

**South Central Regional Medical Center
(Laurel, Mississippi)
(A Component Unit of Jones County)**

FINANCIAL STATEMENTS

For the Years Ended September 30, 2020 and 2019



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**South Central Regional Medical Center
Laurel, Mississippi
(A Component Unit of Jones County)**

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South Central Regional Medical Center
(A Component Unit of Jones County)
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September 30, 2020 and 2019

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REPORT





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INDEPENDENT AUDITORS' REPORT

Board of Trustees
South Central Regional Medical Center
Laurel, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of South Central Regional Medical Center (the Medical Center), a component unit of Jones County, Mississippi, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 Medical Center, as of September 30, 2020, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the Medical Center as of and or the year ended September 30, 2019 were audited by other auditors whose report dated November 26, 2019, expressed an unmodified opinion on those statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Medical Center's basic financial statements. The Schedule of Surety Bonds for Officers and Employees on page 54 is presented for purposes of additional analysis and is not a required part of the basic 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 have also issued our report dated November 23, 2020, on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing, and not to provide an opinion on the effectiveness of the Medical Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.

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

CARR, RIGGS & INGRAM, L.L.C.

Ridgeland, Mississippi

November 23, 2020

**South Central Regional Medical Center
(A Component Unit of Jones County)
Management's Discussion and Analysis
September 30, 2020 and 2019**

This section of South Central Regional Medical Center's (Medical Center) annual financial report presents background information and our analysis of the Medical Center's financial performance during the fiscal years that ended on September 30, 2020 and 2019. Please read it in conjunction with the financial statements in this report.

2020

FINANCIAL HIGHLIGHTS

The Medical Center's total net position increased by \$3,321,000 or 2.8 percent, from the prior year. All of this increase results from the recognition of revenue over expenses.

At the end of the 2020 fiscal year, the assets of the Medical Center exceeded liabilities by \$120,830,000. Of this excess amount, \$89,854,000 (unrestricted) may be used to meet ongoing obligations to the Medical Center's employees, patients and creditors, \$28,648,000 is invested in capital assets, net of related debt and \$2,329,000 is restricted for debt service, for self-insurance and for minority interest in blended component unit. The Medical Center is self-insured for general and professional liability claims and has established a self-insurance fund in accordance with the requirements of the Mississippi Tort Claims Board. At September 30, 2020, the Medical Center had \$1,716,000 deposited into this restricted account to be used exclusively for general and professional liability claims and related claim defense expenses. All related liabilities and incurred but not reported (IBNR) amounts are recorded in the financial statements and further defined in the notes to the financial statements. At September 30, 2020, the Medical Center had a current ratio of 2.73.

Total operating revenue decreased \$7.7 million or 4.1 percent. This was due primarily to a decrease of \$7.1 million in net patient service revenue which consisted primarily of decreases in inpatient and outpatient volumes primarily due to the COVID-19 pandemic. Operating expenses, excluding depreciation and amortization, decreased by \$2.2 million from 2019 to 2020. This decrease was due primarily to decreases in professional fees and maintenance.

2019

FINANCIAL HIGHLIGHTS

The Medical Center's total net position increased by \$2,696,000 or 2.3 percent, from the prior year. All of this increase results from the recognition of revenue over expenses.

At the end of the 2019 fiscal year, the assets of the Medical Center exceeded liabilities by \$117,509,000. Of this excess amount, \$81,928,000 (unrestricted) may be used to meet ongoing obligations to the Medical Center's employees, patients and creditors, \$32,980,000 is invested in capital assets, net of related debt and \$2,601,000 is restricted for debt service, for self-insurance and for minority interest in blended component unit. The Medical Center is self-insured for general and professional liability claims and has established a self-insurance fund in accordance with the requirements of the Mississippi Tort Claims Board. At September 30, 2019, the Medical Center had

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(A Component Unit of Jones County)
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\$1,716,000 deposited into this restricted account to be used exclusively for general and professional liability claims and related claim defense expenses. All related liabilities and incurred but not reported (IBNR) amounts are recorded in the financial statements and further defined in the notes to the financial statements. At September 30, 2019, the Medical Center had a current ratio exceeding 4.8.

Total operating revenue increased \$9.7 million or 5.5 percent. This was due primarily to an increase of \$9.5 million in net patient service revenue which consisted primarily of increases in inpatient and outpatient volumes. Operating expenses, excluding depreciation and amortization, increased by \$10.5 million from 2018 to 2019. This increase was due primarily to increases in salaries and employee benefits of \$4.9 million and an increase in supplies of \$5.8 million, primarily in pharmaceuticals.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four components - the Management's Discussion and Analysis of Financial Condition and Operating Results (this section), the Independent Auditor's Report, the Financial Statements and Supplementary Information.

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

The Statements of Net Position include all of the Medical Center's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the Medical Center's creditors (liabilities) for both the current year and the prior year. They also provide the basis for evaluating the capital structure of the Medical Center, and assessing the liquidity and financial flexibility of the Medical Center.

All of the current year's revenues and expenses are accounted for in the *Statements of Revenue and Expenses and Changes in Net Position*. These statements measure the performance of the Medical Center's operations over the past two years and can be used to determine whether the Medical Center has been able to recover all of its costs through its patient service revenue and other revenue sources.

The primary purpose of the *Statements of Cash Flows* is to provide information about the Medical Center's cash from operations, investment and financial activities. The statements of cash flows outline where the cash comes from, what the cash is used for and the changes in the cash balance during the reporting period.

The annual report also includes *Notes to the Financial Statements* that are essential to gain a full understanding of the data provided in the financial statements. The notes to the financial statements

**South Central Regional Medical Center
(A Component Unit of Jones County)
Management's Discussion and Analysis
September 30, 2020 and 2019**

can be found immediately following the basic financial statements in this report. Following the notes to the financial statements is a section containing supplementary information that provides additional information as required.

FINANCIAL ANALYSIS OF THE MEDICAL CENTER

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

**South Central Regional Medical Center
(A Component Unit of Jones County)
Management's Discussion and Analysis
September 30, 2020 and 2019**

2020

Net Position

A summary of the Medical Center's statements of net position is presented in the following table:

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

| | Fiscal Year 2020 | Fiscal Year 2019 | Dollar Change | Total Percent Change |
|---|------------------------|------------------------|------------------|----------------------------|
| Current and other assets | \$ 138,315 | \$ 111,446 | \$ 26,869 | 24.1% |
| Capital assets | 99,618 | 96,517 | 3,102 | 3.2% |
| Total assets | \$ 237,933 | \$ 207,962 | \$ 29,971 | 14.4% |
| Long-term debt outstanding | \$ 70,971 | \$ 72,299 | \$ (1,328) | -1.8% |
| Other liabilities | 46,132 | 18,154 | 27,977 | 154.1% |
| Total liabilities | 117,103 | 90,453 | 26,649 | 29.5% |
| Net investment in capital assets | 28,648 | 32,980 | (4,332) | -13.1% |
| Restricted | 2,329 | 2,601 | (273) | -10.5% |
| Unrestricted | 89,854 | 81,928 | 7,926 | 9.7% |
| Total net position | 120,830 | 117,509 | 3,321 | 2.8% |
| Total liabilities and net position | \$ 237,933 | \$ 207,962 | \$ 29,970 | 14.4% |

Total assets increased 14.4 percent due to an increase in cash of \$30 million. The increase in capital assets is due to completion of the Medical Center expansion (the "Project"). The Project consists of a 67,980 square foot three-floor addition to the easterly end of the Medical Center to house a new emergency department and to shell in two floors for future expansion, the construction of a 67,815 square foot four-floor medical office building, new parking areas and drives, and a paved heliport. The cost of the Project is estimated at approximately \$42.4 million. The new expansion was placed into service in December 2019.

**South Central Regional Medical Center
(A Component Unit of Jones County)
Management's Discussion and Analysis
September 30, 2020 and 2019**

2019

Net Position

A summary of the Medical Center's statements of net position is presented in the following table:

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

| <i>September 30,</i> | Fiscal Year 2019 | Fiscal Year 2018 | Dollar Change | Total Percent Change |
|---|---------------------------------|---------------------------------|--------------------------|-------------------------------------|
| Current and other assets | \$ 111,445 | \$ 118,199 | \$ (6,754) | -5.7% |
| Capital assets | 96,517 | 84,719 | 11,798 | 13.9% |
| Total assets | \$ 207,962 | \$ 202,918 | \$ 5,044 | 2.5% |
| Long-term debt outstanding | \$ 72,299 | \$ 66,488 | \$ 5,811 | 8.7% |
| Other liabilities | 18,154 | 21,617 | (3,463) | -16.0% |
| Total liabilities | 90,453 | 88,105 | 2,348 | 2.7% |
| Net investment in capital assets | 32,980 | 35,110 | (2,130) | -6.1% |
| Restricted | 2,601 | 3,120 | (519) | -16.6% |
| Unrestricted | 81,928 | 76,583 | 5,345 | 7.0% |
| Total net position | 117,509 | 114,813 | 2,696 | 2.3% |
| Total liabilities and net position | \$ 207,962 | \$ 202,918 | \$ 5,044 | 2.5% |

Total assets increased 2.5 percent due to an increase in capital assets of \$11.8 million. The increase in capital assets is due to construction on the Medical Center expansion (the "Project"). The Project consists of a 67,980 square foot three-floor addition to the Medical Center to house a new emergency department and to shell in two floors for future expansion, the construction of a 67,815 square foot four-floor medical office building, new parking areas and drives, and a paved heliport. The cost of the Project is estimated at approximately \$42,400,000.

