



**SOUTHWEST MISSISSIPPI
REGIONAL MEDICAL CENTER**

Financial Statements

For the Year Ended September 30, 2020



REPORT

Independent Auditors' Report	1
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FINANCIAL STATEMENTS

Management's Discussion and Analysis	4
--------------------------------------	---

Statement of Net Position	11
---------------------------	----

Statement of Revenues, Expenses, and Changes in Net Position	13
--	----

Statement of Cash Flows	14
-------------------------	----

Notes to Financial Statements	16
-------------------------------	----

SUPPLEMENTARY INFORMATION

Schedule of Gross Patient Service Revenue	45
---	----

Schedule of Operating Expenses	46
--------------------------------	----

Schedule of Other Operating Revenue	48
-------------------------------------	----

Schedule of Surety Bonds for Officials and Employees	49
--	----

REPORTS ON INTERNAL CONTROL AND COMPLIANCE MATTERS

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statement Performed in Accordance with <i>Government Auditing Standards</i>	50
--	----

Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control over Compliance as Required by the Uniform Guidance	52
---	----

Schedule of Expenditures of Federal Awards	55
--	----

Notes to the Schedule of Expenditures of Federal Awards	56
---	----

Schedule of Findings and Questioned Costs	57
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Carr, Riggs & Ingram, LLC
120 South 12th Avenue
Laurel, MS 39440

Mailing Address:
PO Box 768
Laurel, MS 39441

601.649.5207
601.649.5233 (fax)
CRlcpa.com

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Southwest Mississippi Regional Medical Center (the "Medical Center"), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express

no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Other Matters

Required Supplementary Information

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

Other Information

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

The supplementary information on pages 45 through 49 and the schedule of expenditures of federal awards on page 55-56 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2021, on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and not to provide an opinion on the effectiveness of the Medical Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.

Carly Riggs & Ingram, L.L.C.

Laurel, Mississippi
March 22, 2021

Southwest Mississippi Regional Medical Center Management's Discussion and Analysis

Our discussion and analysis of Southwest Mississippi Regional Medical Center's (the "Medical Center") annual performance provides an overview of the entity's financial activities for the fiscal year ended September 30, 2020. This information should be used in conjunction with the Medical Center's financial statements, which begin on page 11.

Background and Overview

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

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

The Medical Center includes the 160-bed Southwest Mississippi Regional Medical Center with over 1,000 employees and 70 physicians on staff; the Cardiovascular Institute of Mississippi providing comprehensive cardiovascular care, the Mississippi Cancer Institute for the treatment and prevention of cancer; and a home health service serving 12 counties. The Medical Center owns and operates 10 clinics, including rural health clinics, and an outpatient rehabilitation center. The Medical Center also manages and operates Lawrence County Hospital in Monticello, Mississippi. In addition, St. Luke Foundation and its component units provide home health services to clients living in Pike, Amite, Franklin, Copiah, Lawrence, Walthall, Covington, Marion, Lamar, Jeff Davis, Simpson and Smith Counties.

Using This Annual Report

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

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

Southwest Mississippi Regional Medical Center Management's Discussion and Analysis

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

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

Financial Highlights

The Medical Center's overall financial position showed an overall increase in net position of \$6.6 million.

Positive factors affecting financial results included:

- Disproportionate Share ("DSH") and Mississippi Hospital Access Program ("MHAP") net revenues were \$6.1 million.

Negative factors affecting financial results included:

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

At the end of the 2020 fiscal year, the assets of the Medical Center exceeded liabilities by approximately \$27.7 million. Of this excess amount, approximately \$20 million (unrestricted net position) may be used to meet ongoing obligations to the Medical Center's employees, patients and creditors. The Medical Center is self-insured for general and professional liability claims and has established a self-insurance fund in accordance with the requirements of the Mississippi Tort Claims Board. At September 30, 2020, the Medical Center had \$1.1 million deposited into this restricted account.

Southwest Mississippi Regional Medical Center Management's Discussion and Analysis

Condensed Financial Information

Summary of Net Position

A summary of the Medical Center's Statements of Net Position for September 30, 2020 and 2019 are presented in the following table:

Condensed Statements of Net Position (In Thousands)

	Fiscal Year	
	2020	2019
Current and other assets	\$ 75,071	\$ 42,421
Capital assets	31,926	32,145
Total assets	\$ 106,997	\$ 74,566
Long-term debt	\$ 26,730	\$ 27,037
Other liabilities	52,526	26,405
Total liabilities	\$ 79,256	\$ 53,442
Net investment in capital assets	\$ 7,862	\$ 6,087
Unrestricted	19,879	15,037
Total net position	\$ 27,741	\$ 21,124

Total assets increased by approximately \$32.4 million. Some of the more significant changes were:

- Net accounts receivable decreased \$1.4 million primarily due to increasing the allowance for uncollectible accounts for insured payors.
- Capital assets decreased \$219,000 as a result of current year depreciation in excess of current year additions.
- Operating cash increased \$30.5 million due to receipt of COVID-19 Provider Relief Funds and Centers for Medicare & Medicaid Services (CMS) Accelerated and Advanced Payments.

Total liabilities increased by approximately \$25.8 million. Accounts payable decreased \$2.9 million and long-term debt decreased \$2.9 million due to normal debt service payments.

Southwest Mississippi Regional Medical Center Management's Discussion and Analysis

Summary of Revenue Expenses, and Changes in Net Position

The following table presents a summary of the Medical Center's revenue and expenses for the fiscal years ended September 30, 2020 and 2019:

	Fiscal Year	
	2020	2019
Operating revenue		
Net patient service revenue	\$ 123,216	\$ 126,694
Other operating income	2,609	2,721
Total operating income	125,825	129,415
Operating expenses		
Salaries, wages, and benefits	74,532	74,840
Supplies and other operating expenses	55,912	54,603
Depreciation and amortization expense	5,639	5,599
Total operating expenses	136,083	135,042
Income (loss) from operations	(10,258)	(5,627)
Nonoperating revenue (expense)	16,875	(404)
Change in net position	\$ 6,617	\$ (6,031)

Operating Revenues

During fiscal year 2020, the Medical Center derived 98% of its total operating revenues from net patient service revenues. Such revenues included revenues from Medicare (48%) and Medicaid (14%) programs, and patients or their third-party carriers (38%), who pay for care in the Medical Center's facilities. Operating revenues are discussed further in the notes to the financial statements.

Southwest Mississippi Regional Medical Center Management's Discussion and Analysis

Operating Results and Financial Performance

The following summarizes the Medical Center's operating results and financial performance between 2020 and 2019:

- Gross patient revenues decreased \$7 million or 1.8% and net patient service revenue decreased \$3.5 million or 2.7% primarily due to the continuing decreased inpatient census in 2020 and the COVID-19 pandemic.
- Revenue deductions for contractual adjustments and bad debt expense remained the same in 2020 and 2019 at 66%.
- Total operating expenses increased by \$1 million. This is a result of the increase in patient care costs in caring for patients with COVID-19 and other infection prevention precautions taken.

Capital Assets

The following summarizes the Medical Center's investment in capital assets as of September 30, 2020 and 2019:

	Fiscal Year	
	2020	2019
Land	\$ 407	\$ 355
Construction in progress	618	19
Land improvements	3,074	3,074
Buildings and improvements	64,710	62,382
Leasehold improvements	1,463	1,410
Equipment	3,284	3,300
Major moveable equipment	99,046	97,365
Total capital assets	172,602	167,905
Less accumulated depreciation	(140,676)	(135,760)
Capital assets, net	\$ 31,926	\$ 32,145

During 2020, the Foundation purchased a 100% interest in the Medical Arts Building, LLC which included land and buildings valued at \$2.3 million. The Medical Center purchased major moveable equipment in the amount of \$2.2 million. More detailed information about capital assets is presented in the notes to the financial statements.

