



**SOUTHWEST MISSISSIPPI
REGIONAL MEDICAL CENTER**

Financial Statements

For the Year Ended September 30, 2022



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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

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, 2022, and the related notes to the financial statements, which collectively comprise the Medical Centers' basic financial statements as listed in the table of contents.

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, 2022, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Medical Center, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 3 to the financial statements, the Medical Center adopted the provisions of Governmental Accounting Standards Board (GASB) Statement 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Medical Center's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Medical Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Medical Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 11 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2023, 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
May 23, 2023

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, 2022. This information should be used in conjunction with the Medical Center's financial statements, which begin on page 12.

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 decrease in net position of \$3.3 million.

Positive factors affecting financial results included:

- Disproportionate Share ("DSH") and Mississippi Hospital Access Program ("MHAP") net revenues were \$8.4 million.
- COVID-19 Provider Relief Fund and American Rescue Plan payments received of \$6.4 million neutralized the increased operating costs associated with the pandemic.

Negative factors affecting financial results included:

- Increasing payor requirements to move services from inpatient to outpatient, resulting in decreased inpatient census and a greater percentage of outpatient observation.
- Continuing shift in payment responsibility from third-party payors to patients through higher deductibles and copays resulting in additional bad debt estimates.
- Increases in salaries due to rising staffing costs from nursing shortages during the COVID-19 pandemic.
- Recruiting and retaining physicians poses a significant challenge for all rural hospitals and doing this effectively is a crucial part of a rural hospital's success and viability.

At the end of the 2022 fiscal year, the assets of the Medical Center exceeded liabilities by approximately \$26.8 million. Of this excess amount, approximately \$14 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, 2022, the Medical Center had \$2.8 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, 2022 and 2021 are presented in the following table:

Condensed Statements of Net Position (In Thousands)

<i>September 30,</i>	Fiscal Year	
	2022	2021
Current and other assets	\$ 47,382	\$ 64,248
Capital assets	39,286	34,315
Total assets	\$ 86,668	\$ 98,563
Long-term liabilities	\$ 32,449	\$ 26,352
Other liabilities	27,126	42,062
Total liabilities	\$ 59,575	\$ 68,414
Deferred inflows of resources	\$ 237	\$ -
Net investment in capital assets	\$ 9,360	\$ 10,628
Restricted	3,256	1,571
Unrestricted	14,240	17,950
Total net position	\$ 26,856	\$ 30,149

Total assets decreased by approximately \$11.9 million. Some of the significant changes were:

- Cash decreased \$19.4 million due to the purchase of capital assets, repayment of advanced Medicare funds, and increased salary and supply costs as a result of the COVID-19 pandemic.
- Other receivables increased \$3.2 million for amounts owed pursuant to a USDA grant and \$1.4 million for insurance proceeds as a result of a fire at the Medical Pavilion.
- Investments decreased \$2.1 million due to funding the self-insurance reserve.
- Capital assets increased \$5 due to the implementation of GASB 87.

Total liabilities decreased by approximately \$8.8 million. Some of the significant changes were:

- Unearned revenue decreased \$15.6 million due to the repayment of advanced Medicare funds.
- Leases payable increased \$11.1 million, while capital lease obligations decreased \$6.5 million due to the implementation of GASB 87.
- Estimated third-party settlements increased \$1.6 million and estimated claims payable increased \$1.1 million.

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, 2022 and 2021:

	Fiscal Year	
	2022	2021
Operating revenue		
Net patient service revenue	\$ 152,005	\$ 138,591
Other operating income	6,911	2,508
Total operating income	158,916	141,099
Operating expenses		
Salaries, wages, and benefits	95,009	84,566
Supplies and other operating expenses	66,386	59,557
Depreciation and amortization expense	6,628	5,590
Total operating expenses	168,023	149,713
Loss from operations	(9,107)	(8,614)
Nonoperating revenue (expense)	5,826	11,022
Change in net position	\$ (3,281)	\$ 2,408

Operating Revenues

During fiscal year 2022, the Medical Center derived 96% 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 2022 and 2021:

- Gross patient revenues increased \$42.2 million or 10.6% and net patient service revenue increased \$13.4 million or 9.7% primarily due to increases in patient censuses.
- Revenue deductions for contractual adjustments and bad debt expense were 65% in 2022 and 66% in 2021.
- Total operating expenses increased by \$18.3 million. This is a result of a \$10.4 million increase in salaries and related benefits due to rising salary cost and additional bonuses for nurses and other licensed clinical staff, a \$6.8 million increase in supplies and other expenses due to inflation and meeting growing patient care demands, and a \$ 1 million increase in depreciation and amortization expense largely due to the implementation of GASB 87.

Capital Assets

The following summarizes the Medical Center's investment in capital assets as of September 30, 2022 and 2021:

<i>September 30,</i>	Fiscal Year	
	2022	2021
Land	\$ 947	\$ 429
Construction in progress	1,830	1,044
Land improvements	3,155	3,113
Buildings and improvements	65,805	65,285
Leasehold improvements	1,784	1,628
Equipment	3,298	3,289
Major moveable equipment	92,737	103,716
Right-to-use leased buildings	5,968	-
Right-to-use leased equipment	7,822	-
Right-to-use leased vehicles	1,138	-
Total capital assets	184,484	178,504
Less accumulated depreciation	(145,198)	(144,189)
Capital assets, net	\$ 39,286	\$ 34,315

Southwest Mississippi Regional Medical Center Management's Discussion and Analysis

Capital Assets (Continued)

During 2022, the Medical Center implemented GASB 87 which requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions in the contract. More detailed information about the implementation of GASB 87 and capital assets is presented in the notes to the financial statements.

