



**SOUTHWEST MISSISSIPPI  
REGIONAL MEDICAL CENTER**

**Financial Statements**

**For the Year Ended September 30, 2021**



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

Mailing Address:  
PO Box 768  
Laurel, MS 39441

601.649.5207  
601.649.5233 (fax)  
CRLcpa.com

## **INDEPENDENT AUDITORS' REPORT**

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

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

We have audited the accompanying financial statements of Southwest Mississippi Regional Medical Center (the "Medical Center"), as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents.

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

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

### ***Auditors' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Medical Center as of September 30, 2021, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

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

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Medical Center's basic financial statements. The schedule of gross patient service revenue, schedule of operating expenses, schedule of other operating revenue, and schedule of surety bonds for officials and employees are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of gross patient service revenue, operating expenses, other operating revenue, and surety bonds for officials and employees are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to

prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of gross patient service revenue, operating expenses, other operating revenue, and surety bonds for officials and employees are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2022, on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Medical Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.

*Carr, Riggs & Ingram, L.L.C.*

Laurel, Mississippi  
April 25, 2022

## **Southwest Mississippi Regional Medical Center Management's Discussion and Analysis**

Our discussion and analysis of Southwest Mississippi Regional Medical Center's (the "Medical Center") annual performance provides an overview of the entity's financial activities for the fiscal year ended September 30, 2021. This information should be used in conjunction with the Medical Center's financial statements, which begin on page 11.

### **Background and Overview**

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

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

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

### **Using This Annual Report**

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

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

## Southwest Mississippi Regional Medical Center Management's Discussion and Analysis

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

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

### Financial Highlights

The Medical Center's overall financial position showed an overall increase in net position of \$2.4 million.

Positive factors affecting financial results included:

- Disproportionate Share ("DSH") and Mississippi Hospital Access Program ("MHAP") net revenues were \$7.2 million.

Negative factors affecting financial results included:

- Increasing payor requirements to move services from inpatient to outpatient, resulting in decreased inpatient census.
- Continuing shift in payment responsibility from third-party payors to patients through higher deductibles and copays resulting in additional bad debt estimates.
- Increase in salaries due to rising staffing costs from nursing shortages during the Covid-19 pandemic.

At the end of the 2021 fiscal year, the assets of the Medical Center exceeded liabilities by approximately \$30.1 million. Of this excess amount, approximately \$18 million (unrestricted net position) may be used to meet ongoing obligations to the Medical Center's employees, patients and creditors. The Medical Center is self-insured for general and professional liability claims and has established a self-insurance fund in accordance with the requirements of the Mississippi Tort Claims Board. At September 30, 2021, the Medical Center had \$1.3 million deposited into this restricted account.

## Southwest Mississippi Regional Medical Center Management's Discussion and Analysis

### Condensed Financial Information

#### *Summary of Net Position*

A summary of the Medical Center's Statements of Net Position for September 30, 2021 and 2020 are presented in the following table:

#### Condensed Statements of Net Position (In Thousands)

<i>September 30,</i>	Fiscal Year	
	2021	2020
Current and other assets	\$ 64,248	\$ 75,071
Capital assets	34,315	31,926
<b>Total assets</b>	<b>\$ 98,563</b>	<b>\$ 106,997</b>
Long-term debt	\$ 26,352	\$ 26,730
Other liabilities	42,062	52,526
<b>Total liabilities</b>	<b>\$ 68,414</b>	<b>\$ 79,256</b>
Net investment in capital assets	\$ 10,628	\$ 7,862
Restricted	1,571	1,134
Unrestricted	17,950	18,745
<b>Total net position</b>	<b>\$ 30,149</b>	<b>\$ 27,741</b>

Total assets decreased by approximately \$8.4 million. Some of the more significant changes were:

- Cash decreased \$16.3 million due to the purchase of investments in the amount of \$6.6 million, use of CARES Act funds to cover expenses in the amount of \$5.1 million, as well as cash operating costs in excess of revenues.
- Net accounts receivable increased \$4.1 million primarily due to increases in patient revenue due to higher patient census.
- Capital assets increased \$4.1 million mainly due to the acquisition of equipment through capital leases.

Total liabilities decreased by approximately \$10.8 million. Accounts payable increased \$3.3 million and unearned revenue decreased \$14.8 million due to the use of CARES Act funding and repayment of advanced Medicare funds.



## Southwest Mississippi Regional Medical Center Management's Discussion and Analysis

### *Summary of Revenue Expenses, and Changes in Net Position*

The following table presents a summary of the Medical Center's revenue and expenses for the fiscal years ended September 30, 2021 and 2020:

	Fiscal Year	
	2021	2020
Operating revenue		
Net patient service revenue	\$ 138,591	\$ 123,216
Other operating income	2,508	2,609
Total operating income	141,099	125,825
Operating expenses		
Salaries, wages, and benefits	84,566	74,532
Supplies and other operating expenses	59,557	55,912
Depreciation and amortization expense	5,590	5,639
Total operating expenses	149,713	136,083
Loss from operations	(8,614)	(10,258)
Nonoperating revenue (expense)	11,022	16,875
Change in net position	\$ 2,408	\$ 6,617

### ***Operating Revenues***

During fiscal year 2021, the Medical Center derived 98% of its total operating revenues from net patient service revenues. Such revenues included revenues from Medicare (53%) and Medicaid (17%) programs, and patients or their third-party carriers (30%), who pay for care in the Medical Center's facilities. Operating revenues are discussed further in the notes to the financial statements.

## Southwest Mississippi Regional Medical Center Management's Discussion and Analysis

### ***Operating Results and Financial Performance***

The following summarizes the Medical Center's operating results and financial performance between 2021 and 2020:

- Gross patient revenues increased \$39.7 million or 11.1% and net patient service revenue increased \$15.4 million or 12.5% primarily due to increases in patient censuses.
- Revenue deductions for contractual adjustments and bad debt expense remained the same in 2021 and 2020 at 66%.
- Total operating expenses increased by \$13.7 million. This is a result of a \$10 million increase in salaries and related benefits, as well as increased patient care costs in caring for patients with COVID-19 and other infection prevention precautions taken.

### ***Capital Assets***

The following summarizes the Medical Center's investment in capital assets as of September 30, 2021 and 2020:

<i>September 30,</i>	Fiscal Year	
	2021	2020
Land	\$ 429	\$ 407
Construction in progress	1,044	618
Land improvements	3,113	3,074
Buildings and improvements	65,285	64,710
Leasehold improvements	1,628	1,463
Equipment	3,289	3,284
Major moveable equipment	103,716	99,046
Total capital assets	178,504	172,602
Less accumulated depreciation	(144,189)	(140,676)
Capital assets, net	\$ 34,315	\$ 31,926

During 2021, the Medical Center acquired \$4.6 million in equipment through capital leases. More detailed information about capital assets is presented in the notes to the financial statements.

## Southwest Mississippi Regional Medical Center Management's Discussion and Analysis

### ***Long-Term Debt***

The following summarizes the Medical Center's long-term debt as of September 30, 2021 and 2020:

#### **Long-term Debt (In Thousands)**

<i>September 30,</i>	Fiscal Year	
	2021	2020
USDA Bonds payable	\$ 16,971	\$ 17,674
Notes payable	2,838	4,192
Capital lease obligations	6,543	4,864
<b>Total long-term debt</b>	<b>\$ 26,352</b>	<b>\$ 26,730</b>

There was an increase in equipment acquired by capital lease in the amount of \$4.6 million, as well as the cancellation of several capital leases in the amount of \$700,000. The balance of the change in long-term debt was normal debt service payments. More detailed information about the Medical Center's long-term debt is presented in the notes to the financial statements.

