

Singing River Health System
(A Component Unit of Jackson County, Mississippi)

Independent Auditor's Reports and Financial Statements

September 30, 2021 and 2020

Singing River Health System
(A Component Unit of Jackson County, Mississippi)
September 30, 2021 and 2020

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Independent Auditor's Report

Board of Trustees
Singing River Health System
Pascagoula, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of Singing River Health System (the Health System), a component unit of Jackson County, Mississippi, as of and for the years ended September 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Health System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Health System, as of September 30, 2021 and 2020, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated December 17, 2021, on our consideration of the Health System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Health System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health System's internal control over financial reporting and compliance.

BKD, LLP

Jackson, Mississippi
December 17, 2021

Singing River Health System

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Management’s Discussion and Analysis

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Introduction

This discussion and analysis provides management’s analysis of Singing River Health System’s (the “Health System”) financial performance for the fiscal years ended September 30, 2021 and 2020. Unless otherwise indicated, all financial and statistical information included herein relates to continuing operations. The following analysis should be read in conjunction with the accompanying financial statements and supplementary information.

Overview of the Financial Statements

This annual report consists of financial statements and notes to the financial statements of the Health System. The Health System is a governmental entity organized and existing pursuant to the applicable statutes of the State of Mississippi, an instrumentality of Jackson County, which operates on a not-for-profit basis and operates two hospitals organized as county hospitals in Jackson County under provisions of the statutes of the State of Mississippi and, as of October 1, 2020, purchased the ownership of a not-for-profit hospital in Harrison County, Mississippi. The Health System is exempt from federal and state income taxes.

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

On July 1, 2020, Ochsner Health System (Ochsner) and Singing River Health System signed a Strategic Partnership Agreement to expand access to high-quality, cost effective care in the communities the organizations serve. A Strategy and Oversight Committee was formed to manage the Singing River and Ochsner strategic partnership, composed of leaders from both organizations. Over time, facilities will be co-branded to reflect the partnership with Ochsner.

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

Industry Highlights

Several uncertainties exist as the health care industry is continuing to evolve and attempts to respond to the global pandemic and its unprecedented impacts globally. National efforts around health care reform abound. Regulatory changes are expected to continue, resulting in payment reductions and increased administrative documentation burdens.

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

- The Coronavirus Aid, Relief and Economic Security Act (CARES Act) and Paycheck Protection Program and Health Care Enhancement Act (Enhancement Act) provided over \$2 trillion in economic financial stimulus in the form of financial aid to individuals, business, nonprofit entities, states and municipalities. The purpose of this aid was to help offset lost revenues/volumes due to the COVID-19 pandemic. In the State of Mississippi, a majority of those funds are being allocated to the State's infrastructure, with only a minority percentage slated to go to health care specifically.
- The Centers for Medicare and Medicaid Services (CMS) finalized their proposal to reduce Medicare reimbursement for separately payable Part B drugs purchased via the 340B program from average sales price (ASP) plus 6% to ASP minus 22.5%. The close to 30% reduction went into effect January 2018, and while there have been legal challenges filed to reverse the cuts, they remain in place. The lower drug reimbursement was partially offset by a corresponding 3% increase in the Medicare Outpatient Prospective Payment System (OPPS) rates to attempt to make the cuts budget neutral for CMS. These cuts will continue into 2021 under a final government rule that was issued in November 2018. In August 2020, the Department of Health and Human Services (HHS) proposed a rule to cut reimbursement by an additional 6% in 2021. In extending the cuts into 2021, CMS acknowledged the ongoing lawsuit and sought public comment.
- During October 2018, CMS published an Advanced Notice of Proposed Rulemaking outlining their plan to create an International Pricing Index (IPI) for Part B drugs. The IPI would require third-party vendors to purchase separately payable Part B drugs for which they, and not the hospital, would be reimbursed by Medicare based on prices paid in other designated countries. Hospitals would no longer purchase or hold title to these drugs and would receive an administration fee and a drug add-on to compensate the hospital for administering the drugs to patients. The current proposal is subject to revision or withdrawal after public comments are received. It is too early to know whether we will be selected to participate, or to quantify the impact the IPI program would have on our health system.
- The Medicare Access and Chip Reauthorization Act (MACRA) went into effect in 2017, posing immediate implications to all health systems' financial performance by imposing a "value based payment modifier," theoretically emphasizing the importance of making patient outcomes and quality of care a governmental priority. The law provides greater flexibility to the Secretary of the Department of HHS in the timing of the implementation of the Merit-based Incentive Payment System (MIPS) under MACRA's Quality Payment Program (QPP). The new law modifies provisions of MACRA so that MIPS payment adjustments will apply only to services billed to Part B, thereby excluding payments for Part B drugs from MIPS payment adjustments.

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- Medicare sequestration cuts, previously slated to expire in 2021, have been extended three times through 2027. The CARES Act temporarily suspends the 2% sequestration payment adjustment on Medicare fee-for-service payment. This continues to be in effect for claims with dates of service through December 31, 2021.
- To offset the financial effects of treating Medicaid and other indigent patients, the Health System receives additional funding through the Mississippi Hospital Access Program (MHAP), formerly Upper Payment Limit (UPL) and Disproportionate Share Hospital (DSH) programs administered by the Mississippi Division of Medicaid (DOM). Under the Patient Protection and Affordable Care Act of 2010, reductions of DSH allotments are scheduled to continue through 2025, reducing the amount of funds received for treating Medicaid and other indigent patients. In the past, the Mississippi DOM unfairly distributed funds, creating a system of winners and losers with respect to DSH funds. Future distribution formulas could do the same.
- The Mississippi DOM phased in a new MHAP program beginning with the state for fiscal year 2020 referred to as the Quality Incentive Payment Program (QIPP), which bases payments partly on readmission rates. While readmission rates can be partially indicative of quality, due to wide variations in case mix activity, there may be significant deviations. Hospitals with higher activity and more diverse variations in case mix could experience a detrimental impact to their distribution.
- The Covid-19 pandemic has placed a significant amount of pressure on the industry. Increasingly, dramatic wage increases have been necessary to retain staff, especially in the clinical and nursing areas. Additionally, a migration of nursing staff to third-party contract agencies has required the Health System to supplement nursing staff with contract labor to maintain staffing levels at an extreme increase in the expense.
- Increased costs and delays in the supply chain pipeline related to medical supplies and pharmaceuticals continue to adversely impact net margin in the health care industry. In January 2021, the Health System lost its DSH 340B eligibility and had to register in the 340B program as a Rural Referral Center (RRC). While the Health System remained in the 340B program, RRC 340B entities are precluded from purchasing “orphan” drugs via the program. Many expensive specialty drugs, especially those administered in the cancer center and infusion clinics, have the “orphan” designation.

