



FINANCIAL REPORT

COVINGTON COUNTY HOSPITAL

COLLINS, MISSISSIPPI

SEPTEMBER 30, 2020

Presented by: Harper, Rains, Knight & Company, P.A.
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The Board of Trustees
Covington County Hospital
Collins, Mississippi

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Covington County Hospital (the "Hospital"), a component unit of Covington County, Mississippi, as of and for the years ended September 30, 2020 and 2019, and the related notes to financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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The Board of Trustees
Covington County Hospital (continued)

Auditors' Responsibility (continued)

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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Hospital, as of September 30, 2020 and 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-12 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 Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The schedule of surety bonds for officials and employees is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of surety bonds for officials and employees has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

The Board of Trustees
Covington County Hospital (continued)

Other Information (continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2021, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital internal control over financial reporting and compliance.

Harper, Raino, Knight & Company, P.A.

September 2, 2021
Ridgeland, Mississippi

COVINGTON COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the financial performance of Covington County Hospital (hereafter referred to as the "Hospital") for the fiscal year ended September 30, 2020. Since the management's discussion and analysis is designed to focus on the current year's activities, resulting changes and currently known facts, we encourage readers to consider the information presented here in conjunction with the Hospital's basic financial statements.

CORONAVIRUS PANDEMIC

The period this report covers includes the initial months of the Coronavirus COVID-19 pandemic, including the period of time Mississippi hospitals were prohibited by the governor's Executive Order 1470 from performing all non-essential elective surgeries and medical procedures. The Hospital continues to monitor the current crisis, plan and implement fiscal measures to limit the extent of the impact; however, no assurances can be made with respect to the effectiveness or success of any such measures that may be implemented.

Although the full impact of the public health crisis on the Hospital cannot be estimated with any degree of certainty at this time and will depend on the duration of the public health crisis and state and federal responses. The Hospital is providing the following information which includes known impacts and measures the Hospital has taken in response.

In response to the COVID-19 pandemic beginning in March 2020, the Hospital undertook a variety of proactive measures to mitigate the financial and operational impact. These measures include:

- Leadership and infrastructure:
 - Quickly established incident command center for coordinated leadership.
 - Daily conference calls to share status reports from all areas of operation.
 - CEO provides frequent email updates.
 - 24/7 command center to respond to staff's questions.
 - Continuous monitoring of CDC guidance.
 - Moratorium on work-related travel.
 - Developed contingency plans to enhance capacity for potential surge.
 - Created separate triage area to assess patients with COVID-19 signs.
 - Controlled access to hospital.
 - No visitors with very limited exceptions.
 - Taking temperature of everyone entering facility.
 - Transitioned many staff into work-from-home.
 - Added equipment with funds through CARES Act.
 - Ventilators, respiratory care and patient monitoring equipment.
 - Lab equipment.
 - Disinfection units.
 - Telemedicine units.
 - Provided COVID-19 vaccinations to all eligible individuals who wanted the vaccine.

COVINGTON COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

- Patient Care:
 - Quickly developed an aggressive COVID-19 testing process and worked with labs to improve turnaround times.
 - Launched rapid in-house testing on our own platform once supplies became available.
 - Increased clinical staffing for increased number of patients in isolation.
 - Personal Protective Equipment (PPE).
 - Segregated inventories and established clinical criteria based on CDC guidance to ensure appropriate utilization.
 - Developed alternative sources to obtain PPE.
 - Worked with manufacturers to implement safe disinfection of N-95 masks.
 - Expanded the use of telemedicine throughout the health system.
 - Developed plan to expand ICU capacity beds, if needed.

- Finance:
 - Modeled the financial impact of lost business due to sheltering-at-home and moratorium on non-essential elective surgeries and medical procedures.
 - Tracked COVID-19 expenses. Through September 30, 2020, there was approximately \$2,511,000 attributed to lost revenue, extra labor and other expenses directly related to the treatment of COVID-19 at the Hospital.
 - Received approximately \$5,503,000 in grants as of September 30, 2020, from the Provider Relief Fund. Funds expended and earned from these grants totaled approximately \$2,398,000 and are included in non-operating grant revenue on the statements of revenue, expenses and changes in net position with the unearned grant receipts totaling approximately \$3,105,100 included in the statements of net position as a current liability.
 - Applied for and received CMS advance payments during April 2020 totaling \$3,442,407. These receipts are included on the statements of net position as of September 30, 2020, in advanced payments from third party. Beginning in April 2021, these funds will be paid back to CMS as an offset to future Medicare claim payments. All funds are expected to be paid back by September 2022.
 - Applied for and received a forgivable loan during April 2020 totaling \$2,451,789 under the Small Business Administration Payroll Protection Program. These funds are included in notes payable on the statements of net position.
 - Received approximately \$643,000 in additional federal and state grants to help offset the costs of equipment and supplies to fight COVID-19. Funds expended and earned from these grants totaled approximately \$113,000 and are included in other non-operating revenue on the statements of revenue, expenses and changes in net position with the unearned grant receipts totaling approximately \$530,000 included in the statements of net position as a current liability.

- Community:
 - Hospital physicians and administrators participating in briefings and updates on social media.
 - Assisted Mississippi Department of Health in establishing community COVID-19 testing.
 - Provided a limited supply of COVID-19 vaccinations to community members aged 65 and over.

COVINGTON COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

While the ultimate impact of this pandemic is largely unknown, the Hospital has taken immediate and appropriate measures to deal with the crisis. Actions have been taken and will continue to be adjusted as warranted by the evolving circumstances.

