

Delta Health System
A Component Unit of Washington County, Mississippi
Independent Auditor's Reports and Financial Statements
September 30, 2020 and 2019

Delta Health System
A Component Unit of Washington County, Mississippi
September 30, 2020 and 2019

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Independent Auditor's Report

Board of Trustees
Delta Health System
Greenville, Mississippi

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Health System's basic financial statements. The Schedule of Surety Bonds for Officers and Employees is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements, and accordingly, we do not express an opinion on it or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated January 21, 2021, on our consideration of the Health System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Health System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health System's internal control over financial reporting and compliance.

BKD, LLP

Jackson, Mississippi
January 21, 2021

Delta Health System
A Component Unit of Washington County, Mississippi
Management's Discussion and Analysis
September 30, 2020 and 2019

Introduction

This management's discussion and analysis of the financial performance of Delta Health System (the Health System) provides an overview of the Health System's financial activities for the years ended September 30, 2020 and 2019. It should be read in conjunction with the accompanying financial statements of the Health System.

Financial Highlights

- Cash and investments increased in 2020 and decreased in 2019 by approximately \$34,654,000 and \$10,751,000, or 151.3% and (31.9%), respectively. This was primarily due to receipt of approximately \$22,786,000 of provider relief funds from CARES Act, \$1,494,000 from coronavirus relief fund from State of Mississippi and approximately \$14,333,000 of Medicare advanced payments received during 2020.
- The Health System's net position increased in 2020 and 2019 by approximately \$2,482,000, or 5.4% and increased in 2019 by approximately \$746,000, or 1.6%, respectively.
- The Health System other current and noncurrent liabilities increased by approximately \$36,422,000, or 318.8% in 2020 due primarily to unrecognized or deferred grant revenue and Medicare Advance payments from 2020.
- The Health System's net patient service revenue increased in 2020 by approximately \$1,795,000, or 1.7% and increased by approximately \$11,097,000, or 11.6% in 2019.
- The Health System reported an operating loss in 2020 and 2019 of approximately \$2,666,000 and \$804,000, respectively.

Using This Annual Report

The Health System's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Health System, including resources held by the Health System but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Health System is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any Health System's finances is "Is the Health System as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net position report information about the Health System's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of

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accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Health System's net position and changes in them. The Health System's total net position—the difference between assets and liabilities—is one measure of the Health System's financial health or financial position. Over time, increases or decreases in the Health System's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Health System's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients, and local economic factors should also be considered to assess the overall financial health of the Health System.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Health System's Net Position

The Health System's net position is the difference between its assets and liabilities reported in the statements of net position. The Health System's net position increased by approximately \$2,481,590 (5.4%) from 2019 to 2020, and increased by \$745,597 (1.6%) from 2018 over 2019, as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2020	2019	2018
Assets			
Cash and investments	\$ 57,557,546	\$ 22,903,728	\$ 33,654,236
Patient accounts receivable, net	14,303,581	12,849,294	12,889,692
Capital assets, net	38,036,295	39,234,606	41,694,980
Other assets	5,533,762	6,191,559	6,651,212
Total assets	115,431,184	81,179,187	94,890,120
Deferred Outflows of Resources			
	3,730,413	165,389	692,559
Total assets and deferred outflows of resources	\$ 119,161,597	\$ 81,344,576	\$ 95,582,679

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	2020	2019	2018
Liabilities			
Long-term debt, excluding current maturities	\$ 14,448,307	\$ 14,954,643	\$ 27,300,025
Net pension liability	8,112,676	8,275,729	9,131,126
Other current and noncurrent liabilities	47,846,725	11,425,028	13,568,028
Total liabilities	70,407,708	34,655,400	49,999,179
Deferred Inflows of Resources	299,907	716,784	356,705
Net Position			
Invested in capital assets	24,350,486	24,626,856	15,904,908
Restricted expendable	10,766	333,456	5,539,023
Unrestricted	24,092,730	21,012,080	23,782,864
Total net position	48,453,982	45,972,392	45,226,795
Total liabilities, deferred inflows of resources and net position	\$ 119,161,597	\$ 81,344,576	\$ 95,582,679

Fiscal Year Ended September 30, 2020

Cash and investments increased by approximately \$34,654,000, or 151.3% from 2019 to 2020. The increase in cash and investments was due to \$14,333,000 of Medicare Accelerated Payments and \$22,786,260 in provider relief funds that were received during the year. Patient accounts receivable, net, increased by approximately \$1,454,000 from 2019 to 2020. The increase primarily relates to a dispute with a contract increasing client accounts receivable by approximately \$697,000 in 2020. An agreement has to be reached to fully collect the remaining outstanding balance.

Fiscal Year Ended September 30, 2019

Cash and investments decreased by approximately \$10,751,000, or 31.9% from 2018 to 2019. The decrease in cash and investments was due to \$10,000,000 of restricted cash that was approved by the Board of Trustees to be released from restrictions and used to refinance the Series 2007 Mortgage Revenue Bonds. Net capital assets decreased by \$2,460,374, or 5.9% from 2018 to 2019. The decrease was mainly attributable to a decrease in depreciation from certain assets becoming fully depreciated in 2018 and a change in accounting estimate of the useful lives of the Health System's equipment and buildings that will be described in *Note 5*. Long-term debt decreased by approximately \$12,866,000, due to the refunding of the Series 2007 Bonds and issuance of the 2019 Bonds.

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Management's Discussion and Analysis
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Operating Results and Changes in the Health System's Net Position

In 2020, the Health System's net position increased by approximately \$2,481,590, or 5.4%, as shown in Table 2. This increase is made up of several different components and represents an increase of \$1,735,993 compared with the increase in net position for 2019 of \$19,512,655. The Health System's change in net position increased from (\$18,767,058) in 2018 to 745,597 in 2019, an increase of \$19,512,655.

Table 2: Operating Results and Changes in Net Assets

	2020	2019	2018
Operating Revenues			
Net patient service revenue	\$ 108,606,894	\$ 106,811,619	\$ 95,715,027
Other operating revenue	2,783,434	2,060,603	2,268,373
Total operating revenues	<u>111,390,328</u>	<u>108,872,222</u>	<u>97,983,400</u>
Operating Expenses			
Salaries and wages and employee benefits	57,571,742	57,654,498	59,897,938
Purchased services and professional fees	20,068,340	17,559,078	16,053,282
Depreciation	3,705,027	3,690,171	8,520,935
Other operating expenses	32,711,480	30,772,316	31,373,778
Total operating expenses	<u>114,056,589</u>	<u>109,676,063</u>	<u>115,845,933</u>
Operating Loss	<u>(2,666,261)</u>	<u>(803,841)</u>	<u>(17,862,533)</u>
Nonoperating Revenues (Expenses)			
Noncapital grants and contributions	4,258,948	470,033	275,000
Investment income	442,829	1,236,996	190,415
Interest expense	(650,835)	(1,213,851)	(1,369,940)
Other	1,096,909	1,056,260	-
Total nonoperating revenues (expenses)	<u>5,147,851</u>	<u>1,549,438</u>	<u>(904,525)</u>
Increase (Decrease) in Net Position	<u>\$ 2,481,590</u>	<u>\$ 745,597</u>	<u>\$ (18,767,058)</u>

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Operating Income or Loss

The first component of the overall change in the Health System's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2020, the Health System had an operating loss of \$2,666,261 compared to an operating loss of \$803,841 in 2019. The primary components of the change in operating performance are:

The operating loss for 2020 decreased by \$1,862,420, as compared to 2019. The primary components of the decreased operating loss are:

- An increase in purchased services and professional fees of approximately \$2,500,000, or 14.3%, due to an increase in contract labor for nurses during the year.
- An increase in other operating expenses of approximately \$1,939,000 or 6.3%, due primarily to an increase in supplies related to the acquisition of the Oncology Clinic, and COVID-19 related expenses.