Southwest Mississippi Regional Medical Center Management's Discussion and Analysis

Long-Term Debt

The following summarizes the Medical Center's long-term debt as of September 30, 2020 and 2019:

Long-term Debt (In Thousands)

	Fiscal Year	
	2020	2019
USDA Bonds payable	\$ 17,674	\$ 18,353
Notes payable	4,192	4,321
Capital lease obligations	4,864	4,363
Total long-term debt	\$ 26,730	\$ 27,037

During the year, the Foundation converted \$630,000 of their outstanding balance on the line of credit to a note payable. In addition, there was an increase in equipment acquired by capital lease in the amount of \$898,000. The balance of the change in long-term debt was normal debt service payments. More detailed information about the Medical Center's long-term debt is presented in the notes to the financial statements.

Economic Factors and Next Year's Budget

While the annual budget of the Medical Center is not presented within these financial statements, the Medical Center's Board and management considered many factors when setting the fiscal year 2021 budget. While the financial outlook for the Medical Center is improving, the primary importance in setting the 2021 budget is the status of the economy and the healthcare environment, which takes into account market forces and environmental factors such as:

- Medicare reimbursement and regulatory changes.
- Medicaid reimbursement changes, as well as the continuation at the current level of the Disproportionate Share and Mississippi Hospital Access Payment programs.
- Increased regulatory requirements for enhanced information technology.
- Ability to reverse the negative trends experienced in collections due to the system conversions.
- Increased number of uninsured and working poor.
- Ability to manage the increase in patient portions of billings for services seen in the newer high deductible insurance plans.
- Ongoing competition for services.
- Workforce shortages primarily in nursing and other clinically skilled positions.
- Rising cost of supplies, including pharmaceuticals.
- Ability to continue recruiting medical staff physicians.
- Continuing changes with COVID-19 pandemic and mandatory cancellation of elective procedures.

Southwest Mississippi Regional Medical Center Management's Discussion and Analysis

Contacting Medical Center's Financial Management

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

Southwest Mississippi Regional Medical Center
Statement of Net Position

September 30,	2020
ASSETS	
Current assets	
Cash and cash equivalents	\$ 38,891,976
Investments	3,257,459
Restricted cash and cash equivalents	8,834,965
Restricted investments	1,134,317
Accounts receivable, patients, net of allowance for uncollectible accounts of \$20,136,942	15,145,823
Other receivables	906,042
Inventories	4,560,978
Prepaid expenses and other current assets	1,690,689
Total current assets	74,422,249
Capital assets	
Capital assets not being depreciated	1,024,703
Capital assets, net of accumulated depreciation	30,901,736
Capital assets, net	31,926,439
Other noncurrent assets	
Due from physicians	636,075
Other assets	12,478
Total noncurrent assets	32,574,992
Total assets	\$ 106,997,241

Continued

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

Southwest Mississippi Regional Medical Center
Statement of Net Position (Continued)

September 30,	2020
LIABILITIES	
Current liabilities	
Accounts payable	\$ 8,395,192
Line of credit	5,370,975
Salaries and benefits payable	2,187,387
Other accrued expenses	49,618
Accrued compensated absences	2,461,013
Estimated claims payable	456,042
Estimated third-party settlements	86,955
Unearned revenue	30,507,781
Short-term debt - Paycheck Protection Program	1,234,900
Current portion of capital lease obligations	2,229,165
Current portion of notes payable	1,398,164
Current portion of bonds payable	702,075
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Total current liabilities	55,079,267
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Long-term liabilities	
Estimated claims payable	1,776,296
Capital lease obligations, less current portion	2,635,240
Notes payable, less current portion	2,793,546
Bonds payable, less current portion	16,971,577
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Total long-term liabilities	24,176,659
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Total liabilities	79,255,926
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NET POSITION	
Net investment in capital assets	7,861,819
Unrestricted	19,879,496
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Total net position	\$ 27,741,315
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The notes to the financial statements are integral part of the financial statements.

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

September 30,	2020
Operating revenue	
Patient service revenue, net of contractual allowances and discounts	\$ 139,445,094
Provision for bad debts	(16,229,209)
Net patient service revenue less provision for bad debts	123,215,885
Other operating revenue	2,608,970
Total operating revenue	125,824,855
Operating expenses	
Salaries and wages	55,280,635
Contract employee salaries	9,390,414
Professional fees	2,394,091
Employee benefits	9,860,597
Supplies	27,650,531
Maintenance and repairs	8,130,523
Other operating expense	17,737,054
Depreciation and amortization	5,639,206
Total operating expenses	136,083,051
Loss from operations	(10,258,196)
Nonoperating revenues (expenses)	
CARES Act funds	17,551,269
Grants and contributions	58,314
Investment income	326,785
Interest expense	(1,085,045)
Gain on disposal of capital assets	20,663
Other expense	3,045
Total nonoperating revenues (expenses)	16,875,031
Change in net position	6,616,835
Net position, beginning of year	21,124,480
Net position, end of year	\$ 27,741,315

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

Southwest Mississippi Regional Medical Center
Statement of Cash Flows

September 30,	2020
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Cash flows from operating activities	
Cash received from and on behalf of patients	\$ 125,474,722
Cash paid to and on behalf of employees	(74,539,268)
Cash paid to suppliers	(59,066,687)
Cash received from other operating activities	2,996,346
	<hr/>
Net cash used in operating activities	(5,134,887)
	<hr/>
Cash flows from noncapital financing activities	
Noncapital grants and contributions	58,314
Receipt of CARES Act funds	48,059,050
Proceeds from PPP loan	1,234,900
Other receipts and payments, net	3,045
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Net cash provided by noncapital financing activities	49,355,309
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Cash flows from capital and related financing activities	
Principal paid on capital lease obligations	(2,678,175)
Principal paid on notes payable	(1,438,504)
Proceeds from sale of capital assets	89,537
Purchase of capital assets	(4,054,910)
Interest paid on long-term debt	(1,084,070)
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Net cash used in capital and related financing activities	(9,166,122)
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Cash flows from investing activities	
Purchases of investments	(121,172)
Sales of investments	500,000
Receipt of interest and investment earnings	247,864
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Net cash provided by investing activities	626,692
	<hr/>
Net increase in cash and cash equivalents	35,680,992
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Cash and cash equivalents - beginning of year	12,045,949
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Cash and cash equivalents - end of year	\$ 47,726,941
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The notes to the financial statements are integral part of the financial statements.

Southwest Mississippi Regional Medical Center
Statement of Cash Flows (Continued)

September 30,	2020
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Reconciliation of loss from operations to net cash used in operating activities	
Loss from operations	\$ (10,258,196)
Adjustments to reconcile loss from operations to net cash used in operating activities	
Depreciation and amortization	5,639,206
Changes in assets and liabilities	
(Increase) decrease in assets	
Patient accounts receivable	1,449,462
Other receivables	374,339
Inventories	(19,645)
Prepaid expenses and other current assets	(209,513)
Estimated third-party payor settlements	809,375
Other noncurrent assets	(121,614)
Increase (decrease) in liabilities	
Accounts payable	(2,911,998)
Salaries and payroll taxes payable	215,804
Accrued compensated absences	381,149
Estimated claims payable	(500,354)
Other accrued expenses	17,098
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Net cash used in operating activities	\$ (5,134,887)
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Reconciliation of cash and cash equivalents to the statement of net position	
Cash and cash equivalents included in current assets	\$ 38,891,976
Restricted cash and cash equivalents in current assets	8,834,965
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Total cash and cash equivalents	\$ 47,726,941
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Supplemental disclosures of noncash financing activities	
Capital assets financed through capital lease obligations	\$ 898,548
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Unrealized gain (loss) on investments	\$ 78,921
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The notes to the financial statements are integral part of the financial statements.