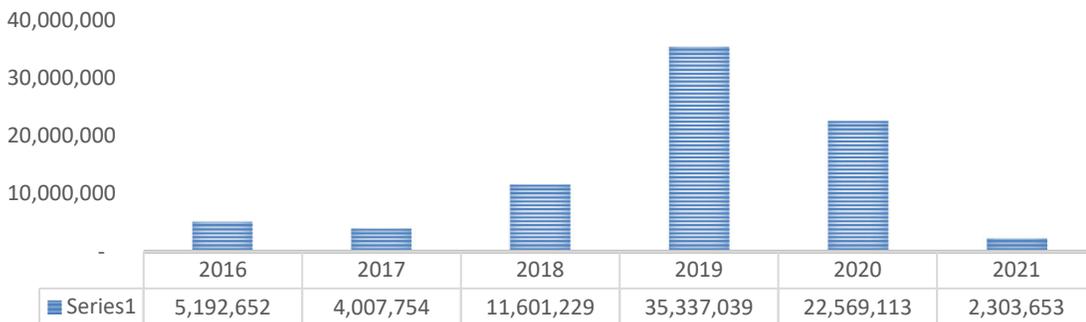
Financial Highlights

- The financial statements and statistical comparisons included in the following discussion also include the results of the investment in the facility in Gulfport, Mississippi on October 1, 2020, now known as Singing River Gulfport, for the fiscal year ended September 30, 2021. Prior fiscal year periods ended September 30, 2020 and 2019, do not include any results of operations or statistical results for Singing River Gulfport, and only reflect the operations of the two Jackson County hospitals and component units.

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- In the fiscal year ended September 30, 2021, the Health System provided leadership to the region in the areas of testing and vaccinations necessary for the response to the COVID-19 pandemic. In both Jackson County and Harrison County, the Health System organized drive through vaccination and testing locations that delivered over 20,000 vaccinations and performed over 97,000 COVID tests. In addition, the Health System delivered thousands of infusion therapies, which ensured the avoidance of lengthy hospital stays for those positive COVID-19 patients. The Health System also provided a substantial online, social, and traditional media presence to guide the local population in managing through unprecedented times. These efforts were completed with a significant use of volunteer labor, but also contributed to increases in salaries, overtime, supplies, and third-party testing fees, as other areas were required to respond to the need.
- The Health System’s net position decreased by \$0.1 million (0.1%) in fiscal year 2021, compared to an increase of \$12.2 million (6.6%) in 2020 and an increase of \$47.4 (34.8%) in 2019. The 2019 change in net position was significantly reduced by a noncash entry related to Governmental Accounting Standards Board (GASB) 68 accounting standard. Excluding the accounting entries related to GASB 68 and other infrequently recurring events, the increase in net position would have been \$35.4 million in fiscal year 2019. The current year increase in net position is primarily related to increases in volumes in some areas offset by other areas which experienced decreases related to the pandemic, with an overall strategy for finding efficiencies that will directly result in a reduction in expenses. It also reflects the addition of Singing River Gulfport. Surgical services for Jackson County operations have increased 10.7% and 2.8% in fiscal years 2021 and 2020, respectively. Primary care clinic visits in Jackson County have increased by 26.9% and 14.6% during fiscal years 2021 and 2020, respectively. Cancer Center visits have increased by 10.2% and neuroscience visits have increased by 10.2% during fiscal year 2021. Both of the latter service lines were a direct result of ongoing strategic growth of recruiting providers in those areas.

**ANNUAL PROFIT/(LOSS) - EXCLUDING
INFREQUENTLY OCCURRING EVENTS**



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- Current assets decreased \$24.2 million in fiscal year 2021 and increased \$74.9 million in fiscal year 2020. During fiscal year 2020, as part of the COVID-19 pandemic response programs by the federal and state government, the Health System received \$52.8 million from the Accelerated Advanced Payment (AAP) program and \$8.9 million in Provider Relief Funds (PRFs). The AAP funds have begun to be recouped via Medicare remittance reductions during the fiscal year ended September 30, 2021, whereas the PRFs will not require repayment, pending certain financial impact reporting and compliance with federal guidelines.
- Long-term debt, excluding current portion, decreased approximately \$8.4 million (19.6%) in fiscal year 2021 and \$8.3 million (16.2%) in fiscal year 2020. The Health System's payment of the annual principal and interest under the outstanding bonds issues were made in July as scheduled.
- During fiscal year 2021 and 2020, the Health System invested \$20.4 million and \$23.4 million, respectively, in facility infrastructure projects, critical information technology, and medical equipment.

Financial Statements

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

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Balance Sheets

The following table provides a summary of the Health System's total assets, total liabilities and total net position at September 30, 2021, 2020 and 2019:

Condensed Balance Sheets

(In Millions)

	2021	2020	Change	Total Percentage Change	2019	Change	Total Percentage Change
Assets and Deferred Outflows of Resources							
Current assets	\$222.1	\$246.3	\$ (24.2)	-9.8%	\$171.4	\$ 74.9	43.7%
Internally designated and trustee							
bond funds	3.6	3.6	-	0.0%	3.7	(0.1)	-2.7%
Capital assets, net	212.4	200.0	12.4	6.2%	197.7	2.3	1.2%
Other assets	8.1	10.1	(2.0)	-19.8%	10.1	-	0.0%
Total assets	<u>446.2</u>	<u>460.0</u>	<u>(13.8)</u>	-3.0%	<u>382.9</u>	<u>77.1</u>	20.1%
Deferred outflows of resources	<u>2.7</u>	<u>3.1</u>	<u>(0.4)</u>	-12.9%	<u>3.6</u>	<u>(0.5)</u>	-13.9%
Total assets and deferred outflows of resources	<u>\$448.9</u>	<u>\$463.1</u>	<u>\$ (14.2)</u>	-3.1%	<u>\$386.5</u>	<u>\$ 76.6</u>	19.8%
Liabilities							
Current liabilities	\$120.3	\$ 86.4	\$ 33.9	39.2%	\$ 52.2	\$ 34.2	65.5%
Long-term debt	34.5	42.9	(8.4)	-19.6%	51.2	(8.3)	-16.2%
Capital lease obligations	26.9	26.9	-	0.0%	26.9	-	0.0%
Other long-term liabilities	71.5	111.1	(39.6)	-35.6%	72.6	38.5	53.0%
Total liabilities	<u>253.2</u>	<u>267.3</u>	<u>(14.1)</u>	-5.3%	<u>202.9</u>	<u>64.4</u>	31.7%
Net Position							
Net investment in capital assets	141.9	122.7	19.2	15.6%	113.8	8.9	7.8%
Restricted expendable	6.0	7.0	(1.0)	-14.3%	8.1	(1.1)	-13.6%
Unrestricted (deficit)	47.8	66.1	(18.3)	-27.7%	61.7	4.4	7.1%
Total net position	<u>195.7</u>	<u>195.8</u>	<u>(0.1)</u>	-0.1%	<u>183.6</u>	<u>12.2</u>	6.6%
Total liabilities and net position	<u>\$448.9</u>	<u>\$463.1</u>	<u>\$ (14.2)</u>	-3.1%	<u>\$386.5</u>	<u>\$ 76.6</u>	19.8%

Total net position represents the residual interest in the Health System's assets and deferred outflows after liabilities and deferred inflows are deducted. Net position decreased \$0.1 million from fiscal year 2020 to fiscal year 2021, compared to an increase of \$76.6 million during fiscal year 2020.