Long-Term Debt

The following summarizes the Medical Center's long-term debt as of September 30, 2022 and 2021:

<i>September 30,</i>	Fiscal Year	
	2022	2021
USDA Bonds payable	\$ 16,246	\$ 16,971
Notes payable	5,061	2,838
Capital lease obligations	-	6,543
Leases payable	11,142	-
Total long-term debt	\$ 32,449	\$ 26,352

During 2022, the Medical Center converted \$2,685,000 of a line of credit to a note payable. Also, the Medical Center implemented GASB 87, *Leases*. More detailed information about the implementation of GASB 87 and 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 2023 budget. While the financial outlook for the Medical Center is improving, the primary importance in setting the 2023 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.

Southwest Mississippi Regional Medical Center Management's Discussion and Analysis

- As a result of Advanced Payments received, CMS began monthly remittance deductions to offset Medicare claims payments; CMS was fully reimbursed by October 2022.
- 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.
- Increased cost of supplies, including pharmaceuticals, primarily due to the COVID-19 pandemic.
- Ability to continue recruiting medical staff physicians.

Contacting Medical Center's Financial Management

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

Southwest Mississippi Regional Medical Center
Statement of Net Position

September 30,	2022
ASSETS	
Current assets	
Cash and cash equivalents	\$ 3,201,050
Restricted cash and cash equivalents	2,935,109
Restricted investments	2,843,314
Patient accounts receivable, net	18,824,075
Leases receivable	144,223
Other receivables	3,942,668
Inventories	5,434,454
Prepaid expenses and other current assets	1,791,203
Total current assets	39,116,096
Noncurrent assets	
Capital assets	
Capital assets not being depreciated	2,776,765
Depreciable capital assets, net	24,348,476
Right-to-use leased assets, net	12,160,679
Capital assets, net	39,285,920
Other noncurrent assets	
Leases receivable	98,960
Investments	7,537,549
Due from physicians	605,251
Other assets	23,914
Total noncurrent assets	8,265,674
Total assets	\$ 86,667,690

Continued

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

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

September 30,	2022
LIABILITIES	
Current liabilities	
Accounts payable	10,901,759
Line of credit	3,315,000
Salaries and benefits payable	3,885,893
Other accrued expenses	44,192
Accrued compensated absences	3,088,264
Estimated claims payable	516,773
Estimated third-party settlements	1,840,573
Unearned revenue	651,493
Current portion of leases payable	2,598,618
Current portion of notes payable	374,384
Current portion of bonds payable	749,160
Total current liabilities	27,966,109
Long-term liabilities	
Estimated claims payable	2,882,163
Leases payable, less current portion	8,542,865
Notes payable, less current portion	4,686,546
Bonds payable, less current portion	15,497,183
Total long-term liabilities	31,608,757
Total liabilities	59,574,866
DEFERRED INFLOW OF RESOURCES	
Deferred inflow - leases	236,539
NET POSITION	
Net investment in capital assets	9,359,732
Restricted - self insurance	2,843,314
Restricted - debt service	412,542
Unrestricted	14,240,697
Total net position	\$ 26,856,285

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

Year Ended September 30,	2022
Operating revenue	
Patient service revenue, net of contractual allowances and discounts	\$ 165,956,956
Provision for bad debts	(13,951,830)
Net patient service revenue	152,005,126
Other operating revenue	6,911,138
Total operating revenue	158,916,264
Operating expenses	
Salaries and wages	76,575,736
Contract employee salaries	5,490,822
Professional fees	3,577,921
Employee benefits	12,942,192
Supplies	35,217,388
Maintenance and repairs	8,134,365
Other operating expense	19,446,094
Depreciation and amortization	6,638,291
Total operating expenses	168,022,809
Loss from operations	(9,106,545)
Nonoperating revenues (expenses)	
COVID grant funds	7,003,571
Grants and contributions	268,214
Investment income	(440,074)
Interest expense	(1,135,213)
Other revenue	129,318
Total nonoperating revenues (expenses)	5,825,816
Change in net position	(3,280,729)
Net position, beginning of year - restated (See Note 2)	30,137,014
Net position, end of year	\$ 26,856,285

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

Southwest Mississippi Regional Medical Center
Statement of Cash Flows

Year Ended September 30,	2022
Cash flows from operating activities	
Cash received from and on behalf of patients	\$ 138,859,466
Cash paid to and on behalf of employees	(94,830,903)
Cash paid to suppliers	(66,200,983)
Cash received from other operating activities	5,031,701
Net cash used in operating activities	(17,140,719)
Cash flows from noncapital financing activities	
COVID grant funds	6,655,064
Other grants and contributions	268,214
Other receipts and payments, net	129,318
Net cash provided by noncapital financing activities	7,052,596
Cash flows from capital and related financing activities	
Purchase of capital assets	(3,850,025)
Proceeds from line of credit	629,025
Principal paid on bonds payable	(725,235)
Principal paid on notes payable	(462,062)
Principal paid on leases payable	(3,911,150)
Interest paid on long-term debt	(1,133,803)
Net cash used in capital and related financing activities	(9,453,250)
Cash flows from investing activities	
Purchases of investments	(3,457,802)
Sales of investments	3,302,919
Receipt of interest and investment earnings	254,600
Net cash provided by investing activities	99,717
Net decrease in cash and cash equivalents	(19,441,656)
Cash and cash equivalents - beginning of year	25,577,815
Cash and cash equivalents - end of year	\$ 6,136,159
Reconciliation of cash and cash equivalents to the statement of net position	
Cash and cash equivalents included in current assets	\$ 3,201,050
Restricted cash and cash equivalents in current assets	2,935,109
Total cash and cash equivalents	\$ 6,136,159

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

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

Year Ended September 30,	2022
Reconciliation of loss from operations to net cash used in operating activities	
Loss from operations	\$ (9,106,545)
Adjustments to reconcile loss from operations to net cash used in operating activities	
Depreciation and amortization	6,638,291
Changes in assets and liabilities	
(Increase) decrease in assets	
Patient accounts receivable	460,658
Leases receivable	138,112
Other receivables	(1,470,618)
Inventories	(138,896)
Prepaid expenses and other current assets	(5,126)
Other noncurrent assets	20,621
Increase (decrease) in liabilities	
Accounts payable	(843,791)
Salaries and payroll taxes payable	169,968
Accrued compensated absences	106,458
Estimated third-party settlements	1,606,328
Unearned revenue	(15,661,125)
Estimated claims payable	1,100,033
Other accrued expenses	(10,331)
Deferred inflows of resources - leases	(144,756)
Net cash used in operating activities	\$ (17,140,719)
Supplemental disclosures of noncash financing activities	
Capital assets financed through leases payable	\$ 7,032,346
Unrealized/realized loss on investments	\$ (689,912)
New lease agreements as lessor	\$ 234,144
Cancellation of leases	\$ 316,344

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, including time requirements.