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 1: DESCRIPTION OF MEDICAL CENTER

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

The Medical Center operates a critical access facility in Monticello, Mississippi. This division of the Medical Center offers short-term acute care and swing bed services to patients primarily in Lawrence County, Mississippi. To operate this facility, the Medical Center entered into a lease with the Lawrence County Board of Supervisors to lease the Lawrence County Hospital (the "Hospital"). Currently, the lease is renewed through September 2026, and the Medical Center has the option to extend the lease for four additional five year terms. The lease calls for annual payments of approximately \$240,000. The Medical Center has the right to terminate the lease in the event that the Medical Center is unable to maintain the Hospital's designation as a critical access hospital or if the hospital is unable to maintain its accreditation. In addition, if the Medical Center determines, in its sole discretion, that the healthcare regulatory environment has changed to the extent that the provision of health services by the Medical Center has become cost prohibitive or otherwise not financially feasible at the Hospital, the Medical Center can terminate the lease with 365 days prior written notice.

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

Reporting Entity

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

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Included within the reporting entity of the Foundation is St. Luke Home Health Services, LLC which provides home health care to the Southwest Mississippi community, and Medical Arts Building, LLC, which owns, manages, and leases real property primarily to the Medical Center. The Foundation is the sole member of St. Luke Home Health, LLC and Medical Arts Building, LLC (as of September 1, 2020). All significant intercompany balances and transactions have been eliminated.

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

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with applicable pronouncements of the Governmental Accounting Standards Board (GASB), using the economic resources measurement focus. Revenue, 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 non-exchange 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.

Cash and Cash Equivalents

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

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and Investment Income

Investments consist of money market investments and funds in the Mississippi Hospital Association (MHA) investment pool. Money market investments are reported at amortized cost which approximates fair value, and the investments in the MHA pool are reported at net asset value per share which approximates fair value. Investment income including interest income and realized and unrealized gains and losses, are reported in the statement of revenues, expenses, and changes in net position as nonoperating revenues (expenses).

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

Restricted Cash and Investments

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

Patient Accounts Receivable, Net

Patient accounts receivable are reduced by estimated contractual and other adjustments and estimated uncollectible accounts. In evaluating the collectability of accounts receivable, the Medical Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowances for third-party contractual and other adjustments and bad debt. Management reviews data about these major payor sources of revenue on a monthly basis in evaluating the sufficiency of the allowances. On a continuing basis, management analyzes delinquent receivables and writes them off against the allowance when deemed uncollectible.

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For receivables associated with services provided to patients who have third-party coverage, the Medical Center analyzes contractually due amounts and provides an allowance for contractual adjustments and, if necessary, a provision for bad debts (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with uninsured patients (also known as self-pay), which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Medical Center records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many uninsured patients are often either unable or unwilling to pay the full portion of their bill for which they are financially responsible. The difference between standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist primarily of pharmaceuticals and medical supplies. The cost of such inventories are recorded as expenses when consumed rather than when purchased.

Prepaid Expenses

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

Capital Assets

Capital assets include property, plant, and equipment. Capital assets are defined by the Medical Center as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. As the Medical Center constructs or acquires capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Assets under capital lease obligations are recorded at the lower of the present value of the minimum lease payments or the fair value of the leased asset. Donated capital assets are recorded at acquisition value at the date of donation. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential on the date of the donation.

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. Accordingly, the total amount of interest that was capitalized as of September 30, 2020 was \$382.

Land and construction in progress are not depreciated. The other property, plant, and equipment are depreciated using the straight line method over the following estimated useful lives:

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

Assets under capital lease obligations and leasehold improvements are depreciated over the shorter period of the lease term or the estimated useful life of the asset.

Due from Physicians

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

Compensated Absences

Employees employed with the Medical Center prior to August 1, 2014 are granted both vacation and sick leave. Accumulated vacation pay is accrued at the statement of net position date because it is probable that the employer will compensate the employees for the benefits through paid time off or upon termination of employment. Employees may accumulate a maximum of 240 vacation hours. Sick pay accrues but is not reflected as a liability because it is not payable upon termination of employment.

Paid time off ("PTO") is provided to all full-time employees who became employed at the Medical Center on or after August 1, 2014. Accumulated PTO is accrued at the statement of net position date since it is probable that the Medical Center will compensate the employees for the benefits through paid time off. Employees may accumulate a maximum of 240 PTO hours. PTO hours are not paid upon resignation or termination.

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-Term Obligations

Long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds 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.

Net Position

Net position of the Medical Center 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 net position – made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Medical Center, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings.
- Unrestricted net position – the remaining net position that does not meet the definitions of net investment in capital assets or restricted net position described above.

The Medical Center first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Operating Revenues and Expenses

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

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. 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 Medical Center's revenue. The laws and regulations under which Medicare and Medicaid programs operate are complex, and subject to interpretation and frequent changes. As part of operating under these programs, there is a possibility that government authorities may review the Medical Center's compliance with these laws and regulations. Although no assurance can be given, management believes it has complied with the requirements of these programs.

Charity Care

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

The amount of charges foregone for services and supplies furnished under the Medical Center's charity care policy totaled approximately \$7,704,556 for the year ended September 30, 2020, and estimated costs and expenses incurred to provide charity care totaled approximately \$2,158,631. The estimated costs and expenses incurred to provide charity care were determined by applying the Medical Center's cost to charge ratio from its latest filed Medicare cost report to its charges foregone by charity care, at established rates.

Grants and Contributions

From time-to-time, the Medical Center receives grants from other governmental entities as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, 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 acquisitions are reported as capital contributions and grants.

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Current Healthcare Environment

The Medical Center 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 Medical Center 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 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
- 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.

Accounting Pronouncements Issued and Implemented

In fiscal year 2020, the Medical Center implemented GASB Statement No. 83, *Certain Asset Retirement Obligations*. The objective of this statement is to provide for the measurement and accounting of legally enforceable liabilities associated with the retirement of tangible capital assets. The adoption of this statement had no impact on the Medical Center's financial statements.

In fiscal year 2020, the Medical Center implemented GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. GASB Statement No. 88 requires that additional essential information related to debt be disclosed in the notes to the financial statements, including unused lines of credit; assets pledged as collateral for debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to the financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placement of debt separately from other debt. The implementation of this statement did not result in any significant changes in the Medical Center's financial statements. Additional information can be found in Notes 6 and 7.

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The GASB has issued the following pronouncements that may affect future net position, results of operations, cash flows, and/or financial reporting for the Medical Center upon implementation. Management has not evaluated the effects of these standards on the financial statements.

GASB Statement	GASB Accounting Standard	Effective Fiscal Year-end
84	<i>Fiduciary Activities</i>	2021
87	<i>Leases</i>	2022
89	<i>Accounting for Interest Cost Incurred before the End of a Construction Period</i>	2022
90	<i>Majority Equity Interest an amendment of GASB Statements No. 14 and No. 61</i>	2021
91	<i>Conduit Debt Obligations</i>	2023
92	<i>Omnibus 2020</i>	2022
93	<i>Replacement of Interbank Offered Rates</i>	2022
94	<i>Public-Private and Public-Public Partnerships and Availability Payment Arrangements</i>	2023
96	<i>Subscription-Based Information Technology Arrangements</i>	2023
97	<i>Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation</i>	2022

Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, March 22, 2021, and determined there were no events that occurred that required disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 3: DEPOSITS AND INVESTMENTS

Deposits

As of September 30, 2020, the deposits of the Medical Center consisted of the following:

Petty cash	\$ 7,883
Cash deposits with financial institutions	38,137,147
Money market accounts (Moody's rating AAA)	9,581,911
Total cash and cash equivalents	\$ 47,726,941

Cash and cash equivalents	\$ 38,891,976
Restricted cash and cash equivalents	8,834,965
Total cash and cash equivalents	\$ 47,726,941

Custodial credit risk is the risk that, in the event of a bank failure, the Medical Center's deposits might not be recovered. The Medical Center has a deposit policy for custodial credit risk that requires deposits to be part of the collateral pool administered by the State. However, cash deposits with The St. Luke Foundation are not part of this pool and are exposed to custodial credit risk. Uninsured and uncollateralized cash deposits with financial institutions totaled \$9,730,294 as September 30, 2020.