### ***Economic Factors and Next Year's Budget***

While the annual budget of the Medical Center is not presented within these financial statements, the Medical Center's Board and management considered many factors when setting the fiscal year 2021 budget. While the financial outlook for the Medical Center is improving, the primary importance in setting the 2022 budget is the status of the economy and the healthcare environment, which takes into account market forces and environmental factors such as:

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

## **Southwest Mississippi Regional Medical Center Management's Discussion and Analysis**

### ***Contacting Medical Center's Financial Management***

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

**Southwest Mississippi Regional Medical Center**  
**Statement of Net Position**

<b>September 30,</b>	<b>2021</b>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 22,615,953
Investments	5,720,115
Restricted cash and cash equivalents	2,961,862
Restricted investments	1,274,471
Accounts receivable, patients, net of allowance for uncollectible accounts of \$24,451,649	19,284,733
Other receivables	738,588
Inventories	5,295,558
Prepaid expenses and other current assets	1,786,077
Total current assets	59,677,357
Noncurrent assets	
Capital assets	
Capital assets not being depreciated	1,473,239
Capital assets, net of accumulated depreciation	32,841,861
Capital assets, net	34,315,100
Other noncurrent assets	
Investments	3,921,306
Due from physicians	625,873
Other assets	23,913
Total noncurrent assets	38,886,192
Total assets	\$ 98,563,549

Continued

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

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

<b>September 30,</b>	<b>2021</b>
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	\$ 11,745,550
Line of credit	5,370,975
Salaries and benefits payable	3,715,925
Other accrued expenses	53,113
Accrued compensated absences	2,981,806
Estimated claims payable	579,338
Estimated third-party settlements	234,245
Unearned revenue	15,661,125
Current portion of capital lease obligations	2,390,214
Current portion of notes payable	351,953
Current portion of bonds payable	725,235
Total current liabilities	43,809,479
Long-term liabilities	
Estimated claims payable	1,719,565
Capital lease obligations, less current portion	4,152,589
Notes payable, less current portion	2,486,039
Bonds payable, less current portion	16,246,343
Total long-term liabilities	24,604,536
Total liabilities	68,414,015
<b>NET POSITION</b>	
Net investment in capital assets	10,628,140
Restricted - self insurance	1,274,471
Restricted - debt service	296,449
Unrestricted	17,950,474
Total net position	\$ 30,149,534

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

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

<b>Year Ended September 30,</b>	<b>2021</b>
Operating revenue	
Patient service revenue, net of contractual allowances and discounts	\$ 155,502,486
Provision for bad debts	(16,911,014)
Net patient service revenue	138,591,472
Other operating revenue	2,507,714
Total operating revenue	141,099,186
Operating expenses	
Salaries and wages	64,852,142
Contract employee salaries	7,148,057
Professional fees	2,307,467
Employee benefits	12,565,968
Supplies	32,013,312
Maintenance and repairs	7,140,642
Other operating expense	18,095,186
Depreciation and amortization	5,590,369
Total operating expenses	149,713,143
Loss from operations	(8,613,957)
Nonoperating revenues (expenses)	
CARES Act funds	10,207,308
Gain on extinguishment of Payroll Protection Program Loan	1,249,583
Grants and contributions	416,816
Investment income	65,744
Interest expense	(947,764)
Gain on disposal of capital assets	30,109
Other revenue	380
Total nonoperating revenues (expenses)	11,022,176
Change in net position	2,408,219
Net position, beginning of year	27,741,315
Net position, end of year	\$ 30,149,534

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

**Southwest Mississippi Regional Medical Center**  
**Statement of Cash Flows**

<b><i>Year Ended September 30,</i></b>	<b>2021</b>
<b>Cash flows from operating activities</b>	
Cash received from and on behalf of patients	\$ 130,158,167
Cash paid to and on behalf of employees	(82,381,584)
Cash paid to suppliers	(57,089,445)
Cash received from other operating activities	2,507,714
<b>Net cash used in operating activities</b>	<b>(6,805,147)</b>
<b>Cash flows from noncapital financing activities</b>	
Noncapital grants and contributions	390,354
Other receipts and payments, net	380
<b>Net cash provided by noncapital financing activities</b>	<b>390,734</b>
<b>Cash flows from capital and related financing activities</b>	
Purchase of capital assets	(3,979,047)
Proceeds from sale of capital assets	583
Principal paid on capital lease obligations	(2,292,059)
Principal paid on notes payable	(2,055,791)
Interest paid on long-term debt	(933,090)
<b>Net cash used in capital and related financing activities</b>	<b>(9,259,404)</b>
<b>Cash flows from investing activities</b>	
Purchases of investments	(6,668,012)
Receipt of interest and investment earnings	192,704
<b>Net cash used in investing activities</b>	<b>(6,475,308)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(22,149,125)</b>
<b>Cash and cash equivalents - beginning of year</b>	<b>47,726,941</b>
<b>Cash and cash equivalents - end of year</b>	<b>\$ 25,577,816</b>

Continued

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



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

<b>Year Ended September 30,</b>	<b>2021</b>
Reconciliation of loss from operations to net cash used in operating activities	
Loss from operations	\$ (8,613,957)
Adjustments to reconcile loss from operations to net cash used in operating activities	
Depreciation and amortization	5,590,369
Changes in assets and liabilities	
(Increase) decrease in assets	
Patient accounts receivable	(4,138,910)
Other receivables	184,390
Inventories	(734,580)
Prepaid expenses and other current assets	(95,388)
Other noncurrent assets	(1,233)
Increase (decrease) in liabilities	
Accounts payable	3,350,358
Salaries and payroll taxes payable	1,528,538
Accrued compensated absences	520,793
Estimated third-party settlements	147,290
Unearned revenue	(4,612,886)
Estimated claims payable	66,565
Other accrued expenses	3,504
<b>Net cash used in operating activities</b>	<b>\$ (6,805,147)</b>
Reconciliation of cash and cash equivalents to the statement of net position	
Cash and cash equivalents included in current assets	\$ 22,615,953
Restricted cash and cash equivalents in current assets	2,961,862
<b>Total cash and cash equivalents</b>	<b>\$ 25,577,815</b>
Supplemental disclosures of noncash financing activities	
Capital assets financed through capital lease obligations	\$ 4,675,252
Unrealized/realized loss on investments	\$ (143,896)
Gain on extinguishment of Payroll Protection Program Loan	\$ 1,249,583
Cancellation of capital leases	\$ 704,795

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

## Southwest Mississippi Regional Medical Center Notes to the Financial Statements

### **NOTE 1: DESCRIPTION OF MEDICAL CENTER**

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

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

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

#### ***Reporting Entity***

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

## Southwest Mississippi Regional Medical Center Notes to the Financial Statements

### **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

#### ***Basis of Accounting***

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with applicable pronouncements of the Governmental Accounting Standards Board (GASB), using the economic resources measurement focus. Revenue, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated non-exchange transactions (principally federal and state grants) are recognized when all applicable eligibility requirements are met.

#### ***Use of Estimates***

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

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

#### ***Cash and Cash Equivalents***

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

## Southwest Mississippi Regional Medical Center Notes to the Financial Statements

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### ***Investments and Investment Income***

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

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

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

Restricted cash and investments consist of assets held by the Medical Center in trust accounts subject to a borrowing agreement with the United States Department of Agriculture and funds held under self-insurance arrangements.