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 mutual funds, funds in the Mississippi Hospital Association (MHA) investment pool, and U.S. Treasury obligations. Money market mutual funds 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. At September 30, 2022, the Medical Center is reporting an allowance for uncollectible accounts in the amount of \$23,756,389.

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.

The Medical Center has not materially altered its accounts receivable and revenue recognition policies during fiscal year 2022 and did not have significant write-offs from third-party payors related to collectability in fiscal year 2022.

Inventories

Inventories consist primarily of pharmaceuticals and medical supplies stated at the lower of cost or net realizable value, determined using the first-in, first-out (FIFO) method. When evidence exists that the net realizable value of inventories is lower than its cost, the difference is recognized as a loss in the statement of revenues, expenses, and changes in net position in the period in which it occurs. 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.

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets, which include property, plant, and equipment, and right-to-use leased assets are defined as assets with an initial cost of \$500 and an estimated useful life in excess of one year.

As the Medical Center constructs or acquires capital assets each period, they are capitalized and reported at historical cost (except for right-to-use leased assets, the measurement of which is discussed under the heading Leases - Lessee on page 23). The reported value excludes normal maintenance and repairs, which are amounts spent in relation to capital assets that do not increase the asset's capacity or efficiency, or increase its estimated useful life. 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.

Land and construction in progress are not depreciated. The other property, plant, equipment, and right-to-use leased assets are depreciated/amortized using the straight-line method over the following estimated useful lives:

	Years
Land improvements	5 - 20
Building and improvements	5 - 40
Leasehold improvements	5 - 20
Equipment	5 - 25
Major moveable equipment	5 - 20
Right-to-use leased buildings	2 - 25
Right-to-use leased equipment	2 - 5
Right-to-use leased vehicles	2 - 4

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.

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The Medical Center is not reporting any deferred outflows of resources.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Medical Center is reporting deferred inflows of resources related to leases associated with amounts owed to the Medical Center, as lessor, by entities leasing the Medical Center's capital assets. The deferred inflows of resources related to leases will be recognized in lease revenue in future reporting periods.

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Leases – Lessor

The Medical Center is a lessor for noncancellable leases of property and recognizes leases receivable and deferred inflows of resources in the statement of net position. At the commencement of the lease, the Medical Center initially measures the lease receivable at the present value of the lease payments expected to be received during the lease term. The deferred inflow of resources is initially measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods. Subsequently, the lease receivable is reduced by the principal portion of lease payments made, and interest revenue is recognized. Lease revenue is recognized from the inflow of resources in a systematic and rational matter over the term of the lease.

Leases – Lessee

The Medical Center is a lessee for noncancellable leases of buildings, equipment, and vehicles, and recognizes leases payable and intangible right-to-use leased assets in the statement of net position. At the commencement of the lease, the Medical Center initially measures the lease payable at the present value of the lease payments expected to be paid during the lease term. The right-to-use asset is initially measured at the value of the lease payable, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the right-to-use asset is amortized on a straight-line basis over the shorter of the lease term or the useful life. Right-to-use assets are reported with capital assets, and leases payable are reported within long-term liabilities in the statement of net position.

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 \$7,111,744 for the year ended September 30, 2022, and estimated costs and expenses incurred to provide charity care totaled approximately \$2,063,000. 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.

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 Medical Center'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, May 23, 2023, and determined there were no events that occurred that required disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 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.

GASB Statement No.	GASB Accounting Standard	Effective Fiscal Year
91	<i>Conduit Debt Obligations Public-Private and Public-Public Partnerships and Availability</i>	2023
94	<i>Payment Arrangements</i>	2023
96	<i>Subscription-Based Information Technology Arrangements</i>	2023
99	<i>Omnibus 2022</i>	2023/2024(1)
100	<i>Accounting Changes and Corrections</i>	2024
101	<i>Compensated Absences</i>	2025

(1) Certain provisions of this standard were effective immediately.

Pronouncements Issued and Recently Adopted

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this statement was to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This statement was adopted effective October 1, 2021. See Note 3 for the financial statement impact of adopting the provisions of this statement.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This statement was adopted during the year ended September 30, 2022, and did not have a material effect on the Medical Center's financial statements.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this statement are to enhance comparability in accounting and financial reporting, and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements. This statement was adopted during the year ended September 30, 2022, and did not have a material effect on the Medical Center's financial statements.