South Central Regional Medical Center
(A Component Unit of Jones County)
Management's Discussion and Analysis
September 30, 2020 and 2019

2020

Summary of Revenue and Expenses

The following table presents a summary of the Medical Center's historical revenues and expenses for each of the fiscal years ended September 30, 2020 and 2019:

Condensed Statements of Revenues and Expenses
(In Thousands)

| <i>September 30,</i> | Fiscal Year 2020 | Fiscal Year 2019 | Dollar Change | Total Percent Change |
|--|---------------------------------|---------------------------------|--------------------------|-------------------------------------|
| Net patient service revenue | \$ 177,121 | \$ 184,257 | \$ (7,136) | -3.9% |
| Other operating revenue excluding interest income | 2,478 | 3,119 | (641) | -20.6% |
| Total operating revenue | 179,599 | 187,376 | (7,777) | -4.2% |
| Salaries and benefits | 113,331 | 112,362 | 969 | 0.9% |
| Professional fees, supplies, maintenance, other | 63,010 | 66,165 | (3,155) | -4.8% |
| Total operating expenses before depreciation / amortization | 176,341 | 178,527 | (2,186) | -1.2% |
| Earnings before interest depreciation and amortization (EBITDA) | 3,259 | 8,849 | (5,591) | -63.2% |
| Depreciation and amortization expense | 8,532 | 7,838 | 694 | 8.9% |
| Operating net income | (5,273) | 1,011 | (6,285) | -621.4% |
| Investment and grant income | 2,667 | 2,038 | 629 | 30.9% |
| Income from joint ventures | 348 | 240 | 108 | 45.0% |
| Gain (loss) on sale of capital assets | (1,207) | 3 | (1,210) | -38427% |
| CARES Act funding | 8,276 | - | 8,276 | 100.0% |
| Distributions to minority interest | (35) | (100) | 65 | -65.3% |
| Interest expense | (1,456) | (496) | (960) | 193.5% |
| Total non-operating revenues | 8,594 | 1,685 | 6,909 | 410.0% |
| Increase in net position | \$ 3,321 | \$ 2,696 | \$ 624 | 23.1% |

**South Central Regional Medical Center
(A Component Unit of Jones County)
Management's Discussion and Analysis
September 30, 2020 and 2019**

2020

Operating Revenue

During fiscal year 2020, the Medical Center derived approximately 98.6 percent of its total operating revenues from net patient service revenues. Operating revenues include revenues from the Medicare and Medicaid programs, patients or their third-party carriers who pay for care in the Medical Center's facilities.

The following table represents the relative percentage of gross charges billed for patient services by payor for the fiscal years ended September 30, 2020 and 2019:

| <i>September 30,</i> | Fiscal Year 2020 | Fiscal Year 2019 |
|----------------------|---------------------------------|------------------------|
| Medicare | 50.7% | 51.7% |
| Medicaid | 16.8% | 17.4% |
| Other | 32.5% | 30.9% |
| | 100.0% | 100.0% |

2020

OPERATING AND FINANCIAL PERFORMANCE

The following summarizes the changes in the Medical Center's statements of revenue and expenses and changes in net position for 2020 as compared to 2019:

- During 2020, the Medical Center had patient days and admissions of 33,829 and 36,650, respectively. As compared to 2019, patient days decreased by 7.7 percent while admissions decreased by 12.8 percent.
- Outpatient and emergency registrations were 85,941 and 89,819, respectively, in 2020 which corresponds to an increase of 4.3 percent as compared to 2019.
- Surgical cases decreased by 12.5 percent to 3,051 in 2020 from 3,485 in 2019.
- Net patient service revenue decreased as stated in the Financial Highlights. Net patient service revenue decreased to \$177.1 million in 2020 from \$184.3 million in 2019.
- Salaries increased \$860,000 to \$98.1 million in 2020 from \$97.2 million in 2019.

**South Central Regional Medical Center
(A Component Unit of Jones County)
Management's Discussion and Analysis
September 30, 2020 and 2019**

2019

Summary of Revenue and Expenses

The following table presents a summary of the Medical Center's historical revenues and expenses for each of the fiscal years ended September 30, 2019 and 2018:

**Condensed Statements of Revenues and Expenses
(In Thousands)**

| <i>September 30,</i> | Fiscal Year 2019 | Fiscal Year 2018 | Dollar Change | Total Percent Change |
|--|---------------------------------|---------------------------------|--------------------------|-------------------------------------|
| Net patient service revenue | \$ 184,257 | \$ 174,758 | \$ 9,499 | 5.4% |
| Other operating revenue excluding interest income | 3,119 | 2,905 | 214 | 7.4% |
| Total operating revenue | 187,376 | 177,663 | 9,713 | 5.5% |
| Salaries and benefits | 112,362 | 107,472 | 4,890 | 4.6% |
| Professional fees, supplies, maintenance, other | 66,165 | 60,530 | 5,635 | 9.3% |
| Total operating expenses before depreciation / amortization | 178,527 | 168,002 | 10,525 | 6.3% |
| Earnings before interest depreciation and amortization (EBITDA) | 8,849 | 9,661 | (812) | -8.4% |
| Depreciation and amortization expense | 7,838 | 7,896 | (58) | -0.7% |
| Operating net income | 1,011 | 1,765 | (754) | -42.7% |
| Investment and grant income | 2,038 | 1,423 | 615 | 43.2% |
| Income from joint ventures | 240 | 84 | 156 | 185.7% |
| Gain on sale of capital assets | 3 | 10 | (7) | -70.0% |
| Distributions to minority interest | (100) | (152) | 52 | -34.2% |
| Interest expense | (496) | (329) | (167) | 50.8% |
| Total non-operating revenues | 1,685 | 1,036 | 649 | 62.6% |
| Increase in net position | \$ 2,696 | \$ 2,801 | \$ (105) | -3.7% |

**South Central Regional Medical Center
(A Component Unit of Jones County)
Management's Discussion and Analysis
September 30, 2020 and 2019**

2019

Operating Revenue

During fiscal year 2019, the Medical Center derived approximately 98.3 percent of its total operating revenues from net patient service revenues. Operating revenues include revenues from the Medicare and Medicaid programs, patients or their third-party carriers who pay for care in the Medical Center's facilities.

The following table represents the relative percentage of gross charges billed for patient services by payor for the fiscal years ended September 30, 2019 and 2018:

| <i>September 30,</i> | Fiscal Year 2019 | Fiscal Year 2018 |
|----------------------|---------------------------------|---------------------------------|
| Medicare | 51.7% | 51.4% |
| Medicaid | 17.4% | 16.9% |
| Other | 30.9% | 31.7% |
| | 100.0% | 100.0% |

2019

OPERATING AND FINANCIAL PERFORMANCE

The following summarizes the changes in the Medical Center's statements of revenue and expenses and changes in net position for 2019 as compared to 2018:

- During 2019, the Medical Center had patient days and admissions of 36,650 and 8,133, respectively. As compared to 2018, patient days decreased by 3.9 percent while admissions decreased by 5.4 percent.
- Outpatient and emergency registrations were 49,671 and 40,148, respectively, in 2019 which corresponds to an increase of 1.0 percent and 0.9 percent, respectively, as compared to 2018.
- Surgical cases decreased by 7.1 percent to 3,485 in 2019 from 3,753 in 2018.
- Net patient service revenue increased as stated in the Financial Highlights. Net patient service revenue increased to \$184.3 million in 2019 from \$174.8 million in 2018.
- Salaries increased \$4.5 million to \$97.2 million in 2019 from \$92.7 million in 2018. The increase is primarily due to the acquisition of Jefferson Medical Associates ("JMA").

**South Central Regional Medical Center
(A Component Unit of Jones County)
Management's Discussion and Analysis
September 30, 2020 and 2019**

2020

CAPITAL ASSETS

| <i>September 30,</i> | Capital Assets (In Thousands) | | | |
|-------------------------------------|--|---------------------------------|--------------------------|-------------------------------------|
| | Fiscal Year 2020 | Fiscal Year 2019 | Dollar Change | Total Percent Change |
| Land and land improvements | \$ 7,983 | \$ 7,708 | \$ 274 | 3.6% |
| Building and leasehold improvements | 107,082 | 68,851 | 38,231 | 55.5% |
| Equipment | 84,832 | 76,543 | 8,290 | 10.8% |
| Subtotal | 199,898 | 153,102 | 46,795 | 30.6% |
| Less: Accumulated depreciation | (103,190) | (95,342) | (7,848) | 8.2% |
| Construction in progress | 96,708 2,910 | 57,760 38,756 | 38,948 (35,846) | 67.4% -92.5% |
| Net capital asset | \$ 99,618 | \$ 96,516 | \$ 3,102 | 3.2% |

Net capital assets increased approximately \$3.1 million or 3.2 percent due to the Medical Center's purchases exceeding depreciation. Before depreciation, capital assets increased \$11.6 million due to construction on the Project partially offset by the fully depreciated equipment.

2020

LONG-TERM DEBT

At year-end, the Medical Center had \$70.9 million in long-term debt. Total long-term debt represents 60.5 percent of the Medical Center's total liabilities as of year-end. More detailed information about the long-term debt is presented in the notes to the financial statements.

**South Central Regional Medical Center
(A Component Unit of Jones County)
Management's Discussion and Analysis
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2019

CAPITAL ASSETS

| <i>September 30,</i> | Capital Assets (In Thousands) | | | |
|-------------------------------------|--|---------------------------------|--------------------------|-------------------------------------|
| | Fiscal Year 2019 | Fiscal Year 2018 | Dollar Change | Total Percent Change |
| Land and land improvements | \$ 7,708 | \$ 6,290 | \$ 1,418 | 22.5% |
| Building and leasehold improvements | 68,851 | 65,574 | 3,277 | 5.0% |
| Equipment | 76,543 | 79,985 | (3,442) | -4.3% |
| Subtotal | 153,102 | 151,849 | 1,253 | 0.8% |
| Less: Accumulated depreciation | (95,342) | (95,253) | (89) | 0.1% |
| Construction in progress | 57,760 38,756 | 56,596 28,123 | 1,164 10,633 | 2.1% 37.8% |
| Net capital asset | \$ 96,516 | \$ 84,719 | \$ 11,797 | 13.9% |

Net capital assets increased approximately \$11.8 million or 13.9 percent due to the Medical Center's purchases exceeding depreciation. Before depreciation, capital assets increased \$11.9 million due to construction on the Project partially offset by the fully depreciated equipment.

2019

LONG-TERM DEBT

At year-end, the Medical Center had \$72.3 million in long-term debt. Total long-term debt represents 79.9 percent of the Medical Center's total liabilities as of year-end. More detailed information about the long-term debt is presented in the notes to the financial statements.

THE MEDICAL CENTER'S CASH FLOWS

Changes in the Medical Center's cash flows are consistent with changes in operating income and non-operating revenues and expenses, discussed earlier.

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Management's Discussion and Analysis
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ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

- Medicare reimbursement changes;
- Medicaid reimbursement changes, as well as the continuation at the current or increased level of the MHAP, Disproportionate Share and Upper Payment Limit programs;
- Increased number of uninsured and working poor;
- Ongoing competition for services;
- Cost of supplies, primarily pharmaceuticals;
- Ability to continue recruiting medical staff physicians to maintain the high level of services offered to our service area;
- Continued growth of service levels in the ancillary departments;
- Continuation of the excellent working relationship between the Medical Staff, the Board and the Medical Center administration;
- Impact of Healthcare Reform as it relates to reimbursement and employee health insurance coverage.