The operating loss for 2019 decreased by \$17,058,692, as compared to 2018. The primary components of the decreased operating income are:

- An increase in net patient service revenue of approximately \$11,097,000, or 11.6%. Attributing to this, the Health System was designated a sole community hospital by Medicare in February 2019, as well as resolution of other outstanding third-party settlements.
- A decrease in depreciation expense of approximately \$4,831,000, or 57%, due to certain assets becoming fully depreciated and change in estimate of useful lives of buildings and equipment that decreased depreciation approximately \$1,830,000.
- A decrease in salaries, wages and employee benefits of approximately \$2,243,000, or 3.7%.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of noncapital grants and contributions, investment income and interest expense, of which noncapital grants and gifts increased by approximately \$3,789,000 from 2019 to 2020 related to COVID-19 provider relief funds received by the Health System. From 2019 to 2020, investment income decreased approximately \$794,000, resulting primarily from decreased cash and investments over this period and changes in fair values.

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The Health System's Cash Flows

Cash provided by (used in) operating activities was approximately \$16,393,000, \$1,260,000, and (6,126,000) for 2020, 2019 and 2018, respectively. The increase in 2020 primarily relates to Medicare Advance payments received of \$14,333,000. Cash flows from noncapital financing activities primarily relates to cash received from CARES Act funding. Cash used in capital and related financing activities decreased approximately \$9,050,000. In 2019, cash used in capital and related financing activities increased approximately \$7,346,000, due to the refinancing of the Series 2007 bonds. This was funded by cash provided from additional investing activities proceeds of approximately \$14,665,000 when compared to 2018.

Capital Asset and Debt Administration

Capital Assets

At the end of 2020, the Health System had \$38,036,295 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. During 2020, the Health System purchased a Medical Oncology Clinic and recorded the equipment related to the acquisition.

Debt

At September 30, 2020, the Health System had \$15,176,775 in bonds and capital lease obligations outstanding, including current maturities. The Health System refunded the Series 2007 bonds payable by issuing refunding bonds in July 2019 (*Note 6*).

Other Economic Factors

Many economic and environmental factors are considered by the Board of Trustees and management. Of primary importance is the status of the local economy and the overall health care environment, which takes into account market forces and environmental factors such as:

- Impact of COVID-19 on the Health System, attributed to patient volumes, elective surgeries, person protective equipment and other expenses.
- Medicare and Medicaid reimbursement changes, including continuation or adjustment of disproportionate share programs, such as MHAP.
- Declining population growth in our service area and increasing uninsured and indigent.
- Ability to recruit and retain qualified medical staff, physicians, nurses and other skilled clinical positions and related pressures on salaries and benefits.
- Increasing costs of supplies and pharmaceuticals.

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- Stability of the existing local and regional industry and the ability of the community to attract new industry.

Contacting the Health System's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Health System's finances and to show the Health System's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Health System Business Administration at 662.378.3783 or at 1400 East Union Street, Greenville, MS 38073.

Delta Health System
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Balance Sheets
September 30, 2020 and 2019

	2020	2019
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 36,804,041	\$ 16,914,411
Internally designated for self insurance - current	678,976	628,851
Patient accounts receivable, net of allowance for doubtful accounts; 2020 - \$11,213,000; 2019 - \$13,225,000	14,303,581	12,849,294
Supplies	2,219,661	1,894,004
Prepaid expenses	406,669	403,779
Estimated amounts due from third-party payors	-	1,005,311
Other current assets	313,741	315,543
	54,726,669	34,011,193
Noncurrent Cash and Investments		
Held by trustee for debt service	1,801,638	1,318,832
Internally designated capital improvements	16,814,146	2,677,551
Internally designated for self-insurance	1,458,745	1,364,083
	20,074,529	5,360,466
Capital Assets, Net	38,036,295	39,234,606
Other Assets	2,593,691	2,572,922
Deferred Outflows of Resources	3,730,413	165,389
	54,726,669	34,011,193
	38,036,295	39,234,606
	2,593,691	2,572,922
	3,730,413	165,389
Total assets and deferred outflows of resources	\$ 119,161,597	\$ 81,344,576

See Notes to Financial Statements

	2020	2019
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 728,468	\$ 644,677
Accounts payable	3,050,321	3,136,707
Estimated amounts due to third-party payors	3,471,438	-
Accrued salaries and wages	4,130,507	3,441,239
Accrued self-insurance - current	651,570	628,851
Deferred grant revenue	18,986,521	-
Other accrued expenses	3,324,407	2,049,286
	<hr/>	<hr/>
Total current liabilities	34,343,232	9,900,760
Net Pension Liability	8,112,676	8,275,729
Accrued Self-insurance	2,989,814	1,524,268
Estimated Amounts Due to Third Party Payors	10,513,679	-
Long-term Debt, Net of Current Maturities	14,448,307	14,954,643
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Total liabilities	70,407,708	34,655,400
	<hr/>	<hr/>
Deferred Inflows of Resources	299,907	716,784
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Net Position		
Net investment in capital assets	24,350,486	24,626,856
Restricted - expendable for debt service	10,766	3,412
Restricted - expendable for capital expenditures	-	330,044
Unrestricted	24,092,730	21,012,080
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Total net position	48,453,982	45,972,392
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Total liabilities, deferred inflows of resources and net position	\$ 119,161,597	\$ 81,344,576
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Delta Health System
A Component Unit of Washington County, Mississippi
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2020 and 2019

	2020	2019
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2020 - \$29,890,000, 2019 - \$30,300,000	108,606,894	\$ 106,811,619
Other operating revenue	2,783,434	2,060,603
Total operating revenues	111,390,328	108,872,222
Operating Expenses		
Salaries and wages	47,679,855	46,412,065
Employee benefits	9,891,887	11,242,433
Purchased services and professional fees	20,068,340	17,559,078
Supplies and other	28,655,009	25,463,721
State provider tax	4,056,471	5,308,595
Depreciation and amortization	3,705,027	3,690,171
Total operating expenses	114,056,589	109,676,063
Operating Loss	(2,666,261)	(803,841)
Nonoperating Revenues (Expenses)		
Noncapital grants and contributions	4,258,948	470,033
Investment income	442,829	1,236,996
Interest expense	(650,835)	(1,213,851)
Proceeds from insurance recoveries	1,096,909	783,041
Other	-	273,219
Total nonoperating revenues (expenses)	5,147,851	1,549,438
Increase in Net Position	2,481,590	745,597
Net Position, Beginning of Year	45,972,392	45,226,795
Net Position, End of Year	48,453,982	\$ 45,972,392