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 3: RESTATEMENT

During the year ended September 30, 2022, the Medical Center implemented GASB 87, *Leases* (GASB 87), effective October 1, 2021. The lease definition now focuses on a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Under GASB 87, the lessee government is required to recognize (1) a lease liability and (2) an intangible asset representing the lessee's right to use the leased asset. A lessor government is required to recognize (1) a lease receivable and (2) a deferred inflow of resources. A lessor will continue to report the leased asset in its financial statements. As a result, beginning net position decreased as of October 1, 2021, \$12,520 as follows:

	Prior to Adoption	After Adoption	Change
Leases receivable	\$ -	\$ 141,151	\$ 141,151
Major movable equipment	103,716,084	92,830,059	(10,886,025)
Right-to-use leased buildings	-	1,787,633	1,787,633
Right-to-use leased equipment	-	5,684,873	5,684,873
Right-to-use leased vehicles	-	423,193	423,193
Accumulated depreciation major moveable equipment	92,000,317	87,228,683	(4,771,634)
Leases payable	-	8,336,631	8,336,631
Capital lease obligation	6,542,803	-	(6,542,803)
Deferred inflows of resources - leases	-	141,151	141,151
Net position	30,149,534	30,137,014	(12,520)

NOTE 4: DEPOSITS AND INVESTMENTS

Deposits

As of September 30, 2022, the deposits of the Medical Center consisted of the following:

<u>September 30,</u>	<u>2022</u>
Petty cash	\$ 7,783
Cash deposits with financial institutions	3,193,267
Money market mutual funds (Moody's rating: Aaa-mf)	2,935,109
Total cash and cash equivalents	\$ 6,136,159
<u>September 30,</u>	<u>2022</u>
Cash and cash equivalents	\$ 3,201,050
Restricted cash and cash equivalents	2,935,109
Total cash and cash equivalents	\$ 6,136,159

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 4: 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 \$2,373,681 as September 30, 2022.

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, 2022, the Medical Center had \$2,975,186 in bank deposits held in a financial institution that is part of this program.

At September 30, 2022, cash and cash equivalents in the amount of \$2,935,109 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, 2022:

<i>September 30, 2022</i>	Fair Value	Percentage	Maturity	Interest Rate	Rating
MHA Investment Pool					
MHA Intermediate Duration	3,284,812	31.64%	N/A	N/A	Not rated
MHA Short Duration Trust	723,501	6.97%	N/A	N/A	Not rated
U.S. Treasury notes	2,241,624	21.59%	< 1 year	.125% - 1.5%	Aaa
U.S. Treasury notes	4,130,926	39.79%	1 - 5 years	.25% - 2.375%	Aaa
Total investments	\$ 10,380,863	100.00%			

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 4: DEPOSITS AND INVESTMENTS (CONTINUED)

At September 30, 2022, funds in the amount \$2,843,314, 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 5: 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 5: 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.

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

Since the MHA Investment Pool is measured at fair value using the net asset value per share practical expedient, these amounts are not classified in the fair value hierarchy. The Medical Center invests in these types of investments to obtain competitive market returns while ensuring the safety and liquidity of the portfolio. These types of investments may be redeemed without advance notice and there are no unfunded commitments for further investment. There are currently no limitations as to the frequency of redemptions. The total investment in the pool as of September 30, 2022 was \$4,008,313.

The Medical Center's fair value levels consist of the following at September 30, 2022:

<i>September 30, 2022</i>	Fair Value	Level 1	Level 2	Level 3
Money market mutual funds	\$ 2,935,109	\$ 2,935,109	\$ -	\$ -
U.S. Treasury notes	6,372,550	-	6,372,550	-
Total	\$ 9,307,659	\$ 2,935,109	\$ 6,372,550	\$ -

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 6: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2022 was as follows:

	Restated Balance 10/1/2021	Additions	Retirements	Balance 9/30/2022
Capital assets not depreciated/amortized				
Land	429,341	\$ 518,000	\$ -	\$ 947,341
Construction in progress	1,043,898	1,469,811	(684,285)	1,829,424
Total capital assets not depreciated/amortized	1,473,239	1,987,811	(684,285)	2,776,765
Capital assets being depreciated/amortized				
Land improvements	3,113,200	42,087	-	3,155,287
Building and improvements	65,285,194	1,453,301	(933,878)	65,804,617
Leasehold improvements	1,627,662	156,561	-	1,784,223
Equipment	3,289,221	8,900	-	3,298,121
Major moveable equipment	92,830,059	885,650	(978,324)	92,737,385
Right-to-use leased buildings	1,787,633	4,180,524	-	5,968,157
Right-to-use leased equipment	5,684,873	2,137,161	-	7,822,034
Right-to-use leased vehicles	423,193	714,661	-	1,137,854
Total capital assets depreciated/amortized	174,041,035	9,578,845	(1,912,202)	181,707,678
Less accumulated depreciation:				
Land improvements	2,818,182	95,681	(333)	2,913,530
Building and improvements	45,370,485	1,453,734	(194,867)	46,629,352
Leasehold improvements	1,026,139	111,195	-	1,137,334
Equipment	2,974,378	20,291	-	2,994,669
Major moveable equipment	87,228,683	2,190,024	(662,435)	88,756,272
Right-to-use leased buildings	-	765,677	-	765,677
Right-to-use leased equipment	-	1,796,049	-	1,796,049
Right-to-use leased vehicles	-	205,640	-	205,640
Total accumulated depreciation/amortization	139,417,867	6,638,291	(857,635)	145,198,523
Total capital assets depreciated/amortized, net	34,623,168	2,940,554	(1,054,567)	36,509,155
Total capital assets, net	\$ 36,096,407	\$ 4,928,365	\$ (1,738,852)	\$ 39,285,920

Depreciation and amortization expense for the year ended 2022 totaled \$6,638,291.

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 7: SHORT-TERM DEBT

Line of Credit

During 2022, the Medical Center reduced the prior year \$6,000,000 revolving credit line with Regions Bank by issuing a note payable in the amount \$2,685,000. The new \$3,315,000 line of credit matures July 2, 2023, and bears interest due in monthly installments at the Bloomberg Short-Term Bank Yield plus 2.50%. The interest rate at September 30, 2022 is 5.59%. Money market funds, U.S. Treasury notes, and accrued interest held in an investment account at Regions in the amount of \$6,421,622 at September 30, 2022 have been pledged to secure the loan. At September 30, 2022, the Medical Center was in compliance with a debt covenant which requires a fixed charge coverage ratio of at least 1.10.