#### ***Patient Accounts Receivable, Net***

Patient accounts receivable are reduced by estimated contractual and other adjustments and estimated uncollectible accounts. In evaluating the collectability of accounts receivable, the Medical Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowances for third-party contractual and other adjustments and bad debt. Management reviews data about these major payor sources of revenue on a monthly basis in evaluating the sufficiency of the allowances. On a continuing basis, management analyzes delinquent receivables and writes them off against the allowance when deemed uncollectible. No interest is charged on patient accounts receivable balances.

## Southwest Mississippi Regional Medical Center Notes to the Financial Statements

### **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

#### ***Inventories***

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

#### ***Prepaid Expenses***

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

#### ***Capital Assets***

Capital assets include property, plant, and equipment. Capital assets are defined by the Medical Center as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Capital assets are defined by the Foundation as assets with an initial, individual cost of more than \$100 and estimated useful life in excess of one year. As the Medical Center constructs or acquires capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Assets under capital lease obligations are recorded at the lower of the present value of the minimum lease payments or the fair value of the leased asset. Donated capital assets are recorded at acquisition value at the date of donation. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential on the date of the donation.

**Southwest Mississippi Regional Medical Center**  
**Notes to the Financial Statements**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of those assets. Accordingly, the total amount of interest that was capitalized as of September 30, 2021 was \$382.

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

	<b>Years</b>
Land improvements	5 - 20
Buildings and improvements	5 - 40
Fixed equipment	5 - 25
Major moveable equipment	5 - 20

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

***Due from Physicians***

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

***Compensated Absences***

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

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

## Southwest Mississippi Regional Medical Center Notes to the Financial Statements

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

#### ***Net Position***

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

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

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

#### ***Operating Revenues and Expenses***

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

## Southwest Mississippi Regional Medical Center Notes to the Financial Statements

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### ***Net Patient Service Revenue***

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

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

#### ***Charity Care***

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

The amount of charges foregone for services and supplies furnished under the Medical Center's charity care policy totaled approximately \$7,604,291 for the year ended September 30, 2021, and estimated costs and expenses incurred to provide charity care totaled approximately \$2,169,308. The estimated costs and expenses incurred to provide charity care were determined by applying the Medical Center's cost to charge ratio from its latest filed Medicare cost report to its charges foregone by charity care, at established rates.

#### ***Grants and Contributions***

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



## Southwest Mississippi Regional Medical Center Notes to the Financial Statements

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### ***Current Healthcare Environment***

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

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

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

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

#### ***Subsequent Events***

Management has evaluated subsequent events through the date that the financial statements were available to be issued, April 25, 2022, and determined there were no events that occurred that required disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

#### ***Accounting Pronouncements Issued and Implemented***

During fiscal year 2021, the Medical Center adopted GASB Statement No. 84, *Fiduciary Activities* and GASB Statement No. 90, *Majority Equity Interest an amendment of GASB Statements No. 14 and No. 61*. These statements had no effect on the Medical Center's financial statements.

**Southwest Mississippi Regional Medical Center**  
**Notes to the Financial Statements**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Pronouncements Issued But Not Yet Effective***

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

<b>GASB Statement No.</b>	<b>GASB Accounting Standard</b>	<b>Effective Fiscal Year</b>
87	<i>Leases</i>	2022
89	<i>Accounting for Interest Cost Incurred before the End of a Construction Period</i>	2022
91	<i>Conduit Debt Obligations</i>	2023
92	<i>Omnibus 2020</i>	2022 (1)
93	<i>Replacement of Interbank Offered Rates</i>	2022 (2)
94	<i>Public-Private and Public-Public Partnerships and Availability Payment Arrangements</i>	2023
96	<i>Subscription-Based Information Technology Arrangements</i>	2023
97	<i>Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation</i>	2022 (1)

(1) There were requirements of this Statement that were effective immediately.

(2) The removal of LIBOR as an appropriate benchmark interest rate is effective in fiscal year 2023.

**NOTE 3: DEPOSITS AND INVESTMENTS**

***Deposits***

As of September 30, 2021, the deposits of the Medical Center consisted of the following:

<i>September 30,</i>	<b>2021</b>
Petty cash	\$ 8,183
Cash deposits with financial institutions	22,424,782
Money market funds (Moody's rating: Aaa-mf)	3,144,850
<b>Total cash and cash equivalents</b>	<b>\$ 25,577,815</b>
<i>September 30,</i>	<b>2021</b>
Cash and cash equivalents	\$ 22,615,953
Restricted cash and cash equivalents	2,961,862
<b>Total cash and cash equivalents</b>	<b>\$ 25,577,815</b>

## Southwest Mississippi Regional Medical Center Notes to the Financial Statements

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

Custodial credit risk is the risk that, in the event of a bank failure, the Medical Center's deposits might not be recovered. The Medical Center has a deposit policy for custodial credit risk that requires deposits to be part of the collateral pool administered by the State. However, cash deposits with The St. Luke Foundation are not part of this pool and are exposed to custodial credit risk. Uninsured and uncollateralized cash deposits with financial institutions totaled \$10,034,942 as September 30, 2021.

The collateral for public entity deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation ("FDIC"). All deposits with financial institutions must be collateralized in an amount equal to 105% of uninsured deposits. At September 30, 2021, the Medical Center had \$12,766,673 in bank deposits held in a financial institution that is part of this program.

At September 30, 2021, cash and cash equivalents in the amount of \$2,961,862 were restricted subject to a borrowing agreement with the United States Department of Agriculture for federal funds.

#### **Investments**

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

The Medical Center's investments consist of the following at September 30, 2021:

<i>September 30, 2021</i>	Value	Percentage	Maturity	Interest Rate	Rating
MHA Investment Pool					
MHA Intermediate Duration Trust	\$ 2,386,561	21.86%	3.9 years	N/A	AA+
MHA Short Duration Trust	1,988,267	18.21%	3.6 years	N/A	AA+
U.S. Treasury notes	2,619,758	24.00%	< 1 year	.125% - 2.0%	N/A
U.S. Treasury notes	3,921,306	35.93%	1 - 5 years	.25% - 2.0%	N/A
<b>Total investments</b>	<b>\$ 10,915,892</b>	<b>100.00%</b>			

## Southwest Mississippi Regional Medical Center Notes to the Financial Statements

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

At September 30, 2021, funds in the amount \$1,274,471, were restricted for purposes of self-insurance arrangements and were reported as restricted investments in the statement of net position.

*Interest rate risk* – This is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater sensitivity of its value to changes in market interest rates. The Medical Center does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the Medical Center limits interest rate risk by attempting to match investment maturities with known cash needs and anticipated cash flow requirements.

*Credit risk* – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Medical Center does not have a policy that addresses this risk.

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

*Foreign currency risk* – This is the risk that changes in exchange rates will adversely affect the fair value of investments. The Medical Center has no foreign currency risk as all investments are reported in U.S. dollars.

### NOTE 4: FAIR VALUE DISCLOSURES

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

*Level 1:* Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Medical Center has the ability to access.

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

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs, other than quoted prices, that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

**Southwest Mississippi Regional Medical Center**  
**Notes to the Financial Statements**

**NOTE 4: FAIR VALUE DISCLOSURES (CONTINUED)**

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

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

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

- *MHA Investment Pool* – Valued at the net asset value of shares held by the investment pool.
- *Money market funds* – Value is stated at cost, which approximates fair value.
- *U.S. Treasury notes* – Valued at the closing price reported on the active market on which the individual securities are traded.