IMPACT OF COVID-19

South Central Regional Medical Center, as have all of the healthcare facilities in the United States, has been and continues to be significantly impacted by the spread of the Coronavirus Disease 2019 (Covid- 19) pandemic. Since the Public Health Emergency declaration by the President of the United States on March 13, 2020, the Medical Center has experienced and continues to experience a significant reduction in services provided in our hospital, physician clinics, home care agencies and nursing homes. Elective surgeries were suspended for a period of time and have yet achieved the service levels of the prior fiscal year. Health care professionals have raised concerns that patients are forgoing important care, such as chronic disease management, which can further jeopardize their health and as an additional consequence, reductions in revenue for health systems are anticipated in the future until the pandemic subsides.

While we are currently adequately stocked with personal protective equipment, we anticipate shortages and increased costs if the pandemic continues into 2021.

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IMPACT OF COVID-19 (Continued)

The Medical Center received under the CARES Act \$14 million which has reduced the negative financial impact of the pandemic. In addition, the Medical Center received \$19.8 million in Medicare accelerated payments. These payments will be required to be repaid in 2021 and accordingly, the amount has been recorded as a current liability in the financial statements.

For more detail on the Covid-19 pandemic, see the notes to the financial statements.



FINANCIAL STATEMENTS

South Central Regional Medical Center
(A Component Unit of Jones County)
Statements of Net Position

| <i>September 30,</i> | 2020 | 2019 |
|---|-----------------------|----------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 50,741,656 | \$ 20,025,851 |
| Investments | 20,071,515 | 18,989,113 |
| Assets limited as to use | - | 523,908 |
| Patient accounts receivable, net of allowance for uncollectible accounts of approximately \$20,573,565 in 2020 and \$25,621,551 in 2019 | 48,333,867 | 45,855,432 |
| Inventories | 6,435,984 | 5,396,190 |
| Other current assets | 1,971,133 | 2,693,532 |
| Total current assets | 127,554,155 | 93,484,026 |
| Assets limited as to use, net of amount required for current liabilities | 1,856,424 | 10,560,185 |
| Capital assets, net | 99,618,439 | 96,516,572 |
| Other assets | 8,904,197 | 7,401,669 |
| Total assets | \$ 237,933,215 | \$ 207,962,452 |
| Liabilities and Net Position | | |
| Current liabilities | | |
| Current maturities of long-term debt | \$ 2,331,427 | \$ 1,304,544 |
| Accounts payable, trade | 8,605,903 | 8,439,924 |
| Estimated third-party payor settlements | 273,058 | 866,415 |
| Accrued salaries and compensated absences | 6,886,703 | 6,351,386 |
| Other current liabilities | 972,970 | 780,507 |
| Unearned revenue | 27,678,062 | - |
| Total current liabilities | 46,748,123 | 17,742,776 |
| Accrued self-insurance costs | 1,715,944 | 1,715,944 |
| Long-term debt, less current maturities | 68,639,210 | 70,994,340 |
| Total liabilities | 117,103,277 | 90,453,060 |
| Net position | | |
| Net investment in capital assets | 28,647,802 | 32,980,264 |
| Restricted - nonexpendable for | | |
| Minority interest in blended component unit | 472,143 | 361,263 |
| Restricted - expendable for | | |
| Debt service | 140,480 | 523,908 |
| Use in self-insurance programs | 1,715,944 | 1,715,944 |
| Unrestricted | 89,853,569 | 81,928,013 |
| Total net position | 120,829,938 | 117,509,392 |
| Total liabilities and net position | \$ 237,933,215 | \$ 207,962,452 |

The accompanying notes are an integral part of these financial statements.

South Central Regional Medical Center
(A Component Unit of Jones County)
Statements of Revenues and Expenses and Changes in Net Position

| <i>For the years ended September 30,</i> | 2020 | 2019 |
|---|-----------------------|----------------|
| Operating Revenue | | |
| Net patient service revenue, net of provision for bad debts of \$18,412,574 in 2020 and \$19,298,427 in 2019 | \$ 177,121,471 | \$ 184,257,339 |
| Other operating revenue | 2,477,994 | 3,119,357 |
| Total operating revenue | 179,599,465 | 187,376,696 |
| Operating Expenses | | |
| Salaries and wages | 98,073,585 | 97,212,897 |
| Professional fees | 8,023,597 | 8,844,260 |
| Employee benefits | 15,256,958 | 15,149,403 |
| Supplies and other | 42,989,494 | 43,590,403 |
| Maintenance and utilities | 11,997,116 | 13,730,601 |
| Depreciation and amortization | 8,532,021 | 7,838,268 |
| Total operating expenses | 184,872,771 | 186,365,832 |
| Operating income (loss) | (5,273,306) | 1,010,864 |
| Nonoperating Revenue (Expenses) | | |
| Interest expense | (1,456,410) | (496,188) |
| Unrestricted gifts and bequests | 207,755 | 128,725 |
| Gain (loss) on sale of capital assets | (1,206,545) | 3,148 |
| Joint venture income | 347,918 | 239,937 |
| Investment income | 2,459,684 | 1,909,687 |
| CARES Act funding | 8,276,240 | - |
| Total nonoperating revenue (expenses) | 8,628,642 | 1,785,309 |
| Distributions to minority interest | (34,790) | (100,150) |
| Increase in net position | 3,320,546 | 2,696,023 |
| Net Position - beginning of year | 117,509,392 | 114,813,369 |
| Net Position - end of year | \$ 120,829,938 | \$ 117,509,392 |

The accompanying notes are an integral part of these financial statements.

South Central Regional Medical Center
(A Component Unit of Jones County)
Statements of Cash Flows

| <i>For the years ended September 30,</i> | 2020 | 2019 |
|---|----------------------|----------------|
| Operating Activities | | |
| Receipts from and on behalf of patients | \$ 176,442,241 | \$ 189,001,714 |
| Payments to suppliers and contractors | (64,471,688) | (70,506,042) |
| Payments to employees | (112,795,226) | (112,221,120) |
| Other receipts and payments, net | 2,477,994 | 3,119,357 |
| Net cash provided by (used in) operating activities | 1,653,321 | 9,393,909 |
| Noncapital Financing Activities | | |
| Noncapital grants and contributions | 207,755 | 128,725 |
| Proceeds from CARES Act funding | 33,909,658 | - |
| Distributions to minority interest | (34,790) | (100,150) |
| Net cash (used in) provided by noncapital financing activities | 34,082,623 | 28,575 |
| Capital and Related Financing Activities | | |
| Principal payments on long-term debt | (1,890,039) | (1,000,055) |
| Proceeds from issuance of long-term debt | 561,792 | 6,810,968 |
| Interest paid on long-term debt | (1,456,410) | (496,188) |
| Purchase of capital assets | (12,840,433) | (19,664,998) |
| Proceeds from sales of capital assets | - | 32,027 |
| Net cash (used in) provided by capital and related financing activities | (15,625,090) | (14,318,246) |
| Investing Activities | | |
| Maturities of assets limited as to use | 1,532,204 | - |
| Investment income | 1,377,282 | 494,283 |
| Net cash provided by (used in) investing activities | 2,909,486 | 494,283 |
| Net increase (decrease) in cash and cash equivalents | 23,020,340 | (4,401,479) |
| Cash and Cash Equivalents - beginning of year | 29,577,740 | 33,979,219 |
| Cash and Cash Equivalents - end of year | \$ 52,598,080 | \$ 29,577,740 |

(Continued)

The accompanying notes are an integral part of these financial statements.

South Central Regional Medical Center
(A Component Unit of Jones County)
Statements of Cash Flows (Continued)

| <i>For the years ended September 30,</i> | 2020 | 2019 |
|--|----------------------|----------------------|
| Reconciliation of Cash and Cash Equivalents | | |
| Cash and cash equivalents | \$ 50,741,656 | \$ 20,025,851 |
| Assets limited as to use | - | 523,908 |
| Assets limited as to use, net of amount required for current liabilities | 1,856,424 | 9,027,981 |
| Total cash and cash equivalents | \$ 52,598,080 | \$ 29,577,740 |
| Reconciliation of Income (Loss) to Net Cash Provided by (Used In) Operating Activities: | | |
| Income (loss) from operations | \$ (5,273,306) | \$ 1,010,864 |
| Adjustments to reconcile income (loss) from operations to net cash provided by (used in) operating activities: | | |
| Joint venture income | 347,918 | 239,937 |
| Depreciation and amortization | 8,532,021 | 7,838,268 |
| Provision for bad debts | 18,412,574 | 19,298,427 |
| Changes in assets and liabilities: | | |
| Receivables | (20,891,009) | (18,192,863) |
| Inventories | (1,039,794) | 310,804 |
| Other current and noncurrent assets | (780,129) | (181,601) |
| Accounts payable, trade | 165,979 | (3,786,587) |
| Estimated third-party payor settlements | (593,357) | 3,398,874 |
| Accrued salaries and compensated absences | 535,317 | 141,180 |
| Other liabilities | 192,463 | (683,394) |
| Unearned revenue | 2,044,644 | - |
| Net cash provided by (used in) operating activities | \$ 1,653,321 | \$ 9,393,909 |
| Supplemental disclosures of noncash investing and financing activities | | |
| Unrealized gains on investments | \$ 1,082,402 | \$ 1,415,404 |

(Concluded)

The accompanying notes are an integral part of these financial statements.

**South Central Regional Medical Center
(A Component Unit of Jones County)
Notes to Financial Statements**

Note 1: DESCRIPTION OF MEDICAL CENTER

Nature of Operations and Reporting Entity

South Central Regional Medical Center (the Medical Center) is a regional healthcare provider established by Jones County as a special purpose government entity under the laws of the State of Mississippi. The Medical Center is owned by Jones County and is governed by a Board of Trustees pursuant to Sections 41-13-15 et. Seq. of Mississippi Code of 1972, as amended. Because of the relationship between the Medical Center and Jones County, the Medical Center has been defined as a component unit of the county.

The Medical Center provides inpatient, outpatient, emergency care services and long-term care primarily for residents of Jones County and the surrounding primary service area. Comfort Care Home Health and Hospice, multiple physician clinics and EmServ Ambulance Services are also a part of the Medical Center's operations. Admitting physicians are primarily practitioners in the same area. The Medical Center is currently licensed to provide 285 Medical Center beds, 248 nursing home beds and 12 assisted living beds.