Summary of Financial Highlights

- Cash and cash equivalents at year-end were \$12,326,315, an increase of \$10,201,571, of which includes receipts from Advance Payments from Medicare of \$3,442,407, COVID-19 relief grant funding of approximately \$6,524,000 and Paycheck Protection Program ("PPP") loan funds of \$2,451,789.
- Total assets for the Hospital at year-end were \$27,203,892, an increase of \$10,470,793, or 62.6 percent, from the prior fiscal year.
- Total liabilities for the Hospital at year-end were \$17,730,924, an increase of \$9,769,071, or approximately 123 percent, from the prior fiscal year. Current liabilities were \$9,013,361 an increase of \$2.9 million from the prior fiscal year. The long-term liabilities were \$8,717,563, an increase of \$6.6 million from the prior fiscal year. The increase includes the Advance Payments from Medicare liability, the PPP loan liability and any unearned grant receipts of Provider Relief Funds.
- Total net position for the Hospital at year-end was \$9,472,968, an increase of \$701,722 from the prior fiscal year. Unrestricted net position was \$6,781,674, an increase of \$371,524 from the prior fiscal year. Net investment in capital assets was \$2,691,294, an increase of \$330,198 from the prior fiscal year.
- Operating expenses for the fiscal year were \$28,936,593, an increase of \$2,510,542, or approximately 9.5 percent, from the prior fiscal year primarily due to an increase in salaries and benefits.
- Operating revenues for the fiscal year were \$27,192,076, an increase of \$1,421,049, or approximately 5.5 percent, from the prior fiscal year primarily due to the addition of clinics and transition of primary clinic operations to become COVID-19 testing and treatment facilities.
- Non-operating revenues for the fiscal year were \$2,604,029, an increase of \$2,500,975 from the prior fiscal year. The Hospital has received and recognized in earnings total federal and state COVID-19 relief funding of approximately \$2,511,000. Of note, the Hospital received approximately \$5,503,000 of grant funds from the Department of Health and Human Services ("HHS") Provider Relief Fund as of September 30, 2020. The Hospital has recorded the estimated earned portion in non-operating grant revenue and any and all estimated unearned portion within unearned grant receipts liability due to the uncertainty and changing terms and conditions published by HHS. As HHS continues to finalize terms with the opening of the HHS PRF Reporting Portal, the Hospital will mandatorily report and document compliance with those terms and conditions, at which the remaining grant funds will be recorded as non-operating revenue and the unearned grant receipt liability will be reduced, removed in accordance with HHS regulation requirements.
- Non-operating expense which consists of interest expense for the fiscal year was \$157,790, an increase of \$12,190, or approximately 7.7 percent, from the prior fiscal year.

COVINGTON COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Overview of Financial Statements

An annual report consists of four components: (1) the Management's Discussion and Analysis (this section), (2) the Independent Auditors' Report, (3) the Financial Statements and Supplementary Information and (4) the Notes to Financial Statements.

The financial statements of the Hospital report the financial position of the Hospital and the results of its operations and its cash flows. The financial statements are prepared on the accrual basis of accounting. These statements offer short-term and long-term financial information about the Hospital's activities.

The statements of net position include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations of the Hospital's creditors (liabilities) for both the current year and the prior year. They also provide the basis for evaluating the capital structure of the Hospital and accessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenue and expenses are accounted for in the statements of revenue and expenses and changes in net position. These statements measure the performance of the Hospital's operation over the past two years and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service revenue and other revenue resources.

The primary purpose of the statements of cash flows is to provide information about the Hospital's cash from operations, capital and related financing and investment activities. The statements of cash flows outline where the cash comes from, what the cash is used for and the changes in the cash balance during the reporting period.

The annual report also includes notes to financial statements that are essential to gain a full understanding of the data provided in the financial statements. The notes to financial statements can be found immediately following the basic financial statements in this report. Following the notes to financial statements is a section containing supplementary information that provides additional information as required.

Financial Analysis of the Hospital

The statements of net position, the statements of revenue and expenses and changes in net position report information about the Hospital's activities. These statements report the net position of the Hospital and changes in them. Increases or improvements, as well as decreases or declines in the net position, is one indicator of the financial state of the Hospital. Other non-financial factors that should also be considered include changes in economic conditions, population growth (including uninsured and working poor) and new or changed governmental legislation.

COVINGTON COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Net Position

A summary of the Hospital's statements of net position as of September 30, 2020 and 2019, is presented in the following table:

Condensed Statements of Net Position
(In Thousands)

	Fiscal Year 2020	Fiscal Year 2019	Dollar Change	Total Percent Change
Current and other assets	\$ 18,358	\$ 8,065	\$ 10,293	127.6%
Capital assets	8,679	8,484	195	2.3%
Total assets	<u>27,037</u>	<u>16,549</u>	<u>10,488</u>	<u>63.4%</u>
Deferred outflow of resources	<u>167</u>	<u>184</u>	<u>(17)</u>	<u>-9.2%</u>
Long-term debt outstanding	8,439	6,123	2,316	37.8%
Other liabilities	<u>9,292</u>	<u>1,839</u>	<u>7,453</u>	<u>405.3%</u>
Total liabilities	<u>17,731</u>	<u>7,962</u>	<u>9,769</u>	<u>122.7%</u>
Investment in capital assets, net of related debt	2,691	2,361	330	14%
Unrestricted	<u>6,782</u>	<u>6,410</u>	<u>372</u>	<u>5.8%</u>
Total net position	<u>\$ 9,473</u>	<u>\$ 8,771</u>	<u>\$ 702</u>	<u>8.0%</u>

Total assets increased 63.4 percent primarily due to an increase in cash and cash equivalents with the receipts of COVID-19 relief funding.

Long-term debt increased by 37.8 percent due to the Hospital taking out a forgivable PPP Loan. Other liabilities increased 405.3 percent due to Advance Payment from Medicare and Unearned Grant Receipts - Provider Relief Funding.

COVINGTON COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Summary of Revenue and Expenses

The following table presents a summary of the Hospital's historical revenues and expenses and changes in net position for each of the fiscal years ended September 30, 2020 and 2019, respectively:

	Fiscal Year 2020	Fiscal Year 2019	Dollar Change	Total Percent Change
Net patient service revenue	\$ 24,365	\$ 23,942	\$ 423	1.8%
Other operating revenue excluding interest income	2,827	1,829	998	54.6%
Total operating revenue	<u>27,192</u>	<u>25,771</u>	<u>1,421</u>	<u>5.5%</u>
Salaries and benefits	17,173	15,237	1,936	12.7%
Professional fees, supplies, maintenance, other	10,924	10,470	454	4.3%
Total operating expenses before depreciation/amortization	<u>28,097</u>	<u>25,707</u>	<u>2,390</u>	<u>9.3%</u>
Earnings (loss) before interest, depreciation/amortization ("EBITDA")	(905)	64	(969)	-1514.1%
Depreciation/amortization expense	840	719	121	16.8%
Loss from operations	<u>(1,745)</u>	<u>(655)</u>	<u>(1,090)</u>	<u>166.4%</u>
Provider Relief Funds	2,398	-	2,398	100.0%
Other non-operating revenue	122	-	122	100.0%
Interest income	84	103	(19)	-18.4%
Interest expense	(158)	(146)	(12)	8.2%
Total non-operating revenue (expense)	<u>2,446</u>	<u>(43)</u>	<u>2,489</u>	<u>-5788.4%</u>
Increase (decrease) in net position	<u>\$ 701</u>	<u>\$ (698)</u>	<u>\$ 1,399</u>	<u>-200.4%</u>

COVINGTON COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Operating and Financial Performance

The following summarizes the changes in the Hospital's statement of net position and statement of revenue and expenses and changes in net position for 2020.

