

Singing River Health System

(A Component Unit of Jackson County, Mississippi)

Independent Auditor's Reports and Financial Statements

September 30, 2019 and 2018

Singing River Health System
(A Component Unit of Jackson County, Mississippi)
September 30, 2019 and 2018

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Independent Auditor's Report

Board of Trustees
Singing River Health System
Pascagoula, Mississippi

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

The 2018 financial statements, before they were restated for the matters discussed in *Note 18*, were audited by other auditors, and their report thereon, dated November 15, 2018, expressed an unmodified opinion. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Health System's basic financial statements. The Schedule of Surety Bonds for Officers and Employees as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The Schedule of Surety Bonds for Officers and Employees has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated December 4, 2019, on our consideration of the Health System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Health System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health System's internal control over financial reporting and compliance.

BKD, LLP

Jackson, Mississippi
December 4, 2019

Singing River Health System
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Management's Discussion and Analysis
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Introduction

This discussion and analysis provides management's analysis of Singing River Health System's (the "Health System") financial performance for the fiscal years ended September 30, 2019 and 2018. Unless otherwise indicated, all financial and statistical information included herein relates to continuing operations. The following analysis should be read in conjunction with the accompanying financial statements and supplementary information.

Overview of the Financial Statements

This annual report consists of financial statements and notes to the financial statements of the Health System. The Health System is a governmental entity organized and existing pursuant to the applicable statutes of the State of Mississippi, an instrumentality of Jackson County ("the County"), which operates on a not-for-profit basis and operates two hospitals organized as county hospitals under provisions of the statutes of the State of Mississippi. The Health System is exempt from federal and state income taxes.

The Board of Trustees, appointed by the County Board of Supervisors, is charged with the maintenance, operations, and management of the Health System, its finances and staff. The Health System's primary mission is to improve health and save lives through the health care services it provides to the citizens of its service area, which includes the County and the surrounding areas, through its acute, primary and specialty care facilities.

The financial statements include the accounts and transactions of the Health System which includes Pascagoula Hospital, Ocean Springs Hospital, various outpatient facilities, and its blended component units Anesthesia Services, LLC and SRHS Ambulatory Services, Inc. SRHS Ambulatory Services, Inc. is comprised of its minority interest in Mississippi Coast Endoscopy and Ambulatory Surgical Center, LLC and Ocean Springs Surgical and Endoscopy Center, LLC.

Industry Highlights

Several uncertainties exist as the health care industry is going through a period of evolution. National efforts around health care reform abound. Regulatory changes are expected to continue, resulting in payment reductions and increased administrative documentation burdens.

The Health System will continue its successful strategy of improving access; maximizing proficiency with high quality, low cost care; growing in areas of core clinical competency; and marketing its leading services. These efforts will allow the Health System to maintain financial stability. Some industry items of note follow:

- The Centers for Medicare and Medicaid Services (CMS) finalized their proposal to reduce Medicare reimbursement for separately payable Part B drugs purchased via the 340B program from average sales price (ASP) plus 6% to ASP minus 22.5%. The close to 30% reduction went into effect January 2018, and while there have been legal challenges filed to reverse the cuts, they

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remain in place. The lower drug reimbursement was partially offset by a corresponding 3% increase in the Medicare Outpatient Prospective Payment (OPPS) rates to attempt to make the cuts budget neutral for CMS. These cuts will continue into 2020 under a final government rule that was issued in November 2018. In extending the cuts into 2020, CMS acknowledged the ongoing lawsuit and sought public comment.

- The Trump Administration continues to explore avenues to reduce drug expenditures for the federal government and Medicare beneficiaries. During October 2018, CMS published an Advanced Notice of Proposed Rulemaking outlining their plan to create an International Pricing Index (IPI) for Part B drugs. The IPI would require third-party vendors to purchase separately payable Part B drugs for which they, and not the hospital, would be reimbursed by Medicare based on prices paid in other designated countries. Hospitals would no longer purchase or hold title to these drugs and would receive an administration fee and a drug add-on to compensate the hospital for administering the drugs to patients. The current proposal is subject to revision or withdrawal after public comments are received. It is too early to know whether we will be selected to participate or to quantify the impact the IPI program would have on the Health System.
- The Medicare Access and Chip Reauthorization Act (MACRA) went into effect in 2017, posing immediate implications to all the Health System's financial performance by imposing a "value based payment modifier," theoretically emphasizing the importance of making patient outcomes and quality of care a governmental priority. The law provides greater flexibility to the Secretary of the Department of Health and Human Services in the timing of the implementation of the Merit-based Incentive Payment System (MIPS) under MACRA's Quality Payment Program (QPP). The new law modifies provisions of MACRA so that MIPS payment adjustments will apply only to services billed to Part B, thereby excluding payments for Part B drugs from MIPS payment adjustments.
- Medicare sequestration cuts, previously slated to expire in 2021, have been extended three times through 2027.
- To offset the financial effects of treating Medicaid and other indigent patients, the Health System receives additional funding through the Mississippi Hospital Access Program (MHAP), formerly Upper Payment Limit (UPL) and Disproportionate Share Hospital (DSH) programs, administered by the Mississippi Division of Medicaid (DOM). Under the Patient Protection and Affordable Care Act of 2010, reductions of DSH allotments are scheduled to continue through 2025, reducing the amount of funds received for treating Medicaid and other indigent patients.
- The Mississippi Division of Medicaid is phasing in a new MHAP program in the state for fiscal year 2020 referred to as the Quality Incentive Payment Program (QIPP), which will base payments partly on readmission rates. While readmission rates can be partially indicative of quality due to wide variations in case mix activity, they may not be. Hospitals with higher activity and more diverse variations in case mix could experience a detrimental impact to their distribution.

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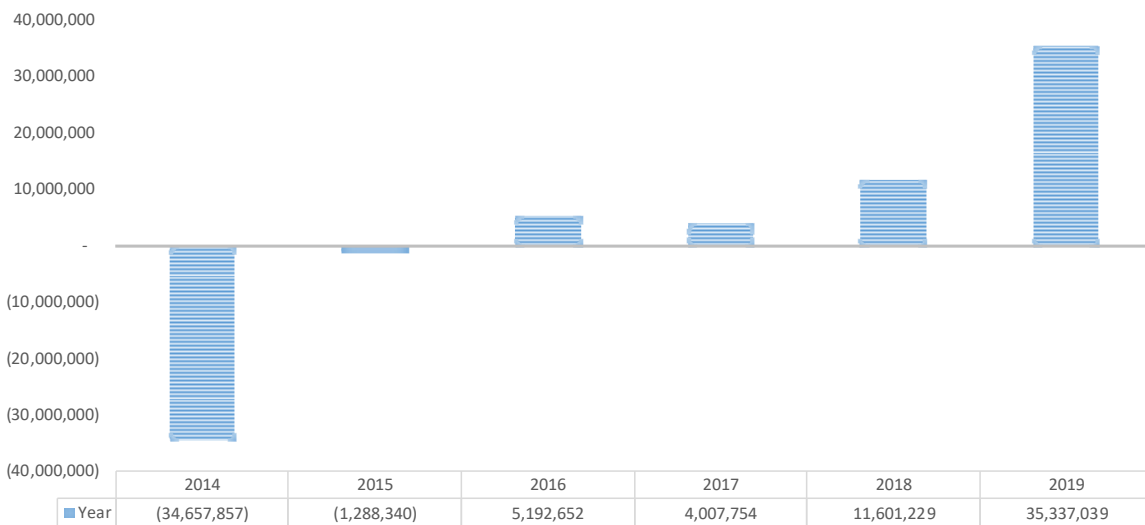
Management's Discussion and Analysis September 30, 2019 and 2018

- Increasing wages in the industry due to shortage of qualified health care workers in our region, particularly in nursing, is expected to continue.
- Increased costs in medical supplies and pharmaceuticals continue to adversely impact net margin in the health care industry.

Financial Highlights

- The Health System's net position increased by \$47.4 million (35.2%) in fiscal year 2019 compared to increases of \$262.2 million (205.8%) in 2018 and \$3.2 million (2.5%) in 2017. The 2019, 2018 and 2017 changes in net position were significantly impacted by non-cash entries related to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. Excluding accounting entries related to GASB 68 and other infrequently recurring events, the increase in net position would have been \$35.4 million and \$11.6 million in fiscal year 2019 and fiscal year 2018, respectively. After removing the increase to net position related to the GASB 68 entries, the current year increase in net position is primarily related to increases in volumes, complemented by improvements in efficiencies that have directly resulted in a reduction in expenses. Surgical services have increased 1.4% and 4.4% in fiscal years 2019 and 2018, respectively. Cancer Center visits have increased 11.6% during both of 2019 and 2018. Rheumatology visits have increased by 45.0% and 58.2% during fiscal year 2019 and fiscal year 2018, respectively. Both of the latter service lines were a direct result of strategic growth of providers in those areas.

ANNUAL PROFIT/(LOSS) - EXCLUDING INFREQUENTLY OCCURRING EVENTS



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- Long-term debt, excluding current portion, decreased approximately \$15.3 million (23.0%) in fiscal year 2019 and \$7.5 million (10.1%) in fiscal year 2018. The Health System refinanced outstanding debt of over \$64.0 million in 2019 in order to reduce interest expense.
- Other long-term liabilities decreased approximately \$0.6 million (0.8%) and decreased \$265.0 million (78.4%) related to GASB 68 adjustments in fiscal year 2019 and fiscal year 2018, respectively. The significant reduction in other liabilities related to GASB 68 adjustments are reflections of court settlement upholding the pension settlement and changes to term benefits made by the Court Appointed Special Fiduciary.
- During fiscal year 2019 and 2018, the Health System invested \$20.3 million and \$23.1 million, respectively, in facility infrastructure projects, critical information technology and medical equipment.

Financial Statements

- The Health System's financial statements are prepared on the accrual basis of accounting, based upon when services are provided or obligations are incurred, not when cash is received or bills are paid. The financial statements consist of three statements: (1) balance sheets, (2) statements of revenues, expenses and changes in net position and (3) statements of cash flows. The balance sheets and the statements of revenues, expenses and changes in net position reflect the Health System's financial position at the end of the fiscal year and report the net position and changes as a result of the revenues and expenses for the year. The balance sheet presents the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the Health System as of the end of the year. The net position section presents assets plus deferred outflows of resources, less liabilities, less deferred inflows of resources. Increases or decreases in net position are an indicator of whether financial health is improving or deteriorating. Other non-financial factors should be considered, however, in evaluating financial health, such as changes in the Health System's patient base, changes in economic conditions and changes in government legislation. The statement of cash flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing and noncapital/capital financing activities. The statement explains where cash came from, how it was used and the change in cash balance during the year.

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Balance Sheets

The following table provides a summary of the Health System's total assets, total liabilities and total net position at September 30, 2019, 2018 and 2017:

Condensed Balance Sheets
(In Millions)

	2019	2018	Change	Total Percentage Change	2017	Change	Total Percentage Change
Assets and Deferred Outflows of Resources							
Current assets	\$ 170.0	\$ 143.3	\$ 26.7	18.6%	\$ 131.5	\$ 11.8	9.0%
Internally designated and trusteeed bond funds	3.7	13.8	(10.1)	-73.2%	20.0	(6.2)	-31.0%
Capital assets, net	197.7	198.8	(1.1)	-0.6%	193.1	5.7	3.0%
Other assets	10.1	7.7	2.4	31.2%	5.8	1.9	32.8%
Total assets	381.5	363.6	17.9	4.9%	350.4	13.2	3.8%
Deferred outflows of resources	3.6	1.2	2.4	200.0%	22.4	(21.2)	-94.6%
Total assets and deferred outflows of resources	\$ 385.1	\$ 364.8	\$ 20.3	5.6%	\$ 372.8	\$ (8.0)	-2.1%
Liabilities and Deferred Inflows of Resources							
Current liabilities	\$ 52.2	\$ 62.7	\$ (10.5)	-16.7%	\$ 46.0	\$ 16.7	36.3%
Long-term debt	51.2	66.5	(15.3)	-23.0%	74.0	(7.5)	-10.1%
Capital lease obligations	26.9	27.6	(0.7)	-2.5%	27.2	0.4	1.5%
Other long-term liabilities	72.6	73.2	(0.6)	-0.8%	338.2	(265.0)	-78.4%
Total liabilities	202.9	230.0	(27.1)	-11.8%	485.4	(255.4)	-52.6%
Deferred inflows of resources	-	-	-	0.0%	14.8	(14.8)	-100.0%
Total liabilities and deferred inflows of resources	202.9	230.0	(27.1)	-11.8%	500.2	(270.2)	-54.0%
Net Position							
Net investment in capital assets	113.8	96.4	17.4	18.0%	91.0	5.4	5.9%
Restricted expendable	8.1	21.8	(13.7)	-62.8%	12.9	8.9	69.0%
Unrestricted (deficit)	60.3	16.6	43.7	263.3%	(231.3)	247.9	-107.2%
Total net position	182.2	134.8	47.4	35.2%	(127.4)	262.2	-205.8%
Total liabilities and deferred inflows of resources	\$ 385.1	\$ 364.8	\$ 20.3	5.6%	\$ 372.8	\$ (8.0)	-2.1%

Total net position represents the residual interest in the Health System's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. Net position increased \$47.4 million from fiscal year 2018 to fiscal year 2019, compared to increases of \$262.2 million and \$3.2 million during fiscal years 2018 and 2017, respectively.