The Medical Center's fair value levels consist of the following at September 30, 2021:

<i>September 30, 2021</i>	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Money market funds	\$ 3,144,850	\$ 3,144,850	\$ -	\$ -
MHA Investment Pool	4,374,828	-	4,374,828	-
U.S. Treasury notes	6,541,064	-	6,541,064	-
<b>Total</b>	<b>\$ 14,060,742</b>	<b>\$ 3,144,850</b>	<b>\$ 10,915,892</b>	<b>\$ -</b>

**Southwest Mississippi Regional Medical Center**  
**Notes to the Financial Statements**

**NOTE 5: CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2021 was as follows:

	Beginning	Additions	Retirements	Ending
Capital assets not being depreciated:				
Land	\$ 407,181	\$ 22,160	\$ -	\$ 429,341
Construction in progress	617,522	426,376	-	1,043,898
<b>Total nondepreciable capital assets</b>	<b>1,024,703</b>	<b>448,536</b>	<b>-</b>	<b>1,473,239</b>
Capital assets being depreciated:				
Land improvements	3,074,035	39,165	-	3,113,200
Building and improvements	64,710,178	575,868	(852)	65,285,194
Leasehold improvements	1,463,416	164,246	-	1,627,662
Equipment	3,283,779	5,442	-	3,289,221
Major moveable equipment	99,045,812	7,415,809	(2,745,537)	103,716,084
<b>Total depreciable capital assets</b>	<b>171,577,220</b>	<b>8,200,530</b>	<b>(2,746,389)</b>	<b>177,031,361</b>
Less accumulated depreciation:				
Land improvements	2,728,518	89,664	-	2,818,182
Building and improvements	43,909,462	1,461,875	(852)	45,370,485
Leasehold improvements	928,026	98,113	-	1,026,139
Equipment	2,938,432	35,946	-	2,974,378
Major moveable equipment	90,171,046	3,904,771	(2,075,501)	92,000,316
<b>Total accumulated depreciation</b>	<b>140,675,484</b>	<b>5,590,369</b>	<b>(2,076,353)</b>	<b>144,189,500</b>
<b>Depreciable capital assets, net</b>	<b>30,901,736</b>	<b>2,610,161</b>	<b>(670,036)</b>	<b>32,841,861</b>
<b>Total capital assets, net</b>	<b>\$ 31,926,439</b>	<b>\$ 3,058,697</b>	<b>\$ (670,036)</b>	<b>\$ 34,315,100</b>

Depreciation expense for the year ended 2021 totaled \$5,590,369.

**Southwest Mississippi Regional Medical Center**  
**Notes to the Financial Statements**

**NOTE 6: SHORT-TERM DEBT**

***Payroll Protection Program (PPP Loan)***

The Foundation received loan proceeds in the amount of \$1,234,900 under the Paycheck Protection Program (“PPP”) in fiscal year ended September 30, 2020. The PPP, was established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), to provide loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses of the qualifying business. The loans and accrued interest were forgivable as long as the borrower maintained staffing levels and used the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities. On July 6, 2021, the PPP loan principal, plus accrued interest of \$14,683, was forgiven and has been reported on the statement of revenues, expenses, and changes in net position as a gain on extinguishment in nonoperating revenues.

***Line of Credit***

During 2021, the Foundation renewed the \$6,000,000 revolving credit note with Regions Bank. The line matures July 2, 2022 and bears interest due in monthly installments at the one-month LIBOR rate plus 2.25%. The interest rate at September 30, 2021 is 2.33%. Money market funds, U.S. Treasury notes, and accrued interest held in an investment account at Regions in the amount of \$6,643,531 at September 30, 2021 have been pledged to secure the loan.

Short-term debt activity for the year ended September 30, 2021 was as follows:

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

**Southwest Mississippi Regional Medical Center**  
**Notes to the Financial Statements**

**NOTE 7: LONG-TERM LIABILITIES**

The Medical Center's long-term debt, including capital lease obligations, consisted of the following at September 30, 2021:

<i>September 30,</i>	<b>2021</b>
USDA Hospital Revenue Bonds, Series 2019, issued in the amount of \$18,575,000, to refund the outstanding Hospital Revenue Notes, Series 2018A and 2018B, at an annual interest rate of 3.25%, maturing in May 2039, secured by the revenue and receivables of the Medical Center.	\$ 16,971,578
Notes payable issued in the amount of \$2,000,000 to pay the costs of certain capital improvements, at an annual interest rate of 3.94%, maturing January 30, 2033, secured by a pledge of revenues. Two years of interest only payments followed by thirteen years of monthly principal and interest payments of \$12,821, with a final balloon payment in January 2033.	1,866,041
Note payable for the purchase of land and a building with annual principal and interest payments of \$29,023 at an interest rate of 4.95% maturing April 1, 2029, secured by real estate.	181,021
Note payable issued in the amount of \$630,000 with monthly principal and interest payments of \$4,642 at an interest rate of 3.942%, maturing in December 2024, with a balloon payment of \$462,838, secure by real estate.	574,782
Construction Revenue Notes, Series 2007, with principal and interest payable in monthly installments of \$16,429 and \$9,365, at annual interest rates of 4.15% and 2.33%, maturing in April 2022 and August 2022, secured by a pledge of revenues.	216,148
Capital lease obligations for equipment, at interest rates ranging up to 8.80%, with lease terms from 36 months to 84 months, collateralized by the leased equipment.	6,542,803
Total	26,352,373
Current portion of long-term debt	(3,467,402)
Long-term debt, net of current portion	\$ 22,884,971



**Southwest Mississippi Regional Medical Center**  
**Notes to the Financial Statements**

**NOTE 7: LONG-TERM LIABILITIES (CONTINUED)**

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

<i>Year Ending September 30,</i>	<b>Long-Term Debt</b>	
	<b>Principal</b>	<b>Interest</b>
2022	\$ 1,077,188	\$ 646,398
2023	890,642	614,000
2024	921,255	583,387
2025	1,384,737	538,456
2026	946,354	502,586
2027-2031	5,163,974	2,008,884
2032-2036	6,241,805	1,014,248
2037-2039	3,183,615	142,171
<b>Total</b>	<b>\$ 19,809,570</b>	<b>\$ 6,050,130</b>

***Debt Covenants***

In connection the USDA Hospital Revenue Bonds, Series 2019, the Medical Center has agreed to certain debt covenants. The Medical Center’s debt service coverage ratio must be at least equal to 1:15 to 1 and they must maintain a minimum 75 days cash on hand. The Medical Center reported 66 days cash on hand for the year ended September 30, 2021, which is not in compliance with the debt covenant. This debt covenant violation does not constitute an “event of default”.