The collateral for public entity deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation ("FDIC"). All deposits with financial institutions must be collateralized in an amount equal to 105% of uninsured deposits. At September 30, 2020, the Medical Center had \$32,909,475 in bank deposits held in a financial institution that is part of this program.

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 3: DEPOSITS AND INVESTMENTS (CONTINUED)

At September 30, 2020, cash and cash equivalents in the amount of \$2,834,965 were restricted subject to a borrowing agreement with the United States Department of Agriculture for federal funds.

At September 30, 2020, cash and cash equivalents in the amount of \$6,000,000 were restricted since these funds are collateral for the Foundation's line of credit.

Investments

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

The Medical Center's investments consist of the following at September 30, 2020:

	Value	Percentage	Maturity	Interest Rate	Rating
MHA Investment Pool					
MHA Intermediate Duration Trust	\$ 2,406,697	54.80%	3.3 years	N/A	AAA
MHA Short Duration Trust	1,985,079	45.20%	2.4 years	N/A	AA+
Total investments	\$ 4,391,776	100.00%			

At September 30, 2020, funds in the amount \$1,134,317, were restricted for purposes of self-insurance arrangements and were reported as restricted investments in the statement of net position.

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

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

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 4: FAIR VALUE DISCLOSURES

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 Medical Center has the ability to access.

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 observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used to measure fair value.

- *MHA Investment Pool* – Valued at the net asset value of shares held by the investment pool.
- *Money market funds* – Valued at the closing price reported by the fund sponsor from an actively traded exchange.

The Medical Center's fair value levels consist of the following at September 30, 2020:

	Fair Value	Level 1	Level 2	Level 3
MHA Investment Pool	\$ 4,391,776	\$ -	\$ 4,391,776	\$ -
Money market funds	9,581,911	9,581,911	-	-
Total	\$ 13,973,687	\$ 9,581,911	\$ 4,391,776	\$ -

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2020 was as follows:

	Beginning	Additions	Retirements	Ending
Capital assets not being depreciated:				
Land	\$ 355,230	\$ 51,951	\$ -	\$ 407,181
Construction in progress	18,923	631,501	(32,902)	617,522
Total nondepreciable capital assets	374,153	683,452	(32,902)	1,024,703
Capital assets being depreciated:				
Land improvements	3,074,035	-	-	3,074,035
Building and improvements	62,382,717	2,503,817	(176,356)	64,710,178
Leasehold improvements	1,409,850	53,566	-	1,463,416
Equipment	3,299,376	-	(15,597)	3,283,779
Major moveable equipment	97,365,425	2,278,782	(598,395)	99,045,812
Total depreciable capital assets	167,531,403	4,836,165	(790,348)	171,577,220
Less accumulated depreciation:				
Land improvements	2,637,750	90,768	-	2,728,518
Building and improvements	42,701,113	1,381,966	(173,617)	43,909,462
Leasehold improvements	850,560	77,466	-	928,026
Equipment	2,900,758	53,271	(15,597)	2,938,432
Major moveable equipment	86,670,090	4,035,735	(534,779)	90,171,046
Total accumulated depreciation	135,760,271	5,639,206	(723,993)	140,675,484
Depreciable capital assets, net	31,771,132	(803,041)	(66,355)	30,901,736
Total capital assets, net	\$ 32,145,285	\$ (119,589)	\$ (99,257)	\$ 31,926,439

Depreciation expense for the year ended 2020 totaled \$5,639,206.

NOTE 6: SHORT-TERM DEBT

Payroll Protection Program (PPP Loan)

On April 21, 2020, the St. Luke Home Health Services, LLC (SLHH) received a loan in the amount of \$1,234,900 under the Payroll Protection Program (PPP Loan). The loan accrues interest at a rate of 1% and had an original maturity date of two years which can be extended to five years by mutual agreement of the SLHH and the lender. Payments are deferred during the Deferral Period. The Deferral Period is the period beginning on the date of this Note, April 21, 2020, and ending 10 months after the last day of the covered period (Deferral Expiration Date). Any amounts not

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 6: SHORT-TERM DEBT (CONTINUED)

forgiven under the Program will be payable in equal installments of principal plus any interest owed on the payment date from the Deferral Expiration Date through the Maturity Date. Additionally, any accrued interest that is not forgiven under the Program will be due on the First Payment Date, which is the 15th of the month following the month in which the Deferral Expiration Date occurs.

Under the requirements of the CARES Act, proceeds may only be used for the Company's eligible payroll costs (with salary capped at \$100,000 on an annualized basis for each employee), or other eligible costs related to rent, mortgage interest, and utilities paid during the 24-week period following disbursement. The PPP Loan may be fully forgiven if (i) proceeds are used to pay eligible payroll costs or other eligible costs and (ii) full-time employee headcount and salaries are either maintained during the 24-week period following disbursement or restored by December 31, 2020. If not maintained or restored, any forgiveness of the PPP Loan would be reduced in accordance with the regulations that were issued by the SBA. All the proceeds of the PPP Loan were used by SLHH to pay eligible payroll costs and SLHH maintained its headcount and otherwise complied with the terms of the PPP Loan.

While the SLHH believes that it has acted in compliance with the program and will seek forgiveness of the PPP Loan, no assurance can be provided that SLHH will obtain forgiveness of the PPP Loan in whole or in part. The balance on this PPP loan was \$1,234,900 as of September 30, 2020, and has been classified as current debt.

Line of Credit

During 2020, the Foundation renewed the \$6,000,000 revolving credit note with Regions Bank that is secured by investments and real estate. The line matures June 30, 2021 and bears interest due in monthly installments at the one-month LIBOR rate plus 2.25%. The interest rate at September 30, 2020 is 2.40%.

Short-term debt activity for the year ended September 30, 2020 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Line of credit	\$ 6,000,000	\$ 975	\$ (630,000)	\$ 5,370,975
PPP loan	-	1,234,900	-	1,234,900
Total short-term debt	\$ 6,000,000	\$ 1,235,875	\$ (630,000)	\$ 6,605,875

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 7: LONG-TERM LIABILITIES

A summary of long-term debt and capital lease obligations at September 30, 2020 follows:

USDA Hospital Revenue Bonds, Series 2019, issued in the amount of \$18,575,000, to refund the outstanding Hospital Revenue Notes, Series 2018A and 2018B, at an annual interest rate of 3.25%, maturing in May 2039, secured by the revenue and receivables of the Medical Center.	\$ 17,673,652
Notes payable issued in the amount of \$2,000,000 to pay the costs of certain capital improvements, at an annual interest rate of 3.94%, maturing January 30, 2033, secured by a pledge of revenues. Two years of interest only payments followed by thirteen years of monthly principal and interest payments of \$12,821, with a final balloon payment in January 2033.	1,944,063
Note payable for the purchase of land and a building with annual principal and interest payments of \$29,023 at an interest rate of 4.95% maturing April 1, 2029, secured by real estate.	202,117
Note payable issued in the amount of \$630,000 with monthly principal and interest payments of \$4,642 at an interest rate of 3.942%, maturing in December 2024, with a balloon payment of \$462,838, secure by real estate.	606,714
Construction Revenue Notes, Series 2007, with principal and interest payable in monthly installments of \$16,429 and \$9,365, at annual interest rates of 4.15% and 2.33%, maturing in April 2022 and August 2022, secured by a pledge of revenues.	513,310
Note payable with principal only payments of \$41,666, maturing in March 2021, unsecured.	925,506
Capital lease obligations for equipment, at interest rates ranging up to 8.80%, with lease terms from 36 months to 120 months, collateralized by the leased equipment.	4,864,405
Total	26,729,767
Current portion of long-term debt	(4,329,404)
Long-term debt, net of current portion	\$ 22,400,363