The Hospital's assets consist primarily of cash, patient accounts receivable generated from medical services performed, investments and capital assets (property and equipment). The Hospital's liabilities consist of accrued obligations to employees and vendors for goods and services received, advance payments from third party, unearned grant receipts and long-term debt obligations. Unrestricted net position represents the amount of the Hospital's assets (other than capital assets) greater than its liabilities (other than long-term debt related to capital assets). Unrestricted net position is generally used to continue the Hospital's day-to-day operations. Net investment in capital assets represents the amount of the Hospital's net capital assets, less its related long-term debt.

Operating revenues increased for the fiscal year ended September 30, 2020, primarily due to the addition of clinics and the Hospital's transition to become a COVID-19 testing and treatment facility. Operating expenses increased for the fiscal year ended September 30, 2020, primarily as a result of an increase in salaries and benefits during the current fiscal year.

Economic Factors and Next Year's Budget

While the annual budget of the Hospital is not presented within these financial statements, the Hospital's Board and management considered many factors when setting the Hospital's operating budget. Although the financial outlook of the Hospital is considered positive, of primary importance in the setting of budgets and performance standards is the status of the economy and the healthcare environment, which takes into account market forces and environment factors, such as:

- Evolving circumstances for appropriate measures to deal with COVID-19 crisis;
- Medicare reimbursement changes;
- Medicaid reimbursement changes, as well as the continuation at the current level of the Disproportionate Share and Mississippi Hospital Access Payment programs;
- Increased number of uninsured and working poor;
- Ongoing competition for services;
- Cost of supplies, primarily pharmaceuticals;
- Ability to continue recruiting medical staff physicians to maintain the high level of services offered to our service area;
- Continued growth of service levels in the ancillary departments;
- Continuation of the excellent working relationship between the Medical Staff, the Board and the Hospital administration.

COVINGTON COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Financial Contact

The Hospital's financial statements are designed to present users with a general overview of its finances and to demonstrate its accountability. If you have any questions about the report or need additional information, contact the Chief Executive Officer, Covington County Hospital, 701 South Holly Avenue, Collins, Mississippi 39428.

COVINGTON COUNTY HOSPITAL

STATEMENTS OF NET POSITION

September 30, 2020 and 2019

ASSETS		
	2020	2019
Current assets		
Cash and cash equivalents	\$ 12,326,315	\$ 2,124,744
Patient accounts receivable, net	2,993,953	3,588,066
Other receivables	992,900	617,944
Inventories	757,822	466,088
Prepaid and other current assets	122,885	162,363
Total current assets	<u>17,193,875</u>	<u>6,959,205</u>
Non-current investments		
Investments designated for Board for capital projects	<u>1,164,010</u>	<u>1,106,186</u>
Deferred outflows of resources		
Deferred loss on debt refunding	<u>167,245</u>	<u>184,110</u>
Capital assets		
Property and equipment, net	<u>8,678,762</u>	<u>8,483,598</u>
Total assets	<u>\$ 27,203,892</u>	<u>\$ 16,733,099</u>
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable	\$ 630,286	\$ 831,351
Accrued expenses and other current liabilities	1,301,348	1,001,785
Estimated third-party payor settlements	282,417	6,215
Unearned grant receipts - Provider Relief Fund	3,635,209	-
Current portion of advance payment from third party	860,602	-
Current portion of notes payable	1,775,871	143,677
Current portion of bonds payable	389,151	398,133
Current portion of capital lease obligations	138,477	68,902
Total current liabilities	<u>9,013,361</u>	<u>2,450,063</u>
Long-term liabilities		
Notes payable, net of current portion	1,993,617	1,368,730
Bonds payable, net of current portion	3,389,524	3,778,676
Capital lease obligations, net of current portion	752,617	364,384
Advance payment from third party, net of current portion	2,581,805	-
Total long-term liabilities	<u>8,717,563</u>	<u>5,511,790</u>
Total liabilities	<u>17,730,924</u>	<u>7,961,853</u>
Net position		
Net investment in capital assets	2,691,294	2,361,096
Unrestricted	6,781,674	6,410,150
Total net position	<u>9,472,968</u>	<u>8,771,246</u>
Total liabilities and net position	<u>\$ 27,203,892</u>	<u>\$ 16,733,099</u>

The Notes to Financial Statements are an integral part of these statements.

COVINGTON COUNTY HOSPITAL

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues		
Net patient services revenue, net of provision for bad debt of \$7,282,425 for 2020 and \$5,125,588 for 2019	\$ 24,365,129	\$ 23,941,665
Other revenues	<u>2,826,947</u>	<u>1,829,362</u>
Total operating revenues	<u>27,192,076</u>	<u>25,771,027</u>
Expenses		
Salaries and benefits	17,173,376	15,138,049
Purchased services	4,056,317	4,605,413
Medical supplies and drugs	3,132,955	2,598,439
Repairs and maintenance	1,223,861	1,047,141
Insurance	313,312	224,901
Equipment rental	327,262	308,500
Utilities	639,688	574,763
Depreciation and amortization	839,888	719,259
Taxes and licenses	319,010	344,527
Other	<u>910,924</u>	<u>865,059</u>
Total expenses	<u>28,936,593</u>	<u>26,426,051</u>
Operating loss	<u>(1,744,517)</u>	<u>(655,024)</u>
Non-operating revenues (expenses)		
Grant receipts - Provider Relief Fund	2,397,656	-
Other non-operating revenue	121,890	-
Investment income	84,483	103,054
Gain on disposal of other assets	-	-
Interest expense	<u>(157,790)</u>	<u>(145,600)</u>
Total non-operating revenues (expenses)	<u>2,446,239</u>	<u>(42,546)</u>
Increase (decrease) in net position	<u>701,722</u>	<u>(697,570)</u>
Net position, beginning of year	<u>8,771,246</u>	<u>9,468,816</u>
Net position, end of year	<u>\$ 9,472,968</u>	<u>\$ 8,771,246</u>

The Notes to Financial Statements are an integral part of these statements.