The Health System had \$115.1 million, \$86.2 million and \$81.4 million in total unrestricted cash and investments as of September 30, 2019, 2018 and 2017, respectively.

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Net patient accounts receivable (AR) increased \$3.3 million from \$36.3 million at September 30, 2018 to \$39.6 million at September 30, 2019. This increase is directly related to increased service line volumes offset by improved cash collections on revenue cycle, decreasing days in AR, and increases in service areas with a lower AR turnover, including the Distinct Part Skilled Nursing Facility and Physician Clinics.

Internally designated and trustee bond funds decreased by \$10.1 million from 2018 to 2019 and \$6.2 million from 2017 to 2018. The decrease of \$10.1 million is due to decreased bond funds from the bond refinancing in 2019. The decrease from 2017 to 2018 is due to the pension settlement funds reclassifying to current liabilities.

The Health System had capital assets, net of accumulated depreciation of \$197.7 million, \$198.8 million, and \$193.1 million at September 30, 2019, 2018 and 2017, decreasing \$1.1 million in fiscal year 2019 and increasing \$5.7 million in fiscal year 2018. Depreciation and amortization expense was \$23.1 million and capital additions equaled \$20.3 million in 2019, compared to depreciation expense of \$21.2 million and capital additions of \$23.1 million in 2018. The table below outlines increases and decreases in capital assets.

	2019	2018	2017
Land	\$ 5,797,289	\$ 5,597,289	\$ 5,597,289
Land improvements	1,448,681	1,538,662	1,786,006
Buildings and improvements	116,264,621	121,929,115	109,702,177
Fixed equipment	1,471,045	1,646,382	1,821,718
Moveable equipment	65,719,919	58,430,094	56,263,602
Construction in progress	7,032,355	9,629,390	17,948,521
Total	\$ 197,733,910	\$ 198,770,932	\$ 193,119,313

Deferred outflows of resources consist of unamortized losses on refunding of debt and resources related to the Health System’s pension plan. Deferred outflows of resources increased \$2.4 million (200.0%) from \$1.2 million as of September 30, 2018 to \$3.6 million as of September 30, 2019. The increase in deferred outflows of resources is primarily related to pension settlement. On November 20, 2014, the Health System’s Board of Trustees resolved to amend the Singing River Employees’ Retirement Plan and Trust (the “Plan”) to, among other things, freeze the Plan so that no further contributions will be made by the employees and that no further benefits shall accrue. The Resolution also directed that the Plan be terminated and that assets of the Plan be allocated and benefits funded in accordance with applicable provisions of the Plan. Prior to ensuing litigation, the Health System had intended to modify the plan payouts by converting to a new plan. The United States District Court of the Southern District of Mississippi approved a settlement (the “Settlement”) in a class-action lawsuit related to the Plan in June 2016. That decision was appealed to the Fifth Circuit Court of Appeals. On April 12, 2018, by Order of the court a “Trust Preservation Order Modifying Terms of Pension Plan” was made, reducing benefits by 25% and eliminating the cost-of-living increases. On September 26, 2018, the Fifth Circuit Court made a

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final ruling to uphold the Settlement. The outcome of the Settlement significantly impacted the financial statements, as reflected in the related pension liability and further described below.

Total liabilities decreased \$27.1 million (11.8%) in fiscal year 2019 and decreased \$255.4 million (52.6%) in fiscal year 2018.

- Current liabilities decreased \$10.5 million (16.7%) and increased \$16.7 million (36.3%) in fiscal years 2019 and 2018, respectively.
- Long-term debt decreased \$15.3 million (23.0%) and \$7.5 million (10.1%) in fiscal years 2019 and 2018, respectively, in relation to ongoing normal debt payments and in conjunction with the refinancing further delineated below.
- Net pension liability and pension settlement liability decreased \$264.4 million (81.0%) in fiscal year 2018. Decreases are related to actuarial valuation of changes in plan assumptions, discount rates and other variables related to the pension liability in accordance with GASB 68 and due to the Settlement referred to above. Court ordered changes and final approval of settlement referenced above have a significant impact on the liability previously recorded.
- Deferred inflows of resources are changes in benefit terms, differences between actual and projected earnings on plan investments and are effects of actuarial differences and changes in assumptions related to economic or demographic factors. Deferred inflows of resources decreased \$14.8 million (100%) during fiscal year 2018. The elimination of deferred inflows during fiscal year 2018 is related to the District Court upholding the pension settlement referred to above.
- Bond covenants require the Health System to maintain 65 days cash on hand (DCOH) and a maximum annual debt services (MADS) ratio above 1.2. The Health System's focus over the previous years has been in strengthening the Health System's cash position, resulting in increases in DCOH of 26 and 8 days cash during fiscal years 2019 and 2018, respectively. The Health System had DCOH of 125, 99 and 91 at September 30, 2019, 2018 and 2017, respectively. The MADS ratio was 3.34, 2.27 and 2.15 at September 30, 2019, 2018 and 2017, respectively. The Health System is in compliance with both bond covenants at September 30, 2019.

On December 19, 2018, the Health System completed a \$21,347,000 Limited Tax Hospital Revenue Refunding Bond transaction in conjunction with Jackson County, Series 2018 (the "Series 2018 Bonds") to refund the Mississippi Development Bank Special Obligation Bonds, Series 2011 (Jackson County, Mississippi Limited Tax Note). The bonds were issued for the purpose of refinancing the Series 2011 bonds in order to reduce interest rates for debt service savings. The Series 2018 Bonds were issued by First Internet Public Finance Corp. (the "Purchaser"). In addition to the bond insurance policy, the Series 2018 Bonds are supported by a five mill pledge on the assessed value of real property by Jackson County. The Series 2018 Bonds carry a fixed rate of interest of 3.79%. Interest payments are made semiannually (January 1 and July 1), and principal is paid annually (July 1) and mature on July 1, 2035. The Series 2018 Bonds are initially issued at the Taxable Fixed Rate (as defined in the Indenture), but on April 2,

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2021 (the "Tax-Exempt Reissuance Date") will be reissued at the Tax-Exempt Fixed Rate as defined in the Indenture.

On April 2, 2019, the Health System completed a \$43,119,000 Limited Tax Hospital Revenue Refunding Bond transaction in conjunction with Jackson County, Series 2019 (the "Series 2019 Bonds") to refund the Mississippi Development Bank Special Obligation Bonds, Series 2009 A and B (Jackson County, Mississippi Limited Tax Note). The bonds were issued for the purposes of refinancing the Series 2009 A and B bonds in order to reduce interest rates for debt service savings. The Series 2019 Bonds were issued by Capital One Public Funding, LLC (the "Purchaser"). In addition to the bonds being secured by the revenues of the Health System, the 2019 bonds are supported by a five mill pledge on the assessed value of real property by Jackson County. The Series 2019 Bonds carry a fixed rate of interest of 3.95%. Interest payments are made semiannually (January 1 and July 1), and principal is paid annually (July 1) and mature on July 1, 2038.

The loan agreement between Jackson County, Mississippi and the Health System sets certain financial tests, including cash availability, debt service coverage and additional indebtedness. These covenants are consistent with other credit providers to the Health System, as well as with those of hospital credits of comparable size and financial strength.

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Statement of Revenues, Expenses and Changes in Net Position

The following table summarizes the Health System's revenues and expenses for the years ended September 30, 2019, 2018 and 2017 and the changes in net position during each of those years:

Condensed Statements of Revenues, Expenses and Changes in Net Position
(in Millions)

	2019	2018	Change	Total Percentage Change	2017	Change	Total Percentage Change
Operating Revenues							
Net patient service revenue	\$ 382.6	\$ 345.5	\$ 37.1	10.7%	\$ 341.3	\$ 4.2	1.2%
Other revenues	13.8	9.8	4.0	40.8%	11.4	(1.6)	-14.0%
Total operating revenues	396.4	355.3	41.1	0.1	352.7	2.6	0.7%
Operating Expenses							
Salaries and wages	140.4	133.5	6.9	5.2%	131.9	1.6	1.2%
Employee benefits	27.9	27.0	0.9	3.3%	26.6	0.4	1.5%
(Contra) pension expense	(5.2)	(248.5)	243.3	-97.9%	16.4	(264.9)	-1615.2%
Professional fees	4.8	4.7	0.1	2.1%	4.4	0.3	6.8%
Supplies	92.7	79.4	13.3	16.8%	71.5	7.9	11.0%
Purchased services	35.7	36.5	(0.8)	-2.2%	39.1	(2.6)	-6.6%
Other expenses	35.4	34.3	1.1	3.2%	33.3	1.0	3.0%
Depreciation and amortization	23.1	21.2	1.9	9.0%	20.3	0.9	4.4%
Total operating expenses	354.8	88.1	266.7	302.7%	343.5	(255.4)	-74.4%
Operating Income	41.6	267.2	(225.6)	-84.4%	9.2	258.0	2804.3%
Nonoperating Revenues (Expenses)							
Investment income, net	4.0	1.2	2.8	233.3%	0.5	0.7	140.0%
Interest expense	(10.6)	(6.5)	(4.1)	63.1%	(6.9)	0.4	-5.8%
Earnings on equity investments	0.5	0.3	0.2	66.7%	0.4	(0.1)	-25.0%
Bond issuance costs	(0.8)	-	(0.8)	0.0%	-	-	0.0%
Noncapital contributions - Jackson County	12.7	-	12.7	0.0%	-	-	0.0%
Loss on disposal of capital assets	-	-	-	0.0%	-	-	0.0%
Total non-operating revenues (expenses)	5.8	(5.0)	10.8	-216.0%	(6.0)	1.0	-16.7%
Increase in Net Position	47.4	262.2	(214.8)	-81.9%	3.2	259.0	8093.8%
Net Position, Beginning of Year	134.8	(127.4)	262.2	-48.6%	(130.6)	3.2	-2.5%
Net Position, End of Year	\$ 182.2	\$ 134.8	\$ 47.4	35.2%	\$ (127.4)	\$ 262.2	-205.8%

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Net Patient Service Revenue

Net patient service revenue increased \$37.1 million (10.7%) to approximately \$382.6 million in fiscal year 2019, compared to \$345.5 million in fiscal year 2018 and \$341.3 million in fiscal year 2017. The increase from 2018 to 2019 is due to a large increase in overall volume. The Health System has experienced an increase in inpatient surgeries, outpatient surgeries, patient days and service line visits, including cancer visits, Rheumatology, Primary Care and Hospice.

To offset the financial effects of treating Medicaid and other indigent patients, the Health System receives additional funding through the MHAP (formerly UPL) and DSH programs administered by the Mississippi Division of Medicaid ("DOM"). Through participation in the MHAP and UPL programs, the Health System has received gross reimbursement of approximately \$17.4 million during 2019 and \$16.7 million during 2018 and 2017, respectively. The Health System received Medicaid DSH payments of approximately \$11.6 million, \$10.3 million and \$18.1 million for fiscal years 2019, 2018 and 2017, respectively.

To participate in the MHAP and DSH programs the Health System paid to DOM an annual assessment of \$11.1 million, \$11.4 million and \$11.9 million for fiscal years 2019, 2018 and 2017, respectively. The net impact of the DSH, MHAP and UPL programs to the Health System was \$17.9 million, \$15.6 million and \$22.9 million in fiscal years 2019, 2018 and 2017, respectively.

Other operating revenues were \$13.8 million in 2019 and \$9.8 million in 2018, an increase of \$4.0 million. The increase is primarily driven by an increase in retail and contract pharmacy revenues of \$5.0 million, offset by a reduction in grant revenue of \$1.6 million.

