*U.S. Government agency securities, mortgage-backed securities, and collateralized mortgage obligations*: Valued using pricing models maximizing the use of observable inputs for similar securities.

Corporate bonds: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks or a broker quote if available

*U.S. Treasuries and common stocks:* Valued at the closing price reported on the active market on which the individual securities are traded.

The Hospital has the following recurring fair value measurements:

September 30, 2020	Fair Value	Level 1	Level 2	Level 3
Investments				
Cash and cash equivalents	\$ 6,319,274	\$ 6,319,274	\$ -	\$ -
Certificates of deposit	889,899	889,899	-	-
U.S. Treasuries	43,830,990	43,830,990	-	-
U.S. Government agency securities	18,565,524	-	18,565,524	-
Mortgage-backed securities	29,481,175	-	29,481,175	-
Collateralized mortgage obligations	7,566,262	-	7,566,262	-
Municipal bonds	7,096,773	-	7,096,773	-
Corporate bonds	2,145,771	-	2,145,771	-
Common stock	172,232	172,232	-	
Total investments	116,067,900	51,212,395	64,855,505	
Beneficial interest in assets held				_
by Community Foundation	3,179,192	-	-	3,179,192
Total assets	\$ 119,247,092	\$ 51,212,395	\$ 64,855,505	\$ 3,179,192

#### **NOTE 3: DEPOSITS AND INVESTMENTS (CONTINUED)**

#### Fair Value Measurements (Continued)

2019 **Fair Value** Level 1 Level 2 Level 3 September 30, 2019 Investments Cash and cash equivalents \$ 26,222,783 \$ 26,222,783 \$ \$ Certificates of deposit 6,449,596 6,449,596 U.S. Treasuries 47,455,410 47,455,410 U.S. Government agency securities 29,994,465 29,994,465 Mortgage-backed securities 17,367,971 17,367,971 Municipal bonds 3,216,403 3,216,403 Corporate bonds 2,338,316 2,338,316 Common stock 313,226 313,226 133,358,170 **Total investments** 80,441,015 52,917,155 Beneficial interest in assets held by Community Foundation 3,028,149 3,028,149 \$ 136,386,319 \$ 80,441,015 \$ 52,917,155 \$ 3,028,149 **Total assets** 

Below is a reconciliation of the beginning and ending balances of the Beneficial Interest in Assets Held by Community Foundation for fiscal years ending September 30, 2020 and 2019.

Balance September 30, 2019  Net realized and unrealized gains (losses)  Interest and dividends  Investment management fees	\$ 3,028,149 133,247 64,533 (46,737)
Balance September 30, 2020	\$ 3,179,192
Balance September 30, 2018  Net realized and unrealized gains (losses)  Interest and dividends Investment management fees	\$ 2,974,552 35,593 63,287 (45,283)
Balance September 30, 2019	\$ 3,028,149

#### **NOTE 4: ENDOWMENTS**

The MHG Foundation adopted the provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) when it was adopted by the Mississippi Legislature as of July 1, 2012. In the absence of donor restrictions, the net appreciation on donor-restricted endowment funds are spendable under UPMIFA.

The Board of Trustees of MHG Foundation has determined that the majority of the Foundation's contributions are subject to the terms of its governing documents. Certain contributions are received subject to other gift instruments, or are subject to specific agreements with the Foundation. Under the terms of the Foundation's governing documents and UPMIFA, the Board of Trustees of MHG Foundation has the ability to distribute so much of the original principal of any trust or separate gift, devise, bequest, or fund as the Board, in its sole discretion, shall determine to be prudent. As a result of the ability to distribute the original principal, all contributions not classified as restricted are classified as unrestricted for financial statement purposes.

The MHG Foundation, through the Gulf Coast Community Foundation, implements investing activities for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of these endowment assets over the long-term. The primary goal is to preserve the real value of the endowment corpus by achieving a growth rate on the principal amount of the endowment cycle of not less than the rate of inflation as measured by the CPI. The secondary goal is to provide spendable income equivalent to the spending rate.

The spending policy of the Gulf Coast Community Foundation stipulates the annual amount of money allowed to be distributed from the Foundation's various endowed funds. The current spending policy is to distribute three to five percent of endowment earnings. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through investment return.

Restrictions on endowment funds as of September 30, 2020 are as follows:

	Unrestricted		Restricted / Expendable		 estricted / expendable	Total	
Donor-restricted endowment funds	\$	372,463	\$	926,614	\$ 1,880,115	\$ 3,179,192	

Restrictions on endowment funds as of September 30, 2019 are as follows:

	Unrestricted		Restricted / Expendable		•	Total	
Donor-restricted endowment funds	\$	354,768	\$	826,844	\$ 1,846,537	\$ 3,028,149	

## **NOTE 4: ENDOWMENTS (CONTINUED)**

Changes in endowment fund restrictions for the year ended September 30, 2020 is as follows:

	Un	restricted	estricted / pendable	Restricted / nexpendable	Total
Endowments, beginning of year Transfers Investment income, net of expenses	\$	354,768 17,695	826,844 99,770	1,846,537 (117,465) 151,043	3,028,149 - 151,043
Endowments, end of year	\$	372,463	\$ 926,614	\$ 1,880,115	\$ 3,179,192

Changes in endowment fund restrictions for the year ended September 30, 2019 is as follows:

			Re	estricted /	R	estricted /	
	Un	restricted	Ex	pendable	Nor	nexpendable	Total
Endowments, beginning of year	\$	348,490	\$	719,705	\$	1,906,357	\$ 2,974,552
Transfers		6,278		107,139		(113,417)	-
Investment income, net of expenses		-		-		53,597	53,597
Endowments, end of year	\$	354,768	\$	826,844	\$	1,846,537	\$ 3,028,149

# **Memorial Hospital at Gulfport Notes to Financial Statements**

**NOTE 5: CAPITAL ASSETS** 

Capital asset activity and balances for the years ended September 30, 2020 and 2019 were as follows:

		alance /1/2019	ļ	Additions	Reductions		Balance 9/30/2020
Capital assets, not being depreciated Land Construction in progress		6,271,386 5,025,477	\$	- 7,783,057	\$ (125,000) (7,475,194)	\$	6,146,386 5,333,340
Total capital assets not being depreciated	1	1,296,863		7,783,057	(7,600,194)		11,479,726
Capital assets, being depreciated Land improvements Buildings and improvements Fixed equipment Major moveable equipment	23 10	4,863,228 2,286,627 5,014,974 9,409,912	1	4,783,598 1,728,555 13,308,688	- - (86,745) (608,253)		4,863,228 237,070,225 106,656,784 262,110,347
Total capital assets, being depreciated	59	1,574,741	1	19,820,841	(694,998)		610,700,584
Less accumulated depreciation Land improvements Buildings and improvements Fixed equipment Major moveable equipment	(13 (7	4,778,103) 7,902,370) 8,880,975) 6,985,575)		(102,108) (8,412,138) (3,477,080) (0,074,955)	- - 86,745 554,213		(4,880,211) (146,314,508) (82,271,310) (226,506,317)
Total accumulated depreciation	(43	8,547,023)	(2	22,066,281)	640,958	(	459,972,346)
Total capital assets being depreciated, net	15	3,027,718		(2,245,440)	(54,040)		150,728,238
Total capital assets, net	\$ 16	4,324,581	\$	5,537,617	\$ (7,654,234)	\$	162,207,964