Delta Health System
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Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities		
Receipts from and on behalf of patients	\$ 122,143,035	\$ 104,721,476
Payments to suppliers and others	(50,419,383)	(48,418,330)
Payments to or on behalf of employees	(58,191,782)	(58,325,639)
Other operating receipts	2,861,333	3,282,491
Net cash provided by operating activities	<u>16,393,203</u>	<u>1,259,998</u>
Cash Flows from Noncapital Financing Activities		
Noncapital grants and gifts	23,245,469	470,033
Net cash provided by noncapital financing activities	<u>23,245,469</u>	<u>470,033</u>
Cash Flows from Capital and Related Financing Activities		
Interest payments on long-term debt	(675,078)	(1,416,154)
Principal payments on long-term debt	(664,960)	(26,655,046)
Proceeds from issuance of long-term debt	-	14,140,569
Purchase of capital assets	(1,849,472)	(1,435,073)
Acquisition of physician practices	(3,440,000)	-
Proceeds from insurance recoveries	1,096,909	783,041
Net cash used in capital and related financing activities	<u>(5,532,601)</u>	<u>(14,582,663)</u>
Cash Flows from Investing Activities		
Purchases of investments	(14,705,135)	(2,665,668)
Proceeds from sale of investments	500,000	17,670,683
Proceeds from return of capital from workers' compensation subscription	104,918	243,128
Proceeds from guaranteed investment contract termination	-	622,000
Investment income	384,963	1,200,370
Net cash provided by (used in) investing activities	<u>(13,715,254)</u>	<u>17,070,513</u>
Increase in Cash and Cash Equivalents	20,390,817	4,217,881
Cash and Cash Equivalents, Beginning of Year	<u>20,352,583</u>	<u>16,134,702</u>
Cash and Cash Equivalents, End of Year	<u>\$ 40,743,400</u>	<u>\$ 20,352,583</u>

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Statements of Cash Flows (Continued)
Years Ended September 30, 2020 and 2019

	2020	2019
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 36,804,041	\$ 16,914,411
Restricted cash - current	678,976	628,851
Noncurrent cash and investments	3,260,383	2,809,321
Total cash and cash equivalents	\$ 40,743,400	\$ 20,352,583
 Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (2,666,261)	\$ (803,841)
Depreciation and amortization	3,705,027	3,690,171
Loss on disposal of capital assets	77,899	216,528
Accrued self-insurance costs	1,488,265	(219,654)
Provision for uncollectible accounts	29,891,024	30,299,692
Changes in operating assets and liabilities		
Patient accounts receivable	(31,345,311)	(30,259,294)
Accounts payable and accrued expenses	1,872,262	(170,488)
Estimated amounts due to third-party payors	14,990,428	(2,130,541)
Net pension liability	(163,053)	(855,397)
Deferred inflows of resources	(397,462)	(256,184)
Deferred outflows of resources	(620,668)	527,170
Other assets and liabilities	(438,947)	1,221,836
Net cash provided by operating activities	\$ 16,393,203	\$ 1,259,998
 Noncash Capital and Financing Activities		
Capital assets acquisitions included in accounts payable	\$ -	\$ 4,527
Unrealized gain on investments	\$ 57,866	\$ 36,626
Lease obligation incurred for lease assets	\$ 242,415	\$ -

Delta Health System
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Notes to Financial Statements
September 30, 2020 and 2019

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

Nature of Operations and Reporting Entity

Delta Health System (the Health System) is an acute care Health System located in Greenville, Mississippi. The Health System is a component unit of Washington County (the County), and the Board of County Commissioners appoints members to the Board of Trustees (the Board) of the Health System. The Health System primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Washington County area. It also operates physician, outpatient and rehabilitation facilities in the same geographic area.

Budgetary Information

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

Basis of Accounting and Presentation

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

Use of Estimates

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

Delta Health System
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Notes to Financial Statements
September 30, 2020 and 2019

Cash Equivalents

The Health System considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2020 and 2019, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposits.

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

The Health System reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients and others. The Health System provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost or market. Cost are determined using the first-in, first-out method.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimate useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Health System:

Land improvements	5 - 20 years
Buildings and leasehold improvements	5 - 47 years
Fixed equipment	5 - 25 years
Major moveable equipment	5 - 20 years

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Capital Asset Impairment

The Health System evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, the capital asset historical cost and related accumulated depreciation are decreased proportionately such that the net decrease equals the impairment loss. No asset impairment was recognized during the years ended September 30, 2020 and 2019.

Deferred Outflows and Deferred Inflows of Resources

Transactions not meeting the definition of an asset or liability that result in the consumption or acquisition of net position in one period that are applicable to future periods are reported as deferred outflows of resources and deferred inflows of resources. At September 30, 2020 and 2019, deferred outflows of resources and deferred inflows of resources were comprised of the following:

	Deferred Outflows of Resources	
	2020	2019
Pension plan (<i>Note 12</i>)	\$ 786,057	\$ 165,389
Acquisition - clinic practice (<i>Note 18</i>)	2,944,356	-
	\$ 3,730,413	\$ 165,389
	Deferred Inflows of Resources	
	2020	2019
Pension plan (<i>Note 12</i>)	\$ -	\$ 397,462
Deferred gain on debt refunding (<i>Note 6</i>)	299,907	319,322
	\$ 299,907	\$ 716,784

Compensated Absences

Health System policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned, whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits

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are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs, and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheets date, plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Risk Management

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

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

Defined Benefit Pension Plan

The Health System has a single-employer defined benefit pension plan, Delta Regional Medical Center Pension Plan (the Plan). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position

Net position of the Health System is classified in three components. 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 expendable net position is noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Health System, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted expendable.

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Net Patient Service Revenue

The Health System has agreements with third-party payors that provide for payments to the Health System at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Deferred Grant Revenues

Primarily related to funds received from the CARES Act to aide in managing the COVID-19 pandemic for which eligibility or other conditions have not yet been met. See *Note 17*.

Charity Care

The Health System provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Health System does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As an essential government function of the County, the Health System is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Health System is subject to federal income tax on any unrelated business taxable income.

Note 2: Net Patient Service Revenue

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

Medicare - Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Health System is reimbursed for certain services at tentative rates, with final settlement determined after submission of annual cost reports by the Health System and audits thereof by the Medicare administrative contractor.

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Medicaid - Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge.

Other - Payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

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

Effective in 2016, the Division of Medicaid (DOM) implemented the MHAP program. The MHAP program is administered by the DOM through the Mississippi CAN coordinated care organizations (CCO). The CCOs subcontract with the hospitals throughout the state for distribution of the MHAP program for the purpose of protecting patient access to hospital care. The MHAP program began December 1, 2015, and the MHAP payments and associated tax are distributed and collected in equal monthly installments. For the fiscal years ended September 30, 2020 and 2019, the Health System received \$12,852,346 and \$12,687,721, respectively, from the MHAP program. MHAP amounts are shown as a reduction of contractual adjustments with the related tax assessment of \$4,056,471 and \$5,308,595 recorded in operating expenses for the years ended September 30, 2020 and 2019, respectively.