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 7: LONG-TERM LIABILITIES (CONTINUED)

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

Year Ended September 30,	Long-Term Debt	
	Principal	Interest
2021	\$ 2,100,239	\$ 685,080
2022	1,077,184	646,398
2023	890,642	614,000
2024	921,255	583,387
2025	1,384,297	538,456
2026-2030	5,024,262	2,179,390
2031-2035	6,186,610	1,222,651
2037-2039	4,280,873	265,849
Total	\$ 21,865,362	\$ 6,735,211

Debt Covenants

In connection the USDA Hospital Revenue Bonds, Series 2019, the Medical Center has agreed to certain debt covenants. The Medical Center’s debt service coverage ratio must be at least equal to 1:15 to 1 and they must maintain a minimum 75 days cash on hand. The Medical Center was in compliance with the debt covenants for the year ended September 30, 2020.

Capital Lease Obligations

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

Major moveable equipment under capital leases included in capital assets at September 30, 2020 includes the following:

Major moveable equipment	\$ 11,568,716
Less accumulated depreciation	(6,949,408)
Net major moveable equipment	\$ 4,619,308

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 7: LONG-TERM LIABILITIES (CONTINUED)

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2020, were as follows:

2021	\$ 2,355,478
2022	1,647,060
2023	819,583
2024	244,310
2025	25,934
Total minimum lease payments	5,092,365
Less amount representing interest	(227,960)
Present value of minimum lease payments	\$ 4,864,405

Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended September 30, 2020 are as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Amounts Due Within One Year
USDA bonds	\$ 18,353,306	\$ -	\$ (679,654)	\$ 17,673,652	\$ 702,075
Notes payable	4,320,560	630,000	(758,850)	4,191,710	1,398,164
Capital lease obligations	6,644,032	898,548	(2,678,175)	4,864,405	2,229,165
Estimated claims	2,732,692	6,272,794	(6,773,148)	2,232,338	456,042
Total long-term debt	\$ 32,050,590	\$ 7,801,342	\$ (10,889,827)	\$ 28,962,105	\$ 4,785,446

NOTE 8: NET POSITION – NET INVESTMENT IN CAPITAL ASSETS

The portion of net position classified as net investment in capital assets is as follows at September 30, 2020:

Capital assets	\$ 172,601,923
Less accumulated depreciation	(140,675,484)
Less debt outstanding related to capital assets	(24,064,620)
Net investment in capital assets	\$ 7,861,819

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 9: RETIREMENT PLANS

Defined Contribution Plan – Medical Center

The Medical Center contributes to the Southwest Mississippi Regional Medical Center Retirement Matching Plan (the "Plan") for the benefit of its employees. Effective November 1, 2017, the Medical Center adopted a Section 457(b) deferred compensation plan. The Plan is administered by The Variable Annuity Life Insurance Company ("VALIC"). The Plan provides retirement and disability benefits to Plan members and death benefits to beneficiaries of Plan members. Under provisions of the Plan, all employees with one year of service, and who are at least 21 years old, are eligible to participate. Plan provisions and Medical Center contributions are amended by the Board of Trustees. The Medical Center's contribution to the Plan for the year ended September 30, 2020 was \$417,477.

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

Employees are immediately vested in their own contributions and earnings on those contributions. Employees become 100% vested in Medical Center contributions and earnings on Medical Center contributions after the completion of five years of creditable service. Non-vested contributions are forfeited upon termination of employment and such forfeitures are used to reduce future Medical Center contributions. For the year ended September 30, 2020, there were no forfeitures that reduced the Medical Center's contribution expense.

All required contributions were made to the Plan during the year and the Medical Center's liability to the Plan at September 30, 2020 was \$78,717.

Defined Contribution Plan – St. Luke Home Health

St. Luke Home Health Services, LLC (SLHH) contributes to the St. Luke Home Health Retirement Savings Plan (the "Plan"), a single-employer 403(b) defined contribution plan, for the benefit of its employees. The Plan is administered by Variable Annuity Life Insurance Company ("VALIC"). The Plan provides retirement and disability benefits to Plan members and death benefits to beneficiaries of Plan members. Under provisions of the Plan, all employees are eligible to make salary deferral contribution elections as of their employment commencement date. Employees are eligible for employer contributions upon attainment of age 21 and completion of one year of service. Plan provisions and SLHH contributions are amended by the Board of Directors. SLHH's contributions to the Plan for the year ended September 30, 2020 was \$85,429.

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

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 9: RETIREMENT PLANS (CONTINUED)

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

All required contributions were made to the Plan during the year and SLHH had no liability to the Plan at September 30, 2020.

NOTE 10: INSURANCE PROGRAMS

Risk Management

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

Self-Funded Professional Liability and General Liability

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

Effective December 20, 2006, the Medical Center purchased an annual aggregate stop-loss insurance policy. The aggregate stop-loss coverage will "cap" the self-insured plan's exposure for the plan/policy year. Payments under the aggregate stop-loss are in accordance with the Tort Act provisions and are limited to \$500,000 per claim (indemnity plus expense) within an annual aggregate self-insured retention of \$1.5 million for all claims. The stop-loss coverage has limits of \$500,000 per claim with a \$5 million policy aggregate. The policy has a retroactive date of December 20, 2006, and a maintenance deductible of \$10,000.

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

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 10: INSURANCE PROGRAMS (CONTINUED)

Consistent with these insurance program changes (and in accordance with the process described below), the Medical Center recorded an accrual for self-insured losses totaling \$1,776,296 at September 30, 2020. The future assertion of claims for occurrences prior to year-end is reasonably possible and may occur; however, management does not anticipate any material impact on the financial statements.

Incurred losses identified through the Medical Center incident reporting system and incurred but not reported losses are accrued based on estimates that incorporate the Medical Center's current inventory of reported claims and historical experiences, as well as considerations such as the nature of each claim or incident, relevant trend factors and advice from consulting actuaries. The Medical Center has established a self-insurance trust fund for payment of liability claims. The balance of the account at September 30, 2020 was \$1,134,317, and is reported in the statement of net position as a restricted investment.

Changes in the Medical Center's insurance claims liability amount, including related legal fees, for the year 2020 were as follows:

	2020	2019
Claims liability, beginning of year	\$ 1,822,795	\$ 1,732,042
Current year claims and changes in estimates	(46,499)	170,753
Claims payments	-	(80,000)
Claims liability, end of year	<u>\$ 1,776,296</u>	<u>\$ 1,822,795</u>

Self-Funded Health Insurance Claim Liability

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

	2020	2019
Claims liability, beginning of year	\$ 909,897	\$ 856,234
Current year claims and changes in estimates	6,319,293	7,361,417
Claims payments	(6,773,148)	(7,307,754)
Claims liability, end of year	<u>\$ 456,042</u>	<u>\$ 909,897</u>

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 11: CONCENTRATION OF CREDIT RISK

The Medical Center grants credit without collateral to its patients, most of who are local residents and are insured under third-party payors agreements. The percentage mix of net accounts receivable from patients and major third-party payors at September 30, 2020 was as follows:

Patients	21%
Commercial insurance	17%
Medicare	44%
Medicaid	15%
Other	3%
<hr/>	
Total	100%

NOTE 12: PATIENT SERVICE REVENUES

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

Medicare

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

Medicaid

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

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 12: PATIENT SERVICE REVENUES (CONTINUED)

The Medical Center participates in the Mississippi Intergovernmental Transfer Program as a Medicaid Disproportionate Share Hospital ("DSH"). Under the program, the Medical Center receives enhanced reimbursement through a matching mechanism. For the fiscal year ended September 30, 2020, the Medical Center reported approximately \$672,000 in enhanced reimbursement through the DSH program. DSH amounts are shown as a reduction of contractual adjustments with related assessments of approximately \$372,000.