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The following table summarizes the Health System's increase (decrease) in net position excluding entries related to infrequently occurring items and GASB 68 (outlined below) for the years ended September 30, 2019, 2018 and 2017:

Condensed Statements of Revenues, Expenses and Changes in Net Position
(In Millions)

	2019	2018	Change	Total Percentage Change	2017	Change	Total Percentage Change
Increase in net position, end of year	\$ 47.4	\$ 262.2	(214.8)	-81.9%	\$ 3.2	\$ 259.0	8093.8%
Infrequently occurring events							
Construction grant revenue	(0.1)	(1.7)	1.6	94.1%	(3.3)	1.6	-48.5%
Malpractice and workers' compensation actuarial adjustment	1.2	(0.4)	1.6	(4.0)%	0.5	(0.9)	-180.0%
Pension settlement	4.8	-	4.8	-	-	-	-
Pension expense	(5.2)	(248.5)	243.3	97.9%	3.6	(252.1)	-7002.8%
Noncapital contributions - Jackson County	(12.7)	-	(12.7)	100.0%	-	-	-
Total infrequently occurring events	(12.0)	(250.6)	238.6	95.2%	0.8	(251.4)	(314.3)%
Normalized increase in net position	\$ 35.4	\$ 11.6	\$ 23.8	204.6%	\$ 4.0	\$ 7.6	190.5%

During fiscal years 2019, 2018 and 2017, there were a few occurrences outlined above driving the increase in net position. The Settlement related to the Singing River Health System Employees Retirement Plan and Trust resulted in a \$5.2 million and \$248.5 million reduction of expense in fiscal years 2019 and 2018, respectively. Construction grant revenue recorded was \$0.1 million and \$1.7 million in fiscal years 2019 and 2018, respectively, related to a hardening project to improve the facility at Pascagoula Hospital. Malpractice and workers' compensation actuarial assessments in addition to inventory of claims incurred but not reported based on historical experience decreased expense in fiscal year 2019 by \$1.2 million and decreased expense in fiscal year 2018 by \$0.4 million. As discussed in *Note 13*, the Health System entered into a Contribution Agreement with Jackson County recording a gain of \$12.7 million in 2019. Removing all the infrequently occurring events and items related to GASB 68 listed above from the financials result in a \$35.4 million normalized increase in net position, compared to fiscal year 2018 normalized increase in net position of \$11.6 million.

Statistics

The 10.7% increase in net patient service revenue during fiscal year 2019 is due to increases in several statistics, including admissions, surgeries, and other service line visits.

- Adult Acute Admissions were up 0.1%
- Comprehensive Rehab admissions were up 0.2%
- Skilled Nursing Facility admissions were up 7.0%
- Outpatient procedures visits overall were up 7.6%
- Outpatient surgeries were up 3.1%

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- Inpatient surgeries were flat
- Total days of care were up 2.4%

A summary of statistics from fiscal years 2019, 2018 and 2017 are outlined in the chart below:

Hospital Operations

	2019	2018	Variance	2017	Variance
Admissions (excludes nursery)					
Adult	11,939	11,924	0.1%	11,744	1.5%
Pediatric	548	580	-5.5%	514	12.8%
Intensive Care Unit	2,753	2,967	-7.2%	3,109	-4.6%
Comprehensive Rehab	504	503	0.2%	498	1.0%
Behavioral Health	648	741	-12.6%	947	-21.8%
Skilled Nursing Facility	553	517	7.0%	1	51600.0%
Total admissions	<u>16,945</u>	<u>17,232</u>	<u>-1.7%</u>	<u>16,813</u>	<u>2.5%</u>
ER Admissions	12,230	12,332	-0.8%	12,385	-0.4%
Discharges	17,228	17,520	-1.7%	16,955	3.3%
Adjusted Discharges	37,696	37,664	0.1%	35,980	4.7%
Total Days of Care	87,714	85,663	2.4%	73,544	16.5%
Average Daily Census	240	235	2.1%	201	16.9%
Inpatient Physician Services	79,376	72,262	9.8%	67,374	7.3%
Deliveries	1,393	1,362	2.3%	1,480	-8.0%
Observation Days	4,782	4,267	12.1%	4,324	-1.3%
Acute ALOS	4.35	4.14	5.1%	4.27	-3.0%
Outpatient Procedures					
ER Visits	96,575	97,916	-1.4%	99,142	-1.2%
Radiology Exams	153,477	137,618	11.5%	132,158	4.1%
Laboratory Tests	844,324	778,597	8.4%	762,016	2.2%
PT/OT/ST Treatments	401,754	380,942	5.5%	397,944	-4.3%
Other Service Line Visits	192,661	174,136	10.6%	163,013	6.8%
Total outpatient procedures	<u>1,688,791</u>	<u>1,569,209</u>	<u>7.6%</u>	<u>1,554,273</u>	<u>1.0%</u>
Surgeries					
Inpatient	5,052	5,063	-0.2%	4,924	2.8%
Outpatient	5,003	4,853	3.1%	4,573	6.1%
Total surgeries	<u>10,055</u>	<u>9,916</u>	<u>1.4%</u>	<u>9,497</u>	<u>4.4%</u>

The Medicare case mix for hospitals is a measure of Medicare inpatient acuity and has an effect on Medicare inpatient payments. Case mix levels have increased in fiscal years 2019, 2018 and 2017.

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A summary of Medicare case mix indices follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Singing River Hospital	1.64	1.62	1.64
Ocean Springs Hospital	1.89	1.74	1.70

During fiscal years 2019 and 2018, payer class percentages remained relatively stable, with slight increases in Medicare and self-pay patients offset by slight decreases in Managed Care and Medicaid.

Below is a chart comparing payer class percentages for fiscal years 2019, 2018 and 2017 based on volume of revenue:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Medicare	52.4%	51.9%	50.5%
Medicaid	12.4%	12.4%	12.4%
Blue Cross Blue Shield	16.1%	15.6%	16.4%
Managed Care	7.0%	9.1%	9.8%
Self-pay	6.1%	6.5%	6.4%
Other	<u>6.0%</u>	<u>4.5%</u>	<u>4.5%</u>
	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>

Deductions from Revenue

Contractual and other adjustments (excluding charity and bad debts) expressed as a percentage of gross revenues, were 76.5%, 76.3% and 74.8% for fiscal years 2019, 2018 and 2017 respectively.

Bad Debt and Charity Care

Bad debt expense was approximately \$114.9 million and \$117.4 million in fiscal years 2019 and 2018, respectively. The \$2.5 million decrease of bad debt expense in 2019 is primarily related to improved bad debt recoveries versus prior year. Bad debt expense relates to patients with uninsured balances that do not qualify under the charity care policy as outlined by the Health System, which collection for services rendered will not be obtained. During fiscal year 2019, bad debt expense represents 5.0% of total gross charges, compared to 5.5% in fiscal year 2018. Charity care is defined as health care provided to patients at no cost while meeting certain criteria as outlined by the Health System's charity care policy. Charity care adjustments were approximately \$43.6 million and \$38.7 million in fiscal years 2019 and 2018, respectively. During fiscal year 2019, charity care represents 1.9% of total gross charges, compared to 1.8% in fiscal year 2018. When combined, bad debt expense and charity care is 6.9% of total gross charges in fiscal year 2019, compared to 7.4% in fiscal year 2018.

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Operating Expenses

During the year ended September 30, 2019 total operating expenses increased \$266.7 million. During the year ended September 30, 2018, total operating expenses decreased \$255.4 million, compared to the year ended September 30, 2017. Excluding the impact of GASB 68, operating expenses increased \$18.2 million (5.4%) from fiscal year 2018 to 2019. Excluding the impact of GASB 68, operating expenses increased \$9.5 million (2.8%) during the year ended September 30, 2018, compared to the year ended September 30, 2017.

- Salaries and wages increased \$6.9 million (5.2%) from fiscal year 2019, compared to fiscal year 2018. The increase is in direct proportion to the increase in volumes, addition of new physicians in targeted growth areas, and a merit increase during fiscal year 2019.
- Benefits increased \$0.9 million (3.3%) from fiscal year 2019, compared to fiscal year 2018, related to additional FTE's and merit increase identified above.
- Supplies expense has increased \$13.3 million (16.8%) during fiscal year 2019, related to increases in inflation of pharmaceutical supplies and other medical supplies which continue to be a challenge in the industry, in addition to increases in patient days, surgical volumes, cancer visits, rheumatology, primary care, the start-up of a structural heart program and other service lines. Supplies expense increased by \$7.9 million (11.0%) during fiscal year 2018 due to growth, increases in inflation of pharmaceutical supplies and other medical supplies.
- Depreciation and amortization has increased \$1.9 million (9.0%) and \$0.9 million (4.4%) in fiscal years 2019 and 2018, respectively. The Health System has increased capital expenditures and improvement of infrastructure. Construction projects were closed and placed into service at the end of fiscal year 2019 and will result in depreciation and amortization increasing in future years. Capital improvements will continue to take place over the next few years related to the Health System's strategic initiatives. Additionally, the Health System recognized \$4.8 million in interest expense reported above related to the recognition of the pension settlement liability.

Cash Flow

Cash provided by operating activities was \$56.1 million and \$45.7 million for fiscal years 2019 and 2018, respectively. The primary reasons for increases in cash provided by operating activities relates to increased cash collections from patient services, which is consistent with changes in operating income due to increased volumes. Cash used in non-capital financing activities was \$3.6 million and \$0.0 million for fiscal years 2019 and 2018, respectively. The primary reasons for the increase relates to non-capital funds related to an agreed-upon settlement with Jackson County to aid in providing indigent care to the residents of the county and payments on pension settlement liabilities in 2019. Cash used by capital and related financing activities decreased approximately \$1.5 million between 2018 and 2019, primarily due to decreased cash outlay for capital expenditures, as well as a decrease in construction grant funding. In addition, cash provided by investing activities decreased approximately \$12.4 million between 2018 and

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2019, primarily due to a capital investment distribution received in fiscal year 2018. Changes in system cash flows are consistent with changes in operating income and non-operating revenues and expenses.

Year-to-date cash collections in fiscal year 2019 were \$376.8 million, compared to \$354.1 million in fiscal year 2018, an increase of \$22.7 million due to increases in volumes. Cash paid to suppliers increased \$15.8 million and \$12.3 million for fiscal years 2019 and 2018, respectively, due to volumes and inflation referenced above. Cash paid to employees increased \$0.7 million and \$3.8 million for fiscal years 2019 and 2018, respectively. Increases in cash paid to employees are related to onboarding of our environmental services employees, newly employed physicians and merit increases.

Economic Conditions and Plan for Fiscal Year 2020

In planning for fiscal year 2020, the primary concerns are the items noted in the Industry Highlights section and their potential financial and operational impact on the Health System. There are continuing reductions in payments related to DSH and 340b that are outside of the Health System's control that could substantially reduce cash received from third-party payers.

In order to continue to improve operations, management is working in accordance with a strategic plan centered on access, proficiency, growth and marketing. In 2020, the Health System will increase access, continue to improve the culture, reduce cost and maximize labor efficiencies, explore mutually beneficial partnerships, explore calculated growth and business development opportunities, and expand population health management efforts.