# Memorial Hospital at Gulfport Notes to Financial Statements

**NOTE 5: CAPITAL ASSETS (CONTINUED)** 

	Balance 10/1/2018	Additions	Reductions	Balance 9/30/2019
Capital assets, not being depreciated				-
Land	\$ 6,271,386	\$ -	\$ -	\$ 6,271,386
Construction in progress	3,100,117	2,232,788	(307,428)	5,025,477
Total capital assets not being depreciated	9,371,503	2,232,788	(307,428)	11,296,863
Capital assets, being depreciated				
Land improvements	4,863,228	-	-	4,863,228
Buildings and improvements	229,374,585	2,912,042	-	232,286,627
Fixed equipment	104,232,286	1,471,020	(688,332)	105,014,974
Major moveable equipment	241,124,838	10,147,358	(1,862,284)	249,409,912
Total capital assets, being depreciated	579,594,937	14,530,420	(2,550,616)	591,574,741
Less accumulated depreciation				
Land improvements	(4,674,725)	(103,378)	-	(4,778,103)
Buildings and improvements	(129,889,492)	(8,012,878)	-	(137,902,370)
Fixed equipment	(76,024,370)	(3,471,162)	614,557	(78,880,975)
Major moveable equipment	(204,844,924)	(14,002,463)	1,861,812	(216,985,575)
Total accumulated depreciation	(415,433,511)	(25,589,881)	2,476,369	(438,547,023)
Total capital assets being depreciated, net	164,161,426	(11,059,461)	(74,247)	153,027,718
Total capital assets, net	\$ 173,532,929	\$ (8,826,673)	\$ (381,675)	\$ 164,324,581

Depreciation expense for the years ended September 30, 2020 and 2019 totaled \$22,066,281 and \$25,589,881, respectively.

#### **NOTE 6: INVESTMENT IN JOINT VENTURE**

Effective April 1, 2017, the Hospital entered into an agreement with HealthSouth Gulfport Holdings, LLC ("HSGH"), whereby HSGH purchased the assets of the Hospital's 33-bed inpatient rehabilitation unit and ancillary services provided to the unit's patients. In coordination with the purchase, Encompass was created to serve as the owner and operator of the rehabilitation unit. Encompass is considered a joint venture between the Hospital and HSGH, in which the Hospital holds an equity interest. During fiscal years 2020 and 2019, the Hospital recognized approximately \$1,130,792 and \$1,035,000, respectively, in facility rent incurred by HSGH, which was recorded in other operating revenue. Per the purchase agreement, the Hospital transferred capital and intangible assets including a related certificate of need, into Encompass and received a twenty percent ownership interest in Encompass, which is accounted for under the equity method.

## NOTE 6: INVESTMENT IN JOINT VENTURE (CONTINUED)

The following is summarized unaudited financial information for Encompass as of and for the years ended September 30, 2020 and 2019:

	9/30/2020 (Unaudited)	9/30/2019 (Unaudited)
Total assets	\$ 34,286,305	\$ 25,200,635
Liabilities Equity	\$ 12,872,766 21,413,539	\$ 9,127,776 16,072,859
Total liabilities and equity	34,286,305	25,200,635
Net income	\$ 4,535,333	\$ 5,658,020

#### **NOTE 7: LONG-TERM DEBT**

The Hospital's long-term debt, including capital lease obligations, consisted of the following obligations:

September 30,	2020	2019
Hospital Revenue Refunding Bonds Series 2016A, original principal amount of \$49,270,000, bearing an interest rate of 5%. Interest payments are due semi-annually, maturing in 2031, collaterized by a pledge of the Hospital's revenues.	\$ 43,570,000	\$ 46,490,000
Capital lease obligation, interest rate of 5.75%, maturing October 2022, collateralized by the Hospital's capital assets.	2,834,134	4,674,572
Unamortized bond premium	5,472,166	6,372,366
Total long-term debt Current portion of long-term debt	51,876,300 (4,295,685)	57,536,938 (4,760,438)
Long-term debt, net of current portion	\$ 47,580,615	\$ 52,776,500

Under the terms of the bond indenture for the revenue refunding bonds, the Hospital is required to maintain deposits with a trustees. The bond indenture also requires that the Hospital satisfy certain measures of financial performance as long as the bonds are outstanding. Under the most restrictive covenants under the bond indenture, the Hospital is required to maintain debt coverage ratio greater than 115%. As of September 30, 2020 and 2019, the Hospital was in compliance with such covenants.

## NOTE 7: LONG-TERM DEBT (CONTINUED)

A summary of changes in the Hospital's long-term debt, including capital lease obligations, for the years ended September 30, 2020 and 2019 follows:

	Balance 10/1/2019	Additions		F	Reductions	Balance 9/30/2020	_	ue Within One Year
Capital lease obligation	\$ 4,674,572	\$	-	\$	(1,840,438)	\$ 2,834,134	\$	1,230,685
Revenue bonds payable								
Series 2016A	46,490,000		-		(2,920,000)	43,570,000		3,065,000
Premium on Series 2016A	6,372,366		-		(900,200)	5,472,166		
Revenue bonds payable	52,862,366		-		(3,820,200)	49,042,166		3,065,000
Total long-term debt	\$ 57,536,938	\$ •	-	\$	(5,660,638)	\$ 51,876,300	\$	4,295,685

	Balance 10/1/2018	Additions	Reductions	Balance 9/30/2019	Due Within One Year
Capital lease obligation	\$ 6,863,519	\$ -	\$ (2,188,947)	\$ 4,674,572	\$ 1,840,438
Revenues bonds payable					
Series 2016A	49,270,000	-	(2,780,000)	46,490,000	2,920,000
Premium on Series 2016A	7,326,396	_	(954,030)	6,372,366	-
Revenue bonds payable	56,596,396	ı	(3,734,030)	52,862,366	2,920,000
Total long-term debt	\$ 63,459,915	\$ -	\$ (5,922,977)	\$ 57,536,938	\$ 4,760,438