COVINGTON COUNTY HOSPITAL

STATEMENTS OF CASH FLOWS
Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 24,860,488	\$ 23,938,407
Payments to suppliers and contractors	(11,410,314)	(11,118,013)
Payments to and on behalf of employees	(16,872,316)	(15,147,719)
Other receipts	<u>2,826,947</u>	<u>1,829,362</u>
Net change in cash from operating activities	<u>(595,195)</u>	<u>(497,963)</u>
Cash flows from capital and related financing activities:		
Principal payments long-term obligations	(672,984)	(638,116)
Borrowings on long-term obligations	2,451,789	167,374
Interest paid on long-term obligations	(157,790)	(145,600)
Proceeds from advance payment from third party	3,442,407	-
Proceeds from COVID relief funds	6,154,755	-
Purchase of capital assets	<u>(480,237)</u>	<u>(117,939)</u>
Net change in cash from capital and related financing activities	<u>10,737,940</u>	<u>(734,281)</u>
Cash flows from investing activities:		
Purchase of investments	(25,657)	(22,572)
Interest income	<u>84,483</u>	<u>103,054</u>
Net change in cash from investing activities	<u>58,826</u>	<u>80,482</u>
Net change in cash and cash equivalents	10,201,571	(1,151,762)
Cash and cash equivalents at beginning of year	<u>2,124,744</u>	<u>3,276,506</u>
Cash and cash equivalents at end of year	<u>\$ 12,326,315</u>	<u>\$ 2,124,744</u>
Non cash financing activities:		
Acquisition of equipment through leasing and financing arrangements	\$ 537,950	\$ 1,832,626

The Notes to Financial Statements are an integral part of these statements.

COVINGTON COUNTY HOSPITAL
 STATEMENTS OF CASH FLOWS (continued)
 Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Reconciliation of operating loss to net change in cash from operating activities:		
Operating loss	\$ (1,744,517)	\$ (655,024)
Adjustments to reconcile operating loss to net change in cash from operating activities:		
Depreciation and amortization	839,888	719,259
Provision for bad debt	7,282,425	5,125,588
Other	(32,167)	(52,182)
Net effect of changes in assets and liabilities:		
Patient accounts receivable	(6,688,312)	(5,552,838)
Estimated third-party payor settlements	276,202	(403,134)
Other receivables	(374,956)	827,126
Inventories	(291,734)	(85,580)
Prepaid and other current assets	39,478	(3,169)
Accounts payable	(201,065)	(406,450)
Accrued expenses and other current liabilities	<u>299,563</u>	<u>(11,559)</u>
Net change in cash from operating activities	<u>\$ (595,195)</u>	<u>\$ (497,963)</u>

The Notes to Financial Statements are an integral part of these statements.

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS Years Ended September 30, 2020 and 2019

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies which have been followed by Covington County Hospital (hereafter referred to as the "Hospital") in preparing the accompanying financial statements are set forth below.

Organization and Operations

The Hospital is a regional healthcare provider established by Covington County ("the County") as a special purpose government entity under the laws of the State of Mississippi. The Hospital is owned by Covington County and is governed by a Board of Trustees pursuant to Sections 41-13-15 e.t. Seq. of Mississippi Code of 1972, as amended. Because of the relationship between the Hospital and Covington County, the Hospital has been defined as a component unit of the County.

The Hospital, located in Collins, Mississippi, is a critical access hospital ("CAH"). The Hospital provides inpatient, outpatient, geriatric psychiatric, rural health clinic and emergency care services for residents of Covington County, Mississippi and surrounding areas. The Hospital is currently licensed to provide 25 acute care inpatient beds and 10 geriatric psychiatric beds for patient care. Additionally, the Hospital operates a 60-bed long-term care facility. The Hospital is governed by a Board of Trustees, all of whom are appointed by the Board of Supervisors of the County.

Basis of Presentation

The Hospital prepares its financial statements as a business-type activity in conformity with the applicable pronouncements of the Governmental Accounting Standards Board ("GASB"). The accompanying financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. GASB Accounting Standards Codification is the sole source of authoritative accounting guidance for governmental entities in the United States of America.

Cash and Cash Equivalents

All cash accounts and all highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash equivalents, including amounts limited as to use by the Board or under trust agreements.

Patient Accounts Receivable and the Provision for Doubtful Accounts

Patient accounts receivable are carried at the unpaid amount of patient service revenue charged to patients, net of allowances for contractual adjustments related to agreements with third-party payors and allowances for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes past results and identifies trends for each major payor source of revenue for the

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2020 and 2019

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Patient Accounts Receivable and the Provision for Doubtful Accounts (continued)

purpose of estimating the appropriate amounts of the allowance for doubtful accounts and the provision for bad debts. Data in each major payor source is regularly reviewed to evaluate the adequacy of the allowance for doubtful accounts. For receivables relating to services provided to patients having third-party coverage and self-pay patients, an allowance for doubtful accounts and a corresponding provision for bad debts are established based on an aging of receivables and historical collection percentages; additionally, for receivables relating to self-pay patients, the Hospital considers experience indicating the inability or unwillingness of patients to pay amounts for which they are financially responsible. Actual write-offs are charged against the allowance for doubtful accounts.

Inventories

Inventories, which consist primarily of medical supplies and drugs, are stated at the lower of cost based on the first-in, first-out, or market value.

Prepaid Expenses and Deferred Charges

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

Capital Assets, Net

Property and equipment acquisitions are recorded at cost, or if donated, at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Estimated useful lives for each class of depreciable assets are as follows:

Land improvements	10 to 20 years
Buildings	20 to 30 years
Fixed equipment	15 to 20 years
Major movable equipment (including automobiles)	3 to 15 years
Leasehold improvements	10 years

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2020 and 2019

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current Investments

Non-current investments include assets set aside by the Board of Trustees for future capital improvements. The Board retains control of the funds set aside for future capital improvements and may, at its discretion, subsequently use them for other purposes.

The Hospital's investments consist of an external investment pool and is reported at fair value. Interest, dividends and gains and losses on investments, both realized and unrealized, are included in non-operating income in investment income when earned.