Singing River Health System
(A Component Unit of Jackson County, Mississippi)
Balance Sheets
September 30, 2019 and 2018

Assets and Deferred Outflows of Resources

	2019	2018 (Restated - Note 18)
Current Assets		
Cash and cash equivalents	\$ 63,211,162	\$ 53,743,573
Investments	51,880,208	32,461,470
Trusted bond funds - required for current liabilities	2,946,841	2,767,322
Held in escrow for pension funding - required for current liabilities	-	8,891,980
Patient accounts receivable, net of allowance; 2019 - \$65,419,376, 2018 - \$70,461,965	39,601,654	36,295,959
Other receivables	2,694,977	790,597
Inventories	6,841,792	5,910,410
Prepaid expenses	2,794,552	2,400,798
Total current assets	169,971,186	143,262,109
Noncurrent Cash and Investments		
Trusted bond funds	94,926	10,182,451
Internally designated for self-insurance funding	3,624,672	3,617,391
Investment in equity investments	4,314,747	4,167,476
Total noncurrent cash and investments	8,034,345	17,967,318
Capital Assets, Net	197,733,910	198,770,932
Other Assets		
Intangible assets, net	1,425,930	1,906,575
Other	4,331,648	1,626,000
	5,757,578	3,532,575
Total assets	381,497,019	363,532,934
Deferred Outflows of Resources	3,610,648	1,254,057
Total assets and deferred outflows of resources	\$ 385,107,667	\$ 364,786,991

Liabilities and Net Position

	2019	2018 (Restated - Note 18)
Current Liabilities		
Current installments of long-term debt	\$ 7,882,000	\$ 7,420,000
Current installments of capital lease obligations	834,404	844,680
Current installments of other long-term liabilities	522,111	1,420,925
Current installments of pension settlement liability	4,200,000	11,200,000
Accounts payable	15,094,958	16,763,123
Accrued payroll and employee benefits	20,023,146	18,437,451
Due to third-party payers	3,213,831	5,695,876
Other accrued expenses	469,926	919,383
	<hr/>	<hr/>
Total current liabilities	52,240,376	62,701,438
Other Liabilities		
Long-term debt	51,192,000	66,491,066
Capital lease obligations	26,866,731	27,622,754
Other long-term liabilities	283,127	354,574
Accrued workers' compensation, professional and general liability costs	10,894,540	12,002,496
Pension settlement liability	61,447,901	60,812,144
	<hr/>	<hr/>
Total liabilities	202,924,675	229,984,472
Net Position		
Net investment in capital assets	113,801,377	96,392,432
Restricted expendable for debt service	3,041,767	12,949,773
Restricted expendable for indigent care	5,104,937	-
Restricted expendable for pension funding	-	8,891,980
Unrestricted	60,234,911	16,568,334
	<hr/>	<hr/>
Total net position	182,182,992	134,802,519
	<hr/>	<hr/>
Total liabilities and net position	<u>\$ 385,107,667</u>	<u>\$ 364,786,991</u>

Singing River Health System
(A Component Unit of Jackson County, Mississippi)
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2019 and 2018

	2019	2018 (Restated - Note 18)
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2019 - \$114,947,990, 2018 - \$117,443,553	\$ 382,619,306	\$ 345,543,757
Other revenues	<u>13,799,165</u>	<u>9,758,860</u>
Total operating revenues	<u>396,418,471</u>	<u>355,302,617</u>
Operating Expenses		
Salaries and wages	140,427,541	133,502,673
Employee benefits	27,945,187	27,032,098
(Contra) pension expense	(5,245,594)	(248,527,602)
Professional fees	4,788,254	4,675,666
Supplies	92,751,752	79,355,220
Purchased services	35,695,533	36,528,069
Other expenses	35,449,929	34,291,177
Depreciation and amortization	<u>23,058,108</u>	<u>21,235,610</u>
Total operating expenses	<u>354,870,710</u>	<u>88,092,911</u>
Operating Income	<u>41,547,761</u>	<u>267,209,706</u>
Nonoperating Revenues (Expenses)		
Investment income, net	4,042,297	1,141,874
Interest expense	(10,552,312)	(6,502,814)
Earnings on equity investments	504,984	282,477
Bond issuance costs	(849,000)	-
Noncapital contribution - Jackson County	12,704,937	-
Loss on disposal of capital assets	<u>(18,194)</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>5,832,712</u>	<u>(5,078,463)</u>
Increase in Net Position	<u>47,380,473</u>	<u>262,131,243</u>
Net Position, Beginning of Year, as Previously Reported	134,802,519	(119,264,058)
Adjustment Applicable to Prior Years (Note 18)	<u>-</u>	<u>(8,064,666)</u>
Net Position, Beginning of Year, as Restated	<u>134,802,519</u>	<u>(127,328,724)</u>
Net Position, End of Year, as Restated	<u>\$ 182,182,992</u>	<u>\$ 134,802,519</u>

Singing River Health System
(A Component Unit of Jackson County, Mississippi)
Statements of Cash Flows
Years Ended September 30, 2019 and 2018

	2019	2018 (Restated - Note 18)
Cash Flows from Operating Activities		
Receipts from and on behalf of patients	\$ 376,831,566	\$ 354,081,784
Cash paid to suppliers and others	(172,595,117)	(156,834,582)
Cash paid to or on behalf of employees	(161,696,493)	(160,945,651)
Other cash received	13,605,291	9,382,677
Net cash provided by operating activities	56,145,247	45,684,228
Cash Flows from Noncapital Financing Activities		
Repayment of pension settlement liability	(11,200,000)	-
Noncapital contribution - Jackson County	7,600,000	-
Net cash used in noncapital financing activities	(3,600,000)	-
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(20,345,348)	(23,104,019)
Principal paid on long-term debt	(74,448,000)	(7,135,000)
Proceeds from issuance of long-term debt	64,466,000	-
Principal paid on capital lease obligations	(766,299)	(514,446)
Repayment of other long-term liabilities	(1,686,373)	(2,448,527)
Interest paid on long-term debt and capital lease obligations	(5,544,069)	(6,569,466)
Net cash used in capital and related financing activities	(38,324,089)	(39,771,458)
Cash Flows from Investing Activities		
Purchase of investments	(21,587,146)	(5,000,000)
Proceeds from sale of investments	1,925,648	715,942
Investment income received	3,247,874	277,521
Distribution from equity method investments	357,713	346,410
Net cash used in investing activities	(16,055,911)	(3,660,127)
Change in Cash and Cash Equivalents	(1,834,753)	2,252,643
Cash and Cash Equivalents, Beginning of Year	75,387,300	73,134,657
Cash and Cash Equivalents, End of Year	\$ 73,552,547	\$ 75,387,300

Singing River Health System
(A Component Unit of Jackson County, Mississippi)
Statements of Cash Flows (Continued)
Years Ended September 30, 2019 and 2018

	2019	2018 (Restated - Note 18)
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 41,547,761	\$ 267,209,706
Items not requiring cash		
Depreciation and amortization	23,058,108	21,235,610
Provision for uncollectible accounts	114,947,990	117,443,553
Changes in		
Patient accounts receivable, net	(118,253,685)	(116,099,326)
Amounts due to and from third-party payers	(2,482,045)	7,193,800
Inventories and other current assets	(1,519,010)	(1,756,338)
Change in pension settlement liability	-	72,012,144
Net pension liability	-	(326,429,747)
Pension deferrals	-	5,890,001
Accounts payable and accrued liabilities	(45,916)	(1,866,826)
Accrued workers' compensation, professional and general liability costs	<u>(1,107,956)</u>	<u>851,651</u>
Net cash provided by operating activities	<u>\$ 56,145,247</u>	<u>\$ 45,684,228</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 63,211,162	\$ 53,743,573
Cash and cash equivalents in investments	3,674,946	628,049
Cash and cash equivalents in trusteed bond funds	3,041,767	8,506,307
Cash and cash equivalents in trustee for self-insurance funding	3,624,672	3,617,391
Cash and cash equivalents in escrow for pension funding	<u>-</u>	<u>8,891,980</u>
Total cash and cash equivalents	<u>\$ 73,552,547</u>	<u>\$ 75,387,300</u>
Noncash Investing, Capital and Financing Activities		
Intangible assets acquired through installment agreements	\$ 716,112	\$ 3,228,083
Capital assets acquired through capital lease obligations	\$ -	\$ 1,350,000
Capital assets in accounts payable	\$ 143,066	\$ 334,674

Singing River Health System
(A Component Unit of Jackson County, Mississippi)
Notes to Financial Statements
September 30, 2019 and 2018

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

Nature of Operations and Reporting Entity

Singing River Health System (the Health System) is a component unit of Jackson County, Mississippi, as defined by the Governmental Accounting Standards Board (GASB). The Health System's component unit relationship to the County is principally due to financial accountability as defined by GASB. The Health System is operated by a nine-member Board of Trustees, seven of whom are appointed by the Board of Supervisors of Jackson County, Mississippi. Additionally, the Chief-of-Staff of the Health System serves on the Board.

The Health System is a multidimensional health care system consisting of:

- Pascagoula Hospital, a 435-bed hospital and related outpatient care and other facilities principally in Pascagoula, Mississippi.
- Ocean Springs Hospital, a 136-bed hospital and related outpatient care and other facilities principally located in Ocean Springs, Mississippi.
- Singing River Medical Park and Ocean Springs Medical Park, state-of-the-art outpatient services facilities designed to meet the specific needs of patients outside of the hospital setting. These buildings house radiology and imaging services, cardiac rehabilitation, physical therapy, neurosciences, a branch of The Regional Cancer Center, and the Health System's Healthplex.
- The Heart Center, which offers the most comprehensive cardiology program in the region.
- The Regional Cancer Center, which offers a comprehensive and integrated approach to cancer care comprised of expert medical and radiation oncologists, surgeons, radiologists, pharmacists, nurses and dietitians.
- Five primary care clinics located along the Mississippi Gulf Coast in Hurley, Pascagoula, Vancleave, Ocean Springs and Woolmarket.

Blended Component Units

SRHS Ambulatory Services, Inc. (SRHSAS) is a component unit of the Health System and is presented as a blended component unit as of September 30, 2019 and 2018 in the Health System's financial statements. As the sole member of this not-for-profit organization, the Health System exerts control and has a financial benefit relationship. SRHSAS is operated by a board of directors, all of whom are appointed by the Health System's Board. As of September 30, 2019 and 2018, SRHSAS holds a non-controlling 24.5% ownership interest in two ambulatory surgery centers, Mississippi Coast Endoscopy and Ambulatory Surgery Center, LLC (MCEASC) and Ocean Springs Surgical and Endoscopy Center, LLC (OSSEC). All significant intercompany transactions have been eliminated.

Singing River Health System
(A Component Unit of Jackson County, Mississippi)
Notes to Financial Statements
September 30, 2019 and 2018

Anesthesia Services, LLC is a component unit of the Health System and is presented as a blended component unit as of September 30, 2019 and 2018 in the Health System's financial statements. Anesthesia Services, LLC is a wholly-owned subsidiary of the Health System that previously provided management, scheduling and billing and collection services for certified registered nurse anesthetists. All significant intercompany transactions have been eliminated.

Budgetary Information

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

Basis of Accounting and Presentation

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

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less when purchased. At September 30, 2019 and 2018, cash equivalents consisted primarily of money market accounts with brokers.

Singing River Health System
(A Component Unit of Jackson County, Mississippi)
Notes to Financial Statements
September 30, 2019 and 2018

Investments and Investment Income

Investments are carried at fair value, principally based on quoted market prices. The investment in surgery centers is reported on the equity method of accounting. Investment income from investments is reported as nonoperating revenue. Investment income includes dividend and interest income, realized gains and losses on investments and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

Patient accounts receivable are reported at net realizable value, after deduction of allowances for estimated uncollectible accounts and third-party contractual discounts. The allowance for uncollectible accounts is based on historical collection information, existing economic conditions and an analysis of currently outstanding amounts. This account is generally increased by charges to a provision for uncollectible accounts and decreased by write-offs of accounts determined by management to be uncollectible. The allowances for third-party discounts are based on the estimated differences between the Health System's established rates and the actual amounts to be received under each contract. Changes in estimates by material amounts are reasonably possible in the near term.

Inventories

Inventories of drugs and other supplies are recorded at the lower of cost or market. Costs are determined using the first-in, first-out method.

Funds Held by Trustees

Funds held by trustees include funds held for debt service, self-insurance funding and pension funding.

Funds held by trustees for debt service under debt agreements that are required for obligations classified as current liabilities are reported as current assets.

Capital Assets, Net

Capital assets are recorded at cost or, if donated, at acquisition value at the date of receipt. Depreciation is provided over the useful life of each class of depreciable asset using the straight-line method. Capital assets under capital lease obligations are amortized using the straight-line method over the shorter of the lease term, or the estimated useful life of the equipment. Major renewals and renovations are capitalized. Costs for repairs and maintenance are expensed when incurred. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and the gain or loss, if any, is included in nonoperating revenues (expenses) in the statements of revenues, expenses and changes in net position.

Singing River Health System
(A Component Unit of Jackson County, Mississippi)
Notes to Financial Statements
September 30, 2019 and 2018

All capital assets other than land are depreciated or amortized (in the case of capital leases) using these asset lives:

Land improvements	5 - 25 years
Buildings and improvements	10 - 40 years
Fixed equipment	5 - 25 years
Movable equipment	3 - 20 years

Capital Asset Impairment

Capital assets are reviewed for impairment when service utility has declined significantly and unexpectedly. If such assets are no longer used, they are reported at the lower of carrying value or fair value. If such assets will continue to be used, the impairment loss is measured using an historical cost approach method that best reflects the diminished service utility of the capital asset. No impairment losses were recognized in 2019 or 2018.