Approximately 82% and 81% of net patient service revenue are from participation in the Medicare, Medicare Advantage, and state-sponsored Medicaid programs for the years ended September 30, 2020 and 2019, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Health System's deposit policy for custodial credit risk requires compliance with the provisions of Mississippi state law. The collateral for public entities deposited in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the Health System's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged

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by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). All deposits with financial institutions must be collateralized in an amount equal to 105% of uninsured deposits and are therefore fully insured. The collateralized and insured bank balance was \$41,048,980 and \$19,187,893 at September 30, 2020 and 2019, respectively.

Investments

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

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

Type	September 30, 2020				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Money market mutual funds	\$ 1,801,638	\$ 1,801,638	\$ -	\$ -	\$ -
		<u>\$ 1,801,638</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Mississippi Hospital Association - Intermediate Duration Trust	<u>2,684,512</u>				
	<u>\$ 4,486,150</u>				
Type	September 30, 2019				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Money market mutual funds	1,221,287	\$ 1,221,287	\$ -	\$ -	\$ -
		<u>\$ 1,221,287</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Mississippi Hospital Association - Intermediate Duration Trust	<u>2,551,145</u>				
	<u>\$ 3,772,432</u>				

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Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Health System's investment policy limits at least its investment portfolio to maturities not to exceed ten years. The weighted average maturity of the portfolio may not exceed five years. The money market mutual funds are presented as an investment with a maturity of less than one year because the average maturity of the funds is less than one year.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Health System's investment policy limits its investment in fixed income securities to maintain an overall credit rating of A or better by Moody's Investor Service and Standard & Poor's. No individual investments are to be held below investment grade (Baa/BBB). Investments included, within established guidelines and Mississippi state law, are limited to securities of the U.S. government or its agencies, U.S. government obligations, U.S. and Mississippi municipal bonds, interest-bearing accounts and certificates of deposits of financial institutions, open-end or closed-end management type investment company or investment trust and an investment trust consisting of pooled or commingled funds of other hospitals.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Health System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk - In accordance with state statute, the Health System restricts investments in U.S. agencies to 50% of total investments. Investments in open-end and closed-end management type investment companies and investment trusts are limited to 20% of total investments.

Summary of Carrying Values

The carrying values of deposits and investments are as follows:

	2020	2019
Deposits		
Cash	\$ 38,941,762	\$ 19,131,296
Certificates of deposit	14,129,634	-
	53,071,396	19,131,296
Investments		
Money market mutual funds	1,801,638	1,221,287
Mississippi Hospital Association - Intermediate Duration Trust	2,684,512	2,551,145
	4,486,150	3,772,432
	\$ 57,557,546	\$ 22,903,728

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

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 36,804,041	\$ 16,914,411
Restricted cash - current	678,976	628,851
Noncurrent cash and investments	<u>20,074,529</u>	<u>5,360,466</u>
	<u>\$ 57,557,546</u>	<u>\$ 22,903,728</u>

Investment Income

Investment income for the years ended September 30 consisted of:

	<u>2020</u>	<u>2019</u>
Interest and dividend income	\$ 386,546	\$ 806,781
Realized gains (losses) on investments, net	(1,583)	393,589
Unrealized gains (losses) on investments, net	<u>57,866</u>	<u>36,626</u>
	<u>\$ 442,829</u>	<u>\$ 1,236,996</u>

Note 4: Patient Accounts Receivable

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

	<u>2020</u>	<u>2019</u>
Medicare	\$ 5,335,264	\$ 5,677,458
Medicaid	2,336,468	3,202,456
Other third-party payors	4,837,093	3,486,489
Patients	<u>13,007,793</u>	<u>13,707,482</u>
	25,516,618	26,073,885
Less allowance for uncollectible accounts	<u>11,213,037</u>	<u>13,224,591</u>
	<u>\$ 14,303,581</u>	<u>\$ 12,849,294</u>

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Note 5: Capital Assets

Capital assets activity for the years ended September 30 was:

	2020				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 4,677,347	\$ -	\$ (40,032)	\$ -	\$ 4,637,315
Land improvements	860,754	-	-	-	860,754
Building	41,215,312	-	-	202,560	41,417,872
Fixed equipment	9,069,410	157,672	-	-	9,227,082
Equipment	82,849,371	1,428,955	(64,806)	505,381	84,718,901
Construction in progress	968,523	811,065	-	(741,281)	1,038,307
	<u>139,640,717</u>	<u>2,397,692</u>	<u>(104,838)</u>	<u>(33,340)</u>	<u>141,900,231</u>
Less accumulated depreciation					
Land improvements	(772,676)	(20,982)	-	-	(793,658)
Building	(27,179,451)	(752,149)	-	-	(27,931,600)
Fixed equipment	(8,003,645)	(74,515)	-	-	(8,078,160)
Equipment	(64,450,339)	(2,674,985)	64,806	-	(67,060,518)
	<u>(100,406,111)</u>	<u>(3,522,631)</u>	<u>64,806</u>	<u>-</u>	<u>(103,863,936)</u>
Capital assets, net	<u>\$ 39,234,606</u>	<u>\$ (1,124,939)</u>	<u>\$ (40,032)</u>	<u>\$ (33,340)</u>	<u>\$ 38,036,295</u>

Construction in progress at September 30, 2020, consists mainly of expenditures associated with renovation of a clinic that was damaged by fire and repair of a hail damaged roof. Budgeted costs to complete these projects are approximately \$657,000 in fiscal year 2021, and will be funded through insurance proceeds.

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	2019				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 4,677,347	\$ -	\$ -	\$ -	\$ 4,677,347
Land improvements	860,754	-	-	-	860,754
Building	42,929,717	-	(3,268,804)	1,554,399	41,215,312
Fixed equipment	12,077,437	236,507	(3,244,534)	-	9,069,410
Equipment	82,263,184	586,187	-	-	82,849,371
Construction in progress	2,065,033	623,631	-	(1,720,141)	968,523
	<u>144,873,472</u>	<u>1,446,325</u>	<u>(6,513,338)</u>	<u>(165,742)</u>	<u>139,640,717</u>
Less accumulated depreciation					
Land improvements	(763,054)	(9,622)	-	-	(772,676)
Building	(29,614,193)	(783,276)	3,218,018	-	(27,179,451)
Fixed equipment	(11,183,992)	(64,187)	3,244,534	-	(8,003,645)
Equipment	(61,617,253)	(2,833,086)	-	-	(64,450,339)
	<u>(103,178,492)</u>	<u>(3,690,171)</u>	<u>6,462,552</u>	<u>-</u>	<u>(100,406,111)</u>
Capital assets, net	<u>\$ 41,694,980</u>	<u>\$ (2,243,846)</u>	<u>\$ (50,786)</u>	<u>\$ (165,742)</u>	<u>\$ 39,234,606</u>

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Note 6: Long-term Debt

The following is a summary of long-term obligation transactions for the Health System for the years ended September 30:

Description	Balance October 1, 2019	Additions	Payments	Amortization	Balance September 30, 2020	Due Within One Year
Hospital Revenue and Limited Obligation						
Funding Bonds - Series 2019	\$ 14,710,000	\$ -	\$ 600,000	\$ -	\$ 14,110,000	\$ 630,000
Sarulla property	889,320	-	44,676	-	844,644	56,889
Phillips Medical Capital	-	242,415	20,284	-	222,131	41,579
	<u>\$ 15,599,320</u>	<u>\$ 242,415</u>	<u>\$ 664,960</u>	<u>\$ -</u>	<u>\$ 15,176,775</u>	<u>\$ 728,468</u>

Description	Balance October 1, 2018	Additions	Payments	Amortization	Balance September 30, 2019	Due Within One Year
FHA-insured Mortgage Revenue Bonds - Series 2007	\$ 26,615,000	\$ -	\$ 26,615,000	\$ -	\$ -	\$ -
Sarulla property	929,366	-	40,046	-	889,320	44,677
Unamortized bond premium	920,706	-	-	920,706	-	-
Hospital Revenue and Limited Obligation Funding Bonds - Series 2019	-	14,710,000	-	-	14,710,000	600,000
	<u>\$ 28,465,072</u>	<u>\$ 14,710,000</u>	<u>\$ 26,655,046</u>	<u>\$ 920,706</u>	<u>\$ 15,599,320</u>	<u>\$ 644,677</u>

Hospital Revenue and Limited Obligation Refunding Bonds – Series 2019

On July 31, 2019, Hospital Revenue and Limited Obligation Refunding Bonds – Series 2019 (Series 2019 Bonds) were issued in the original amount of \$14,710,000, bearing interest at 4.25%. The proceeds from the bonds are to be used for the purposes of the refunding of all of the outstanding Series 2007 Bonds. The bonds are payable in annual installments through September 2036. The Series 2019 Bonds are secured by net revenues and accounts receivable of the Health System and the restricted assets under the bond resolution and private placement agreement. The unamortized defined gain on refinancing of the debt was \$299,907 and \$319,322, at September 30, 2020 and 2019, respectively, and is included in the balance sheet as a deferred inflow of resources.

FHA-insured Mortgage Revenue Bonds – Series 2007

The Series 2007 revenue bonds payable consist of Mississippi Health System Equipment and Facilities Authority, FHA-insured Mortgage Revenue Bonds (Series 2007 Bonds) in the original amount of \$35,725,000 dated February 2007, which bear interest at 4.7% to 6.25%. A portion of the bond proceeds were used to refinance a \$21,000,000 short-term, commercial bank loan and to make certain capital improvements to the Health System, including renovating, upgrading and equipping the Health System’s existing facility. The Series 2007 Bonds are payable in annual

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installments through August 2033. The Series 2007 Bonds are secured by the net revenues and accounts receivable of the Health System and the assets restricted under the bond indenture agreement. Payments of bond principal are also secured by an insurance policy issued by a commercial insurer.

On July 31, 2019, the Health System issued the Series 2019 Bonds with an interest rate of 4.25% to advance refund the Series 2007 Bonds, with an average interest rate of 5%. The net proceeds of the \$14,043,023 (after payment of \$569,431 in underwriting fees and other issuance costs and deposit of \$97,546 in cost of issuance fund) plus an additional \$10,104,444 and \$1,457,125 of Series 2007 Debt Service Reserve Fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 2007 Bonds. As a result, the 2007 Series Bonds are considered to be defeased, and the liability for those bonds has been removed from the Health System's balance sheets. These bonds were fully retired on September 3, 2019.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$320,000. This difference, reported in the accompanying financial statements as a deferred inflow of resources, is being charged to interest expense through the year 2033 using the effective-interest method. The Health System completed the advance refunding to free up restricted cash flows and reduce its total debt service payments. Total debt service payments will be reduced by \$15,748,688 over the next 17 years, in addition to generating an economic gain between the present values of the old and new debt service payments of \$583,508.

The Series 2019 Bond Resolution contains provisions that, in the event of default, allow the trustee to accelerate payments of the entire principal amount to be immediately due and payable.

The debt service requirements of the bonds as of September 30, 2020, were as follows:

Year Ending September 30	Total to be Paid	Principal	Interest
2021	\$ 1,229,675	\$ 630,000	\$ 599,675
2022	1,227,900	655,000	572,900
2023	1,230,063	685,000	545,063
2024	1,230,950	715,000	515,950
2025	1,230,563	745,000	485,563
2026-2030	6,164,188	4,240,000	1,924,188
2031-2035	6,191,375	5,250,000	941,375
2036	1,240,575	1,190,000	50,575
	<u>\$ 19,745,289</u>	<u>\$ 14,110,000</u>	<u>\$ 5,635,289</u>

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Capital Lease Obligations

The Health System is obligated under leases for buildings and equipment that are accounted for as capital leases. Assets under capital leases at both September 30, 2020 and 2019, totaled \$1,387,915 and \$1,145,500, respectively. Upon maturity of the capital lease obligation for leased land, the ownership of the land is transferred to the Health System.

The following is a schedule by year of future minimum lease payments under the capital lease, including interest at rates ranging from 0% to 7% together with the present value of the future minimum lease payments as of September 30, 2020:

Year Ending September 30		
2021	\$	155,781
2022		155,781
2023		155,781
2024		155,781
2025		174,893
2026-2030		601,200
		1,399,217
Less amount representing interest		332,442
Present value of future minimum lease payments	\$	1,066,775

Note 7: Medical Malpractice Claims

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

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Activity in the Health System’s accrued medical malpractice claims liability during 2020 and 2019 is summarized as follows:

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 1,947,492	\$ 1,977,596
Current year claims incurred and changes in estimates for claims incurred in prior years	308,439	574,800
Claims and expenses paid	<u>(314,329)</u>	<u>(604,904)</u>
Balance, end of year	<u>\$ 1,941,602</u>	<u>\$ 1,947,492</u>

Note 8: Employee Health Claims

Substantially all of the Health System’s employees and their dependents are eligible to participate in the Health System’s employee health and dental insurance plan. The Health System is self-insured for health and dental claims of participating employees and dependents up to an annual aggregate amount. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health and dental claims, including both claims reported and claims incurred but not yet reported (included within accounts payable in the accompanying balance sheets). The accrual is estimated based on consideration of prior claims’ experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Health System’s estimate will change by a material amount in the near term.

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 229,900	\$ 478,145
Current year claims incurred and changes in estimates for claims incurred in prior years	3,787,209	3,177,070
Claims and expenses paid	<u>(3,329,803)</u>	<u>(3,425,315)</u>
Balance, end of year	<u>\$ 687,306</u>	<u>\$ 229,900</u>

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Note 9: Workers' Compensation Coverage

The Health System is self-insured for the risk of loss related to workers' compensation for injuries to its employees. Excess coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured workers' compensation claims, including both claims reported, and claims incurred but not reported. A summary of changes in the Health System's self-insurance liability for workers' compensation coverage (included in accrued self-insurance in the accompanying balance sheets) for fiscal 2020 and 2019, follows:

	2020	2019
Balance, beginning of year	\$ 205,627	\$ 395,177
Provision for claims reported and claims incurred but not reported	2,152,446	(85,705)
Claims and expenses paid	(658,291)	(103,845)
Balance, end of year	\$ 1,699,782	\$ 205,627

Note 10: Charity Care

The costs of charity care provided under the Health System's charity care policy were approximately \$563,000 and \$431,000 for 2020 and 2019, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Note 11: Operating Leases

The Health System leases various equipment and facilities under operating leases expiring at various dates through 2025. Total rental expense for the years ended September 30, 2020 and 2019, for all operating leases was approximately \$1,078,000 and \$1,032,000, respectively.