Short-term debt activity for the year ended September 30, 2022 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Line of credit	\$ 5,370,975	\$ 629,025	\$ (2,685,000)	\$ 3,315,000

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 8: LONG-TERM DEBT

The Medical Center's long-term debt, including capital lease obligations, consisted of the following at September 30, 2022:

<u>September 30,</u>	<u>2022</u>
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.	\$ 16,246,343
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.	1,785,279
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.	162,365
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.	541,445
Note payable issued in the amount of \$2,685,000 with monthly principal and interest payments of \$26,477 at an interest rate of 3.39% maturing in March 2027, with a balloon payment of \$1,483,934.	2,571,841
Leases payable for buildings, equipment, and vehicles at interest rates ranging from .186% to 11.52% with lease terms through 2046.	11,141,483
Total	32,448,756
Current portion of long-term debt	(3,722,162)
Long-term debt, net of current portion	\$ 28,726,594

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 8: LONG-TERM DEBT (CONTINUED)

Scheduled debt service payments on long-term debt are as follows:

Year Ending September 30,	Leases Payable		Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2023	\$ 2,598,618	\$ 349,281	\$ 374,384	\$ 181,912	\$ 749,160	\$ 516,912
2024	2,189,092	275,607	388,424	167,873	773,874	492,198
2025	1,477,497	214,901	835,137	140,045	799,402	466,670
2026	972,021	168,584	378,768	121,827	825,774	440,298
2027	265,266	183,630	1,715,939	83,576	853,015	413,058
2028-2032	779,707	637,195	605,278	209,858	4,706,199	1,624,161
2033-2037	839,749	447,114	763,000	9,902	5,535,384	794,976
2038-2042	1,020,392	294,271	-	-	2,003,535	56,179
2043-2046	999,141	77,333	-	-	-	-
Total	\$ 11,141,483	\$ 2,647,916	\$ 5,060,930	\$ 914,993	\$ 16,246,343	\$ 4,804,452

Debt Covenants

In connection the USDA Hospital Revenue Bonds, Series 2019, the Medical Center has agreed to certain debt covenants. The Medical Center's debt service coverage ratio must be at least equal to 1:15 to 1 and they must maintain a minimum 75 days cash on hand. The Medical Center was not in compliance with these debt covenants as of the year ended September 30, 2022. The Medical Center's debt service coverage ratio was .72, and the Medical Center had 17 days cash on hand.

Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended September 30, 2022 are as follows:

	Restated Beginning Balance	Additions	Retirements	Ending Balance	Amounts Due Within One Year
Bonds payable	\$ 16,971,578	\$ -	\$ (725,235)	\$ 16,246,343	\$ 749,160
Notes payable	2,837,992	2,685,000	(462,062)	5,060,930	374,384
Leases payable	8,336,631	7,032,346	(4,227,494)	11,141,483	2,598,618
Estimated claims payable	2,298,903	5,863,751	(4,763,718)	3,398,936	516,773
Total long-term debt	\$ 30,445,104	\$ 15,581,097	\$ (10,178,509)	\$ 35,847,692	\$ 4,238,935

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 9: 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, 2022:

<i>September 30,</i>	2022
Capital assets	\$ 184,484,443
Less accumulated depreciation	(145,198,523)
Less debt outstanding related to capital assets	(29,926,188)
Net investment in capital assets	\$ 9,359,732

NOTE 10: 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, 2022 was \$699,520.

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, 2022, 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, 2022 was \$15,299.

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 10: RETIREMENT PLANS

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, 2022 was \$83,649.

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.

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, 2022.

NOTE 11: 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.

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 11: INSURANCE PROGRAMS (CONTINUED)

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.

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 \$2,882,163 at September 30, 2022. 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, 2022 was \$2,843,314, and is reported in the statement of net position as a restricted investment.

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 11: INSURANCE PROGRAMS (CONTINUED)

Changes in the Medical Center's insurance claims liability amount, including related legal fees, for the year 2022 were as follows:

<i>Years ended September 30,</i>	2022	2021
Claims liability, beginning of year	\$ 1,719,565	\$ 1,776,296
Current year claims and changes in estimates	1,222,598	(6,731)
Claims payments	(60,000)	(50,000)
Claims liability, end of year	\$ 2,882,163	\$ 1,719,565

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.

<i>Years ended September 30,</i>	2022	2021
Claims liability, beginning of year	\$ 579,338	\$ 456,042
Current year claims and changes in estimates	4,641,153	4,825,069
Claims payments	(4,703,718)	(4,701,773)
Claims liability, end of year	\$ 516,773	\$ 579,338

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 12: 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, 2022 was as follows:

Patients	6%
Commercial insurance	28%
Medicare	47%
Medicaid	18%
Other	1%
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Total	100%

NOTE 13: PATIENT SERVICE REVENUES

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

Medicare

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

Medicaid

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

Southwest Mississippi Regional Medical Center Notes to the Financial Statements

NOTE 13: PATIENT SERVICE REVENUES (CONTINUED)

The Medical Center participates in the Mississippi Intergovernmental Transfer Program as a Medicaid Disproportionate Share Hospital ("DSH"). Under the program, the Medical Center receives enhanced reimbursement through a matching mechanism. For the fiscal year ended September 30, 2022, the Medical Center reported approximately \$1,141,000 in enhanced reimbursements, and assessments of approximately \$304,000 through the DSH program. In addition, the Medical Center received an additional \$918,000 during the fiscal year as a result of a 2018 DSH examination.

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, 2022, the Medical Center reported approximately \$8,886,000 in enhanced reimbursements, and assessments of approximately \$1,290,000 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, 2022, the Medical Center's net patient revenues increased approximately \$500,000 due to prior year retroactive adjustments for amounts previously estimated. As of September 30, 2022, the Medical Center's Medicare cost reports have been settled through September 30, 2019.