The Health System had \$135.5 million, \$165.8 million, and \$115.1 million, in total unrestricted cash and investments as of September 30, 2021, 2020, and 2019.

Net patient accounts receivable (AR) increased \$21.8 million from \$43.9 million at September 30, 2020 to \$65.7 million at September 30, 2021. Singing River Gulfport accounts for \$11.4 million of this increase, since the facility was not reflected in the financial statements for September 30, 2020. The

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increase for Jackson County is directly related to increased service line volumes in the revenue cycle operations.

Prepaid expenses decreased \$17.7 million from fiscal year 2020 to fiscal year 2021. The purchase of the facility named Garden Park Medical Center, located in Gulfport, Mississippi was recorded as a prepaid expense on September 30, 2020, as the title was transferred on October 1, 2020.

The Health System had capital assets, net of accumulated depreciation of \$212.4 million, \$200.0 million, and \$197.7 million, at September 30, 2021, 2020 and 2019, increasing \$12.4 million in fiscal year 2021 and \$2.3 million in fiscal year 2020. Depreciation and amortization expense was \$28.4 million and capital additions equaled \$49.2 million in 2021, compared to depreciation expense of \$24.4 million and capital additions of \$22.3 million in 2020. The table below outlines increases and decreases in capital assets. The purchase of the Singing River Gulfport location was recorded at the fair market value, as determined by an independent appraisal, reduced by the excess net position over assets.

	2021	2020	2019
Land	\$ 9,047,289	\$ 6,072,289	\$ 5,797,289
Land improvements	2,146,797	2,284,428	1,448,681
Buildings and improvements	117,082,036	112,892,712	116,264,621
Fixed equipment	1,559,211	1,296,301	1,471,045
Moveable equipment	77,456,934	72,635,779	65,719,919
Construction in progress	5,065,473	4,866,901	7,032,355
	<u>\$ 212,357,740</u>	<u>\$ 200,048,410</u>	<u>\$ 197,733,910</u>

Deferred outflows of resources consist of unamortized losses on refunding of debt. Deferred outflows of resources decreased \$0.4 million (12.9%) from \$3.1 million as of September 30, 2020 to \$2.7 million as of September 30, 2021. The decrease in 2021 represents the current period amortization.

Total liabilities decreased \$14.1 million (5.3%) in fiscal year 2021 and increased \$64.4 million (31.7%) in fiscal year 2020.

Current liabilities increased \$33.9 million (39.2%) and increased \$34.2 million (65.5%) in fiscal years 2021 and 2020, respectively. The COVID-19 pandemic related Accelerated Advanced Payment funds of \$52.9 million were received in fiscal year 2020, and the recoupments began in April 2021, as a reduction of 25% of the monthly Medicare remittances. As of September 30, 2021, \$11.7 million has been recouped in this manner. In addition, in fiscal year 2020, the Health System recorded a liability for potential overpayments totaling \$17.7 million related to the Disproportionate Share Program for fiscal years 2020, 2019, and 2018.

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Long-term debt decreased \$8.4 million (19.6%) and \$8.3 million (16.2%) in fiscal years 2021 and 2020, respectively, in relation to ongoing normal debt payments and in conjunction with the refinancing efforts in fiscal years 2019 and 2021 further delineated below.

Bond covenants require the Health System to maintain 65 days cash on hand (DCOH) and a maximum annual debt service (MADS) ratio above 1.2. The Health System's focus over the previous years has been in strengthening the Health System's cash position, but utilizing cash reserves for strategic opportunities to expand the Health System and the provision of services. The Health System had DCOH of 70, 114, and 125 at September 30, 2021, 2020 and 2019, respectively. The use of cash reserves to secure pandemic nursing labor and fund the purchase of Singing River Gulfport on October 1, 2020 and the infusion of cash to fund the operating expenses during the transition in fiscal year 2021 represent the largest portion of the decrease from the September 30, 2020 DCOH result. The MADS ratio was 2.13, 2.63 and 3.34 at September 30, 2021, 2020 and 2019, respectively. The Health System is in compliance with both bond covenants at September 30, 2021. The DCOH results excludes the balance of the Accelerated Advanced Payment Funds of \$41.1 million at September 30, 2021 and \$52.9 million at September 30, 2020.

On December 19, 2018, the Health System completed a \$21,347,000 Limited Tax Hospital Revenue Refunding Bond transaction in conjunction with Jackson County, Series 2018 (the "Series 2018 Bonds") to refund the Mississippi Development Bank Special Obligation Bonds, Series 2011 ("Jackson County, Mississippi Limited Tax Note"). The bonds were issued for the purpose of refinancing the Series 2011 bonds in order to reduce interest rates for debt service savings. The Series 2018 Bonds were issued by First Internet Public Finance Corp. (the "Purchaser"). The Series 2018 Bonds are supported by a five mill pledge on the assessed value of real property by Jackson County. The Series 2018 Bonds carry a fixed rate of interest of 3.79%. Interest payments are made semiannually (January 1 and July 1) and principal is paid annually (July 1), and mature on July 1, 2035. The Series 2018 Bonds are initially issued at the Taxable Fixed Rate (as defined in the Indenture), but on April 2, 2021 (the "Tax-Exempt Reissuance Date"), will be reissued at the Tax-Exempt Fixed Rate as defined in the Indenture.

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

On March 15, 2021, the Health System completed a \$29,783,000 Limited Tax Hospital Revenue Refunding Bond transaction in conjunction with Jackson County, Series 2021 (the "Series 2021 Bonds") to refund the Limited Tax Hospital Revenue Refunding Bonds, Series 2019. The bonds were issued for the purposes of refinancing the Series 2019 Bonds at lower interest rates for future debt service savings. The 2021 Bonds were issued by Capital One Public Funding, LLC (the "Purchaser"). The Series 2021

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Bonds carry a fixed rate of interest of 3.20%. Interest payments are made semiannually (January 1 and July 1) and principal is paid annually (July 1), and mature on July 1, 2038.