Cost of Borrowing

Bond issuance costs are expensed as incurred. Deferred loss on refunding and bond discounts and premiums are being amortized over the terms of the related indebtedness using the interest method.

Interest cost is capitalized on qualified construction expenditures as a component of the cost of the related projects. No interest cost was capitalized in 2019 or 2018.

Compensated Absences

The Health System's employees accumulate paid time off, such as vacation, holiday and sick leave, at varying rates depending upon their years of continuous service and their payroll classification, subject to maximum limitations. Upon termination of employment, employees are paid all unused accrued vacation and holiday time at their regular rate of pay up to a designated maximum number of days. Since the employees' vacation and holiday time both accumulate and vest, an accrual for this liability is included in accrued payroll and employee benefits. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation related payments such as social security and Medicare taxes computed using rates in effect at that date.

Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position that applies to future periods. At September 30, 2019 and 2018, deferred outflows of resources was comprised of deferred loss on refunding of \$3,610,648 and \$1,254,057, respectively.

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Risk Management

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

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

Net Position

Net position of the Health System is classified into the following components:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of any borrowings used to finance the purchase or construction of those assets. To the extent debt has been incurred but not yet expended for capital assets, such debt is excluded from the calculation of net investment in capital assets.

Net position restricted for debt service is amounts deposited with trustees as required by bond indentures or debt agreements.

Net position restricted for indigent care is amounts recorded under the Health System's Contribution Agreement with the County. They are restricted until the Health System receives the funds and provides indigent care to the community.

Net position restricted for pension funding represents the amount set aside in escrow as required by the pension agreement.

Unrestricted net position is remaining net position that does not meet the definition of invested in capital assets, net of related debt or restricted net position.

Net Patient Service Revenue

The Health System has agreements with third-party payers that provide for payments to the Health System at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per-diem payments. Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payers and others for services rendered, and includes estimated retroactive adjustments

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under reimbursement agreements with third-party payers and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition and accrual of revenue on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Charity Care

The Health System provides medical care without charge or at a reduced charge to patients who meet certain criteria under its charity care policy. Because the Health System does not pursue collection of amounts determined to qualify as charity care, these charges are not reported as net patient service revenue and are written off as charity care.

Income Taxes

The Health System is a not-for-profit entity as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Code. The Health System is also a political subdivision of Jackson County, Mississippi and is operated as a community hospital under related statutes of the State of Mississippi.

Reclassifications

Certain reclassifications have been made to the 2018 financial statements included herein to conform to the 2019 presentation. The reclassifications had no effect on the changes in financial position.

Revisions

Certain immaterial revisions have been made to the 2018 financial statements:

- In *Note 10*, management changed its calculation of estimated costs and expenses incurred to provide charity care. The Health System believes the current calculation provides a better representation of costs associated with charity care provided.
- In *Note 5*, certain classification in presentation of transfers in and out have been made to better represent the activity in capital assets, net.
- The presentation of allowance for uncollectible accounts was revised due to changes in certain account groupings.
- The presentation of cash flows from investing activities was revised to present gross purchases of investments, proceeds from sale of investments and investment income received.

These revisions did not have a significant impact on the financial statement line items impacted.

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Note 2: Net Patient Service Revenue

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

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to the patient classification system that is based on clinical, diagnostic and other factors. Inpatient services are paid under the traditional Part A plan or managed care (Medicare Advantage) negotiated rates under Part C. Outpatient services related to Medicare beneficiaries are reimbursed through a prospective payment system commonly known as Ambulatory Payment Classification (APC). Under the APC system, certain medical devices and drugs are reimbursed at cost or average wholesale price. Long-term care services are reimbursed under a prospective payment system that considers the Medicare beneficiaries' severity of illness among other clinical factors. Inpatient non-acute services are paid based on a prospective payment system. The Health System is reimbursed for cost-reimbursable items at a tentative rate, with final settlement determined after submission and review by the Medicare Administrative Contractor of annual cost reports.

Medicaid - Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a prospective reimbursement methodology. The Health System is reimbursed at a prospective rate, which is adjusted annually based on published market basket update.

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

Effective in 2016, the Division of Medicaid (DOM) implemented the MHAP program. The MHAP program is administered by the DOM through the Mississippi CAN coordinated care organizations (CCO). The CCOs subcontract with the hospitals throughout the state for distribution of the MHAP Program for purpose of protecting patient access to hospital care. The MHAP program began December 1, 2015, and the MHAP payments and associated tax are distributed and collected in equal monthly installments. For the fiscal years ended September 30, 2019 and 2018, the Health System received approximately \$17,435,000 and \$16,677,000, respectively, from the MHAP program. MHAP amounts are shown as a reduction of contractual adjustments with the related tax assessment of approximately \$8,996,000 and \$11,377,000 recorded as a reduction of contractual adjustments for the years ended September 30, 2019 and 2018, respectively.

Approximately 64% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for both the years ended September 30, 2019 and 2018. Laws and

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regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Health System's deposit policy for custodial credit risk requires compliance with the provisions of state law. The collateral for public entities deposited in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the Health System's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). All deposits with financial institutions must be collateralized in an amount equal to 105% of uninsured deposits and are therefore fully insured. The collateralized and insured bank balance was \$69,288,461 and \$80,591,791 at September 30, 2019 and 2018, respectively.

Investments

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

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At September 30, 2019 and 2018, the Health System had the following investments and maturities:

September 30, 2019	Fair Value	Years			
		< 1	1 – 5	6 – 10	More than 10
Money market funds	\$ 5,446,715	\$ 5,446,715	\$ -	\$ -	\$ -
Certificates of deposit	9,182,897	9,182,897	-	-	-
U.S. government obligations	9,165,909	6,326,114	2,839,795	-	-
Municipal obligations	1,245,938	429,490	816,448	-	-
Mortgage-backed securities	28,613,622	997,500	7,947,162	2,898,767	16,770,193
	<u>\$ 53,655,081</u>	<u>\$ 22,382,716</u>	<u>\$ 11,603,405</u>	<u>\$ 2,898,767</u>	<u>\$ 16,770,193</u>

September 30, 2018	Fair Value	Years			
		< 1	1 – 5	6 – 10	More than 10
Money market funds	\$ 20,497,893	\$ 20,497,893	\$ -	\$ -	\$ -
U.S. government obligations	11,814,038	4,973,123	6,840,915	-	-
Municipal obligations	1,748,080	793,919	954,161	-	-
Mortgage-backed securities	20,715,443	-	549,135	4,846,657	15,319,651
Guaranteed contracts	3,145,160	-	3,145,160	-	-
	<u>\$ 57,920,614</u>	<u>\$ 26,264,935</u>	<u>\$ 11,489,371</u>	<u>\$ 4,846,657</u>	<u>\$ 15,319,651</u>

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Health System’s investment policy manages its exposure to declines in fair value by limiting the maximum effective average maturity of its investment portfolio to three years. The money market funds are presented as an investment with a maturity of less than one year because the average maturity of the funds is less than one year.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The Hospital’s investment policy, which conforms to Mississippi state law, limits investments to those rated “A” or better by either Moody’s Investor Service or Standard & Poor’s. These authorized investments, within established guidelines, are limited to securities of the U.S. government or its agencies, U.S. government obligations, U.S. and Mississippi municipal bonds, interest-bearing accounts and certificates of deposits of financial institutions, open-end or closed-end management type investment company or investment trust and an investment trust consisting of pooled or commingled funds of other hospitals.

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At September 30, 2019 and 2018, the Health System’s investments not directly guaranteed by the U.S. government were as follows:

Investment	Credit Rating
Money market funds	Not rated
Municipal obligations	Aa2
Mortgage-backed securities	Aaa
Guaranteed contracts	Not rated

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Health System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Health System has a deposit policy for custodial credit risk that requires deposits to be collateralized by securities held by the pledging institution or its trust department or agent in other than the Health System’s name.

Concentration of Credit Risk

The Health System’s investment policy limits investments to those rated “A” or better by either S&P or Moody’s at the time of purchase. The Health System places no limit on the amount that may be invested in any one issuer. However, investment in non-Treasury or Agency issuers is limited to a maximum of 5%. At September 30, 2019 and 2018, the Health System had no individual investments in excess of 5% of total investments.

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Summary of Carrying Values

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

	2019	2018
Carrying value		
Deposits	\$ 68,096,815	\$ 53,737,860
Investments	53,655,081	57,920,614
Cash on hand	5,913	5,713
	\$ 121,757,809	\$ 111,664,187
 Included in the following balance sheet captions		
Cash and cash equivalents	\$ 63,211,162	\$ 53,743,573
Investments	51,880,208	32,461,470
Trusteed bond funds - required for current liabilities	2,946,841	2,767,322
Trusteed bond funds	94,926	10,182,451
Held by trustee for self-insurance funding	3,624,672	3,617,391
Held in escrow for pension funding	-	8,891,980
	\$ 121,757,809	\$ 111,664,187

Investment Income

Investment income for the years ended September 30 consisted of:

	2019	2018
Interest and dividend income	\$ 3,247,874	\$ 277,521
Unrealized gains on investments, net	794,423	864,353
	\$ 4,042,297	\$ 1,141,874

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Note 4: Patient Accounts Receivable

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

	2019	2018
Medicare	\$ 9,565,056	\$ 8,225,367
Medicaid	12,643,744	15,215,112
Other third-party payers	18,440,309	14,822,651
Patients	64,371,921	68,494,794
	105,021,030	106,757,924
Less allowance for uncollectible accounts	65,419,376	70,461,965
	\$ 39,601,654	\$ 36,295,959

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Note 5: Capital Assets

Capital assets activity for the years ended September 30 consisted of:

	2019			Ending Balance
	Beginning Balance	Transfers in and Additions	Transfers out and Retirements	
Land	\$ 5,597,289	\$ 200,000	\$ -	\$ 5,797,289
Land improvements	6,390,088	108,440	-	6,498,528
Buildings and improvements	254,543,295	2,847,169	-	257,390,464
Fixed equipment	13,946,381	-	-	13,946,381
Movable equipment	254,479,732	19,595,170	(1,225,746)	272,849,156
Construction in progress	9,629,390	7,992,138	(10,589,173)	7,032,355
	<u>544,586,175</u>	<u>30,742,917</u>	<u>(11,814,919)</u>	<u>563,514,173</u>
Less accumulated depreciation for				
Land improvements	4,851,426	198,421	-	5,049,847
Buildings and improvements	132,614,180	8,511,663	-	141,125,843
Fixed equipment	12,299,999	175,337	-	12,475,336
Movable equipment	196,049,638	12,287,151	(1,207,552)	207,129,237
	<u>345,815,243</u>	<u>21,172,572</u>	<u>(1,207,552)</u>	<u>365,780,263</u>
Capital assets, net	<u>\$ 198,770,932</u>	<u>\$ 9,570,345</u>	<u>\$ (10,607,367)</u>	<u>\$ 197,733,910</u>

Construction in progress at September 30, 2019 and 2018, consists of expenditures associated with hospital building improvements.