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, 2022 follows:

<i>Year ended September 30,</i>	2022
Gross patient service revenue	\$ 439,947,471
Less provisions for	
Bad debts	(13,951,830)
Contractual adjustments under third-party reimbursement programs	(273,990,515)
Net patient service revenue	\$ 152,005,126

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 13: PATIENT SERVICE REVENUES (CONTINUED)

A summary of the changes in the allowance for uncollectible accounts for the year ended September 30, 2022 follows:

<i>Year ended September 30,</i>	2022
Allowance for uncollectible accounts, beginning	\$ 24,451,649
Write-offs	(14,135,423)
Increase for current claims and changes in estimate	13,440,163
Allowance for uncollectible accounts, ending	\$ 23,756,389

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

Patient service revenue by major payor class, net of contractual allowances and before the provision for bad debts, consisted of the following for the year ended September 30, 2022:

<i>Year Ended September 30, 2022</i>	Amount	Percentage
Medicare	\$ 87,912,348	53%
Medicaid	32,309,627	17%
Blue Cross Blue Shield	19,017,931	12%
Other	26,717,050	18%
Patient service revenue, net of contractual allowances	\$ 165,956,956	100%

NOTE 14: LESSOR AGREEMENTS

The Medical Center, as a lessor, has entered into three long-term lease agreements (in excess of one-year, including options to extend which are reasonably certain of being exercised), for buildings. The long-term lease agreements have interest rates ranging from of 3.94% to 8%, and mature at various dates through 2025. The Medical Center recognized lease revenue in the amount of \$144,756 for fiscal year ending September 30, 2022, and interest revenue in the amount of \$16,366. The Medical Center reported leases receivable in the amount of \$243,184 for fiscal year ended September 30, 2022.

The Medical Center reported an additional \$96,724 in short-term lease revenue for fiscal year ending September 30, 2022.

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 14: LESSOR AGREEMENTS (CONTINUED)

Future payments due to the Medical Center are as follows:

<i>Year Ending September 30,</i>	Leases Receivable	
	Principal	Interest
2023	\$ 144,223	\$ 10,327
2024	59,885	4,962
2025	39,075	1,576
Total	\$ 243,183	\$ 16,865

NOTE 15: NONOPERATING REVENUES

The Provider Relief Fund (PRF) and American Rescue Plan (ARP) Rural Distribution are federal programs administered by the Health Resources and Services Administration (HRSA) and support eligible health care providers in the battle against the COVID-19 pandemic. PRF provides relief funds to eligible providers of health care services and support for health care-related expenses or lost revenues attributable to coronavirus. ARP Rural Distribution addresses the disproportionate impact that COVID-19 has had on rural communities and rural health care providers. PRF and ARP Rural Distribution recipients must use payments for eligible expenses, including services rendered, and lost revenues during the period of availability. During the year ended September 30, 2022, the Medical Center received \$6,482,897 in PRF and ARP funds, recognized \$5,831,404 in nonoperating revenues, and reported unearned revenue of \$651,493 as of September 30, 2022. In addition, the Medical Center received \$1,172,167 in other grant funding for COVID expenses.

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 16: 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, 2022, is reported as follows:

Condensed Statement of Net Position

Assets	
Current assets	\$ 6,852,546
Due from Medical Center	17,201,593
Capital assets, net	6,610,042
Other assets	6,969,739
Total assets	37,633,920
Liabilities	
Current liabilities	6,811,574
Noncurrent liabilities	3,941,263
Total liabilities	10,752,837
Deferred inflow of resources	1,219,091
Net position	
Net investment in capital assets	2,001,384
Unrestricted	23,660,608
Total net position	\$ 25,661,992

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

Operating revenues	\$ 13,677,083
Operating expenses	
Operations	13,566,825
Depreciation and amortization	758,021
Total operating expenses	14,324,846
Operating loss	(647,763)
Nonoperating revenues (expenses)	962,654
Change in net position	314,891
Net position, beginning of year - restated - See Note 3	25,347,101
Net position, end of year	\$ 25,661,992

Southwest Mississippi Regional Medical Center
Notes to the Financial Statements

NOTE 16: BLENDED COMPONENT UNIT (CONTINUED)

Condensed Statement of Cash Flows

Net cash provided by (used in)	
Operating activities	\$ 907,853
Noncapital financing activities	(6,934,511)
Capital and related financing activities	(1,762,020)
Investing activities	1,984
<hr/>	
Net decrease in cash and cash equivalents	(7,786,694)
Cash and cash equivalents, beginning of year	10,464,595
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Cash and cash equivalents, end of year	\$ 2,677,901

NOTE 17: 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.

Supplementary Information

Southwest Mississippi Regional Medical Center
Schedule of Gross Patient Service Revenue

Year Ended September 30, 2022	Inpatient	Outpatient	Total
Nursing services			
Medical and surgical	\$ 6,975,678	\$ 1,770,161	\$ 8,745,839
Newborn nursery	89,677	234	89,911
Intensive care	4,245,054	44,849	4,289,903
Total nursing services	11,310,409	1,815,244	13,125,653
Other professional services			
Ambulatory surgery center	960,662	15,761,442	16,722,104
Anesthesiology	14,400	-	14,400
Cardiac cath lab	6,337,753	11,395,244	17,732,997
Cardiac surgery	1,527,836	18,896	1,546,732
Cardiology	2,027,516	9,292,951	11,320,467
Central supply	2,621,675	4,580,386	7,202,061
Dialysis	813,120	161,280	974,400
Disaster Tracking	-	700	700
EEG-Neurology	13,144	4,851	17,995
Emergency services	8,637,994	44,523,852	53,161,846
GI Endosuite	810,693	11,387,182	12,197,875
Home health and hospice	-	15,918,096	15,918,096
Hyperbarics	3,325	924,884	928,209
Intensive outpatient program	-	948,975	948,975
Labor, delivery, recovery and postpartum	3,345,723	293,752	3,639,475
Laboratory	13,659,101	35,165,306	48,824,407
MS Cancer Institute - medical oncology	72,369	75,285,016	75,357,385
MS Cancer Institute - radiation therapy	23,115	7,155,768	7,178,883
Nursing procedures	2,764,985	1,634,797	4,399,782
Occupational therapy	436,501	32,187	468,688
Operating and recovery services	3,431,689	6,648,499	10,080,188
Outpatient rehabilitation	-	1,303,501	1,303,501
Outpatient services	-	297,344	297,344
Pharmacy	15,040,809	23,609,342	38,650,151
Physical therapy	838,538	43,940	882,478
Physician clinics	-	27,599,116	27,599,116
Pulmonary rehabilitation	295	576,639	576,934
Radiology	3,645,099	46,692,719	50,337,818
Respiratory therapy	17,661,725	2,461,286	20,123,011
Rural health clinics	-	3,985,674	3,985,674
Sleep lab	-	1,541,870	1,541,870
Total other professional services	84,688,067	349,245,495	433,933,562
Total including charity	\$ 95,998,476	\$ 351,060,739	447,059,215
Less charity			7,111,744
Total			\$ 439,947,471