Statement of Revenues, Expenses and Changes in Net Position

The following table summarizes the Health System's revenues and expenses for the years ended September 30, 2021, 2020 and 2019, and the changes in net position during each of those years:

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

	2021	2020	Change	Total Percentage Change	2019	Change	Total Percentage Change
Operating Revenues							
Net patient service revenue	\$ 480.9	\$ 367.2	\$ 113.7	31.0%	\$ 382.6	\$ (15.4)	-4.0%
Other revenues	30.2	23.4	6.8	29.1%	13.8	9.6	69.6%
Total operating revenues	<u>511.1</u>	<u>390.6</u>	<u>120.5</u>	30.8%	<u>396.4</u>	<u>(5.8)</u>	-1.5%
Operating Expenses							
Salaries and wages	190.1	144.1	46.0	31.9%	140.4	3.7	2.6%
Employee benefits	33.3	25.8	7.5	29.1%	27.9	(2.1)	-7.5%
(Contra) pension expense	-	-	-	-	(5.2)	5.2	-100.0%
Professional fees	9.9	5.5	4.4	80.0%	4.8	0.7	14.6%
Supplies	145.1	103.8	41.3	39.8%	92.7	11.1	12.0%
Purchased services	55.6	37.7	17.9	47.5%	35.7	2.0	5.6%
Other expenses	47.1	36.8	10.3	28.0%	35.4	1.4	4.0%
Depreciation and amortization	28.4	24.4	4.0	16.4%	23.1	1.3	5.6%
Total operating expenses	<u>509.5</u>	<u>378.1</u>	<u>131.4</u>	34.8%	<u>354.8</u>	<u>23.3</u>	6.6%
Operating Income	<u>1.6</u>	<u>12.5</u>	<u>(10.9)</u>	-87.2%	<u>41.6</u>	<u>(29.1)</u>	-70.0%
Nonoperating Revenues (Expenses)							
Investment income, net	0.2	2.2	(2.0)	-90.9%	4.0	(1.8)	-45.0%
Interest expense	(9.9)	(10.2)	0.3	-2.9%	(10.6)	0.4	-3.8%
Earnings on equity investments	0.3	0.3	-	-	0.5	(0.2)	-40.0%
Grant revenue	0.7	0.4	0.3	75.0%	-	0.4	100.0%
State of Mississippi grant	1.3	2.5	(1.2)	-48.0%	-	2.5	100.0%
CARES Act grants	5.8	4.3	1.5	34.9%	-	4.3	100.0%
Bond issuance costs	(0.4)	-	(0.4)	-	(0.8)	0.8	-100.0%
Noncapital contributions - Jackson County	0.2	0.3	(0.1)	-33.3%	12.7	(12.4)	-97.6%
Gain (loss) on disposal of capital assets	0.1	(0.1)	0.2	-200.0%	-	(0.1)	-100.0%
Total nonoperating revenues (expenses)	<u>(1.7)</u>	<u>(0.3)</u>	<u>(1.4)</u>	466.7%	<u>5.8</u>	<u>(6.0)</u>	-103.4%
Increase (Decrease) in Net Position	<u>(0.1)</u>	<u>12.2</u>	<u>(12.3)</u>	-100.8%	<u>47.4</u>	<u>(35.1)</u>	-74.1%
Net Position, Beginning of Year	<u>195.8</u>	<u>183.6</u>	<u>12.2</u>	6.6%	<u>136.2</u>	<u>47.4</u>	34.8%
Net Position, End of Year	<u>\$ 195.7</u>	<u>\$ 195.8</u>	<u>\$ (0.1)</u>	-0.1%	<u>\$ 183.6</u>	<u>\$ 12.2</u>	6.6%

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Net Patient Service Revenue

As noted in several places, the addition of Singing River Gulfport commencing on October 1, 2020 will contribute to most of the increases in operating results in the following areas.

Net patient service revenue increased \$113.7 million (31.0%) to approximately \$480.9 million in fiscal year 2021, compared to \$367.2 million in fiscal year 2020 and \$382.6 million in fiscal year 2019. Singing River Gulfport recognized \$60.8 million in the first fiscal year of operations. The prior year decrease from 2019 to 2020 reflects a substantial decrease in overall volumes beginning in early 2020, due to the COVID-19 pandemic. Several areas of hospital operations were affected, specifically in the Emergency Room and several outpatient services.

To offset the financial effects of treating Medicaid and other indigent patients, the Health System receives additional funding through MHAP (formerly UPL) and DSH programs administered by the Mississippi DOM. Through participation in the MHAP and UPL programs, the Health System, for Jackson County, received gross reimbursement of approximately \$19.6 million during 2021, \$17.5 million during 2020, and \$17.3 million during 2019. The Health System received Medicaid DSH payments of approximately \$2.5 million, \$7.6 million, and \$11.6 million for fiscal years 2021, 2020, and 2019, respectively. For Singing River Gulfport, the DSH funding for fiscal year 2021 was \$2.8 million, and the MHAP program payments were \$4.2 million.

To participate in the MHAP and DSH programs the Health System paid to DOM an annual assessment of \$8.5 million, \$9.5 million, and \$11.1 million for fiscal years 2021, 2020, and 2019, respectively. The net impact of the DSH, MHAP, and UPL programs to the Health System, prior to the fiscal year 2020 adjustment noted in the following paragraph, was \$14.2 million, \$15.6 million, and \$18.0 million in fiscal years 2021, 2020, and 2019, respectively. For Singing River Gulfport, the total assessments paid in fiscal year 2021 amounted to \$1.8 million.

The Health System recognized an adjustment in fiscal year 2020 to reflect the potential liability related to estimated overpayments from the DSH program for the State Fiscal Years (SFY) 2020, 2019, and 2018. The DSH program is measured on the information included on the Health System's required annual cost reports and annual DSH surveys. The estimated excess uncompensated cost of care overpayment is \$3.6 million for fiscal year 2020, \$8.6 million for fiscal year 2019, and \$8.0 million for fiscal year 2018 and is a result of effectively reducing costs. The overpayments will be recouped through reduced future DSH program payments.

Other operating revenues were \$30.2 million in 2021 and \$23.4 million in 2020, an increase of \$6.8 million. The increase is primarily driven by the growth in the retail and contract pharmacy revenues.