Cost of Borrowing

Costs incurred in connection with the obtaining of financing are expensed as incurred. Premium or discount incurred in connection with the issuance of bonds and indentures is amortized over the life of the obligations on the straight-line method, which approximates the interest method and the unamortized amount is included in the balance of the outstanding debt.

Compensated Absences

Employees' vacation benefits are recognized in the period earned. An accrued expense is recorded for vested compensated absences not used.

Net Position

Net position consists of net investment of capital assets, restricted and unrestricted. The net investment in capital assets consists of capital assets net of accumulated depreciation and the outstanding balances of any related debt that is attributable to the acquisition of the capital assets. Restricted net position are those resources that are externally restricted by creditors, grantors, contributors or laws and regulations or those restricted by constitutional provision and enabling legislation. Unrestricted net position consists of all other resources.

Statements of Revenues, Expenses and Changes in Net Position

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services, other than financing costs, are reported as operating revenues and operating expenses. Peripheral or incidental transactions, county support and financing costs are reported as non-operating revenues and expenses.

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS Years Ended September 30, 2020 and 2019

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Grants and Contributions

From time-to-time, the Hospital receives grants from 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 for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Net Patient Service Revenue

Net patient revenue is reported at the estimated realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payor agreements and the provision for bad debts. The difference between customary charges and the contractually established rates is accounted for as a contractual adjustment. A summary of the basis of payment arrangements with major third-party payors follows:

Medicare - The Hospital is certified as a CAH. As a CAH, the Hospital is reimbursed for substantially all inpatient and outpatient services to Medicare beneficiaries based on reasonable costs. Additionally, as a CAH, the Hospital's licensed beds are limited to 25, and the Hospital's acute average length of stay may not exceed 96 hours. The Hospital is reimbursed for substantially all services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid - Beginning October 1, 2012, the Medicaid program changed to an APR-DRG system for inpatient payments and an Ambulatory Payment Classification ("APC") for outpatient payments. Under APR-DRG for inpatient payment, DRG payment is used for all inpatient acute care stays and includes those beneficiaries enrolled in Managed Care. For outpatient, the APC system groups are made up of CPT/HCPCS codes that share common types of service or common types of delivery of service.

The Hospital participates in the Mississippi Intergovernmental Transfer Program as a Medicaid Disproportionate Share Hospital ("DSH") and in the Mississippi Hospital Access Payment ("MHAP") program. Under these programs, the Hospital receives enhanced reimbursement through a matching mechanism. DSH and MHAP amounts are shown as a reduction of contractual adjustments and are recorded net of related taxes paid. The MHAP Program is administered by the Division of Medicaid ("DOM") through the Mississippi Coordinated Access Network ("CAN") coordinated care organizations ("CCO"). The CCO's subcontract with the Hospitals throughout the state for distribution of the MHAP for the purpose of protecting patient access to hospital care.

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2020 and 2019

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Patient Service Revenue (continued)

The Hospital participates in the Mississippi Nursing Home UPL Program. This program is funded by Intergovernmental Transfers ("IGTs") from participating providers to the DOM. Under this program, the Hospital receives enhanced reimbursement for nursing home services offered to the community. Unlike the Hospital UPL program, the Nursing Home UPL Program does not prescribe specific payment timeliness, therefore creating uncertainties about both the timing and estimation of such UPL payments. Due to these uncertainties, Nursing Home UPL payments are recorded only when notified by the DOM of the imminence of such payments. UPL amounts are shown as a reduction of contractual adjustments and are recorded net of IGTs paid.

Under the Hospital and Nursing Home DSH, MHAP and UPL Programs, the Hospital received enhanced reimbursement for 2020 and 2019 as follows:

	2020	2019
MHAP and UPL revenue, gross	\$ 332,762	\$ 504,733
DSH revenue, gross	1,080,173	741,114
DSH, MHAP and UPL assessments	(127,500)	(137,409)
 DSH, MHAP and UPL revenue, net of assessment	 \$ 1,285,435	 \$ 1,108,438

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

Charity Care

The Hospital provides care to patients who meet certain criteria (such as family income, net worth, extent of healthcare financial obligations for healthcare services, etc.) under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The hospital implemented a policy to maintain records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. Charges foregone, based on established rates, totaled approximately \$122,011 and \$343,146 for 2020 and 2019, respectively.

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2020 and 2019

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The net cost of charity care provided was approximately \$62,500 and \$162,500 for 2020 and 2019, respectively. The net cost of charity care is determined by multiplying the ratio of cost to gross charges to the gross uncompensated charges associated in providing care to charity patients.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates used in preparing these financial statements include those assumed in determining the allowance for doubtful accounts and contractual adjustments, third-party payor settlements related to Medicare and Medicaid programs, which are extremely complex and subject to interpretation, fair value measurement of investments, unearned grant liability and the determination of useful lives when calculating depreciation expense. It is at least reasonably possible that the significant estimates used will change within the next year.

Income taxes

The Hospital is a governmental entity and, as such, is exempt from federal and state income taxes.

Budgetary Information

The Hospital is required by the State of Mississippi to prepare a non-appropriated annual budget. The budget is not subject to the appropriation and is, therefore, not required to be presented as supplementary information.

Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, 2020 and 2019, was as follows:

	<u>2020</u>	<u>2019</u>
Medicare	18%	28%
Medicaid	3%	2%
Private pay	50%	51%
Commercial	29%	19%
	<u>100%</u>	<u>100%</u>

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2020 and 2019

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent Events

Subsequent events were evaluated by the Hospital through September 2, 2021, which is the date the financial statements were available to be issued.