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	2018 (Restated - Note 18)			
	Beginning Balance	Transfers in and Additions	Transfers out and Retirements	Ending Balance
Land	\$ 5,597,289	\$ -	\$ -	\$ 5,597,289
Land improvements	6,390,088	-	-	6,390,088
Buildings and improvements	234,110,753	20,432,542	-	254,543,295
Fixed equipment	13,946,381	-	-	13,946,381
Movable equipment	243,226,821	12,340,608	(1,087,697)	254,479,732
Construction in progress	17,948,521	17,788,001	(26,107,132)	9,629,390
	<u>521,219,853</u>	<u>50,561,151</u>	<u>(27,194,829)</u>	<u>544,586,175</u>
Less accumulated depreciation for				
Land improvements	4,604,082	247,344	-	4,851,426
Buildings and improvements	124,408,576	8,205,604	-	132,614,180
Fixed equipment	12,124,663	175,336	-	12,299,999
Movable equipment	186,963,219	10,174,116	(1,087,697)	196,049,638
	<u>328,100,540</u>	<u>18,802,400</u>	<u>(1,087,697)</u>	<u>345,815,243</u>
Capital assets, net	<u>\$ 193,119,313</u>	<u>\$ 31,758,751</u>	<u>\$ (26,107,132)</u>	<u>\$ 198,770,932</u>

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Note 6: Long-term Debt, Capital Leases and Other Long-term Liabilities

The following is a summary of long-term debt transactions, other than capital leases, for the Health System for the years ended September 30:

Description	2019				
	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
Series 2009A (A)	\$ 28,711,925	\$ -	\$ 28,711,925	\$ -	\$ -
Series 2009B (B)	20,631,870	-	20,631,870	-	-
Series 2011 (C)	24,567,271	-	24,567,271	-	-
Series 2018 (D)	-	21,347,000	1,620,000	19,727,000	2,896,000
Series 2019 (E)	-	43,119,000	3,772,000	39,347,000	4,986,000
	<u>\$ 73,911,066</u>	<u>\$ 64,466,000</u>	<u>\$ 79,303,066</u>	<u>\$ 59,074,000</u>	<u>\$ 7,882,000</u>

Description	2018				
	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
Series 2009A (A)	\$ 29,432,489	\$ -	\$ 720,564	\$ 28,711,925	\$ 805,000
Series 2009B (B)	24,253,741	-	3,621,871	20,631,870	3,785,000
Series 2011 (C)	27,399,068	-	2,831,797	24,567,271	2,830,000
	<u>\$ 81,085,298</u>	<u>\$ -</u>	<u>\$ 7,174,232</u>	<u>\$ 73,911,066</u>	<u>\$ 7,420,000</u>

(A) On April 2, 2009, the Health System issued \$35,000,000 of Special Obligation Bonds (the Series 2009A Bonds) through Mississippi Development Bank (MDB). The purpose of the bonds was to provide funding for constructing, remodeling, adding to, equipping and furnishing an addition to and expansion of the Health System; funding a debt service reserve fund for the Series 2009A bonds; and paying cost of issuance on the Series 2009A bonds. The bonds consist of \$6,455,000 of serial bonds and \$28,545,000 of term bonds bearing fixed rates ranging from 3.0% to 5.625% secured by a bond insurance policy provided by Assured Guaranty.

When the Series 2009A Bonds were issued, they were sold at a discount of approximately \$693,500. At September 30, 2018, the outstanding balance of the Series 2009A Bonds was as follows:

Principal amount	\$ 29,350,000
Less unamortized discount	<u>(638,075)</u>
	<u>\$ 28,711,925</u>

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- (B) On October 27, 2009, the Health System refunded the Series 2008A Bonds outstanding in the amount of \$44,000,000, with the Series 2009 B-1 and 2009 B-2 Bonds. The Series 2009 B-1 and 2009 B-2 Bonds bearing fixed rates ranging from 2% to 5%, secured by a bond insurance policy provided by Assured Guaranty and a five mill pledge of the assessed real and personal property by Jackson County.

The Series 2009 B-1 and B-2 Bonds were issued by MDB as fixed interest rate securities and pay interest semiannually (January 1 and July 1) and principal annually (July 1, with the exception of the 2023 payment which is March 1). The Series 2009 B-1 Bonds of \$48,340,000 mature on March 1, 2023, and the Series 2009 B-2 Bonds of \$2,395,000 matured on July 1, 2012.

When the Series 2009B Bonds were issued, the bonds were sold at a discount of \$251,600. At September 30, 2018, the outstanding balance of the 2009B Bonds was as follows:

Principal amount	\$ 20,680,000
Less unamortized discount	<u>(48,130)</u>
	<u><u>\$ 20,631,870</u></u>

- (C) On July 27, 2011, the Health System issued \$36,610,000 of Special Obligation Bonds (the Series 2011 Bonds). The purpose of the 2011 Bonds was to provide funding for an electronic medical record system, constructing, remodeling, adding to, equipping and furnishing an addition to and expansion of the Health System; funding a debt service reserve fund; and paying capitalized interest and paying costs of issuance on the Series 2011 Bonds. The bonds are fixed rate bonds secured by a bond insurance policy provided by Assured Guaranty and a five mill pledge of the assessed real and personal property by Jackson County. The Series 2011 Bonds were issued by MDB and pay interest semiannually (January 1 and July 1) and principal annually (July 1). The bonds consist of \$28,255,000 Serial Bonds maturing on July 1, 2023, \$4,490,000 of Term Bonds maturing on July 1, 2031 and \$3,865,000 of Term Bonds maturing on July 1, 2036, and are at fixed rates ranging from 3% to 5.375%.

When the Series 2011 Bonds were issued, they were sold at a premium of \$1,568,580. At September 30, 2018, the outstanding balance of the Series 2011 Bonds was as follows:

Principal amount	\$ 23,915,000
Plus unamortized premium	<u>652,271</u>
	<u><u>\$ 24,567,271</u></u>

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- (D) On December 19, 2018, the Health System issued \$21,347,000 of Limited Tax Hospital Refunding Bonds, Series 2018 (the Series 2018 Bonds). The purpose of the Series 2018 Bonds was to refund the outstanding Series 2011 Bonds. The Series 2018 Bonds bear interest at the Taxable Fixed Rate of 4.78% until the Tax-Exempt Reissuance Date at April 2, 2021, on which the interest rate will use the Tax-Exempt Fixed Rate of 3.79%. The Series 2018 Bonds mature on July 1, 2035.
- (E) On April 2, 2019, the Health System issued \$43,119,000 of Limited Tax Hospital Revenue Refunding Bonds, Series 2019 (the Series 2019 Bonds). The purpose of the Series 2019 Bonds was to refund the outstanding Series 2009 Bonds. The Series 2019 Bonds pay interest semiannually (January 1 and July 1) at a fixed rate of 3.95% and principal annually (July 1). The Series 2019 Bonds mature on July 1, 2038.

As the Health System is a political subdivision of the State of Mississippi and is owned by Jackson County, Mississippi (the County), legally available mills have been pledged by the County as additional security for the 2018 and 2019 Revenue Bonds. To date, no such mills have been levied to support these or any other borrowings of the Health System.

Under the terms of the respective loan agreements in connection with the Series 2018 Bonds and Series 2019 Bonds, the Health System is obligated to meet certain financial covenants on March 31 and September 30 each year, including availability of cash, debt service coverage and limitations on additional debt.

In 2019, the Health System issued the Series 2018 Bonds and Series 2019 Bonds in the principal amount of \$64,466,000, which along with other available funds, were used to advance refund \$69,355,000 of the outstanding bonds [(A) through (C) above]. The net proceeds of \$72,143,877 (after payment of \$849,000 in underwriting fees, insurance and other issuance costs) plus an additional \$8,527,545 of sinking fund monies were used to purchase investment securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2011 and 2009 Series Bonds. As a result, the 2011 and 2009 Series Bonds are considered to be defeased, and the liability for those bonds has been removed from the Health System's balance sheet.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2,823,481. This difference, reported in the accompanying financial statements as a deferred outflows of resources, is being charged to interest expense through the year using the effective-interest method. The Health System completed the advance refunding to reduce its total debt service payments over the next 20 years by \$44,856 and to obtain an economic gain between the present values of the old and new debt service payments of \$6,825,268.

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Debt service requirements on long-term debt other than capital lease obligations as of September 30, 2019, are as follows:

	Principal	Interest	Total
2020	\$ 7,882,000	\$ 2,499,922	\$ 10,381,922
2021	8,279,000	2,163,796	10,442,796
2022	8,727,000	1,811,253	10,538,253
2023	4,540,000	1,439,005	5,979,005
2024	1,610,000	1,231,073	2,841,073
2025 - 2029	9,041,000	5,025,284	14,066,284
2030 - 2034	10,944,000	2,964,885	13,908,885
2035 - 2040	8,051,000	777,628	8,828,628
	<u>\$ 59,074,000</u>	<u>\$ 17,912,846</u>	<u>\$ 76,986,846</u>

Capital Lease Obligations

The Health System is obligated under leases for buildings and equipment that are accounted for as capital leases. Assets under capital leases at both September 30, 2019 and 2018, totaled approximately \$30,883,000. Related accumulated amortization was approximately \$12,887,000 and \$11,336,000 at September 30, 2019 and 2018, respectively.

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A schedule of changes in the Health System's capital lease obligation balances for the years ended September 30, is as follows:

Description	Interest Rate	Date of Issuance/ Assumption	2019				
			Beginning Balance	Additions	Payments/ Adjustments	Ending Balance	Due Within One Year
GE Capital	4.20%	April 2010	\$ 148,412	\$ -	\$ 136,756	\$ 11,656	\$ 11,656
Stryker	3.95%	September 2018	1,350,000	-	180,000	1,170,000	270,000
Imaging Center	6.84%	August 2007	4,865,904	-	410,357	4,455,547	439,313
Medical Office Building	9.39%	February 2011	22,103,118	-	39,186	22,063,932	113,435
			<u>\$ 28,467,434</u>	<u>\$ -</u>	<u>\$ 766,299</u>	<u>\$ 27,701,135</u>	<u>\$ 834,404</u>

Description	Interest Rate	Date of Issuance/ Assumption	2018 (As Restated - Note 18)				
			Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
GE Capital	4.20%	April 2010	\$ 279,548	\$ -	\$ 131,136	\$ 148,412	\$ 125,137
Stryker	3.95%	September 2018	-	1,350,000	-	1,350,000	270,000
Imaging Center	6.84%	August 2007	5,249,214	-	383,310	4,865,904	410,357
Medical Office Building	9.39%	February 2011	22,076,906	26,212	-	22,103,118	39,186
			<u>\$ 27,605,668</u>	<u>\$ 1,376,212</u>	<u>\$ 514,446</u>	<u>\$ 28,467,434</u>	<u>\$ 844,680</u>

The following is a schedule by year of future minimum lease payments under the capital leases including interest rates as noted above with the present value of the future minimum lease payments as of September 30, 2019:

2020	\$ 3,314,149
2021	3,371,553
2022	3,442,689
2023	3,515,958
2024	3,411,425
2025 - 2029	16,299,177
2030 - 2034	16,425,648
2035 - 2036	4,793,874
Total minimum lease payments	<u>54,574,473</u>
Less amount representing interest	<u>26,873,338</u>
Present value of future minimum lease payments	<u><u>\$ 27,701,135</u></u>

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Rental expense for all operating leases was approximately \$3,348,000 and \$3,630,000 for the years ended September 30, 2019 and 2018, respectively. There were no significant noncancelable operating leases at September 30, 2019. Management expects that most lease agreements will be replaced, as they expire, with similar agreements.

Other Long-term Liabilities

The Health System is obligated under agreements for long-term liabilities. A schedule of changes in the Health System's long-term liabilities balances for the years ended September 30, is as follows:

Description	2019				
	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
MedOne	\$ 686,054	\$ -	\$ 331,480	\$ 354,574	\$ 354,574
ForcePoint SBITA	-	716,112	265,448	450,664	167,537
EA License	1,089,445	-	1,089,445	-	-
	<u>\$ 1,775,499</u>	<u>\$ 716,112</u>	<u>\$ 1,686,373</u>	<u>\$ 805,238</u>	<u>\$ 522,111</u>

Description	2018				
	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
MedOne	\$ 995,943	\$ -	\$ 309,889	\$ 686,054	\$ 331,480
EA License	-	3,228,083	2,138,638	1,089,445	1,089,445
	<u>\$ 995,943</u>	<u>\$ 3,228,083</u>	<u>\$ 2,448,527</u>	<u>\$ 1,775,499</u>	<u>\$ 1,420,925</u>

Note 7: Medical Malpractice Claims

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

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The self-insured liability for medical malpractice claims is included in accrued workers' compensation, professional and general liability costs line on the balance sheets. Activity in the Health System's accrued medical malpractice claims liability during 2019 and 2018 is summarized as follows:

	2019	2018
Balance, October 1	\$ 10,012,496	\$ 9,330,845
Provisions for claims reported and claims incurred but not reported	1,002,044	992,554
Claims and related expenses paid	(1,090,000)	(310,903)
Balance, September 30	\$ 9,924,540	\$ 10,012,496

Note 8: Workers' Compensation Coverage

The Health System purchased insurance to cover workers' compensation claims through 2002. In 2003, the Health System purchased high-deductible workers' compensation insurance, which had the effect that the Health System is largely self-insured.