The Medical Center participates in the Division of Medicaid ("DOM") Mississippi Hospital Access Payment ("MHAP") program. The MHAP program is administered by the DOM through the Mississippi CAN coordinated care organizations ("CCO"). The CCO's subcontract with hospitals throughout the state for distribution of the MHAP for the purpose of protecting patient access to hospital care. For the fiscal year ended September 30, 2020, the Medical Center reported approximately \$7,641,000 in enhanced reimbursements, and assessments of approximately \$1,795,000 through the MHAP program. MHAP amounts are reported as a reduction of contractual adjustments.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near-term. For the year ended September 30, 2020, the Medical Center's net patient revenues decreased approximately \$584,000 due to prior year retroactive adjustments for amounts previously estimated. As of September 30, 2020, the Medical Center's Medicare cost reports have been settled through September 30, 2016.

Other

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

A summary of gross and net patient service revenue for the year ended September 30, 2020 follows:

Gross patient service revenue	\$ 358,036,300
Less provisions for	
Bad debts	(16,229,209)
Contractual adjustments under third-party reimbursement programs	(218,591,206)
Net patient service revenue	\$ 123,215,885

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 12: PATIENT SERVICE REVENUES (CONTINUED)

A summary of the changes in the allowance for uncollectible accounts for the year ended September 30, 2020 follows:

Allowance for uncollectible accounts, beginning	\$ 21,205,836
Write-offs	(16,473,015)
Increase for current claims and changes in estimate	15,404,121
Allowance for uncollectible accounts, ending	\$ 20,136,942

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

Patient service revenue by major payor class, net of contractual allowances and before the provision for bad debts, consisted of the following for the year ended September 30, 2020:

	Amount	Percentage
Medicare	\$ 66,834,081	48%
Medicaid	19,836,200	14%
Blue Cross Blue Shield	13,794,233	10%
Other	38,980,580	28%
Patient service revenue, net of contractual allowances	\$ 139,445,094	100%

NOTE 13: 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 Medical Center received cash payments and recognized nonoperating income of \$17.6 million due to grants from the Relief Fund and state grant programs, which is reported as nonoperating income in the Medical Center's accompanying statement of revenues, expenses, and changes in net position as of September 30, 2020. The Medical Center has reported \$10.2 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,

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 13: NONOPERATING REVENUES (CONTINUED)

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 Medical Center recognizes grant payments as income when there is reasonable assurance of compliance with the conditions associated with the grant. The Medical Center's estimates could change materially in the future based on Medical Center's operating performance or COVID-19 activities, as well as the evolving grant compliance guidance provided by the government. Relief funds expended for the year ended September 30, 2020, will be subject to Single Audit under the Uniform Guidance in fiscal year ending September 30, 2021.

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 Medical Center'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 Medical Center will continue to receive or remain eligible for funding or assistance under the CARES Act or similar measures.

Public Health and Social Services Emergency Relief Fund - 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;
- 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

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 13: NONOPERATING REVENUES (CONTINUED)

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 Medical Center formally accepted the terms and conditions associated with the receipt of Relief Fund payments the Medical Center received.

Medicare and Medicaid Payment Policy Changes - 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.
- 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. The Medical Center received approximately \$20,274,000 from the Medicare accelerated payment program for the year ended September 30, 2020 which is reported as unearned revenue in the statement of net position.

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 13: NONOPERATING REVENUES (CONTINUED)

- 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 quickly and efficiently than establishing a new program or allocating 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 Medical Center’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 Medical Center’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 Medical Center’s expectations.

NOTE 14: OPERATING LEASES

The Medical Center leases various equipment and facilities under operating leases expiring at various dates through the fiscal year 2025. Rental expense for the year ended September 30, 2020, for all operating leases totaled approximately \$2,049,105.

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

Year Ending September 30,	
2021	\$ 1,046,191
2022	700,129
2023	546,684
2024	505,636
2025	505,636
2026	240,000
Total	\$ 3,544,276

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 15: BLENDED COMPONENT UNIT

The St. Luke Foundation, Inc.

Condensed component unit information for The St. Luke Foundation, Inc., the Medical Center's blended component unit, for the year ended September 30, 2020, are as follows:

Condensed Statement of Net Position

Assets	
Current assets	\$ 14,279,645
Due from Medical Center	10,934,577
Capital assets, net	5,153,158
Other assets	12,478
Total assets	30,379,858
Liabilities	
Current liabilities	8,584,412
Noncurrent liabilities	1,382,451
Total liabilities	9,966,863
Net position	
Net investment in capital assets	3,481,433
Unrestricted	16,931,562
Total net position	\$ 20,412,995

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

Operating revenues	\$ 14,019,733
Operating expenses	
Operations	10,976,167
Depreciation	449,020
Total operating expenses	11,425,187
Operating income	2,594,546
Nonoperating revenues (expenses)	117,343
Change in net position	2,711,889
Net position, beginning of year	17,701,106
Net position, end of year	\$ 20,412,995

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 15: BLENDED COMPONENT UNIT (CONTINUED)

Condensed Statement of Cash Flows

Net cash provided (used) by	
Operating activities	\$ 3,004,465
Noncapital financing activities	2,739,869
Capital and related financing activities	(2,266,338)
Investing activities	500,641
Net increase in cash and cash equivalents	3,978,637
Cash and cash equivalents, beginning of year	8,626,160
Cash and cash equivalents, end of year	\$ 12,604,797

NOTE 16: COMMITMENTS AND CONTINGENCIES

Litigation

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

2017 Medicaid Disproportionate Share Survey Findings

In November 2020, the Medical Center received a DSH examination finding for 2017 that determined the Medical Center received DSH payments that exceeded the Medical Center's DSH limit by approximately \$3,799,000. The Medical Center contends that the calculation of the hospital specific DSH limit is erroneous under applicable CMS regulations in effect prior to June 2, 2017. The Medical Center is currently in the process of filing a legal defense motion and does not believe this amount is a liability to the Medical Center. As such, no accrual has been recorded in the accompanying financial statements related to this issue; however, it is reasonably possible that estimates related to this issue could change materially in the near term.

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 16: COMMITMENTS AND CONTINGENCIES (CONTINUED)

Financing Arrangements

Effective April 30, 2018, the Medical Center entered into an agreement with First Bank for the sale of patient accounts receivable in an amount not to exceed \$1,500,000. All patient notes purchased by the bank were purchased with recourse to the Medical Center. The Medical Center acknowledged and agreed to repurchase from the bank any patient note that was in default for more than 60 days from the payment due date. The Medical Center is required to hold a reserve account equal to 20% of the unpaid balance of all active loans made under this agreement. As of September 30, 2020, the Medical Center had approximately \$70,020 in patient receivables purchased by the bank. As of September 30, 2020, the Medical Center has discontinued providing this service to patients. Loans in funded status are still being serviced by bank.