Scheduled principal and interest payments for the revenue bonds payable and future minimum lease payments on capital lease obligations are as follows:

	Capital Lease Obligation			 Revenue Bo	nds	Payable		
Year ending September 30,	Principal			Interest	Principal	Interest		
2021	\$	1,230,685	\$	167,327	\$ 3,065,000	\$	2,178,500	
2022		944,139		94,667	3,220,000		2,025,250	
2023		659,310		38,926	3,380,000		1,864,250	
2024		-		-	3,550,000		1,695,250	
2025		-		-	3,730,000		1,517,750	
2026-2030		-		-	21,630,000		4,599,500	
2031-2035		_		_	4,995,000		249,750	
Total	\$	2,834,134	\$	300,920	\$ 43,570,000	\$	14,130,250	

The equipment related to the capital lease is fully depreciated as of September 30, 2019.

## NOTE 7: LONG-TERM DEBT (CONTINUED)

## Capital Lease

In 2013, the Hospital entered into a ten-year equipment, software and services agreement with a major information technology vendor. The agreement generally commits the Hospital to the purchase of a variety of information technology products and services from this vendor for a defined payment stream over the term of the contract. The contract included a ten-year financing agreement for certain equipment, software licenses and support fees totaling \$17,401,754, maturing in 2023, and is included as a capital lease in the accompanying financial statements. Software maintenance expense associated with this contract of \$4,225,501 and \$4,208,122 was recognized for the years ended September 30, 2020 and 2019, respectively.

The following table summarizes the future payment commitments by year under the contract pertaining to fees, subscriptions and other related services, as of September 30, 2020. The Hospital has the ability under the contract to terminate these services on six months' notice and a termination fee, as defined in the contract.

Year ending September 30,	Amount
2021	\$ 4,244,619
2022	4,265,648
2023	4,266,552
Total	\$ 12,776,819

#### **NOTE 8: NET INVESTMENT IN CAPITAL ASSETS**

The Hospital's net investment in capital assets, as presented on the accompanying statements of net position is calculated as follows:

September 30,	2020	2019
Capital assets, net	\$ 162,207,964	\$ 164,324,581
Less debt related to capital assets:	. , ,	. , ,
Capital leases	(2,834,134)	(4,674,572)
Bonds payable, including premium	(49,042,166)	(52,862,366)
Net investment in capital assets	\$ 110,331,664	\$ 106,787,643

# Memorial Hospital at Gulfport Notes to Financial Statements

#### **NOTE 9: NET PATIENT SERVICE REVENUE**

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

Medicare — Inpatient acute, rehabilitation, and outpatient services rendered to Medicare beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, outcome and other factors. Medicare bad debts and disproportionate share payments are paid at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor.

Medicaid – Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon the Ambulatory Payment Classification ("APC") system for outpatient payments and an APR-DRG system for inpatient payment. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid contractor. The inpatient rates are established by the Agency for Health Care Administration ("AHCA") for which the Hospital is a provider. Outpatient services are reimbursed based on a per diem amount established by utilization on a semi-annual basis.

The Hospital participates in the Mississippi Intergovernmental Transfer Program as a Medicaid Disproportionate Share Hospital ("DSH"). Under this program, the Hospital receives enhanced reimbursement through a matching mechanism. For the fiscal years ended September 30, 2020 and 2019, the Hospital reported \$25,085,146 and \$29,926,370, respectively, in enhanced reimbursement through the DSH program. DSH amounts are shown as a reduction of contractual adjustment with related assessments of approximately \$8,413,039 and \$11,474,041 recorded in operating expenses for the year ended September 30, 2020 and 2019, respectively.

The Hospital participates in the Division of Medicaid ("DOM") Mississippi Hospital Access Payment ("MHAP") program (the "MHAP Program"). The MHAP program is administered by the DOM through the Mississippi CAN coordinated care organizations ("CCO"). The CCO's will subcontract with the hospitals throughout the state for distribution of the MHAP for the purpose of protecting patient access to hospital care. The MHAP programs and associated tax were distributed and collected in quarterly payments through the year. For the fiscal years ended September 30, 2020 and 2019, the Hospital reported \$19,061,523 and \$19,292,834, respectively, in enhanced reimbursement from the MHAP program.

#### **NOTE 9: NET PATIENT SERVICE REVENUE**

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change. The 2020 net patient service revenue decreased \$776,960 and the 2019 net patient service revenue increased \$993,439, due to adjustments in excess of amounts previously estimated. As of September 30, 2020, cost reports for fiscal years 2016 and prior have been settled.

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

The composition of gross and net patient service revenue for the fiscal years ended September 30, 2020 and 2019 is as follows:

For the years ended September 30,	2020	2019
Gross patient service revenue	4,469,477,221	4,282,001,954
Less provision for contractual adjustments under third-		
party reimbursement programs and other adjustments	(3,702,447,699)	(3,584,327,791)
Provision for bad debts	(156,751,564)	(147,578,539)
Net patient service revenue	\$ 610,277,958	\$ 550,095,624

Gross patient service revenue by major payor class consisted of the following for the years ended September 30, 2020 and 2019

2020	2019
56.49%	54.82%
8.47%	9.56%
12.40%	11.61%
7.16%	7.68%
15.48%	16.33%
100.00%	100.00%
	56.49% 8.47% 12.40% 7.16% 15.48%

#### **NOTE 10: NONOPERATING REVENUES**

### The Coronavirus Aid, Relief, and Economic Security Act of 2020 and Related Legislation

Additional funding for the Public Health and Social Services Emergency Relief Fund ("Relief Fund") was among the provisions of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which was signed into law on March 27, 2020, and other legislation. In the year ended September 30, 2020, the Hospital received cash payments and recognized nonoperating income of \$41 million due to grants from the Relief Fund and state grant programs, which is reported as nonoperating income in the Hospital's accompanying statement of revenues, expenses, and changes in net position at September 30, 2020. The Hospital has reported \$72 million of payments as unearned revenue on the statement of net position. Payments from the Relief Fund are not loans and, therefore, they are not subject to repayment. However, as a condition to receiving distributions, providers must agree to certain terms and conditions, including, among other things, that the funds are being used for lost operating revenues and COVID-related costs, and that the providers will not seek collection of out-of-pocket payments from a COVID-19 patient that are greater than what the patient would have otherwise been required to pay if the care had been provided by an in-network provider. The Hospital recognizes grant payments as income when there is reasonable assurance of compliance with the conditions associated with the grant. The Hospital's estimates could change materially in the future based on Hospital's operating performance or COVID-19 activities at individual locations, as well as the evolving grant compliance guidance provided by the government.