NOTE 2 • CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss Code Ann. (1972). Under this program, the Hospital's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

Investments

The statutes of the State of Mississippi restrict the unauthorized investments of the Hospital to obligations of the U.S. Treasury, agencies and instrumentalities of the United States and certain other types of investments. The Mississippi Hospital Association ("MHA") investment pool is the result of an amendment to the Mississippi Code of 1972 passed in the 1999 and 2000 sessions of the Mississippi Legislature. This law expanded the investment options and permits the pooling of hospital funds. All Mississippi hospitals are allowed to participate in these funds. Pooled funds are invested in authorized investments and are managed by approved investment advisors. The Hospital's investments consist of the following external investment pool funds at September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
MHA Duration Trust		
Fixed income		
Intermediate duration trust	<u>\$ 1,164,010</u>	<u>\$ 1,106,186</u>

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2020 and 2019

NOTE 3 • NET PATIENT SERVICE REVENUE

A summary of amounts comprising net patient service revenue at September 30, 2020 and 2019, is composed of the following:

	2020	2019
Gross patient revenue	\$ 52,982,074	\$ 50,676,832
Less: Provision for contractual adjustments under third-party reimbursement programs and other deductions	(21,334,520)	(21,609,579)
Provision for bad debts	(7,282,425)	(5,125,588)
	\$ 24,365,129	\$ 23,941,665

A summary of revenue for gross patient services under contract with significant third-party payors follows:

	September 30, 2020		September 30, 2019	
	Amount	Percent of Total Gross Patient Revenue	Amount	Percent of Total Gross Patient Revenue
Medicare	\$ 23,312,019	44%	\$ 25,338,416	50%
Medicaid	5,444,458	10%	7,601,525	15%
Other	24,225,597	46%	17,736,891	35%
Total	\$ 52,982,074	100%	\$ 50,676,832	100%

NOTE 4 • PATIENT ACCOUNTS RECEIVABLE, NET

Details of patient accounts receivable, net at September 30, 2020 and 2019, are as follows:

	2020	2019
Patient accounts	\$ 7,867,358	\$ 7,009,307
Allowance for contractual adjustments	(1,315,686)	(1,305,237)
Allowance for doubtful accounts	(3,557,719)	(2,116,004)
Patient accounts receivable, net	\$ 2,993,953	\$ 3,588,066

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2020 and 2019

NOTE 5 • CAPITAL ASSETS

Details of property and equipment for the year ended September 30, 2020, are as follows:

	October 1, 2019	Additions and Other	Retirements and Other	September 30, 2020
Property and equipment				
Land (non-depreciable)	\$ 290,366	\$ -	\$ -	\$ 290,366
Construction in progress	191,876	46,417	(128,216)	110,077
Land improvements	305,645	-	-	305,645
Leasehold improvements	101,410	-	-	101,410
Buildings	12,116,220	558,035	128,216	12,802,471
Fixed equipment	2,925,383	210,648	-	3,136,031
Major moveable equipment	<u>8,543,293</u>	<u>203,087</u>	<u>-</u>	<u>8,746,380</u>
 Total property and equipment	 <u>24,474,193</u>	 <u>1,018,187</u>	 <u>-</u>	 <u>25,492,380</u>
 Less accumulated depreciation and amortization				
Land improvements	(243,031)	(10,953)	-	(253,984)
Leasehold improvements	(101,410)	-	-	(101,410)
Buildings	(5,662,029)	(371,828)	-	(6,033,857)
Fixed equipment	(2,416,914)	(141,830)	-	(2,558,744)
Major moveable equipment	<u>(7,567,211)</u>	<u>(298,412)</u>	<u>-</u>	<u>(7,865,623)</u>
 Total accumulated depreciation and amortization	 <u>(15,990,595)</u>	 <u>(823,023)</u>	 <u>-</u>	 <u>(16,813,618)</u>
 Property and equipment, net	 <u>\$ 8,483,598</u>	 <u>\$ 195,164</u>	 <u>\$ -</u>	 <u>\$ 8,678,762</u>

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2020 and 2019

NOTE 5 • CAPITAL ASSETS (continued)

Details of property and equipment for the year ended September 30, 2019, are as follows:

	October 1, 2018	Additions and Other	Retirements and Other	September 30, 2019
Property and equipment				
Land (non-depreciable)	\$ 290,366	\$ -	\$ -	\$ 290,366
Construction in progress	272,747	-	(80,871)	191,876
Land improvements	305,645	-	-	305,645
Leasehold improvements	101,410	-	-	101,410
Buildings	10,483,569	1,551,780	80,871	12,116,220
Fixed equipment	2,898,483	26,900	-	2,925,383
Major moveable equipment	<u>8,872,398</u>	<u>371,885</u>	<u>(700,990)</u>	<u>8,543,293</u>
Total property and equipment	<u>23,224,618</u>	<u>1,950,565</u>	<u>(700,990)</u>	<u>24,474,193</u>
Less accumulated depreciation and amortization				
Land improvements	(232,007)	(10,954)	-	(243,031)
Leasehold improvements	(101,410)	-	-	(101,410)
Buildings	(5,416,805)	(245,224)	-	(5,662,029)
Fixed equipment	(2,282,062)	(134,852)	-	(2,416,914)
Major moveable equipment	<u>(7,956,835)</u>	<u>(311,366)</u>	<u>700,990</u>	<u>(7,567,211)</u>
Total accumulated depreciation and amortization	<u>(15,989,119)</u>	<u>(702,396)</u>	<u>700,990</u>	<u>(15,990,595)</u>
Property and equipment, net	<u>\$ 7,235,429</u>	<u>\$ 1,248,169</u>	<u>\$ -</u>	<u>\$ 8,483,598</u>

Depreciation expense for the years ended September 30, 2020 and 2019, amounted to \$823,023 and \$702,396, respectively. Capitalized lease equipment and related accumulated depreciation was \$1,034,160 and \$206,069, respectively, at September 30, 2020, and \$496,210 and \$102,508, respectively, at September 30, 2019.

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2020 and 2019

NOTE 6 • LONG-TERM LIABILITIES

Details of long-term liabilities at September 30, 2020 and 2019, are as follows:

	2020	2019
Bonds payable with Covington County at varying rates of interest of 2.0 percent to 3.4 percent; monthly payments of \$40,000 through 2031, with semi-annual interest payments	\$ 3,778,675	\$ 4,176,809
Note payable to Trustmark bank, interest rate of 3.55 percent, monthly payments of \$16,254 maturing October 2028, collateralized by equipment	1,317,700	1,512,407
SBA Payroll Protection Program loan 1.00 percent, payments of \$137,864, due March, 2022	2,451,788	-
Capital lease obligations at varying rates of imputed interest from 2.00 percent to 8.33 percent, monthly payments between \$932 and \$5,675 maturing October 2020 through February 2026, collateralized by equipment and building	891,094	433,286
	8,439,257	6,122,502
Less current maturities	(2,303,499)	(610,712)
	\$ 6,135,758	\$ 5,511,790

The maturities on long-term debt and capital lease obligations are as follows:

Year Ending September 30,	Long-Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2021	\$ 2,165,022	\$ 164,399	\$ 138,477	\$ 9,318
2022	1,309,013	193,223	150,633	6,719
2023	499,798	175,251	145,579	4,788
2024	515,564	159,485	112,059	3,569
2025	525,564	149,485	110,124	1,775
2026-2030	2,453,679	547,722	234,222	2,677
2031-2035	79,523	320,475	-	-
	\$ 7,548,163	\$ 1,710,040	\$ 891,094	\$ 28,846

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2020 and 2019

NOTE 6 • LONG-TERM LIABILITIES (continued)

A schedule of changes in the Hospital's non-current liabilities for 2020, follows:

	September 30, 2019	Additions	Retirements	September 30, 2020	Due Within One Year
Notes payable	\$ 5,689,216	\$ 2,451,789	\$ 592,842	\$ 7,548,163	\$ 2,165,022
Capital lease obligations	<u>433,286</u>	<u>537,950</u>	<u>80,142</u>	<u>891,094</u>	<u>138,477</u>
	<u>\$ 6,122,502</u>	<u>\$ 2,989,739</u>	<u>\$ 672,984</u>	<u>\$ 8,439,257</u>	<u>\$ 2,303,499</u>

A schedule of changes in the Hospital's non-current liabilities for 2019, follows:

	September 30, 2018	Additions	Retirements	September 30, 2019	Due Within One Year
Notes payable	\$ 4,624,408	\$ 1,640,000	\$ 575,192	\$ 5,689,216	\$ 541,810
Capital lease obligations	<u>136,210</u>	<u>360,000</u>	<u>62,924</u>	<u>433,286</u>	<u>68,902</u>
	<u>\$ 4,760,618</u>	<u>\$ 2,000,000</u>	<u>\$ 638,116</u>	<u>\$ 6,122,502</u>	<u>\$ 610,712</u>

NOTE 7 • FAIR VALUE MEASUREMENTS

The Hospital's investments are recorded at fair value as of September 30, 2020. GASB No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumption about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2020 and 2019

NOTE 7 • FAIR VALUE MEASUREMENTS (continued)

- Level 1 - Investments whose values are based on quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 - Investments with inputs - other than quoted prices included within Level 1 - that are observable for an asset or liability, either directly or indirectly.
- Level 3 - Investments classified as Level 3 have unobservable inputs for an asset or liability and may require a degree of professional judgment.

The following table represents the Hospital's investments within the fair value hierarchy at September 30, 2020 and 2019, respectively.

Assets at Fair Value as of September 30, 2020

	Level 1	Level 2	Level 3	Total
MHA Duration Trust				
Intermediate duration trust	\$ -	\$ 1,164,010	\$ -	\$ 1,164,010

Assets at Fair Value as of September 30, 2019

	Level 1	Level 2	Level 3	Total
MHA Duration Trust				
Intermediate duration trust	\$ -	\$ 1,106,186	\$ -	\$ 1,106,186

The fair value of the MHA investment pools are based on the closing price reported on the active market on which the individual funds are traded, and the fair value is allocated to the Hospital based on unit ownership. Therefore, investments are considered a Level 2 category.

NOTE 8 • RETIREMENT PLAN

The Hospital has established the Covington County Hospital Retirement Plan, a defined contribution plan, for the benefit of its employees. Under provisions of the Plan, all employees with ninety (90) days of service are eligible to participate and become eligible for employer matching after one year of service (1/2 percent for each 1 percent of voluntary contributions up to a maximum of 2 percent). Additionally, after ten (10) years of service, the employee becomes eligible for a discretionary match if they contribute 5 percent or greater. Previously, all employees with one year of service were eligible to participate with the Hospital contributing up to 2 percent plus 1/10 percent for each year of service of each participating employee's eligible compensation as determined by the Board of Trustees on an annual basis. The Hospital's contributions for the years ended September 30, 2020 and 2019, totaled \$140,519 and \$138,880, respectively.

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2020 and 2019

NOTE 9 • COMMITMENTS AND CONTINGENCIES

The Hospital has various contractual arrangements for employment contracts, leased office space related to medical practices and equipment leases. Some of the contracts and operating leases have initial or remaining noncancelable lease terms in excess of one year. Total operating lease expense for the years ended September 30, 2020 and 2019, totaled \$327,262 and \$308,500, respectively.

Minimum payments required under the contracts agreements and operating leases as of September 30, 2020, are approximately as follows:

<u>Year Ending September 30,</u>	
2021	\$ 89,796
2022	75,796
2023	47,796
2024	<u>11,949</u>
	<u>\$ 225,337</u>

NOTE 10 • NET POSITION

Net investment in capital assets was as follows at September 30, 2020 and 2019, respectively:

	<u>2020</u>	<u>2019</u>
Capital assets	\$ 25,492,380	\$ 24,474,193
Less accumulated depreciation	(16,813,618)	(15,990,595)
Less debt outstanding related to capital assets	<u>(5,987,468)</u>	<u>(6,122,502)</u>
Net investment in capital assets	<u>\$ 2,691,294</u>	<u>\$ 2,361,096</u>

NOTE 11 • RISK MANAGEMENT

The Hospital 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 Hospital's future financial position or on the result of its future operations.

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2020 and 2019

NOTE 12 • SUBSEQUENT EVENT - COMPLIANCE MATTER

In February 2021, the Hospital entered into a settlement agreement with Centers for Medicare & Medicaid Services (CMS) for a noncompliance violation of the Stark Law related to Federal Physicians' Self-Referral Statute (Section 1877 of the Social Security Act) which was voluntarily self-reported in April 2013 pursuant to the Affordable Care Act and under the Medicare Voluntary Self-Referral Disclosure Protocol issued by CMS. Under the terms and conditions of the agreement, the Hospital agreed to a settlement amount of \$6,391 which was paid to CMS in the subsequent period. The matter has settled and is considered closed effective February 11, 2021.

NOTE 13 • CORONAVIRUS PANDEMIC

The current COVID-19 pandemic has had numerous and varied medical, economic and social impacts any and all of which have and may again adversely affect the Hospital's business and financial results. Executive orders were issued prohibiting certain medically unnecessary, non-urgent or non-emergent procedures and surgeries as a result of the COVID-19 pandemic. Although restrictions have been lifted, there is a possibility that additional restrictions on elective procedures may be reintroduced to the extent that COVID-19 patients threaten system capacity. The effects of COVID-19 could further and severely affect the Hospital's ability to conduct normal business operations and, as a result, the future operating results of the Hospital could be materially adversely affected.