Blended Component Units

The financial statements include the accounts of the Medical Center, the South Central Health Care Foundation (the Foundation) and Open MRI, LLC (Open MRI), entities over which the Medical Center exerts control and there is a financial benefit relationship with these entities. These entities are presented as blended component units due to the governing body being substantially the same as the governing body of the Medical Center and having operational responsibility of these component units. All material intercompany accounts and transactions have been eliminated.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

**South Central Regional Medical Center
(A Component Unit of Jones County)
Notes to Financial Statements**

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Risk Management

The Medical Center is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. The Medical Center is self-funded for workers compensation, health and dental, and general and professional liabilities.

The Medical Center considers the need for recording a liability for malpractice claims. The provision for estimated malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Cash and Cash Equivalents

Cash and cash equivalents and assets limited as to use include investments in highly liquid debt instruments with an original maturity of three months or less.

Investments

The Medical Center's investments consist of external investment pools and are reported at net asset value per share which approximates fair value. Interest, dividends and gains and losses on investments, both realized and unrealized, are included in nonoperating income when earned.

**South Central Regional Medical Center
(A Component Unit of Jones County)
Notes to Financial Statements**

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in Joint Venture

The Medical Center has a noncontrolling 51 percent financial ownership interest in the Laurel Surgical and Endoscopy Center. This investment is accounted for using the equity method. The Medical Center does not have control of the operations of Laurel Surgical and Endoscopy Center; therefore, it is not considered a component unit of the Medical Center.

Assets Limited as to Use

Assets limited as to use include assets held by Trustees under indenture agreements, assets set aside by the Board of Trustees under the Medical Center's self-insured malpractice insurance program, and assets designated for further capital improvements. Amounts that are required for obligations classified as current liabilities are reported as current assets, with the excess reported as noncurrent assets.

Fair Value Measurements

The Medical Center categorizes its fair value measurements, if any, within the fair value hierarchy established by generally accepted accounting principles. The guidance establishes a hierarchy of inputs to valuation techniques used to measure fair value into three levels.

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Medical Center has the ability to access.
- Level 2 - Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Patient Accounts Receivable, Net

Patient accounts receivable are reduced by estimated contractual and other adjustments and estimated uncollectible accounts. In evaluating the collectability of accounts receivable, the Medical Center analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowances for third-party contractual and other adjustments and bad debt. Management reviews data about these major payer sources of revenue on a monthly basis in

**South Central Regional Medical Center
(A Component Unit of Jones County)
Notes to Financial Statements**

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Patient Accounts Receivable, Net (Continued)

evaluating the sufficiency of the allowances. On a continuing basis, management analyzes delinquent receivables and writes them off against the allowance when deemed uncollectible. No interest is charged on patient accounts receivable balances.

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

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

The Medical Center has not materially altered its accounts receivable and revenue recognition policies during fiscal year 2020 and did not have significant write-offs from third-party payers related to collectability in fiscal years 2020 or 2019.

Inventories

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

Prepaid Expenses

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

**South Central Regional Medical Center
(A Component Unit of Jones County)
Notes to Financial Statements**

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. Depreciation on capital assets is calculated using the straight-line method over the estimated useful lives of the assets, as determined utilizing “*Estimated Useful Lives of Depreciable Medical Center Assets, Revised 2018 Edition*” published by the American Medical Center Association.

| Asset Class | Year |
|----------------------------|-------------|
| Land improvements | 5 - 20 |
| Buildings and improvements | 5 - 40 |
| Medical equipment | 3 - 20 |
| Furniture and fixtures | 3 - 20 |

Upon sale or retirement of capital assets, the cost and related accumulated depreciation are eliminated from the respective accounts, and the resulting gain or loss, if any, is included in the statement of revenues, expenses and changes in net position.

Expenditures that materially increase values, change capacities, or extend useful lives of the respective assets are capitalized. Routine maintenance and repairs are charged to expense when incurred.

Cost of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Costs incurred in connection with the obtaining of financing are deferred and amortized over the period the obligation is outstanding using the interest method. Premiums or discounts incurred in connection with the issuance of bonds and indentures are amortized over the life of the obligations on the interest method, and the unamortized amount is included in the balance of the outstanding debt.

Impairment of Long-Lived Assets

The Medical Center evaluates, on an ongoing basis, the recoverability of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is required to be recognized if the carrying value of the asset exceeds the undiscounted future net cash flows associated with that asset. The impairment loss to be recognized is the amount by which the carrying value of the long-lived asset exceeds the asset's fair value. In most instances, the fair value is determined by discounted estimated future cash flows using

**South Central Regional Medical Center
(A Component Unit of Jones County)
Notes to Financial Statements**

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of Long-Lived Assets (Continued)

an appropriate interest rate. The assessment of the recoverability of assets will be impacted if estimated future operating cash flows are not achieved. Based on management's evaluations, no long-lived assets impairments were recognized during the years ended September 30, 2020 and 2019.

Compensated Absences

Medical Center employees can accumulate earned time off, which is vested with the employee and upon termination is payable under certain circumstances. Sick leave is credited each month to eligible employees, but is not payable upon termination. Any employee who accumulates 720 hours of sick leave may be paid for excess sick leave up to a ceiling of \$1,000. All vested compensated absences are recorded as of the statements of net position date.

Net Position

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

Net investment in capital assets – consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets.

Restricted net position – made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Medical Center, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings.

Unrestricted net position – the remaining net position that does not meet the definitions of net investment in capital assets or restricted net position described above.

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

Operating Revenue and Expenses

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

**South Central Regional Medical Center
(A Component Unit of Jones County)
Notes to Financial Statements**

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Patient Service Revenue

The Medical Center has agreements with third-party payers that provide for payments to the Medical Center at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered including estimated retroactive adjustments under reimbursement agreements with third-party payers.

Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined or as years are no longer subject to such audits, reviews, and investigations.

The Medical Center believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potentially significant wrongdoing. However, compliance with such laws and regulations is subject to future government review and interpretation, as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid program, and in recent years there has been an increase in regulatory initiatives at the state and federal levels including the Recovery Audit Contractor (“RAC”) and Medicaid Integrity Contractor (“MIC”) programs, among others. These programs were created to review Medicare and Medicaid claims for medical necessity and coding appropriateness. The RAC’s have authority to pursue ‘improper’ (in their judgment) payments with a three year look back from the date the claim was paid.

Charity Care

The Medical Center provides care without charge, or at a reduced charge, to patients who meet certain criteria under its charity care policy. Because the Medical Center does not pursue collection of amounts determined to qualify pursuant to this policy, these charges are not reported as revenue. The amount of charges foregone for services and supplies furnished under the Medical Center’s charity care policy was approximately \$13,508,000 and \$13,855,000 for the years ended September 2020 and 2019, respectively, and estimated costs and expenses incurred to provide charity care totaled approximately \$5,268,000 and \$5,542,000, respectively. The estimated costs and expenses incurred to provide charity care were determined by applying the Medical Center’s cost to charge ratio from its latest filed Medicare cost report to its charges foregone for charity care, at established rates.

Grants and Contributions

From time to time, the Medical Center receives grants from governmental entities as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating

**South Central Regional Medical Center
(A Component Unit of Jones County)
Notes to Financial Statements**

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants and Contributions (Continued)

purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Budgetary Information

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

Current Healthcare Environment

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

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

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

The business of healthcare in the current economic, legislative, and regulatory environment is volatile. Any of the above factors, along with others both currently in existence and which may arise in the future, could have a material adverse impact on the Medical Center's financial position and operating results.

**South Central Regional Medical Center
(A Component Unit of Jones County)
Notes to Financial Statements**

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Medical Center's operation is a governmental entity and, as such, is exempt from federal and state income taxes. The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. A limited liability company, Open MRI's taxable income or loss is allocated to its members in accordance with the operating agreement.

Pronouncements Issued But Not Yet Effective

GASB has issued the following pronouncements that may affect future financial position, results of operations, cash flows, or financial presentation of the Medical Center upon implementation. Management has not yet evaluated the effect of implementation of these standards.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement seeks to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB 84 will be effective for the fiscal years beginning after December 15, 2019.

In June 2017, GASB issued Statement No. 87, *Leases* (GASB 87). This statement provides guidance for lease contracts for nonfinancial assets – including vehicles, heavy equipment and buildings – but excludes nonexchange transactions, including donated assets, and leases of intangible assets (such as patents and software licenses). The lease definition now focuses on a contract that conveys control of the right to use another entity's nonfinancial assets, which is referred to in the new Statement as the underlying asset. Under GASB 87, a lessee government is required to recognize (1) a lease liability and (2) an intangible asset representing the lessee's right to use the leased asset. A lessor government is required to recognize (1) a lease receivable and (2) a deferred inflow of resources. A lessor will continue to report the leased asset in its financial statements. The requirements of the Statement are effective for reporting periods beginning after June 15, 2021 with early adoption permitted. The Medical Center has not adopted this Statement early. The Medical Center is still assessing the impact of GASB 87 on its financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The requirements of this statement are effective for reporting periods beginning after December 15, 2020.

**South Central Regional Medical Center
(A Component Unit of Jones County)
Notes to Financial Statements**

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pronouncements Issued But Not Yet Effective (Continued)

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this statement are effective for reporting periods beginning after December 31, 2021.

In January 2020, the GASB issued statement No. 92, *Omnibus 2020*. The objectives of this statement are to enhance the comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this statement are effective for reporting periods beginning after June 15, 2021.

Reclassifications

Certain items in the 2019 financial statements have been reclassified to conform to the current year's presentation, including a reclassification of approximately \$1,715,944 from current liabilities to long-term liabilities on the 2019 statement of net position. This change is related to the current year presentation of accrued self-insurance.

**South Central Regional Medical Center
(A Component Unit of Jones County)
Notes to Financial Statements**

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, November 23, 2020 and determined there were no events that occurred that require disclosure.