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Future minimum lease payments at September 30, 2020, were:

2021	\$	474,316
2022		474,316
2023		474,316
2024		474,316
2024		474,316
Thereafter		474,316
Future minimum lease payments	\$	2,845,896

Note 12: Pension Plans

Defined Benefit Pension Plan Description

The Health System contributes to the Delta Regional Medical Center Pension Plan (the Plan), a single-employer defined benefit pension plan covering substantially all employees. The Plan is administered by a board of trustees appointed by the Director of the Health System’s Department of Human Resources. Benefit provisions are contained in the Plan Document and were established and can be amended by action of the Health System’s Board of Trustees. The Plan benefits were effectively frozen by amendment to the plan on February 1, 2009. The Plan does not issue a separate report that includes financial statements and required supplementary information for the Plan.

Benefits Provided

The Plan provides retirement and death benefits to plan members and their beneficiaries who are vested and retire at or after age 65 or those who retire at age 55 with at least five years of creditable service are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 1.10% of their average monthly earnings. Average compensation is the average of the employee’s earnings for the highest 60 consecutive calendar months preceding retirement or termination, limited as required by Internal Revenue Code Section 401(a)(17). A member may elect a reduced retirement benefit at age 55 with at least five years of consecutive service. Benefits vest upon completion of five years of continuous service.

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The employees covered by the Plan at June 30, 2020 and 2019, were:

	2020	2019
Active employees	272	293
Inactive employees entitled to but not yet receiving benefits	466	481
Inactive employees or beneficiaries currently receiving benefits	338	316
	1,076	1,090

Contributions

The Health System’s Board of Trustees has the authority to establish and amend the contribution requirements of the Health System and active employees. The Board of Trustees establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Health System is required to contribute amounts necessary to fund the Plan at an actuarially determined rate. For the years ended September 30, 2020 and 2019, the Health System contributed approximately \$1,456,000 and \$1,344,000, respectively, to the Plan.

Net Pension Liability

The Health System’s net pension liability was measured as of June 30, 2020 and 2019, for the years ended September 30, 2020 and 2019, respectively, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of July 1, 2019 and 2018, respectively, rolled forward to June 30, 2020 and 2019, respectively.

The total pension liability in the July 1, 2019 and 2018, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	5.00%
Ad hoc cost-of-living adjustments	None
Investment rate of return	6.50%, net of interest expense

Mortality rates were based on the RP-2000 Mortality for Employee, Healthy Annuitants and Disabled Annuitants with generational projection per Scale AA.

The Health System has not had a formal actuarial experience study performed.

The long-term expected rate of return on pension plan investments was based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S. cash	11.33%	-0.34%
U.S. core fixed income	40.13%	0.55%
U.S. large caps	39.42%	4.51%
Global equity	7.77%	5.55%
U.S. REITs	1.35%	5.30%
	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 6.50% for the years ended September 30, 2020 and 2019. The projection of cash flows used to determine the discount rate assumed that the Health System's contributions will be made at rates equal to actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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Changes in the total pension liability, plan fiduciary net position and the net pension liability were:

	2020		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, beginning of year	\$ 28,664,135	\$ 20,388,406	\$ 8,275,729
Changes for the year			
Service cost	-	-	-
Interest	1,810,992	-	1,810,992
Differences between expected and actual experience	154,091	-	154,091
Benefit payments	(1,631,113)	(1,631,113)	-
Employer contributions	-	1,232,000	(1,232,000)
Net investment income	-	896,136	(896,136)
Net changes	<u>333,970</u>	<u>497,023</u>	<u>(163,053)</u>
Balance, end of year	<u>\$ 28,998,105</u>	<u>\$ 20,885,429</u>	<u>\$ 8,112,676</u>
	2019		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, beginning of year	\$ 28,090,317	\$ 18,959,191	\$ 9,131,126
Changes for the year			
Service cost	-	-	-
Interest	1,777,663	-	1,777,663
Differences between expected and actual experience	303,214	-	303,214
Benefit payments	(1,507,059)	(1,507,059)	-
Employer contributions	-	1,344,000	(1,344,000)
Net investment income	-	1,592,274	(1,592,274)
Net changes	<u>573,818</u>	<u>1,429,215</u>	<u>(855,397)</u>
Balance, end of year	<u>\$ 28,664,135</u>	<u>\$ 20,388,406</u>	<u>\$ 8,275,729</u>

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Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The net pension liability of the Health System has been calculated using a discount rate of 6.50%. The following presents the net pension liability using a discount rate 1% higher and 1% lower than the current rate.

	1% Decrease 5.50%	Current Discount Rate 6.50%	1% Increase 7.50%
Net pension liability	\$ 11,538,423	\$ 8,112,676	\$ 5,263,751

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the years ended September 30, 2020 and 2019, the Health System recognized pension expense of \$610,817 and \$1,056,530, respectively. At September 30, 2020 and 2019, the Health System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 104,609	\$ -
Net difference between projected and actual earnings on pension plan investments	121,448	-
Contributions made subsequent to measurement date	560,000	-
	\$ 786,057	\$ -

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	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 165,389	\$ (140,520)
Net difference between projected and actual earnings on pension plan investments	-	(256,942)
Contributions made subsequent to measurement date	-	-
	\$ 165,389	\$ (397,462)

At September 30, 2020, the Health System reported \$560,000 as deferred outflows of resources related to the pension resulting from the Health System's contributions subsequent to the measurement date and prior to year-end that will be recognized as a reduction of the net pension liability at September 30, 2021.

Other amounts reported as deferred outflows of resources and deferred inflows of resources at September 30, 2020, related to pensions will be recognized in pension expense as follows:

2021	\$ 85,257
2022	47,291
2023	10,242
2024	83,267
2025	-
	\$ 226,057

Pension Plan Assets

Following is a description of the valuation methodologies used for pension plan assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

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

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Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The fair values of the Health System's pension plan assets at September 30, 2020 and 2019, by asset class are as follows:

June 30, 2020	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Mutual funds	\$20,518,765	\$20,518,765	\$ -	\$ -
Money market mutual funds	<u>366,664</u>	<u>366,664</u>	<u>-</u>	<u>-</u>
	<u><u>\$20,885,429</u></u>	<u><u>\$20,885,429</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

June 30, 2019	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Mutual funds	\$20,073,429	\$20,073,429	\$ -	\$ -
Money market mutual funds	<u>314,977</u>	<u>314,977</u>	<u>-</u>	<u>-</u>
	<u><u>\$20,388,406</u></u>	<u><u>\$20,388,406</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Health System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk - The Health System places no limit on the amount that may be invested in any one issuer.