In March 2020, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) was signed into law providing, among other provisions, financial relief to hospitals and healthcare providers during the COVID-19 pandemic. The CARES Act Provider Relief Fund provides funding from the U.S. Department of Health and Human Services (HHS) to support healthcare-related expenses or lost revenue attributable to the COVID-19 pandemic.

As of September 30, 2020, the Hospital has received approximately \$5,503,000 in Provider Relief Funding related to the CARES Act. The funds received under the CARES Act Provider Relief Fund represent payments that do not need to be repaid as long as the Hospital complies with certain terms and conditions imposed by HHS, including reporting and compliance requirement. Such payments are accounted for as governmental grants and are recognized as other nonoperating income once there is reasonable assurance that the applicable terms and conditions required to retain the funds will be met. As of September 30, 2020, the Hospital has recognized \$2,398,000 on the statements of revenues, expenses and changes in net position related to these funds. The remaining amount received \$3,105,000 has been recorded within total current liabilities as unearned grant receipts - Provider Relief Fund in the statements of net position to be recognized through 2021 as terms and conditions are met.

During April 2020, the Hospital applied for and received approximately \$3,442,407 from the Medicare Advance Payment Program provided under the CARES Act. The amount is separately

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2020 and 2019

NOTE 13 • CORONAVIRUS PANDEMIC (continued)

identified as \$860,602 of current portion of advance payment from third party within the current liabilities of the statements of net position and \$2,581,805 identified as advance payment from third party, net of current portion, within long-term liabilities. Based on the Continuing Appropriations Act, 2021 and Other Extensions Act released in October 2020, repayment will begin one year after the receipt of the advance payments. The claims for services provided to Medicare beneficiaries will be applied against the advance payment balance. Any unapplied advance payment amounts must be paid in full within twenty-nine months of receipt.

During April 2020, the Hospital applied for and received approximately \$2,451,789 under the Paycheck Protection Program ("PPP") provided under the CARES Act. The loan accrues interest at a rate of 1 percent and has an original maturity date of two years which can be extended to five years by mutual agreement of the Hospital and the lender. Payments are deferred during the deferral period. The deferral period is the period beginning on April 16, 2020 and ending 10 months after the last day of the covered period (deferral expiration date). Any amounts not forgiven under the program will be payable in equal installments of principal plus any interest owed on the payment date from the deferral expiration date through the maturity date. Additionally, any accrued interest that is not forgiven under the program will be due on the first payment date, which is the 15th of the month following the month in which the deferral expiration date occurs. Under the requirements of the CARES Act, as amended by the PPP Flexibility Act and Consolidated Appropriations Act, 2021, proceeds may only be used for the Hospital's eligible payroll costs (with salary capped at \$100,000 on an annualized basis for each employee), or other eligible costs related to rent, mortgage interest utilities, covered operations expenditures, covered property damage, covered supplier costs and covered worker protection expenditures, in each case paid during the 24-week period following disbursement. The PPP Loan may be fully forgiven if (i) proceeds are used to pay eligible payroll costs or other eligible costs and (ii) full-time employee headcount and salaries are either maintained during the 24-week period following disbursement or restored by December 31, 2020. If not maintained or restored, any forgiveness of the PPP loan would be reduced in accordance with the regulations that were issued by the SBA. All the proceeds of the PPP loan were used by the Hospital to pay eligible payroll costs and the Hospital maintained its headcount and otherwise complied with the terms of the PPP loan. The Hospital has acted in compliance with the program and has filed for and was subsequently granted full forgiveness of the PPP loan in June 2021. As of September 30, 2020, the balance on this PPP loan was \$2,451,789 and has been classified as current and non-current based on the contractual repayment terms. The proceeds of the loan will be recognized into revenue during fiscal year 2021, the period the Hospital was granted forgiveness of the debt. Additionally, in the subsequent period, the Hospital applied for and received \$1,999,999 under the second draw funding of the PPP. All the proceeds from the second round PPP loan were used by the Hospital during the subsequent year to pay eligible payroll cost. While the Hospital believes that it has acted in compliance with the program and has filled for full forgiveness of the second draw PPP loan, no assurance can be provided that the Hospital will obtain forgiveness of the loan in whole or in part.

COVINGTON COUNTY HOSPITAL

SCHEDULE OF SURETY BONDS FOR OFFICIALS AND EMPLOYEES

September 30, 2020

Name	Position	Company	Amount of Bond
Robert Johnson	Board Member	FCCI Insurance Corporation	\$ 100,000
James McPhail	Board Member	FCCI Insurance Corporation	100,000
Everlean Booth	Board Member	FCCI Insurance Corporation	100,000
Jeff Hall	Board Member	FCCI Insurance Corporation	100,000
Greg Sullivan	Board Member	FCCI Insurance Corporation	100,000
Public Employees	Employees	FCCI Insurance Corporation	100,000
Public Employees	Retirement Plan	Travelers Insurance Company	350,000
Arrington Living Center	Resident Trust Bond	Western Surety Company	65,000



Harper, Rains, Knight & Company

The Board of Trustees
Covington County Hospital
Collins, Mississippi

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*

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 business-type activities of Covington County Hospital (the "Hospital"), as of and for the year ended September 30, 2020, and the related notes to financial statements, which collectively comprise the Hospital's basic financial statements and have issued our report thereon dated September 2, 2021.

Internal Control Over Financial Reporting

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

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

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

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The Board of Trustees
Covington County Hospital (continued)

Compliance and Other Matters

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

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 Hospital'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 Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harper, Raino, Knight & Company, P.A.

September 2, 2021
Ridgeland, Mississippi



Harper, Rains, Knight & Company

The Board of Trustees
Covington County Hospital
Collins, Mississippi

Independent Auditors' Report on Compliance with State Laws and Regulations

We have audited the financial statements of Covington County Hospital (the "Hospital"), a component unit of Covington County, Mississippi, as of and for the year ended September 30, 2020, and have issued our report thereon dated September 2, 2021.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 of material misstatements.

Compliance with state laws and regulations applicable to the Hospital is the responsibility of the Hospital's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Hospital's compliance with certain provisions of state laws and regulations. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate, with respect to the items tested, the Hospital complied with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the facility had not complied with state laws and regulations.

This report is intended solely for the information and use of management, the Board of Trustees, others within the Hospital and the Board of Supervisors of Covington County and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Harper, Rains, Knight & Company, P.A.

September 2, 2021
Ridgeland, Mississippi

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