Southwest Mississippi Regional Medical Center Schedule of Operating Expenses

<i>Year Ended September 30, 2022</i>	Salaries and Wages	Contract Employee Salaries	Employee Benefits	Professional Fees	Supplies	Maintenance and Repairs	Other Operating Expense	Total
Nursing services								
Medical and surgical	\$ 6,564,878	\$ 3,100	\$ 233,100	\$ 85,775	\$ 369,862	\$ 194,699	\$ 292,188	\$ 7,743,602
Newborn nursery	-	-	1,747	-	37,801	21,135	600	61,283
Intensive care	3,458,092	6,200	289,011	85,775	521,995	132,383	87,409	4,580,865
Swing bed unit	28,897	-	7,872	-	420	-	-	37,189
Total nursing services	10,051,867	9,300	531,730	171,550	930,078	348,217	380,197	12,422,939
Other professional services								
Ambulatory surgery center	916,264	-	93,461	-	1,778,937	187,484	34,689	3,010,835
Anesthesiology	-	1,633,903	-	-	21,081	72,692	8,598	1,736,274
Cardiac cath lab	812,888	-	70,169	-	2,525,642	313,725	230,615	3,953,039
Cardiac surgery	156,704	400,000	11,743	-	455,958	82,708	7,777	1,114,890
Cardiology	568,267	-	34,246	-	132,242	32,906	49,184	816,845
Central supply	380,144	-	32,408	-	303,098	30,156	16,011	761,817
Dialysis	-	-	-	-	9,417	1,464	508,381	519,262
Disaster tracking	728,631	-	10,465	27,550	1,190,593	8,845	36,768	2,002,852
EEG-Neurology	13,088	-	924	-	1,314	314	2,390	18,030
Emergency services	8,346,653	406,907	634,788	-	557,510	138,703	67,807	10,152,368
GI Endosuite	1,150,784	-	110,108	-	370,171	118,544	50,056	1,799,663
Health watch	-	-	-	-	-	45	-	45
Home health and hospice	7,656,682	183,006	617,817	79,149	678,189	581,700	1,691,182	11,487,725
Hyperbarics	-	-	-	-	29,881	1,019	221,819	252,719
Inpatient services	-	-	-	-	-	2,324	28,753	31,077
Intensive outpatient program	124,945	48,000	8,001	-	7,478	1,685	213,174	403,283
Labor, delivery, and recovery	1,848,730	-	156,058	-	216,301	136,685	28,944	2,386,718
Laboratory	2,394,402	371,460	210,258	-	3,842,423	150,563	909,868	7,878,974
MS Cancer Institute - medical oncology	2,980,938	-	149,267	-	11,230,854	38,169	20,196	14,419,424
MS Cancer Institute - radiation therapy	577,277	-	49,473	-	12,717	364,987	4,242	1,008,696
Non-emergency transport	35,322	-	4,284	-	194	3,389	408	43,597
Occupational therapy	175,431	-	14,699	-	118	-	(1,500)	188,748
Operating and recovery services	1,385,665	-	138,110	47	949,292	171,140	51,807	2,696,061
Outpatient infusion therapy	64,597	-	10,959	-	5,608	2,134	10,846	94,144
Outpatient rehabilitation	643,593	-	65,577	-	14,413	11,615	1,825	737,023
Outpatient services	105,818	-	7,224	-	11,097	418	-	124,557
Pharmacy	1,305,926	299,486	126,278	-	6,329,591	51,498	292,910	8,405,689
Physical therapy	284,391	-	14,489	-	4,772	2,159	1,749	307,560
Physicians' clinics	14,187,414	232,580	828,187	1,055,842	289,780	76,831	721,629	17,392,263
Pulmonary rehabilitation	87,604	-	3,205	-	6,354	3,319	91	100,573
Radiology	2,588,602	80,400	204,399	-	571,339	794,690	710,152	4,949,582
Residency program	48,449	-	2,539	-	762	-	11,392	63,142
Respiratory therapy	1,360,279	-	110,059	-	180,166	50,280	75,933	1,776,717
Rural health clinics	1,986,985	-	201,934	46,343	89,249	18,190	159,098	2,501,799
Sleep lab	70,904	-	4,401	-	3,247	7,999	199,791	286,342
Total other professional services	52,987,377	3,655,742	3,925,530	1,208,931	31,819,788	3,458,380	6,366,585	103,422,333