The CARES Act and the Paycheck Protection Program and Health Care Enhancement Act ("Paycheck Protection Program"), which was signed into law on April 24, 2020, authorized up to \$2 trillion in government spending to mitigate the economic effects of the COVID-19 pandemic. Below is a brief overview of certain provisions of the CARES Act and related legislation that have impacted and are expected to continue to impact the Hospital's business. Please note that this summary is not exhaustive, and additional legislative action and regulatory developments may evolve rapidly. There is no assurance that the Hospital will continue to receive or remain eligible for funding or assistance under the CARES Act or similar measures.

<u>Public Health and Social Services Emergency Relief Fund</u> - To address the fiscal burdens on healthcare providers created by the COVID-19 public health emergency, the CARES Act and the Paycheck Protection Program authorized \$175 billion for the Relief Fund. During the year ended September 30, 2020, HHS commenced distribution of approximately \$100 billion in several tranches from the Relief Fund to providers, including:

- A \$50 billion general distribution to Medicare fee-for-service providers;
- An allocation of approximately \$15 billion to Medicaid and CHIP providers that did not receive an allocation from the \$50 billion general distribution;

# Memorial Hospital at Gulfport Notes to Financial Statements

### **NOTE 10: NONOPERATING REVENUES (CONTINUED)**

• Targeted distributions comprised of (i) \$12 billion for hospitals determined to be in areas particularly impacted by COVID-19 based on reported COVID-19 admissions, (ii) \$10 billion to rural healthcare providers, (iii) \$5 billion to skilled nursing facilities, (iv) \$10 billion to safety net hospitals and (v) \$500 million to tribal hospitals, clinics and urban health centers.

In July 2020, HHS announced the distribution of an additional \$4 billion (\$1 billion to rural hospitals and \$3 billion to safety net hospitals) and the expansion of the Relief Fund to dental providers. Payments from the Relief Fund are not loans and, therefore, they are not subject to repayment. However, as a condition to receiving distributions, providers had to agree to certain terms and conditions, including, among other things, that the funds be used for lost operating revenues and COVID-related costs, and that the providers not seek collection of out-of-pocket payments from a COVID-19 patient that are greater than what the patient would have otherwise been required to pay if the care had been provided by an in-network provider. Furthermore, HHS has indicated that it will be closely monitoring and, along with the Office of Inspector General, auditing providers to ensure that recipients comply with the terms and conditions of relief programs and to prevent fraud and abuse. All providers will be subject to civil and criminal penalties for any deliberate omissions, misrepresentations or falsifications of any information given to HHS. The Hospital formally accepted the terms and conditions associated with the receipt of Relief Fund payments the Hospital received.

<u>Medicare and Medicaid Payment Policy Changes</u> - The CARES Act also alleviates some of the financial strain on hospitals, physicians, and other healthcare providers and states through a series Medicare and Medicaid payment policies that temporarily increase Medicare and Medicaid reimbursement and allow for added flexibility, as described below.

- Effective May 1, 2020 through December 31, 2020, the 2% sequestration reduction on Medicare FFS and Medicare Advantage payments to hospitals, physicians and other providers authorized by the Sequestration Transparency Act of 2020 is suspended and will resume effective January 2021. The suspension is financed by a one-year extension of the sequestration adjustment through 2030.
- The CARES Act instituted a 20% increase in the Medicare MS-DRG payment for COVID-19 hospital admissions for the duration of the public health emergency as declared by the Secretary of HHS.
- The scheduled reduction of \$4 billion in federal Medicaid DSH allotments in FFY 2020, as mandated by the Affordable Care Act, is suspended until December 1, 2020. Also, the federal DSH allotment reduction for FFY 2021 will be reduced from \$8 billion to \$4 billion. Notwithstanding these adjustments, the ACA-mandated reduction is not expected to be extended past its original termination in FFY 2025.

## **NOTE 10: NONOPERATING REVENUES (CONTINUED)**

- The CARES Act expanded the Medicare accelerated payment program, which provides prepayment of claims to providers in certain circumstances, such as national emergencies or natural disasters. Under this measure, providers could request accelerated payments that may be retained for 120 days during which time providers continue to receive payments for services. At the end of the 120-period, the accelerated payment will be repaid via a 100% offset of payments on claims that would otherwise be paid. The repayment period for hospitals and other providers is one year and 210 days, respectively, from the date of receipt of the accelerated payment, after which interest is assessed on the unpaid balance.
- A 6.2% increase in the Federal Medical Assistance Percentage ("FMAP") matching funds was instituted to help states respond to the COVID-19 pandemic. The additional funds are available to states from January 1, 2020 through the quarter in which the public health emergency period ends, provided that states meet certain conditions. An increase in states' FMAP leverages Medicaid's existing financing structure, which allows federal funds to be provided to states more auickly efficiently than establishing new program a money from a new funding stream. Increased federal matching funds support states in responding to the increased need for services, such as testing and treatment during the COVID-19 public health emergency, as well as increased enrollment as more people lose income and qualify for Medicaid during the economic downturn.

Because of the uncertainty associated with various factors that may influence the Hospital's future Medicare and Medicaid payments, including future legislative, legal or regulatory actions, or changes in volumes and case mix, there is a risk that the Hospital's estimates of the impact of the aforementioned payment and policy changes will be incorrect and that actual payments received under, or the ultimate impact of, these programs may differ materially from the Hospital's expectations.

#### **NOTE 11: INSURANCE PROGRAMS**

### **Risk Management**

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

## **NOTE 11: INSURANCE PROGRAMS (CONTINUED)**

### Self-funded Health Insurance

The Hospital is self-insured for employee medical and dental benefits. Employees have three options with varying benefits in relation to these plans for which the general terms are detailed in the plan documents. The Hospital purchases reinsurance coverage which limits the aggregate claim losses per employee. Employees participate in this plan, and the Hospital makes premium payments based on actuarial estimates of the amount needed to pay prior and current year claims and to establish a reserve for catastrophic losses.

The Hospital records a liability for claims incurred but not reported or paid. This liability at September 30, 2020 and 2019 is based on the requirements of GASB statement No. 10, which requires that liability for claims be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonable estimated.