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The following table summarizes the Health System's increase (decrease) in net position excluding entries related to infrequently occurring items and GASB 45 and GASB 68 (outlined below) for the years ended September 30, 2021, 2020 and 2019:

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

	2021	2020	Change	Total Percentage Change	2019	Change	Total Percentage Change
Increase in net position, end of year	\$ (0.1)	\$ 12.2	(12.3)	-100.8%	\$ 47.4	\$ (35.2)	-74.3%
Infrequently occurring events							
Construction grant revenue	(0.2)	-	(0.2)	-100.0%	(0.1)	0.1	-100.0%
DSH overpayment SFY 2020,2019 and 2018	4.0	13.2	(9.2)	-69.7%	-	13.2	100.0%
Malpractice and workers' compensation actuarial adjustment	1.1	(0.4)	1.5	-375.0%	1.2	(1.6)	-133.3%
State of Mississippi grants	(1.3)	(2.6)	1.3	-50.0%	-	(2.6)	-100.0%
CARES Act grants	(5.8)	(4.3)	(1.5)	34.9%	-	(4.3)	-100.0%
Pension settlement	4.8	4.8	-	-	4.8	-	-
Pension expense	-	-	-	-	(5.2)	5.2	-100.0%
Noncapital contributions - Jackson County	(0.2)	(0.3)	0.1	(0.33)	(12.7)	12.4	-97.6%
Total infrequently occurring events	<u>2.4</u>	<u>10.4</u>	<u>(8.0)</u>	<u>-76.9%</u>	<u>(12.0)</u>	<u>22.4</u>	<u>-186.7%</u>
Normalized increase in net position	<u>\$ 2.3</u>	<u>\$ 22.6</u>	<u>\$ (20.3)</u>	<u>-89.8%</u>	<u>\$ 35.4</u>	<u>\$ (12.8)</u>	<u>-36.2%</u>

During fiscal years 2021, 2020 and 2019, there were a few occurrences outlined above driving the increase in net position. The Settlement related to the Singing River Health System Employees Retirement Plan and Trust resulted in a \$5.2 million reduction of expense in fiscal year 2019. Professional and general liability and workers' compensation actuarial assessments, in addition to inventory of claims incurred but not reported based on historical experience, increased expense in fiscal year 2021 by \$1.1 million, and decreased expense in fiscal year 2020 by \$0.4 million. Removing all the infrequently occurring events and items related to GASB 68 listed above from the financial statements result in a \$2.3 million normalized increase in net position compared to fiscal year 2020 normalized increase in net position of \$22.6 million. The Health System received grant funds in fiscal year 2021 from the State of Mississippi of \$1.3 million, and through the federal CARES Act of \$5.8 million, to offset the additional costs and revenue impacts incurred by the Health System to provide care and treatment during the COVID-19 pandemic. The Health System recognized a liability of \$13.2 million in fiscal year 2020 for estimated overpayments for fiscal year 2018 and fiscal year 2019 of DSH funds. The recoupment of funds will be accomplished by lower future DSH program payments to the Health System.

Statistics

The global COVID-19 pandemic continued to disrupt certain service and patient flow volumes in several areas during fiscal year 2021, including admissions, ER admissions and visits.

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Statistics for the Jackson County hospitals, compared to the prior fiscal year, showed the following impacts:

- Adult acute admissions were up 8.0%
- Emergency Room admissions to inpatient status were down 1.4%
- Emergency Room visits were down 0.4%
- Intensive Care Unit admissions were down 38.3%
- Outpatient procedures visits overall were up 13.6%
- Outpatient surgeries were up 19.4%
- Inpatient surgeries were up 1.2%
- Total days of care were up 5.9%

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A summary of statistics from fiscal years 2021, which includes the addition of Singing River Gulfport, 2020 and 2019 are outlined in the chart below:

Hospital Operations

	<u>2021</u>	<u>2020</u>	<u>Variance</u>	<u>2019</u>	<u>Variance</u>
Admissions (excludes nursery)					
Adult	15,623	12,102	29.1%	11,939	1.4%
Pediatric	464	408	13.7%	548	-25.5%
Intensive Care Unit	2,003	2,483	-19.3%	2,753	-9.8%
Comprehensive rehab	443	447	-0.9%	504	-11.3%
Behavioral Health	648	651	-0.5%	648	0.5%
Skilled Nursing Facility	602	550	9.5%	553	-0.5%
Total admissions	<u>19,783</u>	<u>16,641</u>	18.9%	<u>16,945</u>	-1.8%
ER admissions	13,463	11,410	18.0%	12,230	-6.7%
Discharges	19,573	16,551	18.3%	17,228	-3.9%
Adjusted discharges	44,023	36,322	21.2%	37,696	-3.6%
Total days of care	103,090	83,451	23.5%	87,714	-4.9%
Average daily census	282	229	23.1%	240	-4.6%
Inpatient physician services	81,686	81,620	0.1%	79,376	2.8%
Deliveries	1,843	1,501	22.8%	1,393	7.8%
Observation days	4,368	3,769	15.9%	4,782	-21.2%
Acute ALOS	5.21	4.37	19.2%	4.35	0.5%
Outpatient Procedures					
Emergency Room visits	117,476	81,564	44.0%	96,575	-15.5%
Radiology exams	149,612	143,680	4.1%	153,477	-6.4%
Laboratory tests	981,056	914,515	7.3%	844,324	8.3%
PT/OT/ST treatments	383,587	351,215	9.2%	401,754	-12.6%
Other service line visits	209,149	215,028	-2.7%	192,661	11.6%
Total outpatient procedures	<u>1,840,880</u>	<u>1,706,002</u>	7.9%	<u>1,688,791</u>	1.0%
Surgeries					
Inpatient	5,581	4,906	13.8%	5,052	-2.9%
Outpatient	7,989	5,434	47.0%	5,003	8.6%
Total surgeries	<u>13,570</u>	<u>10,340</u>	31.2%	<u>10,055</u>	2.8%

The Medicare case mix for hospitals is a measure of Medicare inpatient acuity and has an effect on Medicare inpatient payments. Case mix levels have increased in fiscal years 2021, 2020, and 2019.

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A summary of Medicare case mix indices follows:

	2021	2020	2019
Singing River Hospital	1.79	1.69	1.64
Ocean Springs Hospital	2.00	1.95	1.89
Singing River Gulfport	1.95	N/A	N/A

During fiscal years 2021 and 2020 payer class percentages remained relatively stable, with slight increases in managed care offset by slight decreases in self-pay and Medicaid. The impact of the COVID-19 pandemic can be seen in the increase in other due to significant volume of the screening, testing, and treatment claims covered under Health Resources and Services Administration (HRSA) programs.

Below is a chart comparing payer class percentages for fiscal years 2021, 2020, and 2019 based on volume of gross revenue:

	2021	2020	2019
Medicare	51.9%	52.4%	52.4%
Medicaid	11.6%	12.2%	12.4%
Blue Cross Blue Shield	13.5%	13.3%	16.1%
Managed Care	8.5%	8.8%	7.0%
Self-pay	5.5%	5.5%	6.1%
Other	9.0%	7.8%	6.0%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Deductions from Revenue

Contractual and other adjustments (excluding charity and bad debts) expressed as a percentage of gross revenues were 77.6%, 78.2% and 76.5% for fiscal years 2021, 2020, and 2019, respectively. The increase in fiscal year 2020 is due to the \$17.7 million recognition of the DSH program overpayment for fiscal years 2021, 2020, and 2019.