COVID-19

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

Supplementary Information

Southwest Mississippi Regional Medical Center
Schedule of Gross Patient Service Revenue

Year Ended September 30, 2020	Inpatient	Outpatient	Total
Nursing services			
Medical and surgical	\$ 5,265,213	\$ 955,706	\$ 6,220,919
Newborn nursery	85,271	896	86,167
Intensive care	3,802,417	73,343	3,875,760
Total nursing services	9,152,901	1,029,945	10,182,846
Other professional services			
Ambulatory surgery center	736,703	11,381,570	12,118,273
Cardiac cath lab	5,671,439	10,988,710	16,660,149
Cardiac surgery	2,715,155	84,940	2,800,095
Cardiology	1,872,077	8,296,765	10,168,842
Central supply	3,275,574	4,812,804	8,088,378
Dialysis	646,800	68,320	715,120
Diaster Tracking	-	215,371	215,371
EEG-Neurology	6,832	5,351	12,183
Emergency services	7,021,800	33,761,287	40,783,087
GI Endosuite	632,832	9,870,630	10,503,462
Home health and hospice	-	11,580,840	11,580,840
Hyperbarics	-	1,566,698	1,566,698
Intensive outpatient program	-	1,044,905	1,044,905
Labor, delivery, recovery and postpartum	3,623,724	354,154	3,977,878
Laboratory	9,862,573	26,023,389	35,885,962
MS Cancer Institute - medical oncology	85,292	63,399,377	63,484,669
MS Cancer Institute - radiation therapy	19,023	6,456,707	6,475,730
Nursing procedures	3,116,776	1,345,915	4,462,691
Occupational therapy	445,963	14,834	460,797
Operating and recovery services	3,912,836	6,915,438	10,828,274
Outpatient rehabilitation	-	1,065,467	1,065,467
Outpatient services	-	50,281	50,281
Pharmacy	12,725,242	19,247,905	31,973,147
Physical therapy	759,719	27,519	787,238
Physician clinics	-	21,875,322	21,875,322
Pulmonary rehabilitation	-	441,732	441,732
Radiology	2,680,171	36,139,142	38,819,313
Respiratory therapy	12,959,483	2,136,874	15,096,357
Rural health clinics	-	2,913,655	2,913,655
Sleep lab	-	702,095	702,095
Total other professional services	72,770,014	282,787,997	355,558,011
Total including charity	\$ 81,922,915	\$ 283,817,942	365,740,857
Less charity			7,704,556
Total			\$ 358,036,301

Southwest Mississippi Regional Medical Center Schedule of Operating Expenses

<i>Year Ended September 30, 2020</i>	Salaries and Wages	Contract Employee Salaries	Employee Benefits	Professional Fees	Supplies	Maintenance and Repairs	Other Operating Expense	Total
Nursing services								
Medical and surgical	\$ 4,098,920	\$ -	\$ 329,536	\$ -	\$ 548,893	\$ 121,644	91,226	\$ 5,190,219
Newborn nursery	-	-	3,618	-	35,969	17,186	3,100	59,873
Intensive care	2,643,584	-	263,055	-	427,038	102,032	85,382	3,521,091
Swing bed unit	44,241	-	4,581	-	789	-	75	49,686
Total nursing services	6,786,745	-	600,790	-	1,012,689	240,862	179,783	8,820,869
Other professional services								
Ambulatory surgery center	653,603	52,500	54,427	-	910,891	127,731	42,206	1,841,358
Anesthesiology	-	1,303,525	-	-	11,160	60,622	6,903	1,382,210
Cardiac cath lab	478,919	-	46,961	-	2,789,063	351,954	39,950	3,706,847
Cardiac surgery	253,823	553,182	28,181	-	651,660	65,008	15,526	1,567,380
Cardiology	432,814	-	24,292	-	124,598	32,357	109,746	723,807
Central supply	237,370	-	17,434	-	(130,594)	41,105	15,602	180,917
Dialysis	-	-	-	-	5,600	1,162	371,020	377,782
Diaster tracking	864,986	-	7,962	-	254,635	14,301	214,713	1,356,597
EEG-Neurology	8,121	-	736	-	166	2,123	1,226	12,372
Emergency services	2,978,543	2,783,162	270,065	-	558,003	401,750	91,484	7,083,007
GI Endosuite	717,695	-	61,922	-	304,709	99,335	43,013	1,226,674
Health watch	-	-	-	-	899	189	16	1,104
Home health and hospice	6,087,286	221,720	737,550	171,981	613,886	321,608	1,650,834	9,804,865
Hyperbarics	-	-	-	-	30,138	313	280,000	310,451
Inpatient services	-	-	-	-	-	-	-	-
Intensive outpatient program	176,592	48,000	15,720	-	6,580	407	201,007	448,306
Labor, delivery, and recovery	1,322,779	-	114,673	-	232,596	119,960	25,666	1,815,674
Laboratory	1,961,771	352,500	157,586	-	1,996,900	121,960	1,024,145	5,614,862
MS Cancer Institute - medical oncology	2,117,681	-	101,144	-	8,731,019	29,927	19,320	10,999,091
MS Cancer Institute - radiation therapy	664,001	-	57,088	-	18,286	357,641	5,161	1,102,177
Non-emergency transport	29,630	-	3,089	-	191	422	388	33,720
Occupational therapy	87,226	-	8,134	-	2	-	-	95,362
Operating and recovery services	1,027,162	-	97,809	-	1,378,776	175,675	48,210	2,727,632
Outpatient rehabilitation	514,488	29,238	55,434	-	12,539	12,756	6,487	630,942
Outpatient services	97,311	-	11,854	-	9,722	-	-	118,887
Pharmacy	1,125,163	157,545	99,470	-	4,916,279	21,069	69,652	6,389,178
Physical therapy	193,073	188,319	7,741	-	6,238	1,661	531	397,563
Physicians' clinics	11,114,283	802,739	593,863	24,920	184,904	79,456	1,055,410	13,855,575
Pulmonary rehabilitation	90,745	-	8,244	-	2,987	1,885	498	104,359
Radiology	2,134,732	45,275	209,751	-	550,729	1,024,013	638,192	4,602,692
Respiratory therapy	1,024,337	-	100,826	-	230,723	45,593	49,818	1,451,297
Rural health clinics	2,114,995	-	139,496	3,739	94,544	19,236	354,944	2,726,953
Sleep lab	-	-	-	-	2,171	1,402	208,953	212,526
Total other professional services	38,509,129	6,537,705	3,031,452	200,640	24,500,000	3,532,621	6,590,621	82,902,167

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

<i>Year Ended September 30, 2020</i>	Salaries and Wages	Contract Employee Salaries	Employee Benefits	Professional Fees	Supplies	Maintenance and Repairs	Other Operating Expense	Total
General services								
Housekeeping	\$ -	\$ 1,602,457	\$ -	\$ -	\$ 326,888	\$ 17,907	\$ 2,337	\$ 1,949,589
Laundry and linen	188,020	-	14,603	-	289,004	84,322	648	576,597
Dietary	640,428	-	48,440	-	744,504	8,279	1,881	1,443,532
Plant operation and maintenance	784,582	-	64,850	-	254,521	940,413	1,313,036	3,357,402
Total general services	1,613,030	1,602,457	127,893	-	1,614,917	1,050,921	1,317,902	7,327,120
Fiscal and administrative services								
Administrative	1,967,223	1,164	127,127	2,104,684	145,913	39,380	2,988,993	7,374,484
Patient registration	731,601	-	76,307	-	62,572	2,369	1,284	874,133
Auxiliary office	-	-	-	-	156	240	31	427
Bio-medical	-	-	-	-	1,580	9,772	14	11,366
Case management	791,147	-	66,447	-	9,757	4,280	20,935	892,566
Contract and asset management	72,424	-	9,792	-	308	17,309	-	99,833
Communications	219,049	-	17,965	-	7,329	15,211	2,311	261,865
Community education	136,145	-	13,980	-	3,817	1,023	48,150	203,115
Chaplain services	36,882	-	2,821	-	565	51	23	40,342
General accounting	532,936	-	98,870	88,767	14,134	8,981	633,120	1,376,808
Health information management	937,887	36,596	76,415	-	21,280	477,595	204,191	1,753,964
Human resources	248,835	-	5,339,442	-	13,641	23,948	367,417	5,993,283
Infection control	88,775	-	10,661	-	17,508	167	1,593	118,704
Information systems	151,415	566,469	16,810	-	7,743	2,501,477	2,063,450	5,307,364
Materials management	226,610	-	21,772	-	24,902	26,892	299,248	599,424
Medical director	-	181,667	-	-	14	-	-	181,681
MS Cancer Institute	315,877	-	26,914	-	20,819	51,298	123,359	538,267
MS Cardiovascular Institute	31,406	-	1,038	-	2,525	25,480	17,395	77,844
Pharmacy retail	-	-	-	-	100,356	1,202	287,986	389,544
Patient accounting	1,105,897	-	94,157	-	24,122	60,035	2,121,390	3,405,601
Physician clinic accounting	296,415	428,831	54,959	-	25,196	4,615	154,316	964,332
Public relations	3,801	-	311	-	9,735	-	261,474	275,321
Quality assurance/performance	222,085	35,525	19,136	-	5,427	33,785	29,812	345,770
Revenue cycle	236,658	-	24,385	-	1,023	-	7,772	269,838
Risk management	18,663	-	1,153	-	2,503	1,009	14,484	37,812
Total fiscal and administrative services	8,371,731	1,250,252	6,100,462	2,193,451	522,925	3,306,119	9,648,748	31,393,688
Total	\$ 55,280,635	\$ 9,390,414	\$ 9,860,597	\$ 2,394,091	\$ 27,650,531	\$ 8,130,523	\$ 17,737,054	130,443,845
Depreciation and amortization								5,639,206
Total								\$ 136,083,051