Changes to the Hospital's health insurance liability amount, reported as other accrued expenses in the statement of net position for the years ending September 30, 2020 and 2019, are as follows:

	2020	2019
Claims liability, beginning of year	\$ 779,020	\$ 1,507,141
Current year claims and changes in estimates	13,033,045	11,603,701
Claims payments	(12,339,236)	(12,331,822)
Claims liability, end of year	\$ 1,472,829	\$ 779,020

## **Self-Insured Workers' Compensation**

The Hospital has a self-insured workers' compensation program defined by the Workers' Compensation Law for employees injured in the course and scope of employment. The Hospital retains the first \$650,000 of incurred liability with the excess insurance being provided on unlimited basis over and above the self-insured retention. Changes to the Hospital's workers' compensation liability, which is reported as other accrued expenses in the statement of net position for the years ending September 30, 2020 and 2019, are as follows:

	2020	2019
Claims liability, beginning of year	\$ 2,822,984	\$ 2,114,152
Current year claims and changes in estimates	3,078,708	2,346,424
Claims payments	(1,618,726)	(1,637,592)
Claims liability, end of year	\$ 4,282,966	\$ 2,822,984

## NOTE 11: INSURANCE PROGRAMS (CONTINUED)

## Medical Malpractice Insurance

The Hospital holds professional and general liability insurance under a self-funded plan. At year-end, the Hospital has accrued for an estimate of losses for malpractice and general liability claims outstanding, based on historical loss and loss adjustment expenses development patterns development patterns. The future assertion of claims for occurrences prior to year-end is reasonably possible and may occur, although not anticipated. In any event, management believes that any such claims would be substantially covered under its insurance program.

The Mississippi Tort Claims Act ("MTCA") provides a cap on amount of damages recoverable against government entities, including governmental hospitals. The amount recoverable for claims is the greater of \$500,000 or the amount of liability insurance coverage that has been retained. Changes to the Hospital's medical malpractice liability, which is reported as other accrued expenses in the statement of net position for the years ending September 30, 2020 and 2019 are as follows:

	2020	2019
Claims liability, beginning of year	\$ 1,133,350	\$ 3,147,464
Current year claims and changes in estimates	2,614,843	(794,179)
Claims payments	(754,036)	(1,219,935)
Claims liability, end of year	\$ 2,994,157	\$ 1,133,350

#### **NOTE 12: RETIREMENT PLANS**

### **Description of Plan**

The Hospital maintains a contributory single-employer defined benefit pension plan (the "Plan") that provide for retirement, disability and death benefits as described below. The Hospital elected to freeze the Plan to new entrants as of January 1, 2012. Information about the Plan follows:

The Plan is administered by the Director of the Hospital's Department of Human Resources. The Plan provides retirement, disability and death benefits to Plan Members and beneficiaries. Benefit provisions are established by the Hospital's Board of Trustees. The Plan issues a financial report, available for all participants, that includes financial statements and required supplementary information. That information may be obtained by writing to Human Resources, Memorial Hospital, P.O. Box 1810, Gulfport, MS, 39501.

### **Benefits Provided**

Plan participating members who are vested and retire at or after age 65 or those who retire at age 55 with at least 25 years of creditable services are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount of equal to 1.00 percent of their average monthly earnings up to \$3,333, plus 1.5 percent of average monthly earnings in excess of \$3,333, multiplied by years of continuous services to a maximum of 25 years. Average compensation is the average of the employee's earnings for the highest 60 consecutive calendar month's earnings out of 120 months preceding retirement or termination, limited as required by Internal Revenue Code section 401(a)(17). A member may elect a reduced retirement benefit at age 55 with at least 10 years of consecutive service. Benefits vest upon completion of 5 years of continuous service. The Plan also provides certain death and disability benefits.

## **Employees Covered by Benefit Terms**

The following employees were covered by the benefit terms, as of the October 1, 2018 actuarial valuation date as follows:

	October 1, 2018
Active members	1,221
Active members with benefits suspended	118
Terminated vested members	241
Retired members	324
Beneficiaries of deceased members	7
Total members	1,911

Members of the Plan are not required or permitted to contribute any portion of their salary to fund the Plan. The Hospital has committed to fund an actuarially determined contribution based on a closed amortization period, which means that payment of the actuarially determined contribution each year will bring the plan to a 100 percent funded position by the end of the amortization period.

#### **Net Pension Liability**

At September 30, 2020 and 2019, the Hospital reported a net pension liability of \$39,274,400 and \$52,510,457, respectively. The net pension liability was measured as of September 30, 2020 and 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2018. The Hospital's net pension liability was based on a projection of the Hospital's long-term share of contributions to the pension plan, actuarially determined.

For the year ended September 30, 2020, the Hospital recognized pension expense of \$9,135,129 and \$12,117,376, respectively.

At September 30, 2020, the Hospital reported deferred outflows and inflows of resources related to pensions from the following sources:

		2020		2019
Deferred outflows of resources				
Change of assumptions	\$	3,311,534	\$	4,569,313
Net difference between projected and actual earnings on pension plan investments Difference between expected and actual experience		-		1,195,092
on economic/demographic assumptions		5,079,455		6,816,745
Total deferred outflows of resources	\$	8,390,989	\$	12,581,150
Deferred inflows of resources Change of assumptions Net difference between projected and actual earnings on pension plan investments Difference between expected and actual experience on economic/demographic assumptions	\$	(5,119,391) (2,051,802) (135,081)	\$	- - (176,773)
Total deferred inflows of resources	Ś	(7,306,274)	\$	(176,773)
Total activity illions of resoultes	<u> </u>	(7,500,274)	Υ	(1,0,7,3)

Deferred outflows and inflows of resources related to pensions will be recognized as pension expense as follows:

## Year ending September 30,

2021	\$ 1,339,927
2022	1,625,583
2023	(313,204)
2024	(1,123,444)
2025	(444,147)

## **Actuarial Methods and Assumptions**

The assumptions reflect the adoption of an Experience Study report dated July 26, 2017, which proposed modifications to the demographic and economic actuarial assumptions.

Valuation date	October 1, 2018	October 1, 2018
Measurement date	September 30, 2020	September 30, 2019
Inflation	2.60%	2.60%
Salary increases including inflation	3% for all years	2% for plan years prior to 2018, 3% for 2018, and 4% thereafter
Actuarial cost method	Entry Age Normal	Entry Age Normal
Mortality	PRI2012 Mortality Table with generational projections using Scale MP-2019 for males and females.	RP-2000 Mortality Table with generational projections using Scale AA for for males and females.

Changes in assumptions since the previous measurement date include the following:

- The salary increase assumption was changed from 2% for plan years prior to 2018, 3% for 2018 and 4% thereafter, to 3% for all years.
- The mortality table was updated from RP-2000 mortality table with generational projections using Scale AA for males and females to PRI2012 mortality table with generational projections using Scale MP-2019 for males and females.