***Capital Lease Obligations***

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

Major moveable equipment under capital leases included in capital assets at September 30, 2021 includes the following:

<i>September 30,</i>	<b>2021</b>
Major moveable equipment	\$ 11,137,673
Less accumulated depreciation	(5,438,274)
<b>Net major moveable equipment</b>	<b>\$ 5,699,399</b>

**Southwest Mississippi Regional Medical Center**  
**Notes to the Financial Statements**

**NOTE 7: LONG-TERM LIABILITIES (CONTINUED)**

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2021, were as follows:

<i>Year ending September 30,</i>	
2022	\$ 2,520,702
2023	1,917,162
2024	1,308,429
2025	759,939
2026	295,616
Total minimum lease payments	6,801,848
Less amount representing interest	(259,045)
Present value of minimum lease payments	\$ 6,542,803

***Changes in Long-Term Liabilities***

Changes in long-term liabilities for the year ended September 30, 2021 are as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Amounts Due Within One Year
USDA bonds	\$ 17,673,652	\$ -	\$ (702,074)	\$ 16,971,578	\$ 725,235
Notes payable	4,191,710	-	(1,353,718)	2,837,992	351,953
Capital lease obligations	4,864,405	4,675,252	(2,996,854)	6,542,803	2,390,214
Estimated claims	2,232,338	7,775,430	(7,708,865)	2,298,903	579,338
Total long-term debt	\$ 28,962,105	\$ 12,450,682	\$ (12,761,511)	\$ 28,651,276	\$ 4,046,740

**NOTE 8: NET POSITION – NET INVESTMENT IN CAPITAL ASSETS**

The portion of net position classified as net investment in capital assets is as follows at September 30, 2021:

<i>September 30,</i>	<b>2021</b>
Capital assets	\$ 178,504,600
Less accumulated depreciation	(144,189,500)
Less debt outstanding related to capital assets	(23,686,960)
Net investment in capital assets	\$ 10,628,140

## Southwest Mississippi Regional Medical Center Notes to the Financial Statements

### NOTE 9: RETIREMENT PLANS

#### ***Defined Contribution Plan – Medical Center***

The Medical Center contributes to the Southwest Mississippi Regional Medical Center Retirement Matching Plan (the "Plan") for the benefit of its employees. Effective November 1, 2017, the Medical Center adopted a Section 457(b) deferred compensation plan. The Plan is administered by OneAmerica Retirement Services LLC. The Plan provides retirement and disability benefits to Plan members and death benefits to beneficiaries of Plan members. Under provisions of the Plan, all employees with one year of service, and who are at least 21 years old, are eligible to participate. Plan provisions and Medical Center contributions are amended by the Board of Trustees. The Medical Center's contribution to the Plan for the year ended September 30, 2021 was \$564,964.

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

Employees are immediately vested in their own contributions and earnings on those contributions. Employees become 100% vested in Medical Center contributions and earnings on Medical Center contributions after the completion of five years of creditable service. Non-vested contributions are forfeited upon termination of employment and such forfeitures are used to reduce future Medical Center contributions. For the year ended September 30, 2021, there were no forfeitures that reduced the Medical Center's contribution expense.

All required contributions were made to the Plan during the year and the Medical Center's liability to the Plan at September 30, 2021 was \$112,597.

#### ***Defined Contribution Plan – St. Luke Home Health***

St. Luke Home Health Services, LLC (SLHH) contributes to the St. Luke Home Health Retirement Savings Plan (the "Plan"), a single-employer 403(b) defined contribution plan, for the benefit of its employees. The Plan is administered by OneAmerica Retirement Services LLC. The Plan provides retirement and disability benefits to Plan members and death benefits to beneficiaries of Plan members. Under provisions of the Plan, all employees are eligible to make salary deferral contribution elections as of their employment commencement date. Employees are eligible for employer contributions upon attainment of age 21 and completion of one year of service. Plan provisions and SLHH contributions are amended by the Board of Directors. SLHH's contributions to the Plan for the year ended September 30, 2021 was \$76,965.

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

## Southwest Mississippi Regional Medical Center Notes to the Financial Statements

### NOTE 9: RETIREMENT PLANS (CONTINUED)

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

All required contributions were made to the Plan during the year and SLHH had no liability to the Plan at September 30, 2021.

### NOTE 10: INSURANCE PROGRAMS

#### *Risk Management*

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

#### *Self-Funded Professional Liability and General Liability*

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

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

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

**Southwest Mississippi Regional Medical Center**  
**Notes to the Financial Statements**

**NOTE 10: INSURANCE PROGRAMS (CONTINUED)**

Consistent with these insurance program changes (and in accordance with the process described below), the Medical Center recorded an accrual for self-insured losses totaling \$1,719,565 at September 30, 2021. The future assertion of claims for occurrences prior to year-end is reasonably possible and may occur; however, management does not anticipate any material impact on the financial statements.

Incurred losses identified through the Medical Center incident reporting system and incurred but not reported losses are accrued based on estimates that incorporate the Medical Center's current inventory of reported claims and historical experiences, as well as considerations such as the nature of each claim or incident, relevant trend factors and advice from consulting actuaries. The Medical Center has established a self-insurance trust fund for payment of liability claims. The balance of the account at September 30, 2021 was \$1,274,471, and is reported in the statement of net position as a restricted investment.

Changes in the Medical Center's insurance claims liability amount, including related legal fees, for the year 2021 were as follows:

<i>Years ended September 30,</i>	<b>2021</b>	<b>2020</b>
Claims liability, beginning of year	\$ 1,776,296	\$ 1,822,795
Current year claims and changes in estimates	<b>(6,731)</b>	(46,499)
Claims payments	<b>(50,000)</b>	-
Claims liability, end of year	<b>\$ 1,719,565</b>	\$ 1,776,296

***Self-Funded Health Insurance Claim Liability***

The Medical Center provides health insurance coverage to its employees under a self-funded plan. Health claims are paid by the Medical Center as they are incurred and filed by the employee. The estimated liability for claims incurred but not reported or paid is included as a current liability on the financial statements. Commercial insurance is purchased for claims in excess of coverage provided by the Medical Center to limit the Medical Center's liability for losses under its self-insurance program. The reinsurance coverage limits the claim losses to \$170,000 per covered person, with an aggregate specific deductible of \$100,000. Settled claims have not exceeded this commercial insurance in the past year.

**Southwest Mississippi Regional Medical Center**  
**Notes to the Financial Statements**

**NOTE 10: INSURANCE PROGRAMS (CONTINUED)**

***Self-Funded Health Insurance Claim Liability (Continued)***

<i>Years ended September 30,</i>	<b>2021</b>	<b>2020</b>
Claims liability, beginning of year	\$ 456,042	\$ 909,897
Current year claims and changes in estimates	<b>7,782,161</b>	6,319,293
Claims payments	<b>(7,658,865)</b>	(6,773,148)
Claims liability, end of year	<b>\$ 579,338</b>	\$ 456,042

**NOTE 11: CONCENTRATION OF CREDIT RISK**

The Medical Center grants credit without collateral to its patients, most of who are local residents and are insured under third-party payors agreements. The percentage mix of net accounts receivable from patients and major third-party payors at September 30, 2021 was as follows:

Patients	4%
Commercial insurance	27%
Medicare	44%
Medicaid	19%
Other	6%
<b>Total</b>	<b>100%</b>

**NOTE 12: PATIENT SERVICE REVENUES**

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

## Southwest Mississippi Regional Medical Center Notes to the Financial Statements

### NOTE 12: PATIENT SERVICE REVENUES (CONTINUED)

#### ***Medicare***

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

#### ***Medicaid***

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

The Medical Center participates in the Mississippi Intergovernmental Transfer Program as a Medicaid Disproportionate Share Hospital ("DSH"). Under the program, the Medical Center receives enhanced reimbursement through a matching mechanism. For the fiscal year ended September 30, 2021, the Medical Center reported approximately \$656,000 in enhanced reimbursement through the DSH program. DSH amounts are shown as a reduction of contractual adjustments with related assessments of approximately \$308,000.