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Defined Contribution Pension Plan

The Health System contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Health System’s required contributions, determined in accordance with the terms of the plan. The plan is administered by the Director of the Health System’s Department of Human Resources, appointed by Board of Trustees. The plan provides retirement, disability and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the Plan Document and were established and can be amended by action of the Health System’s governing body. Contributions made by the Health System were \$601,430 during 2020 and \$650,777 during 2019.

Deferred Compensation Agreements

The Health System also provides deferred compensation agreements for certain employees. The funds are currently being held in various securities and managed by a third-party administrator. The plan is administered under Section 457(b) of the Internal Revenue Code. Upon termination or retirement, the participant may elect to withdraw their funds. As of September 30, 2020 and 2019, these assets and related liabilities are held in a separate trust.

Note 13: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at September 30, 2020 and 2019, consist of:

	2020	2019
Payable to suppliers and contractors	\$ 5,465,272	\$ 4,714,109
Payable to employees (including payroll taxes and benefits)	5,039,963	3,913,123
	\$ 10,505,235	\$ 8,627,232

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Note 14: Disclosures About Fair Value of Assets and Liabilities

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

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

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2020 and 2019:

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2020	Fair Value			
Investments				
Money market mutual funds	\$ 1,801,638	\$ 1,801,638	\$ -	\$ -
Mississippi Hospital Association - Intermediate Duration Trust	<u>2,684,512</u>	<u>-</u>	<u>2,684,512</u>	<u>-</u>
	<u>\$ 4,486,150</u>	<u>\$ 1,801,638</u>	<u>\$ 2,684,512</u>	<u>\$ -</u>

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September 30, 2019	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Money market mutual funds	\$ 1,221,287	\$ 1,221,287	\$ -	\$ -
Mississippi Hospital Association - Intermediate Duration Trust	2,551,145	-	2,551,145	-
	<u>\$ 3,772,432</u>	<u>\$ 1,221,287</u>	<u>\$ 2,551,145</u>	<u>\$ -</u>

Investments

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

Note 15: Commitments and Contingencies

Medical Malpractice Claims

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

Litigation

In the normal course of business, the Health System is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Health System's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Health System evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the

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amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Pension Obligations

The Health System has a noncontributory defined benefit pension plan, whereby it agrees to provide certain postretirement benefits to eligible employees. The benefit obligation is the actuarial present value of all benefits attributed to service rendered prior to the valuation date based on the projected unit credit cost method. It is reasonably possible that events could occur that would change the estimated amount of this liability materially in the near term.

Investments

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

Note 16: Future Changes in Accounting Principle

GASB recently issued Statement No. 84, *Fiduciary Activities* (GASB 84). GASB 84 clarifies whether a state or local government—including a government engaged in standalone, business-type activities—has a fiduciary responsibility. The Hospital expects to first apply GASB 84 during the year ending September 30, 2021.

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

Note 17: COVID-19 Pandemic and CARES Act Funding

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

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

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

- Implementation of targeted cost reduction initiatives;
- Reduction of certain planned projects and capital expenditures

In addition, the Health System received approximately \$14,333,000 of accelerated Medicare payments and approximately \$21,292,000 in general and targeted Provider Relief Fund distributions, both as provided for under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act. The Health System also received approximately \$1,494,000 in grants from the Coronavirus Relief Fund through the State of Mississippi.

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

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

Provider Relief Fund

During the year ended September 30, 2020, the Health System received approximately \$21,292,000 of distributions from the CARES Act Provider Relief Fund. These distributions from the Provider Relief Fund are not subject to repayment, provided the Health System is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the

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distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services.

The Health System is accounting for such payments as voluntary nonexchange transactions. These payments are recognized as nonoperating revenue once the applicable terms and conditions required to retain the funds have been met and completion of the measurement period. Based on an analysis of the compliance and reporting requirements of the Provider Relief Funds and the impact of the pandemic on the Health System's operating results through September 30, 2020, the Health System recognized approximately \$2,306,000 related to these general distribution and targeted funds, after applying all other assistance received, including state grants. These payments are recorded as nonoperating revenue – noncapital grants and gifts received and other in the statement of revenues, expenses and changes in net position. The unrecognized amount of Provider Relief Funds are recorded deferred grant revenues.

Subsequent to year-end, HHS issued guidance on the use of payments from the Provider Relief Fund the Health System considers the guidance issued subsequent to year-end to be substantive changes in guidance rather than clarifications of guidance existing at September 30, 2020. As a result, the amounts recorded in the financial statements compared to the Health System's Provider Relief Fund reporting could differ. This difference cannot be currently estimated but could be material.

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

Medicare Accelerated and Advanced Payment Program

During the year ended September 30, 2020, the Health System requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care Health Systems or up to three months of advance Medicare payments for other health care providers.

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

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During the year ended September 30, 2020, the Health System received approximately \$14,333,000 from these accelerated Medicare payment requests. The unapplied amount of accelerated Medicare payment requests are recorded in estimated amounts due to third-party payors in the accompanying balance sheets, with amounts anticipated to be recouped within the next 12 months included within current liabilities.

State Grants Agreement

During the year ended September 30, 2020, the Health System received approximately \$1,494,000 from the State of Mississippi through the Coronavirus Relief Fund as part of the response to the COVID-19 pandemic. These distributions from the State are not subject to repayment, provided the Health System is able to use the funds for health care related expenses attributable to COVID-19. The Health System met these requirements and recognized as revenue in fiscal year 2020.

Note 18: Acquisition of Clinics and Hospital

Physician Clinics

In June 2020, the Health System paid cash to acquire certain physician clinics. The Health System assumed certain liabilities and incurred deferred outflows of resources associated with the clinics' acquisition. The deferred outflows of resources are being amortized over five years. The unamortized deferred outflows of resources for acquisition was \$2,944,356 for the year ended September 30, 2020.

Senatobia Hospital

In December 2020, subsequent to end of their fiscal year, the Health System executed an asset purchase agreement to acquire the assets of a hospital located in Senatobia, Mississippi for \$2,750,000. Management is currently evaluating the acquisition and the allocation of purchase price to acquired assets and assumed liabilities.