The self-insurance liability for workers' compensation claims is included in the accrued workers' compensation, professional and general liability costs line item on the balance sheets. The following is a summary of changes in the Health System's self-insurance liability for worker's compensation coverages for fiscal years 2019 and 2018:

	2019	2018
Balance, October 1	\$ 1,990,000	\$ 1,820,000
Provisions for claims reported and claims incurred but not reported	(544,054)	709,711
Claims paid	(475,946)	(539,711)
Balance, September 30	\$ 970,000	\$ 1,990,000

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Note 9: Employee Health Claims

Substantially all of the Health System’s employees and their dependents are eligible to participate in the Health System’s employee health insurance plan. The Health System is self-insured for health claims of participating employees and dependents up to an annual aggregate amount. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount.

A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Health System’s estimate will change by a material amount in the near term.

The self-insured liability for employee health claims is included in accrued payroll and employee benefits line on the balance sheet. Activity in the Health System’s accrued employee health claims liability during 2019 and 2018 is summarized as follows:

	2019	2018
Balance, October 1	\$ 2,438,594	\$ 2,388,747
Provisions for claims reported and claims incurred but not reported	20,941,716	20,690,944
Claims paid	(20,279,383)	(20,641,097)
Balance, September 30	\$ 3,100,927	\$ 2,438,594

Note 10: Charity Care

The Health System maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated costs of these services and supplies, and equivalent service statistics. Charges foregone, based on established rates, were approximately \$43,561,000 and \$38,653,000 for the years ended September 30, 2019 and 2018, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges. The estimated costs incurred to provide charity care were approximately \$6,534,000 and \$5,804,000 for the years ended September 30, 2019 and 2018, respectively.

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Note 11: Pension Plan

On September 26, 2018, the Fifth Circuit Court of Appeals made a final ruling to uphold a settlement of a class-action lawsuit (the Settlement) related to the Health System's funding of the Singing River Health System Employees' Retirement Plan and Trust (the Plan). The Settlement provides that the Health System fund \$156,400,000 into the Plan trust over a 35-year period. The Settlement also provides that the payment of this \$156,400,000 is the Health System's only obligation to the Plan. The Health System recorded its obligation under the Settlement, discounted at a rate of 6%. The pension settlement liability, included in the accompanying balance sheets, was approximately \$65,648,000 and \$72,000,000 as of September 30, 2019 and 2018, respectively.

The following is a schedule by fiscal year of future payments to the Plan under the pension settlement liability as of September 30, 2019:

2020	\$ 4,200,000
2021	4,200,000
2022	4,200,000
2023	4,200,000
2024	5,700,000
2025 - 2029	23,700,000
2030 - 2034	22,500,000
2035 - 2039	22,500,000
2040 - 2044	22,500,000
2045 - 2049	22,500,000
2050 - 2051	9,000,000
	<hr/>
Total payments	<u>\$ 145,200,000</u>

The Settlement limits the amount of benefits to be paid to participants to the amount of plan fiduciary net position, which includes the future contributions from the Health System under the Settlement at its net present value.

The Plan issues separate standalone financial statements which are available at request from the Health System or on the Health System's website.

Contra Pension Expense

The Settlement required the Health System to escrow funds related to attorneys' fees and expenses to class counsel as part of the agreement, which the Health System accrued in 2018. Upon release of the escrow funds in 2019, the Health System released \$5,246,594 of accrued liability related to legal expenses. For the years ended September 30, 2019 and 2018, the Health System recognized

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contra pension expense of approximately \$5,246,000 and \$248,528,000, respectively, due to the recognition of the Settlement.

Note 12: Other Retirement Plans

The Health System maintains supplementary retirement plans under IRS Code Sections 403(b) and 457(b) which are administered by Diversified Retirement Corporation and Transamerica Retirement Solutions. The 403(b) plan is a contributory plan with the Health System matching a fixed percentage of base earnings for each eligible employee. To receive an employer contribution, eligible employees must have completed 90 days of continuous service. Contributions by eligible employees are matched by the Health System at a rate of 50% of the first 6% of each employee's eligible compensation that is contributed by the participant to the 403(b) plan. Employees contributing a portion of their eligible salary to the 457(b) plan do not receive a matching employer contribution. All employees are eligible to participate in both plans at the date of hiring. The employee contributions are made on a tax-deferred basis. The benefit to the employee under each plan is the amount contributed plus investment earnings. Employees are fully vested after four or more years of continuous employment.

The Health System's contributions to the 403(b) plan were \$1,665,878 and \$1,635,387 for the years ended September 30, 2019 and 2018, respectively. Employee contributions to the 403(b) plan totaled \$5,239,806 and \$4,451,511 for the years ended September 30, 2019 and 2018, respectively.

Employee contributions to the 457(b) plan totaled \$1,438,603 and \$1,475,054 for the years ended September 30, 2019 and 2018, respectively.

Note 13: County Fund Receivable

The County entered into a Contribution Agreement with the Health System to fund \$13,600,000 of indigent care provided by the Health System over ten years. The Health System received \$7,600,000 upon the Settlement (*Note 11*) and will receive \$1,200,000 per year for the next five years. As of September 30, 2019, the Health System has recorded a receivable of \$6,000,000 discounted at net present value over five years at the Health System's incremental borrowing rate. The county fund receivable was \$5,104,937 on the balance sheets at September 30, 2019.

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Note 14: Disclosures About Fair Value of Assets

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

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

Recurring Measurements

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

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2019				
Money market funds	\$ 5,446,715	\$ 5,446,715	\$ -	\$ -
Certificate of deposits	9,182,897	-	9,182,897	-
U.S. government obligations	9,165,909	9,165,909	-	-
Municipal obligations	1,245,938	-	1,245,938	-
Mortgage-backed securities	28,613,622	-	28,613,622	-
Total investments by fair value level	<u>\$ 53,655,081</u>	<u>\$ 14,612,624</u>	<u>\$ 39,042,457</u>	<u>\$ -</u>

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	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2018				
Money market funds	\$ 20,497,893	\$ 20,497,893	\$ -	\$ -
U.S. government obligations	11,814,038	11,814,038	-	-
Municipal obligations	1,748,080	-	1,748,080	-
Mortgage-backed securities	20,715,443	-	20,715,443	-
Guaranteed contracts	3,145,160	-	3,145,160	-
	<u>\$ 57,920,614</u>	<u>\$ 32,311,931</u>	<u>\$ 25,608,683</u>	<u>\$ -</u>

Investments

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

Note 15: Investments in Uncombined Entities

SRHSAS holds a non-controlling 24.5% ownership interest in two ambulatory surgery centers, Mississippi Coast Endoscopy and Ambulatory Surgery Center, LLC (MCEASC) and Ocean Springs Surgical and Endoscopy Center, LLC (OSSEC). SRHSAS accounts for the investments in uncombined entities using the equity method of accounting. SRHAS' investment in the uncombined entities was \$4,314,747 and \$4,167,476 at September 30, 2019 and 2018, respectively.

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Note 16: 340B Outpatient Drug Discount Program

The Health System participates in the 340B outpatient drug discount program administered by the Office of Pharmacy Affairs of the Health Resources and Services Administration (HRSA). Under this program, the Health System received approximately \$13,460,000 and \$11,477,000 in benefits generated from purchases of outpatient pharmaceuticals in 2019 and 2018, respectively. The benefit is presented as a reduction of supplies and other expenses within the statements of revenues, expenses and changes in net position.

The Health System also contracts with certain local pharmacies to assist them in providing outpatient drugs to the Health System's patients. The Health System purchases outpatient drugs at 340B outpatient drug discount prices to replenish those dispensed to outpatients on the Health System's behalf. The Health System recognized revenue from these contracts of \$8,710,000 and \$3,687,000, with associated costs of goods sold of \$2,973,000 and \$899,000, in 2019 and 2018, respectively.

Note 17: Contingencies

Medical Malpractice Claims

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

General Litigation

The Health System is subject to claims and lawsuits that arose primarily in the ordinary course of its activities. Some of these allegations are in areas not covered by the Health System's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts (including lease arrangements). The Health System evaluates such allegations by conducting investigations to determine the validity of each potential claim. It is the opinion of management the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the balance sheets, revenues, expenses and changes in net position and cash flows of the Health System. Events could occur that would change this estimate materially in the near term.

Investments

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

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Note 18: Restatement of Prior-Year Financial Statements

Fiscal year 2018 has been restated for an error in capitalizing leases in prior years. As a result of this error, capital assets, net was understated by approximately \$18,048,000 and capital lease obligations were understated by approximately \$26,969,000. This restatement decreased the previously reported 2018 increase in net position by \$855,902.

Unrestricted and restricted expendable net position have been restated on the balance sheet for 2018 to reflect the funds held in escrow for pension funding of \$8,891,980. The restatement decreased the previously reported unrestricted net position by \$8,891,980, but had no impact on the previously reported 2018 increase in net position.

The current and long-term installments of pension settlement liability were restated on the balance sheet to reflect the principal payments made of \$11,200,000 within the next 12 months of September 30, 2018. The restatement had no impact on net position or on the previously reported 2018 increase in net position.

The following financial statement line items for fiscal year 2018 were affected by the corrections:

	Amounts Originally Reported	Restatements	As Restated
Balance Sheets			
Held in escrow for pension funding - required for current liabilities	\$ -	\$ 8,891,980	\$ 8,891,980
Total current assets	134,370,129	8,891,980	143,262,109
Held in escrow for pension funding	8,891,980	(8,891,980)	-
Total noncurrent cash and investments	26,859,298	(8,891,980)	17,967,318
Capital assets, net	180,722,478	18,048,454	198,770,932
Total assets	345,484,480	18,048,454	363,532,934
Total assets and deferred outflows of resources	346,738,537	18,048,454	364,786,991
Current installments of capital lease obligations	395,137	449,543	844,680
Current installments of pension settlement liability	2,400,000	8,800,000	11,200,000
Total current liabilities	53,451,895	9,249,543	62,701,438
Capital lease obligations	1,103,275	26,519,479	27,622,754
Pension settlement liability	69,612,144	(8,800,000)	60,812,144
Total liabilities	203,015,450	26,969,022	229,984,472
Net investment in capital assets	105,313,000	(8,920,568)	96,392,432
Restricted expendable for pension funding	-	8,891,980	8,891,980
Unrestricted	25,460,314	(8,891,980)	16,568,334
Total net position	143,723,087	(8,920,568)	134,802,519
Total liabilities and net position	346,738,537	18,048,454	364,786,991

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	Originally Reported	Restatements	As Restated
Statements of Revenue, Expenses and Changes in Net Position			
Other expenses	\$ 37,212,790	\$ (2,921,613)	\$ 34,291,177
Depreciation and amortization	20,001,336	1,234,274	21,235,610
Total operating expenses	89,780,250	(1,687,339)	88,092,911
Operating income	265,522,367	1,687,339	267,209,706
Interest expense	(3,959,573)	(2,543,241)	(6,502,814)
Total nonoperating revenues (expenses)	(2,535,222)	(2,543,241)	(5,078,463)
Increase in net position	262,987,145	(855,902)	262,131,243
Statements of Cash Flows			
Cash paid to suppliers and others	(159,756,195)	2,921,613	(156,834,582)
Net cash provided by operating activities	42,762,615	2,921,613	45,684,228
Principal paid on capital lease obligations	(131,136)	(383,310)	(514,446)
Interest paid on long-term debt and capital lease obligations	(4,031,163)	(2,538,303)	(6,569,466)
Net cash used in capital and related financing activities	(36,849,845)	(2,921,613)	(39,771,458)

Note 19: Future Change in Accounting Principle

GASB recently issued its Statement No. 87 (GASB No. 87), *Leases*. The Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Health System expects to first apply GASB No. 87 during the year ending September 30, 2021. The impact of applying the Statement has not been determined.

GASB recently issued its statement No. 84 (GASB No. 84), *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments, including pension and employee benefit trusts. The focus of the criteria generally is on (1) whether a government controls the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. GASB 84 is applicable during the year ending September 30, 2020. The impact of applying this Statement has not yet been determined.

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Note 20: Condensed Combining Information

The following tables include condensed balance sheet information for the Health System and its blended component units as of September 30, 2019 and 2018.