The Medical Center participates in the Division of Medicaid ("DOM") Mississippi Hospital Access Payment ("MHAP") program. The MHAP program is administered by the DOM through the Mississippi CAN coordinated care organizations ("CCO"). The CCO's subcontract with hospitals throughout the state for distribution of the MHAP for the purpose of protecting patient access to hospital care. For the fiscal year ended September 30, 2021, the Medical Center reported approximately \$8,323,000 in enhanced reimbursements, and assessments of approximately \$1,434,000 through the MHAP program. MHAP amounts are reported as a reduction of contractual adjustments.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near-term. For the year ended September 30, 2021, the Medical Center's net patient revenues increased approximately \$790,000 due to prior year retroactive adjustments for amounts previously estimated. As of September 30, 2021, the Medical Center's Medicare cost reports have been settled through September 30, 2017.

**Southwest Mississippi Regional Medical Center**  
**Notes to the Financial Statements**

**NOTE 12: PATIENT SERVICE REVENUES (CONTINUED)**

***Other***

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

A summary of gross and net patient service revenue for the year ended September 30, 2021 follows:

<i>Year ended September 30,</i>	<b>2021</b>
Gross patient service revenue	\$ 397,785,214
Less provisions for	
Bad debts	(16,911,014)
Contractual adjustments under third-party reimbursement programs	(242,282,728)
Net patient service revenue	\$ 138,591,472

A summary of the changes in the allowance for uncollectible accounts for the year ended September 30, 2021 follows:

<i>Year ended September 30,</i>	<b>2021</b>
Allowance for uncollectible accounts, beginning	\$ 20,146,942
Write-offs	(12,606,307)
Increase for current claims and changes in estimate	16,911,014
Allowance for uncollectible accounts, ending	\$ 24,451,649

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



**Southwest Mississippi Regional Medical Center**  
**Notes to the Financial Statements**

**NOTE 12: PATIENT SERVICE REVENUES (CONTINUED)**

Patient service revenue by major payor class, net of contractual allowances and before the provision for bad debts, consisted of the following for the year ended September 30, 2021:

<i>Year Ended September 30, 2021</i>	<b>Amount</b>	<b>Percentage</b>
Medicare	\$ 82,940,914	53%
Medicaid	25,932,192	17%
Blue Cross Blue Shield	18,365,162	12%
Other	28,264,218	18%
Patient service revenue, net of contractual allowances	\$ 155,502,486	100%

**NOTE 13: NONOPERATING REVENUES**

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

Additional funding for the Public Health and Social Services Emergency Relief Fund (“Relief Fund”) was among the provisions of the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), which was signed into law on March 27, 2020, and other legislation. For the year ended September 30, 2021, the Medical Center recognized nonoperating income of \$10.2 million due to grants from the Relief Fund and state grant programs, which is reported as nonoperating income in the Medical Center's accompanying statement of revenues, expenses, and changes in net position as of September 30, 2021. Payments from the Relief Fund are not loans and, therefore, they are not subject to repayment. However, as a condition to receiving distributions, providers must agree to certain terms and conditions, including, among other things, that the funds are being used for lost operating revenues and COVID-related costs, and that the providers will not seek collection of out-of-pocket payments from a COVID-19 patient that are greater than what the patient would have otherwise been required to pay if the care had been provided by an in-network provider. The Medical Center recognizes grant payments as income when there is reasonable assurance of compliance with the conditions associated with the grant. The Medical Center's estimates could change materially in the future based on Medical Center's operating performance or COVID-19 activities, as well as the evolving grant compliance guidance provided by the government.

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

## Southwest Mississippi Regional Medical Center Notes to the Financial Statements

### NOTE 13: NONOPERATING REVENUES (CONTINUED)

Public Health and Social Services Emergency Relief Fund - To address the fiscal burdens on healthcare providers created by the COVID-19 public health emergency, the CARES Act and the Paycheck Protection Program authorized \$175 billion for the Relief Fund. During the year ended September 30, 2020, HHS commenced distribution of Relief Fund monies, which were later increased by subsequent legislation.

Medicare and Medicaid Payment Policy Changes - The CARES Act and subsequent legislation also alleviated some of the financial strain on hospitals, physicians, and other healthcare providers and states through a series Medicare and Medicaid payment policies that temporarily increased Medicare and Medicaid reimbursements and allowed for added flexibility, as described below.

- The CARES Act suspended the sequestration payment adjustment percentage of 2% applied to all Medicare Fee-for-Service (FFS) claims from May 1 through December 1, 2020. The Consolidation Appropriations Act, 2021 extended the suspension period to March 31, 2021. An Act to Prevent Across-the-Board Direct Spending Cuts, and for Other Purposes, signed into law on April 14, 2021, extended the suspension period to December 31, 2021.
- The CARES Act instituted a 20% increase in the Medicare MS-DRG payment for COVID-19 hospital admissions for the duration of the public health emergency as declared by the Secretary of HHS.
- The scheduled reduction of \$4 billion in federal Medicaid DSH allotments in FFY 2020, as mandated by the Affordable Care Act, is suspended until October 1, 2024. Also, the Federal DSH allotment reduction for FFY 2024 is set at \$8 billion for each year through termination in FFY 2027.
- The CARES Act expanded the Medicare accelerated payment program, which provides prepayment of claims to providers in certain circumstances, such as national emergencies or natural disasters. Under this measure, providers could request accelerated payments for Medicare Part A and B. Under the Continuing Appropriations Act, 2021 and Other Extensions Act, repayment began one year from the issuance date of each provider or supplier's accelerated advance payment. After the first 12 months, Medicare began to recoup 25% of the Medicare payments otherwise owed to the provider or supplier for eleven months. At the end of the eleven month period, recoupment will increase to 50% for another six months. If the provider or supplier is unable to repay the total amount of the accelerated advance payment during this time period (a total of 29 months), CMS will issue demand letters requiring payment of any outstanding balance, subject to an interest rate of 4%. During the year ended September 30, 2020, the Medical Center received approximately \$20,274,000, which was recorded as unearned revenue on the statement of net position. As of September 30, 2021, the Medical Center has repaid \$4,613,000 million in accelerated advance payments with a balance of \$15,661,000 million remaining in unearned revenue on the statement of net position.

## Southwest Mississippi Regional Medical Center Notes to the Financial Statements

- A 6.2% increase in the Federal Medical Assistance Percentage (“FMAP”) matching funds was instituted to help states respond to the COVID-19 pandemic. The additional funds are available to states from January 1, 2020 through the quarter in which the public health emergency period ends, provided that states meet certain conditions. An increase in states' FMAP leverages Medicaid's existing financing structure, which allows federal funds to be provided to states more quickly and efficiently than establishing a new program or allocating money from a new funding stream. Increased federal matching funds support states in responding to the increased need for services, such as testing and treatment during the COVID-19 public health emergency, as well as increased enrollment as more people lose income and qualify for Medicaid during the economic downturn.

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

### NOTE 14: OPERATING LEASES

The Medical Center leases various equipment and facilities under operating leases expiring at various dates through the fiscal year 2026. Rental expense for the year ended September 30, 2021, for all operating leases totaled approximately \$2,417,640.