Required Supplementary Information

Delta Health System
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Schedule of Changes in the Health System's Net Pension Liability and Related Ratios
Years Ended September 30

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability						
Service cost	\$ -	\$ -	\$ 42,046	\$ 56,525	\$ 441,695	\$ 490,706
Interest	1,810,992	1,777,663	1,789,547	1,751,794	1,598,830	1,547,795
Differences between expected and actual experience	154,091	303,214	(572,890)	1,782,929	(194,015)	(95,165)
Benefit payments	<u>(1,631,113)</u>	<u>(1,507,059)</u>	<u>(1,295,266)</u>	<u>(1,133,330)</u>	<u>(1,038,177)</u>	<u>(983,322)</u>
Net change in total pension liability	333,970	573,818	(36,563)	2,457,918	808,333	960,014
Total pension liability - beginning	<u>28,664,135</u>	<u>28,090,317</u>	<u>28,126,880</u>	<u>25,668,962</u>	<u>24,860,629</u>	<u>23,900,615</u>
Total pension liability - ending	<u>28,998,105</u>	<u>28,664,135</u>	<u>28,090,317</u>	<u>28,126,880</u>	<u>25,668,962</u>	<u>24,860,629</u>
Plan Fiduciary Net Position						
Employer contributions	1,232,000	1,344,000	1,002,664	1,083,329	1,338,128	838,590
Net investment income	896,136	1,592,274	992,263	1,428,854	752,788	429,704
Benefit payments	(1,631,113)	(1,507,059)	(1,295,266)	(1,133,330)	(1,038,177)	(983,322)
Administrative expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(27,241)</u>	<u>(28,627)</u>
Net change in plan fiduciary net position	497,023	1,429,215	699,661	1,378,853	1,025,498	256,345
Plan fiduciary net position - beginning	<u>20,388,406</u>	<u>18,959,191</u>	<u>18,259,530</u>	<u>16,880,677</u>	<u>15,855,179</u>	<u>15,598,834</u>
Plan fiduciary net position - ending	<u>20,885,429</u>	<u>20,388,406</u>	<u>18,959,191</u>	<u>18,259,530</u>	<u>16,880,677</u>	<u>15,855,179</u>
Medical Center's net pension liability - ending	<u>\$ 8,112,676</u>	<u>\$ 8,275,729</u>	<u>\$ 9,131,126</u>	<u>\$ 9,867,350</u>	<u>\$ 8,788,285</u>	<u>\$ 9,005,450</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.02%	71.13%	67.49%	64.92%	65.76%	63.78%
Covered Payroll (Approximately)	\$ 15,329,000	\$ 15,597,000	\$ 15,873,000	\$ 18,481,000	\$ 20,365,000	\$ 22,586,000
Net Pension Liability as a Percentage of Covered Payroll	52.92%	53.06%	57.53%	53.39%	43.15%	39.87%

Note to Schedule: This schedule is intended to show a 10-year trend and is presented on the measurement date of the net pension liability. Additional years will be reported as they become available.

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Schedule of the Health System's Contributions
Years Ended September 30,

Year Ending September 30	* Actuarially Determined Contribution	* Actual Employer Contribution	* Contribution Deficiency (Excess)	* Covered Payroll	* Contribution as a % of Covered Payroll
2020	\$ 640,254	\$ 1,456,000	\$ (815,746)	\$ 15,262,514	9.54%
2019	651,388	1,344,000	(692,612)	15,530,036	8.65%
2018	655,860	1,088,665	(432,805)	15,803,760	6.89%
2017	953,390	1,083,329	(129,939)	17,828,969	6.08%
2016	969,968	1,083,333	(113,365)	19,894,222	5.45%
2015	939,446	939,446	-	22,030,952	4.26%
2014	944,920	944,920	-	24,486,606	3.86%
2013	1,071,487	1,071,487	-	26,939,540	3.98%
2012	1,082,409	1,082,409	-	26,831,830	4.03%
2011	931,812	931,812	-	25,945,982	3.59%

*Certain of the contribution information in this schedule has been revised to reflect presentation of the information on a fiscal year basis as required by GASB 68

Notes to Schedule:

Valuation date: July 1, 2019

Measurement date: June 30, 2020

Methods and assumptions used to determine contribution rates:

Actuarial cost method: Entry age normal

Amortization method: Level percentage, closed periods

Amortization period: 16 years

Amortization growth rate: 3.50%

Asset valuation method:

Smoothing record: 3 years

Recognition method: non-asymptotic

Corridor: 80% to 120%

Inflation: 3.00%

Salary increases, including inflation: 5.00%

Investment rate of return: 6.50%

Retirement age: 65

Mortality: RP-2000 Mortality for Employees, Healthy Annuitants, and
Disabled Annuitants with generational projection per scale AA

Other Information

Delta Health System
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Schedule of Surety Bonds for Officers and Employees
September 30, 2020

Name	Position	Company	Amount of Bond
Sylvia Jackson	Trustee	Liberty Mutual Insurance Company	\$ 100,000
Mildred Crockett	Trustee	Liberty Mutual Insurance Company	100,000
James Hollowell	Trustee	Liberty Mutual Insurance Company	100,000
Howard Sanders	Trustee	Liberty Mutual Insurance Company	100,000
Sam Newsom	Trustee	Liberty Mutual Insurance Company	100,000
Jamelda Fulton	Trustee	Liberty Mutual Insurance Company	100,000
Henry Rucker	Trustee	Liberty Mutual Insurance Company	100,000
Scott Christensen	Chief Executive Officer	Liberty Mutual Insurance Company	100,000

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

Independent Auditor's Report

Board of Trustees
Delta Health System
Greenville, Mississippi

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Delta Health System, a component unit of Washington County, Mississippi, which comprise the balance sheet as of September 30, 2020, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 21, 2021.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies of internal control that are considered to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2020-01 that we consider to be a significant deficiency.

Compliance and Other Matters

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

The Health System's Response to Finding

The Health System's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Health System's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Health System'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 Health System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Jackson, Mississippi
January 21, 2021

Delta Health System
A Component Unit of Washington County, Mississippi
Schedule of Findings and Responses
Year Ended September 30, 2020

Reference Number	Finding
2020-01	<p><i>Criteria or Specific Requirement</i> - Management is responsible for establishing and maintaining effective internal controls over financial reporting to appropriately estimate the net collections of patient accounts receivable as of year-end.</p> <p><i>Condition</i> - Estimates of net collections of patient accounts receivable were understated. Adjustments were proposed and recorded to allowance for contractual adjustments and allowance for uncollectible accounts to properly state net patient accounts receivable based on available information.</p> <p><i>Effect</i> - Valuation of net patient accounts receivable was understated. Journal entries were required to adjust the expected net collections of net patient accounts receivable at year-end.</p> <p><i>Cause</i> - The Health System collection trends were different than reserves recorded throughout the year. Revisions to the inputs and valuation methodology were necessary to appropriately estimate expected collections of net patient accounts receivable at year-end.</p> <p><i>Recommendation</i> - Management should review and revise as necessary valuation methodology utilized to estimate net collections of net patient accounts receivable.</p> <p><i>View of Responsible Officials and Planned Corrective Actions</i> - Management understands the importance of reliable and accurate estimations of net collections from patient accounts receivable in order to appropriately represent the year-end financial position of the Health System. Management has reviewed its methodology for calculating estimates of net collections from patient accounts receivable and has made additional revisions. In addition to using fully adjudicated patient account data to determine the most accurate current payment rates by financial class and payor, management has implemented additional balance sheet based analytics. These new tools mirror techniques used in the audit and are used to confirm estimated collections.</p>

Delta Health System
A Component Unit of Washington County, Mississippi
Summary Schedule of Prior Audit Findings
Year Ended September 30, 2019

Reference Number	Finding	Status
2019-01	Management is responsible for establishing and maintaining effective internal controls over financial reporting to appropriately estimate the net collections of patient accounts receivable as of year-end.	Uncorrected