	September 30, 2019				
	SRHS	SRHSAS	Anesthesia Services, LLC	Eliminations	Total
Assets and Deferred Outflows of Resources					
Current assets	\$ 168,798,794	\$ 1,122,424	\$ 2,101,769	\$ (2,051,801)	\$ 169,971,186
Capital assets, net	194,544,466	3,189,444	-	-	197,733,910
Other assets	17,586,016	4,314,747	-	(8,108,840)	13,791,923
Deferred outflows of resources	3,610,648	-	-	-	3,610,648
Total assets and deferred outflows of resources	<u>\$ 384,539,924</u>	<u>\$ 8,626,615</u>	<u>\$ 2,101,769</u>	<u>\$ (10,160,641)</u>	<u>\$ 385,107,667</u>
Liabilities					
Current liabilities	\$ 52,217,709	\$ 150,000	\$ 1,108,605	\$ (1,235,938)	\$ 52,240,376
Long-term liabilities	150,684,299	-	-	-	150,684,299
Total liabilities	<u>202,902,008</u>	<u>150,000</u>	<u>1,108,605</u>	<u>(1,235,938)</u>	<u>202,924,675</u>
Net Position					
Net investment in capital assets	110,611,933	3,189,444	-	-	113,801,377
Restricted expendable	8,146,704	-	-	-	8,146,704
Unrestricted	62,879,279	5,287,171	993,164	(8,924,703)	60,234,911
Total net position	<u>181,637,916</u>	<u>8,476,615</u>	<u>993,164</u>	<u>(8,924,703)</u>	<u>182,182,992</u>
Total liabilities and net position	<u>\$ 384,539,924</u>	<u>\$ 8,626,615</u>	<u>\$ 2,101,769</u>	<u>\$ (10,160,641)</u>	<u>\$ 385,107,667</u>
September 30, 2018 - As Restated (Note 18)					
	SRHS	SRHSAS	Anesthesia Services, LLC	Eliminations	Total
Assets and Deferred Outflows of Resources					
Current assets	\$ 142,393,260	\$ 801,199	\$ 2,078,133	\$ (2,010,483)	\$ 143,262,109
Capital assets, net	195,570,336	3,200,596	-	-	198,770,932
Other assets	25,676,768	4,167,475	-	(8,344,350)	21,499,893
Deferred outflows of resources	1,254,057	-	-	-	1,254,057
Total assets and deferred outflows of resources	<u>\$ 364,894,421</u>	<u>\$ 8,169,270</u>	<u>\$ 2,078,133</u>	<u>\$ (10,354,833)</u>	<u>\$ 364,786,991</u>
Liabilities					
Current liabilities	\$ 62,621,873	\$ 150,000	\$ 1,108,605	\$ (1,179,040)	\$ 62,701,438
Long-term liabilities	167,283,034	-	-	-	167,283,034
Total liabilities	<u>229,904,907</u>	<u>150,000</u>	<u>1,108,605</u>	<u>(1,179,040)</u>	<u>229,984,472</u>
Net Position					
Net investment in capital assets	93,191,836	3,200,596	-	-	96,392,432
Restricted expendable	21,841,753	-	-	-	21,841,753
Unrestricted	19,955,925	4,818,674	969,528	(9,175,793)	16,568,334
Total net position	<u>134,989,514</u>	<u>8,019,270</u>	<u>969,528</u>	<u>(9,175,793)</u>	<u>134,802,519</u>
Total liabilities and net position	<u>\$ 364,894,421</u>	<u>\$ 8,169,270</u>	<u>\$ 2,078,133</u>	<u>\$ (10,354,833)</u>	<u>\$ 364,786,991</u>

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The following tables include condensed combining statements of cash flows information for the Health System and its blended component units for the years ended September 30, 2019 and 2018.

	September 30, 2019				
	SRHS	SRHSAS	Anesthesia Services, LLC	Eliminations	Total
Net Cash Provided by (Used in) Operating Activities	\$ 56,158,098	\$ (36,487)	\$ 23,636	\$ -	\$ 56,145,247
Net Cash Used in Noncapital Financing Activities	(3,600,000)	-	-	-	(3,600,000)
Net Cash Used in Capital and Related Financing Activities	(38,324,089)	-	-	-	(38,324,089)
Net Cash Provided by (Used in) Investing Activities	(16,413,623)	357,712	-	-	(16,055,911)
Change in Cash and Cash Equivalents	(2,179,614)	321,225	23,636	-	(1,834,753)
Cash and Cash Equivalents, Beginning of Year	74,439,488	801,199	146,613	-	75,387,300
Cash and Cash Equivalents, End of Year	<u>\$ 72,259,874</u>	<u>\$ 1,122,424</u>	<u>\$ 170,249</u>	<u>\$ -</u>	<u>\$ 73,552,547</u>
	September 30, 2018 - As Restated (Note 18)				
	SRHS	SRHSAS	Anesthesia Services, LLC	Eliminations	Total
Net Cash Provided by (Used in) Operating Activities	\$ 47,510,508	\$ (28,879)	\$ (1,797,401)	\$ -	\$ 45,684,228
Net Cash Provided by (Used in) Noncapital Financing Activities	5,000,000	(5,000,000)	-	-	-
Net Cash Used in Capital and Related Financing Activities	(39,771,458)	-	-	-	(39,771,458)
Net Cash Provided by (Used in) Investing Activities	(4,006,537)	346,410	-	-	(3,660,127)
Change in Cash and Cash Equivalents	8,732,513	(4,682,469)	(1,797,401)	-	2,252,643
Cash and Cash Equivalents, Beginning of Year	65,706,975	5,483,668	1,944,014	-	73,134,657
Cash and Cash Equivalents, End of Year	<u>\$ 74,439,488</u>	<u>\$ 801,199</u>	<u>\$ 146,613</u>	<u>\$ -</u>	<u>\$ 75,387,300</u>

Required Supplementary Information

Singing River Health System
(A Component Unit of Jackson County, Mississippi)
Schedule of Changes in the Health System's Net Pension Liability and Related Ratios
Years Ended September 30,

	2019	2018	2017	2016	2015	2014
Total Pension Liability						
Service cost	\$ -	\$ -	\$ -	\$ -	\$ 1,636,685	\$ 9,301,301
Interest	-	15,454,271	14,893,889	17,011,106	17,939,427	19,601,873
Changes of benefit terms	-	(252,577,574)	-	-	(77,583,377)	-
Differences between expected and actual experience	-	(4,513,723)	4,496,222	(10,199,979)	-	(10,574,128)
Changes of assumptions	-	(3,477,050)	(15,273,971)	29,972,888	22,058,366	70,788,607
Benefit payments, including refunds of employee contributions	-	(18,224,000)	(16,304,500)	(15,023,227)	(14,368,870)	(12,507,174)
Net Change in Total Pension Liability	-	(263,338,076)	(12,188,360)	21,760,788	(50,317,769)	76,610,479
Total Pension Liability - Beginning	-	451,440,728	463,629,088	441,868,300	492,186,069	415,576,590
Total Pension Liability - Ending (a)	\$ -	\$ 188,102,652	\$ 451,440,728	\$ 463,629,088	\$ 441,868,300	\$ 492,187,069
Plan Fiduciary Net Position						
Contributions - employer	\$ -	\$ 72,012,144	\$ -	\$ -	\$ -	\$ -
Contributions - employee	-	-	-	-	395,038	3,158,856
Net investment income	-	9,979,527	11,369,590	8,918,860	1,750,750	14,796,956
Benefit payments, including refunds of employee contributions	-	(18,224,000)	(16,304,500)	(15,023,227)	(14,368,870)	(12,508,174)
Administrative expense	-	(676,000)	(685,109)	(677,632)	(557,024)	(370,020)
Other	-	-	-	-	-	-
Net Change in Plan Fiduciary Net Position	-	63,091,671	(5,620,019)	(6,781,999)	(12,780,106)	5,077,618
Plan Fiduciary Net Position - Beginning	-	125,010,981	130,631,000	137,412,999	150,193,105	145,115,487
Plan Fiduciary Net Position - Ending (b)	\$ -	\$ 188,102,652	\$ 125,010,981	\$ 130,631,000	\$ 137,412,999	\$ 150,193,105
Net Pension Liability - Ending (a) - (b)	\$ -	\$ -	\$ 326,429,747	\$ 332,998,088	\$ 304,455,301	\$ 341,993,964
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	N/A	100%	28%	28%	31%	31%
Covered-Employee Payroll	N/A	N/A	N/A	N/A	\$ 86,061,783	\$ 86,397,101
Net Pension Liability as a Percentage of Covered-Employee Payroll	N/A	N/A	N/A	N/A	354%	396%

Refer to Note 11, regarding settlement discussion of pension plan in 2018.

Supplementary Information

Singing River Health System
(A Component Unit of Jackson County, Mississippi)
Schedule of Surety Bonds for Officials and Employees
September 30, 2019

Name	Position	Company	Amount of Bond
Lee Bond	Chief Executive Officer	Western Surety Company	\$ 50,000
Charlie Brinkley III	Chief Financial Officer	Western Surety Company	50,000
Dr. William Descher	Chief of Staff	Western Surety Company	50,000
Dr. David Spencer, Jr.	Chief of Staff - Elect	Western Surety Company	50,000
Jeffery Belk	Trustee	Western Surety Company	50,000
Dr. Auwilda Polk	Trustee	Western Surety Company	50,000
Don Barron	Trustee	Western Surety Company	50,000
Erich Nichols	Trustee	Western Surety Company	50,000
Steven Ates	Trustee	Western Surety Company	50,000
James Epting	Trustee	Western Surety Company	50,000
Bonnie Granger	Trustee	Western Surety Company	50,000

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

Independent Auditor's Report

Board of Trustees
Singing River Health System
Pascagoula, Mississippi

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Singing River Health System (the Health System), a component unit of Jackson County, Mississippi, which comprise the balance sheet as of September 30, 2019, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 4, 2019. Our report contained an “Emphasis of Matter” paragraph regarding the restatement of the 2018 financial statements that were audited by other auditors.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2019-01 and 2019-02 that we consider to be material weaknesses.

Compliance and Other Matters

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

The Health System's Responses to Findings

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

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.

BKD, LLP

Jackson, Mississippi
December 4, 2019

Singing River Health System
(A Component Unit of Jackson County, Mississippi)
Schedule of Findings and Response
Year Ended September 30, 2019

Reference Number	Finding
2019-01	<p><i>Criteria or Specific Requirement</i> - Management is responsible for establishing and maintaining effective internal controls over financial reporting to appropriately evaluate capital versus operating leases accounting treatment.</p> <p><i>Condition</i> - The Health System entered into leases for use of a medical office building and imaging center. Upon entering into the leases, both were incorrectly determined to be operating leases. The future minimum lease payments of the leases exceeded 90% of the fair value of the buildings upon inception of the leases; both should have been recorded as a capital lease.</p> <p><i>Effect</i> - Capital assets, net and capital lease obligations were understated.</p> <p><i>Cause</i> - Upon entering into the leases, both were incorrectly determined to be operating leases; however, the future minimum lease payments exceeded 90% of the fair value of the buildings upon inception of the leases. Thus both should have been recorded as a capital lease.</p> <p><i>Recommendation</i> - Management should review and revise its analysis and documentation of capital versus operating lease accounting treatment when entering into leases.</p> <p><i>View of Responsible Officials and Planned Corrective Actions</i> - Management understands the importance of reliable and accurate presentation of capital and operating leases to appropriately represent the year-end financial position of the Health System. Management has reviewed the prior methodology for determining capital versus operating leases and has made revisions based upon currently available information to classify this lease as capital.</p>

Singing River Health System
(A Component Unit of Jackson County, Mississippi)
Schedule of Findings and Response (Continued)
Year Ended September 30, 2019

Reference Number	Finding
2019-02	<p><i>Criteria or Specific Requirement</i> - Management is responsible for establishing and maintaining effective internal controls over financial reporting and presentation.</p> <p><i>Condition</i> - The financial statements are prepared by external accountants and reviewed by management for reasonableness. Presentation of certain financial statement captions, which are primarily for external presentation of the financial statements, was not consistent with generally accepted accounting principles.</p> <p><i>Effect</i> - Certain material corrections were needed to appropriately present current assets and current installments associated with pension settlement liability and restricted expendable net position.</p> <p><i>Cause</i> - Presentation of certain financial statement captions for external financial reporting purposes are only completed on an annual basis or are unique and not recurring in nature.</p> <p><i>Recommendation</i> - Management should review and consider implications of annual and nonrecurring financial statement reporting requirements under generally accepted accounting principles.</p> <p><i>View of Responsible Officials and Planned Corrective Actions</i> - The pension settlement liability transaction was a unique and complex transaction occurring in late September 2018. The funds held in escrow for pension funding were paid as part of the pension liability settlement, thus this presentation is non-recurring in nature. Management has extensive financial reporting procedures in place on a monthly and annual basis, however, will review and consider any necessary changes to be made for annual and non-recurring financial statement presentation items.</p>