Bad Debt and Charity Care

Bad debt expense was approximately \$210.7 million and \$107.8 million in fiscal years 2021 and 2020, respectively. The \$112.3 million increase of bad debt expense in 2021 is primarily related to the acquisition of Garden Park Medical Center. Bad debt expense relates to patients with uninsured balances that do not qualify under the charity care policy as outlined by the Health System, which collection for services rendered will not be obtained. During fiscal year 2021, bad debt expense represents 6.4% of

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total gross charges, compared to 4.6% in fiscal year 2020. Charity care is defined as health care provided to patients at no cost, while meeting certain criteria as outlined by the Health System's charity care policy. Charity care adjustments were approximately \$46.2 million and \$33.9 million in fiscal years 2021 and 2020, respectively. During fiscal year 2021, charity care represents 1.4% of total gross charges, compared to 1.5% in fiscal year 2020. When combined, bad debt expense and charity care is 7.8% of total gross charges in fiscal year 2021, compared to 6.1% in fiscal year 2020.

Operating Expenses

During the year ended September 30, 2021, total operating expenses increased \$131.4 million. During the year ended on September 30, 2020, total operating expenses increased \$23.3 million compared to the year ended September 30, 2019. Singing River Gulfport accounted for \$75.9 million of the increase, as those operations were not included in the 2020 results shown. Excluding the impact of GASB 68, operating expenses increased \$18.2 million (5.1%) from fiscal year 2019 to 2020.

- Salaries and wages increased \$46.0 million (31.9%) from fiscal year 2021, compared to fiscal year 2020. The unprecedented COVID-19 pandemic created severe impacts to the ability of the Health System to continue to staff and retain frontline nursing and clinical personnel. The Health System implemented several initiatives to incentivize current staff, enact retention payments, and enhance the recruitment of potential candidates. Faced with the outflow of thousands of nursing professionals statewide, the Health System pursued all available avenues to attract and retain current staffing levels.
- Benefits increased \$7.5 million (29.1%) from fiscal year 2021, compared to fiscal year 2020, which includes \$4.9 million related to the addition of Singing River Gulfport and the increase in employer related expenses due to the increase in pandemic related salaries and wages.
- Supplies expense increased \$41.3 million (39.8%) during fiscal year 2021 related to increases in pharmaceutical costs due to the loss of DSH 340B and other medical supplies which continue to be a challenge in the industry, in addition to increases in patient acuity and the related increase in products such as surgical implant costs and devices for the structural heart program. Singing River Gulfport accounts for \$15.8 million of the increase since the facility was not in operation or included in 2020.
- Depreciation and amortization has increased \$4.0 million (16.4%) and \$1.3 million (5.6%) in fiscal years 2021 and 2020, respectively. The Health System has increased capital expenditures and improvement of infrastructure. Construction projects were closed and placed into service at the end of fiscal year 2020, resulting in depreciation and amortization increasing in future years. Capital improvements will continue to take place over the next few years related to the Health System's strategic initiatives. Additionally, the Health System recognized \$4.8 million in amortization expense reported above related to the recognition of the pension settlement liability.

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Cash Flow

Cash provided by operating activities was \$4.4 and \$94.9 million for fiscal years 2021 and 2020, respectively. The primary reasons for decreases in cash provided by operating activities relates to the extraordinary circumstances during the COVID-19 pandemic and the increase in payments to vendors and suppliers for operating supplies and purchased services, along with an additional \$22.7 million to retain and maintain adequate clinical staffing, and the recoupment of the Accelerated Advanced Medicare funds of \$11.7 million. The funding from CMS of \$52.9 million was received in fiscal year 2020 and resulted in an increase in noncapital funding of \$65.6 million. The amount for fiscal year 2020 also includes \$11.5 million from federal and state funds for the COVID-19 pandemic response. Cash used by capital and related financing activities decreased approximately \$3.2 million between 2020 and 2021, primarily due to decreased cash outlay for capital expenditures, as several projects and purchases were placed on deferment. Cash used in investing activities was \$2.3 million and \$14.5 million for fiscal years 2021 and 2020, respectively, with the investment in Singing River Gulfport on October 1, 2020.

Year-to-date cash collections in fiscal year 2021 were \$451.0 million, compared to \$432.4 million in fiscal year 2020, an increase of \$18.6 million due to increases in collection efforts, volumes, and the addition of Singing River Gulfport. Cash paid to suppliers increased \$61.7 million for fiscal year 2021, compared to fiscal year 2020, due to increased supply costs related to the pandemic and increased volumes. Cash paid to employees increased \$55.6 and \$16.9 million for fiscal years 2021 and 2020, respectively. The overwhelming need to retain staff, specifically frontline nursing and clinical staff for the pandemic response, necessitated the increased need for incentives and retention bonuses.

Economic Conditions and Plan for Fiscal Year 2022

As the global COVID-19 pandemic continues to affect the entire national population and the health care industry, the Health System will continue to respond in a manner that maximizes the treatment and prevention within the service region of the Health System. In addition, as federal and state programs offer financial assistance covering pandemic related expenses and negative financial impacts, the Health System will pursue all available funding.

The Health System was a leader in the vaccination and testing efforts for Jackson and Harrison Counties. This additional workload was undertaken with volunteer efforts from all areas of staff. During the fiscal year ended September 30, 2021, the Health System performed 97,273 COVID-19 lab tests and vaccinated 27,343 community members of the service area.

As fiscal year 2022 began, the Health System entered into arrangements with two local physician groups, Regional Digestive Specialists and South Mississippi Surgeons, to ensure continued operation of these physician practices within the service area and provide the current patients of the practices and the community the availability of services by employing their staff and overseeing operating functions like scheduling, billing, collections, operations and maintenance of the practices.

The Health System plans to maintain its focus on quality, including the distinctive "A" level patient safety ratings from the national ratings agency. In order to continue to improve operations, management is working in accordance with a strategic plan centered on access, proficiency, growth and marketing. In

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2022, the Health System will increase access, continue to improve the culture, reduce cost and maximize labor efficiencies, explore mutually beneficial partnerships, explore calculated growth and business development opportunities, and expand population health management efforts.

Contacting the Health System's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Health System's finances and to show the Health System's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Chief Financial Officer by telephone at 228.497.7597.