Note 3: DEPOSITS AND INVESTMENTS

As of September 30, 2020 and 2019, the deposits and investments of the Medical Center consisted of the following:

| <i>September 30,</i> | 2020 | 2019 |
|---|---------------------|---------------------|
| Petty cash and deposited cash | \$ 11,000 | \$ 11,000 |
| Cash deposits with financial institutions | 50,730,656 | 29,883,030 |
| MHA external investment pools | 21,927,939 | 20,205,027 |
| Total deposits and investments | \$72,669,595 | \$50,099,057 |

Deposits and investments are included in the following statement of net position captions:

| <i>September 30,</i> | 2020 | 2019 |
|--|---------------------|---------------------|
| Cash and cash equivalents | \$50,741,656 | \$20,025,851 |
| Investments | 20,071,515 | 18,989,113 |
| Assets limited as to use | - | 523,908 |
| Assets limited as to use, net of amount required for current liabilities | 1,856,424 | 10,560,185 |
| Total | \$72,669,595 | \$50,099,057 |

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Medical Center's deposits might not be recovered. The collateral for public entities' deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the Medical Center'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

**South Central Regional Medical Center
(A Component Unit of Jones County)
Notes to Financial Statements**

Note 3: DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

Depository Insurance Corporation (FDIC). All deposits with financial institutions must be collateralized in an amount equal to 105 percent of uninsured deposits and are therefore fully insured. The bank balance of the collateralized and insured balances was \$52,837,836 and \$21,223,824 at September 30, 2020 and 2019, respectively.

The Medical Center also has cash deposits held by a Trustee. The use of these funds is restricted for capital improvements and debt service related to the Medical Center's long-term debt. The carrying value of these deposits was \$140,480 and \$9,368,149 at September 30, 2020 and 2019, respectively.

As of September 30, 2020 and 2019, \$0 and \$9,118,149, respectively, of the Medical Center's capital improvements and debt service fund balances was exposed to custodial credit risk.

Investments

The statutes of the State of Mississippi restrict the authorized investments of the Medical Center to obligations of the U. S. Treasury, agencies and instrumentalities of the United States and certain other types of investments. The Medical Center's investments consists of the MHA Investment external investment pool. The MHA investment pool is an investment program developed for member hospitals of the MHA. The external investment pools do not have a credit rating on the overall pool and they are not insured.

Interest Rate Risk - The Medical Center does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the Medical Center limits interest rate risk by attempting to match investment maturities with known cash needs and anticipated cash flow requirements.

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

Fair Value - Following is a description of the valuation methodologies used for investments measured at fair value.

- MHA Investment Pool – Valued at the net asset value of shares held by the investment pool.

South Central Regional Medical Center
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Notes to Financial Statements

Note 4: ASSETS LIMITED AS TO USE

Assets limited as to use consisted of the following as of September 30, 2020 and 2019:

| <i>September 30,</i> | 2020 | 2019 |
|---|---------------------|----------------------|
| Trustee-held funds | | |
| Cost of issuance fund | \$ - | \$ 81,665 |
| Project fund | - | 8,762,576 |
| Capitalized interest fund | - | 523,908 |
| USDA debt service reserve | 140,480 | - |
| Self-insurance fund | 1,715,944 | 1,715,944 |
| | 1,856,424 | 11,084,093 |
| Total cash and investments limited as to use | 1,856,424 | 11,084,093 |
| Less cash and investments that are required for current liabilities | - | 523,908 |
| | \$ 1,856,424 | \$ 10,560,185 |

Amounts classified as current assets represent those assets that are anticipated to be used to satisfy current liabilities at each statement of net position date.

Note 5: CAPITAL ASSETS

A summary of capital assets at September 30, 2020 and 2019 is set forth below:

| <i>September 30,</i> | 2020 | 2019 |
|--|----------------------|----------------------|
| Land | \$ 5,761,650 | \$ 5,757,010 |
| Land improvements | 2,222,073 | 1,951,240 |
| Building | 107,082,393 | 68,851,284 |
| Equipment | 84,832,407 | 76,542,824 |
| | 199,898,523 | 153,102,358 |
| Less accumulated depreciation and amortization | (103,189,936) | (95,341,775) |
| | 96,708,587 | 57,760,583 |
| Construction in progress | 2,909,852 | 38,755,989 |
| Capital assets, net | \$ 99,618,439 | \$ 96,516,572 |

Depreciation expense for the years ended September 30, 2020 and 2019 totaled \$8,532,021 and \$7,838,268, respectively.

**South Central Regional Medical Center
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Notes to Financial Statements**

Note 5: CAPITAL ASSETS (Continued)

Capital asset additions, retirements and balances for the year ended September 30, 2020, were as follows:

| <i>September 30,</i> | Balance September 30, 2019 | Additions | Reductions | Transfers | Balance September 30, 2020 |
|---|----------------------------------|---------------------|-----------------------|---------------------|----------------------------------|
| Capital assets not being depreciated | | | | | |
| Land | \$ 5,757,010 | \$ 4,640 | \$ - | \$ - | \$ 5,761,650 |
| Construction in progress | 38,755,989 | 9,886,206 | - | (45,732,343) | 2,909,852 |
| Total capital assets not being depreciated | 44,512,999 | 9,890,846 | - | (45,732,343) | 8,671,502 |
| Capital assets being depreciated | | | | | |
| Land improvements | 1,951,240 | 5,872 | - | 264,961 | 2,222,073 |
| Buildings | 68,851,284 | 72,710 | (1,879,564) | 40,037,963 | 107,082,393 |
| Equipment | 76,542,824 | 2,871,005 | (10,841) | 5,429,419 | 84,832,407 |
| Total capital assets being depreciated | 147,345,348 | 2,949,587 | (1,890,405) | 45,732,343 | 194,136,873 |
| Less accumulated depreciation for | | | | | |
| Land improvements | (1,184,289) | (117,805) | - | - | (1,302,094) |
| Buildings | (37,225,039) | (2,882,769) | 677,032 | - | (39,430,776) |
| Equipment | (56,932,447) | (5,531,447) | 6,828 | - | (62,457,066) |
| Total accumulated depreciation | (95,341,775) | (8,532,021) | 683,860 | - | (103,189,936) |
| Capital assets being depreciated, net | 52,003,573 | (5,582,434) | (1,206,545) | 45,732,343 | 90,946,937 |
| Capital assets, net | \$ 96,516,572 | \$ 4,308,412 | \$ (1,206,545) | \$ - | \$ 99,618,439 |

**South Central Regional Medical Center
(A Component Unit of Jones County)
Notes to Financial Statements**

Note 5: CAPITAL ASSETS (Continued)

Capital asset additions, retirements and balances for the year ended September 30, 2019, were as follows:

| <i>September 30,</i> | Balance September 30, 2018 | Additions | Reductions | Balance September 30, 2019 |
|---|---|----------------------|--------------------|---|
| Capital assets not being depreciated | | | | |
| Land | \$ 4,374,110 | \$ 1,382,900 | \$ - | \$ 5,757,010 |
| Construction in progress | 28,122,845 | 10,633,144 | - | 38,755,989 |
| Total capital assets not being depreciated | 32,496,955 | 12,016,044 | - | 44,512,999 |
| Capital assets being depreciated | | | | |
| Land improvements | 1,915,029 | 36,211 | - | 1,951,240 |
| Buildings | 65,574,424 | 3,307,114 | (30,254) | 68,851,284 |
| Equipment | 79,984,907 | 4,305,629 | (7,747,712) | 76,542,824 |
| Total capital assets being depreciated | 147,474,360 | 7,648,954 | (7,777,966) | 147,345,348 |
| Less accumulated depreciation for | | | | |
| Land improvements | (1,070,269) | (114,020) | - | (1,184,289) |
| Buildings | (34,817,499) | (2,407,540) | - | (37,225,039) |
| Equipment | (59,364,826) | (5,316,708) | 7,749,087 | (56,932,447) |
| Total accumulated depreciation | (95,252,594) | (7,838,268) | 7,749,087 | (95,341,775) |
| Capital assets being depreciated, net | 52,221,766 | (189,314) | (28,879) | 52,003,573 |
| Capital assets, net | \$ 84,718,721 | \$ 11,826,730 | \$ (28,879) | \$ 96,516,572 |

**South Central Regional Medical Center
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Notes to Financial Statements**

Note 6: OTHER ASSETS

The composition of other noncurrent assets at September 30, 2020 and 2019 was as follows:

| <i>September 30,</i> | 2020 | 2019 |
|--|---------------------|---------------------|
| Morris & Dickson deposit | \$ 528,796 | \$ 528,796 |
| CON - 60 nursing home beds | 637,500 | 637,500 |
| City of Laurel, lease rights | 12,316 | 12,590 |
| Premier Healthcare Solutions, Inc., common stock | 3,400,367 | 2,567,476 |
| Investment in Workers Compensation Public Pool | 408,123 | 410,981 |
| Investment in Laurel Surgical and Endoscopy Center | 624,548 | 366,275 |
| Clinic acquisitions - medical records | 29,706 | 29,706 |
| Insurance receivable | 2,630,688 | 2,180,747 |
| Non-current portion of note receivable | 632,153 | 667,598 |
| Total other assets | \$ 8,904,197 | \$ 7,401,669 |

The Medical Center's group purchasing organization, Premier Healthcare Solutions, Inc. (PHSI), completed an initial public offering on September 26, 2013. This resulted in the Medical Center's shares of PHSI stock being converted into 103,575 shares of Class B units in the public company. The Medical Center's initial ownership interest in PHSI was recorded as an equity-based investment of \$171,000 at September 30, 2013. The Class B shares were exchangeable pro rata over seven years into Class A common shares or to retain as Class B shares. As the Class B common shares are exchanged, the Class A common share value is based on the quoted market price and thus is measured using level 1 inputs. The carrying value of the Premier investment was approximately \$3,400,000 and \$2,567,000 as of September 30, 2020 and 2019, respectively.