The following is a schedule of future minimum lease payments under non-cancellable operating leases as of September 30, 2021, that have initial or remaining lease terms in excess of one year:

<i>Year Ending September 30,</i>	
2022	\$ 981,846
2023	743,577
2024	687,329
2025	528,036
2026	446,115
<b>Total</b>	<b>\$ 3,386,903</b>

**Southwest Mississippi Regional Medical Center**  
**Notes to the Financial Statements**

**NOTE 15: BLENDED COMPONENT UNIT**

***The St. Luke Foundation, Inc.***

Condensed component unit information for The St. Luke Foundation, Inc., the Medical Center's blended component unit, for the year ended September 30, 2021, is reported as follows:

**Condensed Statement of Net Position**

<b>Assets</b>	
Current assets	\$ 14,860,894
Due from Medical Center	9,507,707
Capital assets, net	5,510,132
Other assets	3,945,219
<b>Total assets</b>	<b>33,823,952</b>
<b>Liabilities</b>	
Current liabilities	7,220,090
Noncurrent liabilities	1,268,271
<b>Total liabilities</b>	<b>8,488,361</b>
<b>Net position</b>	
Net investment in capital assets	3,904,908
Unrestricted	21,430,683
<b>Total net position</b>	<b>\$ 25,335,591</b>

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

Operating revenues	\$ 15,836,940
<b>Operating expenses</b>	
Operations	12,100,472
Depreciation	577,024
<b>Total operating expenses</b>	<b>12,677,496</b>
Operating income	3,159,444
Nonoperating revenues (expenses)	1,763,152
Change in net position	4,922,596
Net position, beginning of year	20,412,995
<b>Net position, end of year</b>	<b>\$ 25,335,591</b>

**Southwest Mississippi Regional Medical Center**  
**Notes to the Financial Statements**

**NOTE 15: BLENDED COMPONENT UNIT (CONTINUED)**

**Condensed Statement of Cash Flows**

Net cash provided (used) by	
Operating activities	\$ 4,128,734
Noncapital financing activities	1,411,798
Capital and related financing activities	(1,116,882)
Investing activities	(6,560,852)
Net decrease in cash and cash equivalents	(2,137,202)
Cash and cash equivalents, beginning of year	12,601,797
Cash and cash equivalents, end of year	\$ 10,464,595

**NOTE 16: COMMITMENTS AND CONTINGENCIES**

***Litigation***

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

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

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

## Southwest Mississippi Regional Medical Center Notes to the Financial Statements

### NOTE 16: COMMITMENTS AND CONTINGENCIES (CONTINUED)

#### *Financing Arrangements*

Effective April 30, 2018, the Medical Center entered into an agreement with First Bank for the sale of patient accounts receivable in an amount not to exceed \$1,500,000. All patient notes purchased by the bank were purchased with recourse to the Medical Center. The Medical Center acknowledged and agreed to repurchase from the bank any patient note that was in default for more than 60 days from the payment due date. The Medical Center is required to hold a reserve account equal to 20% of the unpaid balance of all active loans made under this agreement. As of September 30, 2021, the Medical Center had approximately \$64,776 in patient receivables purchased by the bank. In fiscal year ended September 30, 2020, the Medical Center discontinued providing this service to patients. Loans in funded status are still being serviced by bank.

#### *COVID-19*

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

## **Supplementary Information**

**Southwest Mississippi Regional Medical Center**  
**Schedule of Gross Patient Service Revenue**

<b>Year Ended September 30, 2021</b>	<b>Inpatient</b>	<b>Outpatient</b>	<b>Total</b>
<b>Nursing services</b>			
Medical and surgical	\$ 6,389,519	\$ 1,134,450	\$ 7,523,969
Newborn nursery	106,688	234	106,922
Intensive care	4,628,007	104,191	4,732,198
<b>Total nursing services</b>	<b>11,124,214</b>	<b>1,238,875</b>	<b>12,363,089</b>
<b>Other professional services</b>			
Ambulatory surgery center	1,258,600	12,863,653	14,122,253
Cardiac cath lab	5,367,591	12,157,815	17,525,406
Cardiac surgery	2,520,927	47,321	2,568,248
Cardiology	1,728,246	8,569,756	10,298,002
Central supply	2,908,955	5,164,615	8,073,570
Dialysis	654,640	119,744	774,384
Diaster Tracking	-	80,052	80,052
EEG-Neurology	12,124	3,195	15,319
Emergency services	6,591,334	35,411,388	42,002,722
GI Endosuite	697,640	9,330,319	10,027,959
Home health and hospice	-	12,280,450	12,280,450
Hyperbarics	(3,325)	1,183,227	1,179,902
Intensive outpatient program	-	1,137,675	1,137,675
Labor, delivery, recovery and postpartum	3,362,473	296,733	3,659,206
Laboratory	13,346,083	31,113,273	44,459,356
MS Cancer Institute - medical oncology	111,025	67,559,451	67,670,476
MS Cancer Institute - radiation therapy	22,287	6,340,330	6,362,617
Nursing procedures	2,498,013	1,589,018	4,087,031
Occupational therapy	422,208	27,676	449,884
Operating and recovery services	3,143,805	5,302,335	8,446,140
Outpatient rehabilitation	-	1,387,460	1,387,460
Outpatient services	-	396,484	396,484
Pharmacy	18,432,150	22,557,481	40,989,631
Physical therapy	723,373	40,980	764,353
Physician clinics	-	22,698,903	22,698,903
Pulmonary rehabilitation	-	577,538	577,538
Radiology	3,738,604	41,998,799	45,737,403
Respiratory therapy	18,404,534	2,315,729	20,720,263
Rural health clinics	-	3,689,254	3,689,254
Sleep lab	-	844,475	844,475
<b>Total other professional services</b>	<b>85,941,287</b>	<b>307,085,129</b>	<b>393,026,416</b>
<b>Total including charity</b>	<b>\$ 97,065,501</b>	<b>\$ 308,324,004</b>	<b>405,389,505</b>
Less charity			7,604,291
<b>Total</b>			<b>\$ 397,785,214</b>