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Balance Sheets

September 30, 2021 and 2020

Assets and Deferred Outflows of Resources

	2021	2020
Current Assets		
Cash and cash equivalents	\$ 81,000,019	\$ 111,264,709
Investments	54,508,145	54,563,344
Trusteed bond funds - required for current liabilities	2,573,654	2,606,390
Patient accounts receivable, net of allowance; 2021 - \$111,486,434, 2020 - \$64,485,012	65,735,515	43,878,829
Other receivables	3,631,355	4,887,380
Inventories	10,785,382	7,594,419
Prepaid expenses and other	3,817,948	21,543,644
Total current assets	222,052,018	246,338,715
Noncurrent Cash and Investments		
Trusteed bond funds	49	3,442
Internally designated for self-insurance funding	3,640,264	3,632,842
Investment in equity investments	4,170,101	4,298,729
Total noncurrent cash and investments	7,810,414	7,935,013
Capital Assets, Net	212,357,740	200,048,410
Other Assets		
Intangible assets, net	1,509,878	2,331,746
Other	2,458,780	3,394,057
Total other assets	3,968,658	5,725,803
Total assets	446,188,830	460,047,941
Deferred Outflows of Resources	2,668,608	3,098,391
Total assets and deferred outflows of resources	\$ 448,857,438	\$ 463,146,332

Liabilities, Deferred Inflows of Resources and Net Position

	<u>2021</u>	<u>2020</u>
Current Liabilities		
Current installments of long-term debt	\$ 8,824,000	\$ 8,279,000
Current installments of capital lease obligations	1,803,638	1,207,822
Current installments of other long-term liabilities	1,094,964	1,094,964
Current installments of pension settlement liability	4,200,000	4,200,000
Accounts payable	23,271,287	14,981,044
Accrued payroll and employee benefits	19,441,081	20,833,124
Due to third-party payers	59,663,285	35,316,468
Other accrued expenses	2,003,442	454,689
	<hr/>	<hr/>
Total current liabilities	120,301,697	86,367,111
Other Liabilities		
Long-term debt	34,508,000	42,913,000
Capital lease obligations	26,924,261	26,913,910
Other long-term liabilities	21,213	1,043,016
Accrued workers' compensation, professional and general liability costs	6,067,350	6,106,260
Due to third-party payers	2,756,282	41,986,286
Pension settlement liability	62,585,840	62,029,109
	<hr/>	<hr/>
Total liabilities	253,164,643	267,358,692
Net Position		
Net investment in capital assets	141,873,892	122,715,777
Restricted expendable for debt service	2,573,703	2,609,832
Restricted expendable for indigent care	3,229,052	4,192,559
Restricted expendable for other obligations	228,524	228,524
Unrestricted	47,787,624	66,040,948
	<hr/>	<hr/>
Total net position	195,692,795	195,787,640
	<hr/>	<hr/>
Total liabilities and net position	<u>\$ 448,857,438</u>	<u>\$ 463,146,332</u>

Singing River Health System
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Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2021 - \$210,659,054, 2020 - \$107,806,448	\$ 480,914,749	\$ 367,236,990
Other revenues	<u>30,229,876</u>	<u>23,388,421</u>
Total operating revenues	<u>511,144,625</u>	<u>390,625,411</u>
Operating Expenses		
Salaries and wages	190,068,750	144,133,553
Employee benefits	33,252,636	25,811,370
Professional fees	9,947,101	5,470,878
Supplies	145,051,368	103,755,691
Purchased services	55,638,797	37,743,745
Other expenses	47,191,288	36,764,689
Depreciation and amortization	<u>28,384,228</u>	<u>24,444,181</u>
Total operating expenses	<u>509,534,168</u>	<u>378,124,107</u>
Operating Income	<u>1,610,457</u>	<u>12,501,304</u>
Nonoperating Revenues (Expenses)		
Investment income, net	214,067	2,185,811
Interest expense	(9,908,785)	(10,233,523)
Earnings on equity investments	308,735	329,343
Grant revenue	641,576	360,575
State of Mississippi grant	1,317,302	2,563,980
CARES Act grants	5,797,303	4,344,111
Bond issuance costs	(368,043)	-
Noncapital contribution - Jackson County	236,493	287,622
Gain (loss) on disposal of capital assets	<u>56,050</u>	<u>(135,354)</u>
Total nonoperating revenues (expenses)	<u>(1,705,302)</u>	<u>(297,435)</u>
Increase (Decrease) in Net Position	(94,845)	12,203,869
Net Position, Beginning of Year	<u>195,787,640</u>	<u>183,583,771</u>
Net Position, End of Year	<u>\$ 195,692,795</u>	<u>\$ 195,787,640</u>

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Statements of Cash Flows
Years Ended September 30, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Receipts from and on behalf of patients	\$ 451,015,903	\$ 432,442,528
Cash paid to suppliers and others	(251,193,640)	(189,450,550)
Cash paid to or on behalf of employees	(224,669,452)	(169,100,255)
Other cash received	29,238,657	20,996,489
Net cash provided by operating activities	4,391,468	94,888,212
Cash Flows from Noncapital Financing Activities		
Repayment of pension settlement liability	(4,200,000)	(4,200,000)
Grant revenue	641,576	360,575
State of Mississippi grant	1,317,302	2,563,980
CARES Act grants	1,191,093	8,950,321
Noncapital contribution - Jackson County	1,200,000	1,200,000
Net cash provided by noncapital financing activities	149,971	8,874,876
Cash Flows from Capital and Related Financing Activities		
Proceeds from sale of capital assets	56,050	-
Purchase of capital assets	(20,421,627)	(23,426,708)
Principal paid on long-term debt	(7,695,000)	(7,717,000)
Payment of debt issuance costs	(368,043)	-
Principal paid on capital lease obligations	(1,331,043)	(929,403)
Repayment of other long-term liabilities	(1,021,803)	(1,449,537)
Interest paid on long-term debt and capital lease obligations	(4,759,999)	(5,154,985)
Net cash used in capital and related financing activities	(35,541,465)	(38,677,633)
Cash Flows from Investing Activities		
Purchase of investments	-	(7,861,161)
Deposit on Garden Park Medical Center acquisition	-	(18,606,769)
Proceeds from sale of investments	(4,044,892)	9,685,739
Investment income received	1,328,872	1,902,568
Distribution from equity method investments	437,363	345,361
Net cash used in investing activities	(2,278,657)	(14,534,262)
Change in Cash and Cash Equivalents	(33,278,683)	50,551,193
Cash and Cash Equivalents, Beginning of Year	124,269,083	73,717,890
Cash and Cash Equivalents, End of Year	\$ 90,990,400	\$ 124,269,083

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Statements of Cash Flows (Continued)
Years Ended September 30, 2021 and 2020