Note 7: LONG-TERM DEBT

A summary of long-term debt, inclusive of capital lease obligations, at September 30, 2020 and 2019 follows:

| <i>September 30,</i> | 2020 | 2019 |
|--|-------------|-------------|
| Capital lease obligation, interest rate of 4.10%, monthly payments of \$8,245, maturing November 2023, collateralized by leased equipment. | \$ 306,250 | \$ 371,468 |
| Note Payable, interest rate of 3.67%, monthly payments of \$51,749, maturing March 2037. | 7,647,373 | 7,976,363 |
| Note Payable, interest rate of 4.8%, monthly payments of \$36,887, maturing January 2034. | 4,335,222 | 4,560,332 |

**South Central Regional Medical Center
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Notes to Financial Statements**

Note 7: LONG-TERM DEBT (Continued)

| <u>September 30,</u> | <u>2020</u> | <u>2019</u> |
|---|----------------------|----------------------|
| Capital lease obligation, zero interest, monthly payments of \$43,900, maturing December 2021, collateralized by leased equipment. | 658,500 | 1,185,300 |
| Capital lease obligation, interest rate of 5.33%, monthly payments of \$12,309, maturing December 2022, collateralized by leased equipment. | 334,214 | 460,421 |
| Capital lease obligation, zero interest, monthly payments of \$12,332, maturing November 2023, collateralized by leased equipment. | 320,632 | - |
| Capital lease obligation, interest rate of zero interest, monthly payments of \$3,273, maturing November 2023, collateralized by leased equipment. | 85,106 | - |
| Series 2017 Revenue notes dated March 1, 2017, maturing March 1, 2020, interest is due semiannually on March 1 and September 1 at a rate of 1.7 percent. | - | 57,745,000 |
| USDA Revenue Bonds Series 2020, original principal amount of \$57,745,000, bearing an interest rate of 2.75%. Principal and interest payments in the amount of \$198,644 are due monthly beginning on March 19, 2020 through February 19, 2060. | 57,283,340 | - |
| | 70,970,637 | 72,298,884 |
| Less: current portion | 2,331,427 | 1,304,544 |
| | \$ 68,639,210 | \$ 70,994,340 |

During 2017, the Medical Center issued Medical Center Revenue notes, Series 2017, in the amount of \$57,745,000 and a promissory note with a local bank in the amount of \$8,755,000 through the United States Department of Agriculture ("USDA") direct loan program and the USDA guaranty loan program, respectively. The debt proceeds were used to refund the Mississippi Medical Center Equipment and Facilities Authority bonds dated September 7, 2006, payoff the outstanding bank loans and capital lease obligations, and fund Medical Center expansion (the "Project"). The Project consists of a 67,980 square foot three-floor addition to the easterly end of the Medical Center to house a new emergency department and to shell in two floors for future expansion, the construction of a 67,815 square foot four-floor medical office building, new parking areas and drives and a paved heliport. The Project was completed February 2020 and USDA redeemed the Series 2017 Medical Center Revenue notes.

South Central Regional Medical Center
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Notes to Financial Statements

Note 7: LONG-TERM DEBT (Continued)

The maturities on long-term debt are as follows:

| <i>Year ending September 30,</i> | Loans & Notes Payable | | Capital Lease Obligation | | Revenue Bonds Payable | |
|----------------------------------|----------------------------------|---------------------|---------------------------------|-------------------|------------------------------|----------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2021 | \$ 579,180 | \$ 484,445 | \$ 935,218 | \$ 25,489 | \$ 817,029 | \$ 1,566,699 |
| 2022 | 603,926 | 459,699 | 551,071 | 14,537 | 839,809 | 1,543,919 |
| 2023 | 629,749 | 433,877 | 188,093 | 99,752 | 863,223 | 1,520,505 |
| 2024 | 655,554 | 408,071 | 30,319 | 247 | 883,125 | 1,500,603 |
| 2025 | 684,770 | 378,855 | - | - | 911,912 | 1,471,816 |
| 2026-2030 | 3,889,685 | 1,428,442 | - | - | 4,951,309 | 6,967,331 |
| 2031-2035 | 4,035,165 | 545,230 | - | - | 5,681,344 | 6,237,296 |
| 2036-2040 | 904,566 | 26,916 | - | - | 6,516,236 | 5,402,404 |
| 2041-2045 | - | - | - | - | 7,480,655 | 4,437,985 |
| 2046-2050 | - | - | - | - | 8,583,728 | 3,334,912 |
| 2051-2055 | - | - | - | - | 9,849,480 | 2,069,160 |
| 2056-2060 | - | - | - | - | 9,905,490 | 626,379 |
| | \$ 11,982,595 | \$ 4,165,535 | \$ 1,704,702 | \$ 140,025 | \$ 57,283,340 | \$ 36,679,009 |

The Medical Center leases equipment with a historical cost and accumulated depreciation of \$2,673,191 and \$537,073, respectively, under capital lease arrangements.

A schedule of changes in the Medical Center's long-term debt for 2020 follows:

| | Balance September 30, 2019 | | | Balance September 30, 2020 | | Due Within One Year |
|-----------------------------|---|----------------------|------------------------|---|------|------------------------------------|
| | | Additions | Reductions | | | |
| 2017 revenue notes | \$ 57,745,000 | \$ - | \$ (57,745,000) | \$ - | \$ - | - |
| USDA 2020 revenue bonds | - | 57,745,000 | (461,660) | 57,283,340 | | 817,029 |
| Notes payable | 12,536,695 | - | (554,100) | 11,982,595 | | 579,180 |
| Capital lease obligations | 2,017,189 | 561,792 | (874,279) | 1,704,702 | | 935,218 |
| Total long-term debt | \$ 72,298,884 | \$ 58,306,792 | \$ (59,635,039) | \$ 70,970,637 | | \$ 2,331,427 |

**South Central Regional Medical Center
(A Component Unit of Jones County)
Notes to Financial Statements**

Note 7: LONG-TERM DEBT (Continued)

A schedule of changes in the Medical Center's long-term debt for 2019 follows:

| | Balance September 30, 2018 | Additions | Reductions | Balance September 30, 2019 | Due Within One Year |
|-----------------------------|----------------------------------|---------------------|-----------------------|----------------------------------|---------------------------|
| Bonds payable | | | | | |
| 2017 indenture | \$ 57,745,000 | \$ - | \$ - | \$ 57,745,000 | \$ - |
| Notes payable | 8,742,971 | 6,810,968 | (1,000,055) | 14,553,884 | 1,304,544 |
| Total long-term debt | \$ 66,487,971 | \$ 6,810,968 | \$ (1,000,055) | \$ 72,298,884 | \$ 1,304,544 |

Note 8: NET INVESTMENT IN CAPITAL ASSETS

The Medical Center's net investment in capital assets, as presented on the accompanying statements of net position is calculated as follows:

| <i>September 30,</i> | 2020 | 2019 |
|---|-----------------------|----------------|
| Capital assets | \$ 202,300,552 | \$ 191,858,347 |
| Less accumulated depreciation | (102,682,113) | (95,341,775) |
| Less debt outstanding related to capital assets | (70,970,637) | (63,536,308) |
| Net investment in capital assets | \$ 28,647,802 | \$ 32,980,264 |

Note 9: NET PATIENT SERVICE REVENUE

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

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. 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 nonacute services are paid based on a prospective payment system. The Medical Center is reimbursed for cost-reimbursable items at a tentative rate, with final settlement determined after submission and review by the fiscal intermediary of annual cost reports.

**South Central Regional Medical Center
(A Component Unit of Jones County)
Notes to Financial Statements**

Note 9: NET PATIENT SERVICE REVENUE (Continued)

Medicaid - Inpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a prospective reimbursement methodology known as an APR-DRG system. Outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a prospective reimbursement methodology known as an APC system.

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

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

The MHAP Program is administered by the Division of Medicaid (DOM) through the Mississippi CAN coordinated care organizations (CCO). The CCO's subcontract with Medical Centers throughout the state for distribution of MHAP payments for the purpose of protecting patient access to Medical Center care. DSH and MHAP payments and associated tax are distributed and collected in equal monthly installments. MHAP amounts are shown as a reduction of contractual adjustments and are recorded net of related taxes paid.

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

**South Central Regional Medical Center
(A Component Unit of Jones County)
Notes to Financial Statements**

Note 9: NET PATIENT SERVICE REVENUE (Continued)

Under the Medical Center and Nursing Home MHAP and UPL programs, the Medical Center received enhanced reimbursement for 2020 and 2019 as follows:

| <i>September 30,</i> | 2020 | 2019 |
|---|---------------------|---------------------|
| UPL revenue, gross | \$ 2,534,441 | \$ 3,070,673 |
| MHAP revenue, gross | 8,262,663 | 8,927,899 |
| UPL assessment | 426,293 | 703,720 |
| MHAP assessment | 2,988,911 | 4,971,400 |
| MHAP and UPL revenue, net of assessment | \$ 7,381,900 | \$ 6,323,452 |

Medicare and Medicaid Laws and Regulations - Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result of those interpretations, the 2020 and 2019 net patient service revenue increased (decreased) approximately \$170,000 and (\$1,160,000), respectively, due to prior year retroactive adjustments in excess of amounts previously estimated.

The composition of net patient service revenue was as follows:

| <i>September 30,</i> | 2020 | 2019 |
|---|-----------------------|-----------------------|
| Gross patient service revenue | \$ 440,012,518 | \$ 460,401,354 |
| Less provisions for | | |
| Contractual adjustments under third-party reimbursement programs and other deductions | 244,478,473 | 256,845,588 |
| Provision for bad debts | 18,412,574 | 19,298,427 |
| Net patient service revenue | \$ 177,121,471 | \$ 184,257,339 |

Nonoperating Income

Additional funding for the Public Health and Social Services Emergency Fund (“Relief Fund”) was among the provisions of the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), which was signed into law on March 27, 2020, and other legislation. In the year ended September 30, 2020, the Medical Center received cash payments and recognized nonoperating income of \$8.3 million due to grants from the Relief Fund and state grant programs, which is reported as nonoperating income in the Medical Center’s accompanying statement of revenues, expenses, and changes in net position at September 30, 2020. The Medical Center has deferred \$25 million of payments, which is recorded in unearned revenue on the statement of net position. Payments from the Relief Fund are not loans and, therefore, they are not subject to repayment. However, as a condition to receiving distributions, providers must agree to certain terms and conditions, including, among other things, that the funds are being used for lost operating revenues and COVID-related

**South Central Regional Medical Center
(A Component Unit of Jones County)
Notes to Financial Statements**

Note 9: NET PATIENT SERVICE REVENUE (Continued)

Nonoperating Income (Continued)

costs, and that the providers will not seek collection of out-of-pocket payments from a COVID-19 patient that are greater than what the patient would have otherwise been required to pay if the care had been provided by an in-network provider. The Medical Center recognizes grant payments as income when there is reasonable assurance of compliance with the conditions associated with the grant. Medical Center's estimates could change materially in the future based on Medical Center's operating performance or COVID-19 activities at individual locations, as well as the evolving grant compliance guidance provided by the government.