## Southwest Mississippi Regional Medical Center Schedule of Operating Expenses

<i>Year Ended September 30, 2021</i>	Salaries and Wages	Contract Employee Salaries	Employee Benefits	Professional Fees	Supplies	Maintenance and Repairs	Other Operating Expense	Total
Nursing services								
Medical and surgical	\$ 4,832,798	\$ -	\$ 680,239	\$ -	\$ 424,588	\$ 170,211	\$ 91,648	\$ 6,199,484
Newborn nursery	705	-	3,315	-	32,368	18,226	3,179	57,793
Intensive care	3,238,237	-	255,989	-	521,727	125,568	85,005	4,226,526
Swing bed unit	36,017	-	7,931	-	316	-	29	44,293
<b>Total nursing services</b>	<b>8,107,757</b>	<b>-</b>	<b>947,474</b>	<b>-</b>	<b>978,999</b>	<b>314,005</b>	<b>179,861</b>	<b>10,528,096</b>
Other professional services								
Ambulatory surgery center	780,005	-	65,446	-	1,381,140	135,742	29,985	2,392,318
Anesthesiology	-	1,364,267	-	-	32,072	59,532	6,517	1,462,388
Cardiac cath lab	595,299	86,545	46,027	-	2,658,260	458,985	215,940	4,061,056
Cardiac surgery	218,805	512,872	12,180	-	615,008	91,306	8,018	1,458,189
Cardiology	475,286	-	43,121	-	126,777	62,818	98,951	806,953
Central supply	359,917	-	26,403	-	(73,802)	58,160	34,807	405,485
Dialysis	-	-	-	-	6,624	2,546	401,651	410,821
Diaster tracking	1,037,355	-	1,303	47,200	2,025,065	23,689	95,436	3,230,048
EEG-Neurology	6,530	-	500	-	685	266	1,642	9,623
Emergency services	4,474,416	2,099,517	376,332	-	664,648	276,935	91,011	7,982,859
GI Endosuite	807,617	-	65,908	-	297,844	103,823	44,299	1,319,491
Health watch	-	-	-	-	300	261	22	583
Home health and hospice	7,003,421	225,835	685,126	98,840	674,829	362,410	1,557,732	10,608,193
Hyperbarics	-	-	-	-	37,913	374	284,384	322,671
Inpatient services	-	-	-	-	-	240	1,930	2,170
Intensive outpatient program	153,155	48,000	13,704	-	7,872	985	207,357	431,073
Labor, delivery, and recovery	1,515,645	-	136,956	-	244,506	130,280	22,238	2,049,625
Laboratory	2,181,609	362,500	202,101	-	2,625,156	140,765	1,157,386	6,669,517
MS Cancer Institute - medical oncology	2,633,969	-	128,317	-	9,313,924	31,960	26,914	12,135,084
MS Cancer Institute - radiation therapy	579,781	-	50,093	-	14,842	402,977	24,773	1,072,466
Non-emergency transport	29,281	-	3,161	-	57	2,052	416	34,967
Occupational therapy	167,981	-	15,401	-	8	-	-	183,390
Operating and recovery services	1,125,917	-	117,546	-	1,036,408	327,945	45,075	2,652,891
Outpatient rehabilitation	660,286	226	67,538	-	11,232	15,544	9,549	764,375
Outpatient services	123,281	-	5,750	-	13,921	240	-	143,192
Pharmacy	1,215,177	161,538	132,719	-	5,865,197	39,382	295,446	7,709,459
Physical therapy	335,841	573	24,182	-	4,431	6,028	179	371,234
Physicians' clinics	12,113,164	348,438	543,522	471,361	242,749	61,883	1,157,246	14,938,363
Pulmonary rehabilitation	97,579	-	9,513	-	3,012	2,623	1,246	113,973
Radiology	2,528,053	80,400	208,632	-	571,671	938,786	596,032	4,923,574
Respiratory therapy	1,178,846	-	93,923	-	317,959	60,815	46,352	1,697,895
Rural health clinics	2,113,499	-	126,290	27,914	87,799	20,107	345,896	2,721,505
Sleep lab	-	-	-	-	1,872	11,036	234,490	247,398
<b>Total other professional services</b>	<b>44,511,715</b>	<b>5,290,711</b>	<b>3,201,694</b>	<b>645,315</b>	<b>28,809,979</b>	<b>3,830,495</b>	<b>7,042,920</b>	<b>93,332,829</b>

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

<i>Year Ended September 30, 2021</i>	Salaries and Wages	Contract Employee Salaries	Employee Benefits	Professional Fees	Supplies	Maintenance and Repairs	Other Operating Expense	Total
General services								
Housekeeping	\$ -	\$ 1,620,558	\$ -	\$ -	\$ 352,413	\$ 31,713	\$ 3,622	\$ 2,008,306
Laundry and linen	209,700	-	15,708	-	275,515	69,558	64	570,545
Dietary	854,044	(342)	76,710	-	795,976	9,190	3,811	1,739,389
Plant operation and maintenance	1,209,923	-	100,616	(253)	269,886	870,815	1,219,272	3,670,259
<b>Total general services</b>	<b>2,273,667</b>	<b>1,620,216</b>	<b>193,034</b>	<b>(253)</b>	<b>1,693,790</b>	<b>981,276</b>	<b>1,226,769</b>	<b>7,988,499</b>
Fiscal and administrative services								
Administrative	2,514,712	-	336,029	1,652,513	112,014	8,201	2,741,915	7,365,384
Patient registration	845,216	-	73,521	-	60,273	3,168	3,059	985,237
Auxiliary office	-	-	-	-	-	174	42	216
Bio-medical	-	-	-	-	522	33,595	153	34,270
Call center	113,043	-	12,381	-	-	-	-	125,424
Case management	957,988	-	89,937	-	14,984	3,552	12,029	1,078,490
Contract and asset management	156,346	-	11,223	-	1,321	41,450	-	210,340
Communications	251,494	-	19,624	-	15,945	12,993	2,005	302,061
Community education	106,664	-	9,370	-	7,742	2,049	33,783	159,608
Chaplain services	35,993	-	2,753	-	714	56	28	39,544
General accounting	626,740	-	47,262	9,892	15,891	5,860	549,639	1,255,284
Health information management	1,023,853	190,939	81,715	-	16,601	271,804	377,013	1,961,925
Human resources	359,996	-	7,247,890	-	25,448	31,453	540,833	8,205,620
Infection control	146,592	-	15,973	-	24,432	1,367	2,158	190,522
Information systems	175,767	(4,184)	13,710	-	20,123	1,434,735	2,459,706	4,099,857
Materials management	262,158	-	24,883	-	59,999	37,089	303,271	687,400
MS Cancer Institute	338,745	-	29,456	-	24,754	14,881	108,919	516,755
MS Cardiovascular Institute	4,344	-	-	-	789	16,069	12,804	34,006
Pharmacy retail	-	-	-	-	22,127	2,002	221,530	245,659
Patient accounting	1,218,326	-	92,426	-	39,187	32,194	1,824,606	3,206,739
Physician clinic accounting	290,557	-	56,837	-	18,579	3,449	241,996	611,418
Public relations	-	2,710	-	-	9,849	-	156,286	168,845
Quality assurance/performance	235,253	47,665	27,772	-	33,261	57,623	13,380	414,954
Revenue cycle	295,216	-	31,004	-	3,495	-	21,177	350,892
Risk management	-	-	-	-	2,494	1,102	19,304	22,900
<b>Total fiscal and administrative services</b>	<b>9,959,003</b>	<b>237,130</b>	<b>8,223,766</b>	<b>1,662,405</b>	<b>530,544</b>	<b>2,014,866</b>	<b>9,645,636</b>	<b>32,273,350</b>
<b>Total</b>	<b>\$ 64,852,142</b>	<b>\$ 7,148,057</b>	<b>\$ 12,565,968</b>	<b>\$ 2,307,467</b>	<b>\$ 32,013,312</b>	<b>\$ 7,140,642</b>	<b>\$ 18,095,186</b>	<b>144,122,774</b>
Depreciation and amortization								5,590,369
<b>Total</b>								<b>\$ 149,713,143</b>

**Southwest Mississippi Regional Medical Center**  
**Schedule of Other Operating Revenue**

***Year Ended September 30, 2021***

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Other operating revenue	
Cafeteria sales	\$ 276,795
Rental income	817,901
Other	1,413,018
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Total other operating revenue	\$ 2,507,714
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**Southwest Mississippi Regional Medical Center  
Schedule of Surety Bonds for Officials and Employees**

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

## **Reports on Internal Control and Compliance Matters**



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

Mailing Address:  
PO Box 768  
Laurel, MS 39441

601.649.5207  
601.649.5233 (fax)  
CRLcpa.com

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

Board of Trustees  
Southwest Mississippi Regional Medical Center  
McComb, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Southwest Mississippi Regional Medical Center (the "Medical Center"), as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements, and have issued our report thereon dated April 25, 2022.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Carr, Riggs & Ingram, L.L.C.*

Laurel, Mississippi  
April 25, 2022