Southwest Mississippi Regional Medical Center
Schedule of Operating Revenue

Year Ended September 30, 2020

Other operating revenue	
Cafeteria sales	\$ 341,480
Rental income	528,684
Other	1,738,806
<hr/>	
Total other operating revenue	\$ 2,608,970

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

Name	Position	Company	Amount of Bond
Renan Richmond	Trustee	CNA Surety	\$ 100,000
Andrew Alford	Trustee	CNA Surety	100,000
Clifton McGowan	Trustee	CNA Surety	100,000
Stephanie Robinson	Trustee	CNA Surety	100,000
Edgar Lewis	Trustee	CNA Surety	100,000
Watkins Wild	Trustee	CNA Surety	100,000
Regina Melson	Trustee	CNA Surety	100,000
Charla Rowley	CEO, Administrator	CNA Surety	100,000
Mallory Ginn	CFO, Administrator	CNA Surety	100,000
Richard Williams	Assistant Administrator	CNA Surety	100,000
Dr. Kevin Richardson	Medical Director	CNA Surety	100,000
Phillip Langston	Assistant Administrator, Lawrence County Hospital	CNA Surety	100,000
All Other Employees		CNA Surety	10,000

Reports on Internal Control and Compliance Matters



Carr, Riggs & Ingram, LLC
120 South 12th Avenue
Laurel, MS 39440

Mailing Address:
PO Box 768
Laurel, MS 39441

601.649.5207
601.649.5233 (fax)
CRlcpa.com

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
Southwest Mississippi Regional Medical Center
McComb, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Southwest Mississippi Regional Medical Center (the "Medical Center"), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements, and have issued our report thereon dated March 22, 2021.

Internal Control Over Financial Reporting

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

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

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

material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Carly Riggs & Ingram, L.L.C.

Laurel, Mississippi
March 22, 2021



Carr, Riggs & Ingram, LLC
120 South 12th Avenue
Laurel, MS 39440

Mailing Address:
PO Box 768
Laurel, MS 39441

601.649.5207
601.649.5233 (fax)
CRlcpa.com

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

Board of Trustees
Southwest Mississippi Regional Medical Center
McComb, Mississippi

Report on Compliance for Each Major Federal Program

We have audited Southwest Mississippi Regional Medical Center's (the "Medical Center") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Medical Center's major federal programs for the year ended September 30, 2020. The Medical Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

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

Opinion on Each Major Federal Program

In our opinion, the Medical Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2020.

Report on Internal Control Over Compliance

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

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

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

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

Carly Riggs & Ingram, L.L.C.

Laurel, Mississippi
March 22, 2021

Southwest Mississippi Regional Medical Center Schedule of Expenditures of Federal Awards

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Provided Through to Subrecipients	Total Federal Expenditures
U.S. Department of Agriculture				
Direct Program				
Community Facilities Loans and Grants Cluster	10.766	NA	\$ -	\$ 568,797
Total U.S. Department of Agriculture			-	568,797
Federal Communications Commission				
Pass through the Mississippi Department of Health				
COVID-19 Telehealth Program	32.006	HB 1782 COVID CARES	-	4,434
Total Federal Communications Commission			-	4,434
U.S. Department of Treasury				
Pass through the Mississippi Department of Health				
Coronavirus Relief Fund	21.019	HB 1782 COVID CARES	-	1,474,560
Total U.S. Department of Treasury			-	1,474,560
U.S. Department of Health and Human Services				
Pass through the Mississippi Department of Health				
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements				
	93.074	NA	-	20,163
Small Rural Hospital Improvement Grant Program				
	93.301	NA	-	83,239
Direct				
COVID-19 Testing for the Uninsured				
	93.461	NA	-	555,579
COVID-19 Testing for Rural Health Clinics				
	93.697	NA	-	121,923
Total U.S. Department of Health and Human Services			-	780,904
Total Expenditures of Federal Awards			\$ -	\$ 2,828,695

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

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") represents federal grant activity of the Medical Center under programs of the federal government for the year ended September 30, 2020. The information in the Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Medical Center, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Medical Center.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Indirect Cost Rate

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

Loans and Loan Guarantees

The balance of loans outstanding at September 30, 2020 for the Community Facilities Loans and Grants Cluster (CFDA 10.766) was \$19,617,715.

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

SECTION I: SUMMARY OF AUDITORS' RESULTS

Financial Statements

- | | |
|--|------------|
| 1. Type of auditors' report issued: | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified? | None noted |
| c. Noncompliance material to the financial statements noted? | No |

Federal Awards

- | | |
|---|------------|
| 1. Type of auditors' report issued on compliance for major federal programs: | Unmodified |
| 2. Internal control over major federal programs: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified? | None noted |
| 3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No |
| 4. Identification of major programs: | |
| CFDA #21.019 - U.S. Department of Treasury Coronavirus Relief Fund | |
| 5. Dollar threshold used to distinguish between Type A and Type B programs: | \$750,000 |
| 6. Auditee qualified as a low-risk auditee: | No |

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

SECTION II: FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III: FEDERAL AWARD FINDINGS

None reported.

SECTION IV: SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

FINDING 2019-001 – ACCOUNTS PAYABLE

Description: Several invoices identified for goods and services received prior to year-end were not properly accrued.

Status: Corrected

Comments: Controls were implemented in the current year prior to the audit.

FINDING 2019-002 – INVENTORY

Description: Numerous items purchased at a discount in bulk were valued at current market prices at year-end.

Status: Corrected

Comments: No issues identified in the current year audit related to inventory.

FINDING 2019-003 – LOAN COVENANTS

Description: The Medical Center was not in compliance with the debt covenants.

Status: Corrected.

Comments: The Medical Center was in compliance with the debt covenants as of September 30, 2020.

Southwest Mississippi Regional Medical Center Schedule of Findings and Questioned Costs

FINDING 2019-004 – REPORTING

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

Status: Corrected.

Comments: The Medical Center submitted all required continuing disclosure documentation.

FINDING 2019-005 – SPECIAL TESTS

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

Status: Corrected.

Comments: The Medical Center established the required reserve account and made all required monthly payments; as well as, the delinquent payments from fiscal year 2019.