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

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

Public Health and Social Services Emergency Fund - To address the fiscal burdens on healthcare providers created by the COVID-19 public health emergency, the CARES Act and the Paycheck Protection Program authorized \$175 billion for the Relief Fund. During the year ended September 30, 2020, HHS commenced distribution of approximately \$100 billion in several tranches from the Relief Fund to providers, including:

- A \$50 billion general distribution to Medicare fee-for-service providers;
- An allocation of approximately \$15 billion to Medicaid and CHIP providers that did not receive an allocation from the \$50 billion general distribution;
- Targeted distributions comprised of (i) \$12 billion for Medical Centers determined to be in areas particularly impacted by COVID-19 based on reported COVID-19 admissions, (ii) \$10 billion to rural healthcare providers, (iii) \$5 billion to skilled nursing facilities, (iv) \$10 billion to safety net Medical Centers and (v) \$500 million to tribal Medical Centers, clinics and urban health centers.

In July 2020, HHS announced the distribution of an additional \$4 billion (\$1 billion to rural Medical Centers and \$3 billion to safety net Medical Centers) and the expansion of the Relief Fund to dental providers. Payments from the Relief Fund are not loans and, therefore, they are not subject to repayment. However, as a condition to receiving distributions, providers had to agree to certain

**South Central Regional Medical Center
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Notes to Financial Statements**

Note 9: NET PATIENT SERVICE REVENUE (Continued)

The Coronavirus Aid, Relief, and Economic Security Act of 2020 and Related Legislation (Continued)

terms and conditions, including, among other things, that the funds be used for lost operating revenues and COVID-related costs, and that the providers not seek collection of out-of-pocket payments from a COVID-19 patient that are greater than what the patient would have otherwise been required to pay if the care had been provided by an in-network provider. Furthermore, HHS has indicated that it will be closely monitoring and, along with the Office of Inspector General, auditing providers to ensure that recipients comply with the terms and conditions of relief programs and to prevent fraud and abuse. All providers will be subject to civil and criminal penalties for any deliberate omissions, misrepresentations or falsifications of any information given to HHS. Except for certain immaterial Relief Fund payments the Medical Center returned to HHS, the Medical Center has formally accepted the terms and conditions associated with the receipt of Relief Fund payments the Medical Center have received.

Medicare and Medicaid Payment Policy Changes - The CARES Act also alleviates some of the financial strain on Medical Centers, physicians, and other healthcare providers and states through a series Medicare and Medicaid payment policies that temporarily increase Medicare and Medicaid reimbursement and allow for added flexibility, as described below.

- Effective May 1, 2020 through December 31, 2020, the 2% sequestration reduction on Medicare FFS and Medicare Advantage payments to Medical Centers, physicians and other providers authorized by the Sequestration Transparency Act of 2020 is suspended and will resume effective January 2021. The suspension is financed by a one-year extension of the sequestration adjustment through 2030.
- The CARES Act instituted a 20% increase in the Medicare MS-DRG payment for COVID-19 Medical Center admissions for the duration of the public health emergency as declared by the Secretary of HHS.
- The scheduled reduction of \$4 billion in federal Medicaid DSH allotments in FFY 2020, as mandated by the Affordable Care Act, is suspended until December 1, 2020. Also, the federal DSH allotment reduction for FFY 2021 will be reduced from \$8 billion to \$4 billion. Notwithstanding these adjustments, the ACA-mandated reduction is not expected to be extended past its original termination in FFY 2025.

**South Central Regional Medical Center
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Notes to Financial Statements**

Note 9: NET PATIENT SERVICE REVENUE (Continued)

The Coronavirus Aid, Relief, and Economic Security Act of 2020 and Related Legislation (Continued)

- The CARES Act expanded the Medicare accelerated payment program, which provides prepayment of claims to providers in certain circumstances, such as national emergencies or natural disasters. Under this measure, providers could request accelerated payments that may be retained for 120 days during which time providers continue to receive payments for services. At the end of the 120-period, the accelerated payment will be repaid via a 100% offset of payments on claims that would otherwise be paid. The repayment period for hospitals and other providers is one year and 210 days, respectively, from the date of receipt of the accelerated payment, after which interest is assessed on the unpaid balance.
- A 6.2% increase in the Federal Medical Assistance Percentage (“FMAP”) matching funds was instituted to help states respond to the COVID-19 pandemic. The additional funds are available to states from January 1, 2020 through the quarter in which the public health emergency period ends, provided that states meet certain conditions. An increase in states’ FMAP leverages Medicaid’s existing financing structure, which allows federal funds to be provided to states more quickly and efficiently than establishing a new program or allocating money from a new funding stream. Increased federal matching funds support states in responding to the increased need for services, such as testing and treatment during the COVID-19 public health emergency, as well as increased enrollment as more people lose income and qualify for Medicaid during the economic downturn.

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

Note 10: INSURANCE PROGRAMS

Risk Management

The Medical Center is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health, dental and accident benefits. Commercial liability insurance is purchased for most of these risks. However, employee health and dental insurance, workers’ compensation and certain general and professional liability risks are self-funded as further explained below. The Medical Center has accrued for the estimate of self-funded claims incurred but not paid.

South Central Regional Medical Center
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Notes to Financial Statements

Note 10: INSURANCE PROGRAMS (Continued)

Self-Funded Workers Compensation

Effective July 1, 2010, the Medical Center began an individual self-funded plan for workers' compensation claims. Prior to July 1, 2010, the Medical Center participated in the Mississippi Medical Center Association Public Medical Center's workers' compensation pool. A liability is recorded when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. Liabilities for claims incurred are reevaluated periodically to take into consideration recently settled claims, frequency of claims and other economic and social factors. The Medical Center purchased commercial insurance that provides coverage for workers' compensation claims in excess of the self-funded limits. As of September 30, 2020 and 2019, the Medical Center accrued \$100,000 for potential claim liabilities. Claims and related activity were not significant for the years ended September 30, 2020 and 2019.

Self-Funded Health Insurance

The Medical Center provides health and dental insurance coverage to its employees under a self-funded plan. Health claims are paid by the Medical Center as they are incurred and filed by the employee. An estimated liability for claims incurred but not reported or paid is included in other current liabilities and accrued self-insurance costs and operating expenses in the financial statements.

The claims liability at September 30, 2020 and 2019 is based on the requirements of GASB, which requires that liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the Medical Center's claims liability amount in fiscal years, 2020 and 2019 were:

| | Balance September 30, | Current Year Claims and Changes in Estimates | Current Year Payments | Balance September 30, |
|------|--------------------------|---|-----------------------------|--------------------------|
| 2020 | \$ 1,021,780 | \$ 8,460,864 | \$ (8,462,644) | \$ 1,020,000 |
| 2019 | \$ 1,712,529 | \$ 7,910,977 | \$ (8,601,726) | \$ 1,021,780 |

Medical Malpractice Program

The Medical Center maintains a professional and general liability insurance program under a self-funded plan. At year-end, the Medical Center accrues for the estimate of losses for malpractice claims outstanding. As of September 30, 2020 and 2019, this accrual totaled \$1,550,000 and \$1,250,000, respectively. The future assertion of claims for occurrences prior to year-end is reasonably possible and may occur, although it is not anticipated.

**South Central Regional Medical Center
(A Component Unit of Jones County)
Notes to Financial Statements**

Note 10: INSURANCE PROGRAMS (Continued)

Changes in the Medical Center's claims liability amount, including related legal fees, for the years 2020 and 2019 were as follows:

| | Balance September 30, | Current Year Claims and Changes in Estimates | Current Year Payments | Balance September 30, |
|------|--------------------------|---|-----------------------------|--------------------------|
| 2020 | \$ 1,250,000 | \$ 1,033,234 | \$ (733,234) | \$ 1,550,000 |
| 2019 | \$ 1,250,000 | \$ 332,543 | \$ (332,543) | \$ 1,250,000 |

The Mississippi Tort Claims Act provides a cap on the amount of damages recoverable against government entities, including governmental medical centers. For claims filed, the amount recoverable is the greater of \$500,000 or the amount of liability insurance coverage that has been retained.

Note 11: RETIREMENT PLAN

The Medical Center has established a 403(b) tax deferred retirement plan for the benefit of all full-time employees. Effective November 1, 2007, the Medical Center matches 100 percent of each contribution as follows: less than 10 years of participation, the Medical Center will match 100 percent of contributions up to 1.5 percent of eligible compensation; 10-15 years of participation, the Medical Center will match 167 percent of contributions up to 2.5 percent of eligible compensation; 15-20 years of participation, the Medical Center will match 200 percent of contributions up to 3 percent of eligible compensation; and greater than 20 years of participation, the Medical Center will match 233 percent of contributions up to 3.5 percent of eligible compensation. Participants are immediately vested in their salary reduction contributions plus earnings thereon. Participants gain 100 percent vesting in Medical Center matching contributions after 5 years of participation based on a tiered schedule. The Medical Center's matching contributions for the years ended September 30, 2020 and 2019 were approximately \$940,000 and \$930,000, respectively.

**South Central Regional Medical Center
(A Component Unit of Jones County)
Notes to Financial Statements**

Note 12: SIGNIFICANT ESTIMATES AND CONCENTRATIONS

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 9.

Litigation

In the normal course of business, the Medical Center is, from time to time, subject to allegations that may or do result in litigation. The Medical Center evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Accounts Receivable

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

| <i>September 30,</i> | 2020 | 2019 |
|----------------------|---------------|--------|
| Medicare | 32.3% | 31.3% |
| Medicaid | 12.2% | 8.9% |
| Commercial | 28.1% | 33.9% |
| Other | 27.4% | 25.9% |
| Total | 100.0% | 100.0% |

**South Central Regional Medical Center
(A Component Unit of Jones County)
Notes to Financial Statements**

Note 12: SIGNIFICANT ESTIMATES AND CONCENTRATIONS (Continued)

Patient Service Revenue Under Contract

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

| | September 30, 2020 | | September 30, 2019 | |
|--------------|-----------------------|---|-----------------------|---|
| | Amount | Percent of Total Gross Patient Revenue | Amount | Percent of Total Gross Patient Revenue |
| Medicare | \$ 228,942,000 | 52.0% | \$ 243,280,843 | 52.8% |
| Medicaid | 76,080,000 | 17.3% | 81,965,249 | 17.8% |
| Other | 134,990,518 | 30.7% | 135,155,262 | 29.4% |
| Total | \$ 440,012,518 | 100.0% | \$ 460,401,354 | 100.0% |

Note 13: COMMITMENTS AND CONTINGENCIES

Operating Leases

The Medical Center leases various equipment and facilities under operating leases expiring at various dates through 2024. Total rental expense for the years ended September 30, 2020 and 2019 for all operating leases was \$2,377,266 and \$2,647,369, respectively.