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

<i>Year Ended September 30, 2022</i>	Salaries and Wages	Contract Employee Salaries	Employee Benefits	Professional Fees	Supplies	Maintenance and Repairs	Other Operating Expense	Total
General services								
Housekeeping	\$ -	\$ 1,620,656	\$ -	\$ -	490,326	\$ 25,619	\$ 320,219	\$ 2,456,820
Laundry and linen	62,170	-	(5,673)	-	56,692	66,851	52	180,092
Dietary	875,746	-	77,291	-	859,894	18,534	5,694	1,837,159
Plant operation and maintenance	1,582,236	(147)	126,442	-	335,161	872,210	1,747,241	4,663,143
Total general services	2,520,152	1,620,509	198,060	-	1,742,073	983,214	2,073,206	9,137,214
Fiscal and administrative services								
Administrative	2,623,722	-	430,514	2,194,107	133,020	34,227	2,357,616	7,773,206
Patient registration	1,059,516	-	100,273	-	76,715	3,619	31,307	1,271,430
Bio-medical	-	-	-	-	1,396	35,645	79	37,120
Call center	203,913	-	18,646	-	103	-	3,418	226,080
Case management	951,608	-	77,895	-	16,932	73,538	18,334	1,138,307
Contract and asset management	28,630	-	(1,146)	-	474	41,450	-	69,408
Communications	257,377	-	22,208	-	1,711	12,008	1,716	295,020
Community education	122,144	-	14,654	-	8,209	21,468	31,848	198,323
Chaplain services	40,198	-	3,075	-	233	56	27	43,589
General accounting	670,988	-	62,414	-	21,193	34,526	568,166	1,357,287
Health information management	1,080,032	166,827	87,030	-	10,789	514,128	126,006	1,984,812
Human resources	594,797	-	7,156,847	-	47,911	31,986	588,143	8,419,684
Infection control	133,151	-	9,371	-	26,672	408	1,942	171,544
Information systems	261,486	-	19,594	3,333	88,123	2,350,805	3,146,716	5,870,057
Materials management	261,672	-	15,097	-	11,072	49,012	352,862	689,715
Medical director	-	-	-	-	33	-	-	33
MS Cancer Institute	379,177	-	39,342	-	26,851	19,903	168,749	634,022
MS Cardiovascular Institute	3,032	-	-	-	2,820	17,415	29,162	52,429
Pharmacy retail	-	-	-	-	195,695	777	1,277,870	1,474,342
Patient accounting	1,557,856	-	145,678	-	36,059	16,222	1,580,091	3,335,906
Physician clinic accounting	111,966	-	28,093	-	1,954	3,092	32,136	177,241
Public relations	16,443	2,444	2,677	-	7,230	1,983	231,864	262,641
Quality assurance/performance	332,651	36,000	26,734	-	6,299	81,168	39,742	522,594
Revenue cycle	325,981	-	27,876	-	2,233	-	24,370	380,460
Risk management	-	-	-	-	1,722	1,118	13,942	16,782
Total fiscal and administrative services	11,016,340	205,271	8,286,872	2,197,440	725,449	3,344,554	10,626,106	36,402,032
Total	\$ 76,575,736	\$ 5,490,822	\$ 12,942,192	\$ 3,577,921	\$ 35,217,388	\$ 8,134,365	\$ 19,446,094	161,384,518
Depreciation and amortization								6,638,291
Total								\$ 168,022,809

Southwest Mississippi Regional Medical Center
Schedule of Other Operating Revenue

Year Ended September 30, 2022

Other operating revenue	
Cafeteria sales	\$ 318,243
Leases	241,480
Pharmacy retail	4,785,027
Other	1,566,388
<hr/>	
Total other operating revenue	\$ 6,911,138

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

Name	Position	Company	Amount of Bond
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
Yvonne 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
Robert Weathersby	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
Donna Gardner	Executive Director, St. Luke Home Health	CNA Surety	100,000
All Other Employees		CNA Surety	10,000

Reports on Internal Control and Compliance Matters



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

Board of Trustees
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, 2022, 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 May 23, 2023.

Report on 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.

Report on 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding 2022-001.

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
May 23, 2023

Southwest Mississippi Regional Medical Center Schedule of Findings and Responses

Finding 2022-01 – Loan Covenants

Criteria: In accordance with the United States Department of Agriculture (USDA) Letter of Conditions for the Series 2019 Hospital Revenue Bond, the Medical Center is required to maintain a debt service ratio of at least 1.15. If based on a review of the annual audit, the debt service coverage ratio is below 1.15 and the number of days cash on hand falls below 75 days, a fiscal strategy report which documents how the debt services requirement will be achieved will be provided to Rural Development.

Condition: The Medical Center did not meet their debt service coverage ratio or days cash on hand ratio as of September 30, 2022. The Medical Center's debt service coverage ratio was .72 and their days cash on hand was 17 days.

Cause: The Medical Center has been severely impacted by COVID-19, and the increased cost of doing business. Salaries and benefits have increased significantly due to the nationwide nursing shortages and efforts to retain staff, and supplies and other expenses have increase dramatically due to inflation.

Effect: Pursuant to the Loan Resolution, that upon default in the performance of any covenant or agreement contained in the instruments incident to making or insuring the loan, the USDA, at its option may declare the entire principal amount then outstanding and accrued interest immediately due and payable. This could potentially have a material effect on the financial statements if the loan goes into default status.

Recommendation: We recommend the Medical Center implement the fiscal strategy report provided to the USDA, and continue their efforts to identify more efficiencies and cost-saving measures.

View of Responsible Officials and Planned Corrective Actions:

The current healthcare environment continues to challenge all hospitals, and small rural hospitals, with continuing financial and workforce issues and the unknown future impact of COVID-19. At the same time, the Medical Center's employees are working together to continue to find ways to make progress on improving how the Medical Center organizes and processes work in such a way that it continues to improve clinical care and service to its patients and community while striving to improve its financial position and overall financial performance.

The Medical Center has taken the following approach to meet debt service requirements and obtain the required number of days of operating cash.

1. Increase other operating income
2. Increasing access to care
3. Develop a balanced plan for optimizing revenue, managing expenses, and improving clinical outcomes

Southwest Mississippi Regional Medical Center Schedule of Findings and Responses

4. Use technology to improve capital and labor utilization
5. Pursuing payor relationships and new revenue models – ACO
6. Contract review and negotiation