The net pension liability activity for the year ended September 30, 2020 and 2019 was as follows:

	Т	otal Pension Liability	rease (Decrease Plan Fiduciary Net Position	Net Pension Liability
Balance as of October 1, 2018	\$	168,169,320	\$ 118,493,137	\$ 49,676,183
Changes for the year:				
Service cost		4,867,462	-	4,867,462
Interest on total pension liability		10,526,785	-	10,526,785
Economic/demographic loss		4,807,132	-	4,807,132
Benefit payments		(9,358,278)	(9,358,278)	-
Employer contributions		-	10,983,458	(10,983,458)
Net Investment income		-	6,383,647	(6,383,647)
Balance as of September 30, 2019 Changes for the year:		179,012,421	126,501,964	52,510,457
Service cost		4,698,699	_	4,698,699
Interest on total pension liability		11,146,339	_	11,146,339
Effect of assumption changes or inputs		(6,288,202)	-	(6,288,202)
Benefit payments		(10,904,658)	(10,904,658)	-
Employer contributions		-	11,051,524	(11,051,524)
Net Investment income		-	11,741,369	(11,741,369)
Balance as of September 30, 2020	\$	177,664,599	\$ 138,390,199	\$ 39,274,400

## **Sensitivity Analysis**

The following presents the net pension liability of the Hospital, calculated using the discount rate of 6.25%, as well as what the Hospital's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.25%) or 1 percentage point higher (7.25%) than the current rate.

		2020	
		Current	_
	1% Decrease	<b>Discount Rate</b>	1% Increase
	5.25%	6.25%	7.25%
Total pension liability	\$ 194,851,140	\$ 177,664,599	\$ 162,848,638
Fiduciary net position	138,390,199	138,390,199	138,390,199
Net pension liability	56,460,941	39,274,400	24,458,439

		2019	
		Current	
	1% Decrease	<b>Discount Rate</b>	1% Increase
	5.25%	6.25%	7.25%
Total pension liability	\$ 196,291,211	\$ 179,012,421	\$ 164,098,025
Fiduciary net position	126,501,964	126,501,964	126,501,964
Net pension liability	69,789,247	52,510,457	37,596,061

## **Discount Rate**

	2020	2019
Discount rate	6.25%	6.25%
Long-term expected rate of return, net of investment expenses	6.25%	6.25%

The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

## Rate of Return

The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

	Target	Long-term Expected
Asset Class	Allocation	Real Rate of Return
U.S. Cash	1%	-0.44%
U. S. Short-Term Bonds	13%	0.06%
U.S. Intermediate Bonds	13%	0.29%
U.S. Long-Term Bonds	9%	1.37%
U.S. Inflation-Indexed Bonds	1%	1.03%
U.S. High-Yield Bonds	10%	3.13%
Emerging Markets Bonds	1%	2.90%
U.S. Small Caps	7%	4.35%
U.S. Mid Caps	5%	3.69%
U.S. Large Growth	13%	3.47%
U.S. Large Value	5%	3.81%
Foreign Developed Equity	2%	4.98%
Emerging Markets Equity	13%	5.82%
Non U.S. Small Cap	5%	5.37%
Global REITs	2%	4.46%

For the years ended September 30, 2020 and 2019, the net annual money-weighted rate of return was 9.48% and 5.61%, respectively. The net annual money-weighted rate of return expresses investment performance, net of pension plan investment expenses, considering the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period

## **Defined Contribution Plan**

The Hospital sponsors a defined contribution plan qualified under Section 403b of the internal Revenue Code (the "403b Plan"). Under provisions of the 403b plan, employees may contribute up to 100 percent of their annual compensation, as defined. Effective beginning January 1, 2010, the Hospital matches contributions up to 50 percent of the first 3 percent of an employee's contribution. The Hospital's matching contributions, net of forfeiture credits, totaled \$2,157,364 and \$886,904 for the years ended September 30, 2020 and 2019, respectively.

#### **NOTE 13: SIGNIFICANT ESTIMATES AND CONCENTRATIONS**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

#### **Accounts Receivable**

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

	2020	2019
Medicare	38.13%	38.34%
Medicaid	7.79%	11.16%
Commercial Insurance	30.95%	28.18%
Self-pay	16.67%	19.65%
Other	6.46%	2.67%
	100.00%	100.00%

## NOTE 13: SIGNIFICANT ESTIMATES AND CONCENTRATIONS (CONTINUED)

### Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each allegation. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

#### **NOTE 14: COMMITMENTS AND CONTINGENCIES**

#### **Operating Leases**

The Hospital leases various buildings and equipment under operating leases expiring at various dates through 2029. Total rental expense for the years ended September 30, 2020 and 2019 for all operating leases was approximately \$19,844,977 and \$12,435,334, respectively.

The following is a schedule by year of the approximate future minimum lease payments under non-cancelable operating leases as of September 30, 2020 that have initial or remaining lease terms in excess of one year:

Year ending September 30,	Amount			
2021	\$ 18,160,512			
2022	12,231,262			
2023	8,470,502			
2024	7,106,598			
2025	5,009,845			
2026 -2029	11,040,007			
Total	\$ 62,018,726			

#### COVID-19

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a pandemic. As a result, uncertainties have arisen that may have a significant negative impact on the operating activities and results of the Organization. The occurrence and extent of such an impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) voluntary and precautionary restrictions on travel or meetings, (iv) the effects on the financial markets, and (v) the effects on the economy overall, all of which are uncertain.

## **NOTE 15: BLENDED COMPONENT UNITS**

Condensed financial information for the Hospital's blended component units for the year ended September 30, 2020 was as follows:

Condensed Statement of Net Position	ı	oundation	MHAHS	MPI		SHC	MHG Foundation
Assets Current assets Capital assets, net	\$	21,981	\$ 1,362,422 -	\$ 623,434 1,528,100	\$ 7,0	027,469 17,826	\$ 3,387,167 -
Noncurrent assets		-	57,829	4,355,039	į	590,449	2,351,797
Total assets		21,981	1,420,251	6,506,573	7,6	535,744	5,738,964
Liabilities Current liabilities Due to the Hospital		- 36,750,238	- 941,500	- 4,469,750	į	594,431 -	6,174 4,984
Total liabilities		36,750,238	941,500	4,469,750	į	594,431	11,158
Net position Net investment in capital assets Restricted - expendable Restricted - nonexpendable Unrestricted		- - - (36,728,257)	- - - 478,751	1,528,100 - - 508,723	7,0	17,826 - - - 023,487	- 1,614,488 1,880,115 2,233,203
Total net position	\$	(36,728,257)	\$ 478,751	\$ 2,036,823	\$ 7,0	041,313	\$ 5,727,806
Condensed Statement of Revenues, Expenses, and Changes in Net Position	ı	- Foundation	MHAHS	MPI	(	SHC	MHG Foundation
Operating revenues Operating expenses	\$	-	\$ -	\$ - -		207,302 314,202	\$ - 346,824
Operating income Nonoperating revenues (expenses)		- 15	- 5,628	- 2,413,770	3	393,100 88,991	(346,824) 1,947,532
Change in net position		15	5,628	2,413,770	4	482,091	1,600,708
Net position, beginning of year		(36,728,272)	473,123	(376,947)	6,5	559,222	4,127,098
Net position, end of year	\$	(36,728,257)	\$ 478,751	\$ 2,036,823	\$ 7,0	041,313	\$ 5,727,806
							MHG
Condensed Statement of Cash Flows		oundation	MHAHS	MPI		SHC	Foundation
Net cash provided (used) by Operating activities Noncapital financing activities Capital and related financing activities Investing activities	\$	- - - 15	\$ - - - 5,532	\$ - - - 328,616	•	563,235 - (8,859) 140,862	\$ (368,472) 1,993,519 41,675 8,199
Net increase in cash and cash equivalents		15	5,532	328,616	4,6	595,238	1,674,921
Cash and cash equivalents, beginning of year		21,966	1,356,890	294,818	1,9	964,286	316,739
Cash and cash equivalents, end of year	\$	21,981	\$ 1,362,422	\$ 623,434	\$ 6,6	559,524	\$ 1,991,660

## NOTE 15: BLENDED COMPONENT UNITS (CONTINUED)

Condensed financial information for the Hospital's blended component units for the year ended September 30, 2019 was as follows:

Condensed Statement of Net Position	F	oundation	MHAHS		MPI	SHC	Fo	MHG oundation
Assets Current assets	\$	21,966	\$ 1,356,890	\$	294,818	\$ 2,154,618	\$	1,565,999
Capital assets, net		-	-		1,528,100	104,183		125,000
Noncurrent assets Total assets		21.066	57,733		3,547,448	4,642,320		2,451,529
Total assets  Liabilities		21,966	1,414,623		5,370,366	6,901,121		4,142,528
Current liabilities		-	-		1,277,563	341,899		4,815
Due to the Hospital		36,750,238	941,500		4,469,750	-		10,615
Total liabilities		36,750,238	941,500		5,747,313	341,899		15,430
Net position (deficit) Net investment in capital assets Restricted - expendable		-	-		1,528,100	104,183		125,000 1,454,711
Restricted - nonexpendable		-	-		-	-		1,846,537
Unrestricted		(36,728,272)	473,123	(	1,905,047)	6,455,039		700,850
Total net position	\$	(36,728,272)	\$ 473,123	\$	(376,947)	\$ 6,559,222	\$	4,127,098
Condensed Statement of Revenues, Expenses, and Changes in Net Position	F	oundation	MHAHS		MPI	SHC	Fo	MHG oundation
Operating revenues	\$	-	\$ -	\$	-	\$ 2,556,021	\$	419,349
Operating expenses		-	-		1,025	2,332,823		376,809
Operating income (loss)  Nonoperating revenues (expenses)		324	6,766		(1,025) 1,132,109	223,198 133,412		42,540 (26,475)
Change in net position		324	6,766		1,131,084	356,610		16,065
Distribution to Hospital		-	-		(650,000)	-		-
Net position, beginning of year		(36,728,596)	466,357		(858,031)	6,202,612		4,111,033
Net position, end of year	\$	(36,728,272)	\$ 473,123	\$	(376,947)	\$ 6,559,222	\$	4,127,098
Condensed Statement of Cash Flows	-	oundation	MHAHS		MPI	SHC	E,	MHG oundation
Net cash provided (used) by:	<u> </u>	oundation	WITATIS		IVIFI	3110	.,	Junuation
Operating activities  Noncapital financing activities	\$	-	\$ -	\$	-	\$ 517,138	\$	(370,869) 459,363
Investing activities		324	6,766		(368,997)	(183,783)		7,491
Net increase (decrease) in cash and cash equival		324	6,766		(368,997)	333,355		95,985
Cash and cash equivalents, beginning of year		21,642	1,350,124		663,815	1,630,931		220,754
Cash and cash equivalents, end of year	\$	21,966	\$ 1,356,890	\$	294,818	\$ 1,964,286	\$	316,739

# Memorial Hospital at Gulfport Notes to Financial Statements

### **NOTE 16: SUBSEQUENT EVENTS**

Management evaluated all events or transactions that occurred after September 30, 2020 through December 11, 2020, the date the Hospital's financial statements were available to be issued.

#### Joint Venture

Newco, Biloxi Health Systems, LLC, was formed in October 2020 by subsidiaries of Community Health Systems for the purpose of transacting a membership purchase interest in Merit Health Biloxi and associated operating subsidiaries by Memorial Properties Inc., a wholly owned subsidiary of the Hospital. On November 30, 2020, a transaction occurred, in which Memorial Properties Inc. purchased a 50% interest in the Newco, Biloxi Health Systems, LLC (Newco) in the amount of \$14,575,000. The board of directors of Newco was created, establishing a five member board of which two are designated by the Hospital. Actions and matters taken by the board require a supermajority vote. Managerial duties of Newco will be the responsibility of Community Health Systems and its affiliates.



Memorial Hospital at Gulfport
Required Pension Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
Last Six Fiscal Years