The following is a schedule, by year of expiration, of the approximate future minimum lease payments under non-cancelable operating leases as of September 30, 2020 that have initial or remaining lease terms in excess of one year:

| <i>Year ending September 30,</i> | Amount |
|----------------------------------|---------------------|
| 2021 | \$ 1,154,341 |
| 2022 | 1,151,071 |
| 2023 | 1,151,071 |
| 2024 | 1,150,071 |
| | \$ 4,606,554 |

Guaranty of Joint Venture Debt

The Medical Center is guarantor for the debt for one of its joint ventures. In the event of default on the debt, the Medical Center will be required to pay to the joint venture's debt holder 110 percent of 51 percent of the outstanding joint venture debt. The potential total of this payment amounted to

**South Central Regional Medical Center
(A Component Unit of Jones County)
Notes to Financial Statements**

Note 13: COMMITMENTS AND CONTINGENCIES (Continued)

Guaranty of Joint Venture Debt (Continued)

\$37,506 and \$23,290 at September 30, 2020 and 2019, respectively. No liability has been recorded for this guarantee as of September 30, 2020 and 2019. In connection with the debt guarantee, the Medical Center pledged as collateral a certificate of need for the operation of an ambulatory surgery center. Substantially all of the assets of the joint venture have also been pledged as collateral for the debt.

COVID-19

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a pandemic. As a result, uncertainties have arisen that may have a significant negative impact on the operating activities and results of the Organization. The occurrence and extent of such an impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) voluntary and precautionary restrictions on travel or meetings, (iv) the effects on the financial markets, and (v) the effects on the economy overall, all of which are uncertain.

**South Central Regional Medical Center
(A Component Unit of Jones County)
Notes to Financial Statements**

Note 14: BLENDED COMPONENT UNITS

The Foundation is a tax-exempt, legally separate component unit of the Medical Center. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the Medical Center.

Open MRI is a legally separate, taxable component unit of the Medical Center. The Medical Center owns a 51 percent majority share of Open MRI.

The condensed statements of net position, condensed statements of revenue, expenses and changes in net position, and the condensed statements of cash flows as of and for the years ended September 30, 2020 and 2019 for The Foundation and Open MRI are detailed as follows:

| <i>September 30,</i> | 2020 | |
|---|-----------------------|---------------------|
| | The Foundation | Open MRI |
| Condensed Statements of Net Position | | |
| Assets | | |
| Current assets | \$ 111,272 | \$ 576,315 |
| Capital assets | - | 864,886 |
| Total assets | 111,272 | 1,441,201 |
| Liabilities and Net Position (Deficit) | | |
| Current liabilities | - | 171,394 |
| Long-term debt | - | 306,250 |
| Total liabilities | - | 477,644 |
| Net position (deficit) | | |
| Net investment in capital assets | - | 558,636 |
| Unrestricted | 111,272 | 404,921 |
| Total net position (deficit) | 111,272 | 963,557 |
| Total liabilities and net position | \$ 111,272 | \$ 1,441,201 |

**South Central Regional Medical Center
(A Component Unit of Jones County)
Notes to Financial Statements**

Note 14: BLENDED COMPONENT UNITS (Continued)

| <i>September 30,</i> | 2020 | |
|---|----------------|--------------|
| | The Foundation | Open MRI |
| Condensed Statements of Revenue and Expenses and Changes in Net Position | | |
| Operating Revenue | | |
| Net patient service revenue | \$ - | \$ 1,240,216 |
| Other operating revenue | 207,755 | 2,755 |
| Total operating revenue | 207,755 | 1,242,971 |
| Operating Expenses | | |
| Depreciation expenses | - | 63,232 |
| Other operating expenses | 161,494 | 937,337 |
| Total operating expenses | 161,494 | 1,000,569 |
| Operating income (loss) | 46,261 | 242,402 |
| Nonoperating Revenue (Expenses) | | |
| Interest expense | - | (6,450) |
| CARES Act funding | - | 61,333 |
| Increase (decrease) in net position | 46,261 | 297,285 |
| Net Position (Deficit) - beginning of year | 65,011 | 737,272 |
| Distributions | - | (71,000) |
| Net Position (Deficit) - end of year | \$ 111,272 | \$ 963,557 |

| <i>September 30,</i> | 2020 | |
|---|----------------|------------|
| | The Foundation | Open MRI |
| Condensed Statements of Cash Flows | | |
| Cash provided by (used in) operating activities | \$ 46,261 | \$ 248,460 |
| Cash (used in) provided by noncapital financing activities | - | (9,667) |
| Cash (used in) provided by capital and related financing activities | - | (77,906) |
| Increase (decrease) in cash and cash equivalents | 46,261 | 160,887 |
| Cash and Cash Equivalents - beginning of year | 65,011 | 134,213 |
| Cash and Cash Equivalents - end of year | \$ 111,272 | \$ 295,100 |

**South Central Regional Medical Center
(A Component Unit of Jones County)
Notes to Financial Statements**

Note 14: BLENDED COMPONENT UNITS (Continued)

| <i>September 30,</i> | 2019 | |
|---|----------------|--------------|
| | The Foundation | Open MRI |
| Condensed Statements of Net Position | | |
| Assets | | |
| Current assets | \$ 65,011 | \$ 272,532 |
| Capital assets | - | 921,880 |
| Total assets | 65,011 | 1,194,412 |
| Liabilities and Net Position (Deficit) | | |
| Current liabilities | - | 85,672 |
| Long-term debt | - | 371,468 |
| Total liabilities | - | 457,140 |
| Net position (deficit) | | |
| Net investment in capital assets | - | 550,412 |
| Unrestricted | 65,011 | 186,860 |
| Total net position (deficit) | 65,011 | 737,272 |
| Total liabilities and net position | \$ 65,011 | \$ 1,194,412 |

**South Central Regional Medical Center
(A Component Unit of Jones County)
Notes to Financial Statements**

Note 14: BLENDED COMPONENT UNITS (Continued)

| <i>September 30,</i> | 2019 | |
|---|------------------|-------------------|
| | The Foundation | Open MRI |
| Condensed Statements of Revenue and Expenses and Changes in Net Position | | |
| Operating Revenue | | |
| Net patient service revenue | \$ - | 1,336,005 |
| Other operating revenue | 128,725 | 2,087 |
| Total operating revenue | 128,725 | 1,338,092 |
| Operating Expenses | | |
| Depreciation expenses | - | 63,464 |
| Other operating expenses | 107,717 | 1,021,617 |
| Total operating expenses | 107,717 | 1,085,081 |
| Operating income (loss) | 21,008 | 253,011 |
| Nonoperating Revenue (Expenses) | | |
| Interest expense | - | (23,655) |
| Increase (decrease) in net position | 21,008 | 229,356 |
| Net Position (Deficit) - beginning of year | 44,003 | 712,304 |
| Distributions | - | (204,388) |
| Net Position (Deficit) - end of year | \$ 65,011 | \$ 737,272 |

| <i>September 30,</i> | 2019 | |
|---|------------------|-------------------|
| | The Foundation | Open MRI |
| Condensed Statements of Cash Flows | | |
| Cash provided by (used in) operating activities | \$ 21,008 | \$ 295,154 |
| Cash (used in) provided by capital and related financing activities | - | (283,878) |
| Increase (decrease) in cash and cash equivalents | 21,008 | 11,276 |
| Cash and Cash Equivalents - beginning of year | 44,003 | 122,937 |
| Cash and Cash Equivalents - end of year | \$ 65,011 | \$ 134,213 |

South Central Regional Medical Center
(A Component Unit of Jones County)
Notes to Financial Statements

Note 15: INVESTMENT IN JOINT VENTURE

The Medical Center has an ownership interest (51 percent) in a joint venture that provides surgical and endoscopy services. The Medical Center's investment in the joint venture is reflected in other assets on the accompanying statements of net position. The following is summarized unaudited financial information for the joint venture as of and for the years ended September 30, 2020 and 2019, respectively.

| <i>September 30,</i> | 2020 | 2019 |
|--|---------------------|-------------------|
| Cash | \$ 780,669 | \$ 307,480 |
| Patient accounts receivable, net | 404,169 | 290,309 |
| Capital assets, net | 180,607 | 118,352 |
| Other assets | 184,259 | 175,276 |
| Total assets | \$ 1,549,704 | \$ 891,417 |
| Current liabilities | \$ 239,792 | \$ 184,683 |
| Long-term liabilities | 66,856 | 41,515 |
| Members' capital | 1,243,056 | 665,219 |
| Total liabilities and capital | \$ 1,549,704 | \$ 891,417 |
| Net patient service and other revenues | \$ 4,803,278 | \$ 4,897,809 |
| Operating expenses | (4,152,187) | (4,440,199) |
| Net income | \$ 651,091 | \$ 457,610 |

**South Central Regional Medical Center
(A Component Unit of Jones County)
Schedule of Surety Bonds for Officers and Employees
September 30, 2020**

| Name | Position | Company | Amount of Bond |
|-------------------------|--|---|-------------------|
| Becky Brewer | Trustee | Fidelity and Deposit Company of Maryland | \$ 100,000 |
| Victor Jones, Jr. | Trustee | Fidelity and Deposit Company of Maryland | \$ 100,000 |
| Lewis Goins | Trustee | Fidelity and Deposit Company of Maryland | \$ 100,000 |
| Michael Lowe | Trustee | Fidelity and Deposit Company of Maryland | \$ 100,000 |
| Jack M. Scoggin | Trustee | Fidelity and Deposit Company of Maryland | \$ 100,000 |
| Arthur L. Siggers | Trustee | Fidelity and Deposit Company of Maryland | \$ 100,000 |
| George Walters | Trustee | Fidelity and Deposit Company of Maryland | \$ 100,000 |
| G. Douglas Higginbotham | President & Chief Executive Officer | Fidelity and Deposit Company of Maryland | \$ 100,000 |
| All Employees | | Fidelity and Deposit Company of Maryland | \$ 250,000 |



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

Board of Trustees
South Central Regional Medical Center
Laurel, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of South Central Regional Medical Center (the Medical Center), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements, and have issued our report thereon dated November 23, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

CARR, RIGGS & INGRAM, L.L.C.

Ridgeland, Mississippi
November 23, 2020