As of and for the year ended September 30,	2020	2019	2018	2017	2016	2015
Total Pension Liability						
Service cost	\$ 4,698,699	\$ 4,867,462	\$ 5,234,042	\$ 5,693,697	\$ 6,037,324	\$ 6,434,641
Interest on total pension liability	11,146,339	10,526,785	10,392,920	10,130,465	9,561,477	9,029,915
Difference between expected						
and actual experience	-	4,807,132	(260,157)	5,583,619	<del>-</del>	-
Changes of assumptions	(6,288,202)	-	3,794,505	3,695,767	286,113	-
Benefit payments	(10,904,658)	(9,358,278)	(11,122,938)	(7,866,611)	(6,974,244)	(7,956,179)
Net change in pension liability	(1,347,822)	10,843,101	8,038,372	17,236,937	8,910,670	7,508,377
Total pension liability, beginning	179,012,421	168,169,320	160,130,948	142,894,011	133,983,341	126,474,964
Total pension liability, ending (a)	\$ 177,664,599	\$ 179,012,421	\$ 168,169,320	\$ 160,130,948	\$ 142,894,011	\$ 133,983,341
Plan Fiduciary Net Position						
Employer contributions	11,051,524	10,983,458	10,678,521	10,911,471	10,733,545	10,934,839
Net investment income	11,741,369	6,383,647	4,597,095	8,413,073	7,780,363	1,437,393
Benefit payments	(10,904,658)	(9,358,278)	(11,122,938)	(7,866,611)	(6,974,244)	(7,956,179)
Net change in plan fiduciary net position	11,888,235	8,008,827	4,152,678	11,457,933	11,539,664	4,416,053
Plan fiduciary net position, beginning	126,501,964	118,493,137	114,340,459	102,882,526	91,342,862	86,926,809
Plan fiduciary net position, ending (b)	\$ 138,390,199	\$ 126,501,964	\$ 118,493,137	\$ 114,340,459	\$ 102,882,526	\$ 91,342,862
Plan net pension liability, ending (a)-(b)	\$ 39,274,400	\$ 52,510,457	\$ 49,676,183	\$ 45,790,489	\$ 40,011,485	\$ 42,640,479
Plan fiduciary net position as a percentage of total pension liability	77.89%	70.67%	70.46%	71.40%	72.00%	68.17%
Covered payroll	\$ 65,270,608	\$ 68,786,411	\$ 68,536,551	\$ 75,668,481	\$ 82,724,150	\$ 86,887,090
Net pension liability as a percentage of covered payroll	60.17%	76.34%	72.48%	60.51%	48.37%	49.08%

Note: This schedule is intended to report information for ten fiscal years. Additional years will be reported as they become available.

## Memorial Hospital at Gulfport Required Pension Supplementary Information Schedule of Employer Contributions Last Six Fiscal Years

Year Ended September 30,	2020	2019	2018	2017	2016	2015
Actuarially determined contribution Contributions in relation to the	\$ 11,051,524	\$ 10,983,458	\$ 10,678,521	\$ 10,911,471	\$ 10,733,545	\$ 10,934,839
actuarially determined contribution	(11,051,524)	(10,983,458)	(10,678,521)	(10,911,471)	(10,733,545)	(10,934,839)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 65,270,608	\$ 68,786,411	\$ 68,536,551	\$ 75,668,481	\$ 82,724,150	\$ 86,887,090
Contributions as a percentage of covered payroll	16.93%	15.97%	15.58%	14.42%	12.98%	12.59%

Note: This schedule is intended to report information for ten fiscal years. Additional years will be reported as they become available.

# Memorial Hospital at Gulfport Notes to Required Supplementary Information

#### **NOTE 1: ACTUARIAL VALUATION INFORMATION**

Methods and assumptions used to determine contribution rates was based on census information used in the October 1, 2018 actuarial report.

Actuarial valuation date October 1, 2018
Actuarial cost method Entry age normal

Amortization method Level dollar basis, closed

Remaining amortization period 15 years

Asset valuation method 5-year smoothed market

Inflation 2.60%

Salary increases 2.00% for plan years prior to 2018

3.00% for 2018 4.00% thereafter

Investment rate of return 6.25% net of pension plan investment expenses,

including inflation

Retirement age Experienced-based table of rates that are specific

to the type of eligibility condition

Mortality RP-2000 Mortality Table with generational

projections using Scale AA for males and females

#### **NOTE 2: ACTUARIAL METHOD AND ASSUMPTION CHANGES**

Changes in assumptions for the September 30, 2020 measurement date include the following:

- The salary increase assumption was changed from 2% for plan years prior to 2018, 3% for 2018 and 4% thereafter, to 3% for all years.
- The mortality table was updated from RP-2000 mortality table with generational projections using Scale AA for males and females to PRI2012 mortality table with generational projections using Scale MP-2019 for males and females.



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

Board of Trustees Memorial Hospital at Gulfport Gulfport, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Memorial Hospital at Gulfport (the "Hospital"), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated December 11, 2020.

## **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) 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 Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies

may exist that have not been identified. We did identify a certain deficiency in internal control, described below that we consider to be a material weakness.

#### **Restatement**

Criteria: Compensated absences should be accrued as a liability as the benefits are earned by the employee if the employee has a right to receive compensation attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

Condition: The Hospital discounted leave for accumulated paid time off (PTO) for holiday time and recorded sick leave based on the prior history of termination payments (based on a 3-year lookback) and benefits eligible status of employees upon termination (i.e. "termination without cause and providing adequate notice"). Errors were noted in the methodologies and percentages used in these calculations based on prior termination activity and those eligible for accrued leave.

Cause: The Hospital's method of calculation has been carried forward many years which resulted in a less than fully accrued PTO and sick liability.

Effect: A restatement of the prior period financial statements was required for the additional accumulated leave liability due to the significance of the adjustment.

Recommendation: We recommend that the Hospital develop procedures to ensure the methodology and information used in the calculation of these leave balances is based on current termination activity (last three to five years) and those eligible for accrued leave.

Management's Response: See corrective action plan.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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.

Laurel, Mississippi

Caux Rigge & Ingram, L.L.C.

## Memorial Hospital at Gulfport Corrective Action Plan



December 11, 2020

Outlined below is the Hospital's corrective action plan for Audit Finding 2020-001 - Restatement.

#### Finding 2020-001 - Restatement

Criteria: Compensated absences should be accrued as a liability as the benefits are earned by the employee if the employee has a right to receive compensation attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

Condition: The Hospital discounted leave for accumulated paid time off (PTO) for holiday time and recorded sick leave based on the prior history of termination payments (based on a 3-year lookback) and benefits eligible status of employees upon termination (i.e. "termination without cause and providing adequate notice"). Errors were noted in the methodologies and percentages used in these calculations based on prior termination activity and those eligible for accrued leave.

Cause: The Hospital's method of calculation has been carried forward many years which resulted in a less than fully accrued PTO and sick liability.

Effect: A restatement of the prior period financial statements was required for the additional accumulated leave liability due to the significance of the adjustment.

Recommendation: We recommend that the Hospital develop procedures to ensure the methodology and information used in the calculation of these leave balances is based on current termination activity (last three to five years) and those eligible for accrued leave.

Management's Action Plan: Management will continue in future fiscal years to state the liability for PTO and sick in accordance with methods established to re-state fiscal year 2020.

Name of Person Responsible for the Plan: Mark Wack, CFO or delegate

Anticipated Completion Date of the Plan: Ongoing