	2021	2020
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 1,610,457	\$ 12,501,304
Items not requiring cash		
Depreciation and amortization	28,384,228	24,444,181
Provision for uncollectible accounts	210,659,054	107,806,448
Changes in		
Patient accounts receivable, net	(232,515,740)	(112,083,623)
Amounts due to and from third-party payers	(10,276,977)	74,088,923
Inventories and other assets	(268,041)	(7,946,695)
Accounts payable and accrued liabilities	6,837,397	865,954
Accrued workers' compensation, professional and general liability costs	(38,910)	(4,788,280)
	<u>\$ 4,391,468</u>	<u>\$ 94,888,212</u>
Net cash provided by operating activities	<u>\$ 4,391,468</u>	<u>\$ 94,888,212</u>
 Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 81,000,019	\$ 111,264,709
Cash and cash equivalents in investments	3,776,414	6,761,700
Cash and cash equivalents in trustee bond funds	2,573,703	2,609,832
Cash and cash equivalents in trustee for self-insurance funding	3,640,264	3,632,842
	<u>\$ 90,990,400</u>	<u>\$ 124,269,083</u>
 Noncash Investing, Capital and Financing Activities		
Intangible assets acquired through installment agreements	\$ -	\$ 2,782,279
Capital assets acquired through capital lease obligations	\$ 1,713,930	\$ 1,350,000
Capital assets in accounts payable	\$ 141,955	\$ 44,675
Retirement of the 2019 bonds in escrow		
Proceeds received, less cost to issuance	\$ 29,414,909	\$ -
Principal paid on long-term debt	\$ 29,414,909	\$ -
Acquisition of Garden Park Medical Center		
Total assets acquired	\$ 19,848,998	\$ -
Total liabilities assumed	\$ 1,608,286	\$ -

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

Nature of Operations and Reporting Entity

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

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

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

Blended Component Units

Singing River Gulfport (SRG) is a component unit of the Health System and is presented as a blended component unit as of September 30, 2021 in the Health System's financial statements. As the sole member of this not-for-profit corporation, the Health System exerts control and has a financial benefit relationship. SRG is a 130-bed hospital and related outpatient care and other facilities principally located in Gulfport, Mississippi. All significant intercompany transactions have been eliminated.

SRHS Ambulatory Services, Inc. (SRHSAS) is a component unit of the Health System and is presented as a blended component unit as of September 30, 2021 and 2020 in the Health System's financial statements. As the sole member of this not-for-profit organization, the Health System exerts control and has a financial benefit relationship. SRHSAS is operated by a board of directors, all of whom are appointed by the Health System's Board. As of September 30, 2021 and 2020,

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SRHSAS holds a noncontrolling 24.5% ownership interest in two ambulatory surgery centers, Mississippi Coast Endoscopy and Ambulatory Surgery Center, LLC (MCEASC) and Ocean Springs Surgical and Endoscopy Center, LLC (OSSEC). All significant intercompany transactions have been eliminated.

Anesthesia Services, LLC is a component unit of the Health System and is presented as a blended component unit as of September 30, 2021 and 2020 in the Health System's financial statements. Anesthesia Services, LLC is a wholly-owned subsidiary of the Health System that previously provided management, scheduling, and billing and collection services for certified registered nurse anesthetists. All significant intercompany transactions have been eliminated.

Singing River Health System Foundation (the Foundation) is a component unit of the Health System and is presented as a blended component unit as of September 30, 2021 and 2020 in the Health System's financial statements. The Foundation is a 501(c)(3) nonprofit entity that serves as a supporting organization for the Health System. All significant intercompany transactions have been eliminated.

Budgetary Information

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

Basis of Accounting and Presentation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported

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amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less when purchased. The Health System does consider uninvested cash held in investment accounts as cash or cash equivalents. At September 30, 2021 and 2020, cash equivalents consisted primarily of money market accounts with brokers.

Investments and Investment Income

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

Patient Accounts Receivable

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

Inventories

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

Funds Held by Trustees

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

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

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Capital Assets, Net (Including Intangible Assets)

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

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

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

Capital Asset Impairment

Capital assets are reviewed for impairment when service utility has declined significantly and unexpectedly. If such assets are no longer used, they are reported at the lower of carrying value or fair value. If such assets will continue to be used, the impairment loss is measured using an historical cost approach method that best reflects the diminished service utility of the capital asset. If a capital or lease asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, the capital asset historical cost and related accumulated depreciation are decreased proportionately such that the net decrease equals the impairment loss. No impairment losses were recognized in 2021 or 2020.

Cost of Borrowing

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

Compensated Absences

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

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plus an additional amount for compensation related payments such as social security and Medicare taxes computed using rates in effect at that date.

Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position that applies to future periods. At September 30, 2021 and 2020, deferred outflows of resources was comprised of deferred loss on refunding of \$2,668,608 and \$3,098,391, respectively.

Risk Management

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

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

Net Position

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

- Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of any borrowings used to finance the purchase or construction of those assets. To the extent debt has been incurred but not yet expended for capital assets, such debt is excluded from the calculation of net investment in capital assets.
- Net position restricted for debt service is amounts deposited with trustees as required by bond indentures or debt agreements.
- Net position restricted for indigent care is amounts recorded under the Health System's Contribution Agreement with Jackson County. They are restricted until the Health System receives the funds and provides indigent care to the community.
- Net position restricted for other obligations is amounts recorded under the Foundation for contributions received.

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

Net Patient Service Revenue

The Health System has agreements with third-party payers that provide for payments to the Health System at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per-diem payments. Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payers and others for services rendered, and includes estimated retroactive adjustments under reimbursement agreements with third-party payers and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition and accrual of revenue on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Charity Care

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

Income Taxes

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

Revision

An immaterial revision has been made to the 2020 financial statements and notes to the financial statements to present the Singing River Health System Foundation as a blended component unit. This revision did not have a significant impact on the financial statement line items impacted.

Note 2: Net Patient Service Revenue

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

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to the patient classification system

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

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

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

Effective in 2016, the Division of Medicaid (DOM) implemented the MHAP program. The MHAP program is administered by the DOM through the MississippiCAN coordinated care organizations (CCOs). The CCOs subcontract with the hospitals throughout the state for distribution of the MHAP program for purpose of protecting patient access to hospital care. The MHAP program began December 1, 2015, and the MHAP payments and associated tax are distributed and collected in equal monthly installments. For the fiscal years ended September 30, 2021 and 2020, the Health System received approximately \$20,337,000 and \$16,963,000, respectively, from the MHAP program. MHAP amounts are shown as a reduction of contractual adjustments, with the related tax assessment of approximately \$6,030,000 and \$9,022,000 recorded as a reduction of contractual adjustments for the years ended September 30, 2021 and 2020, respectively.

The DSH program is administered by the DOM through MississippiCAN CCOs. The CCOs subcontract with the hospitals throughout the state for distribution of DSH payments for purpose of protecting patient access to hospital care. For the fiscal years ended September 30, 2021 and 2020, the Health System received approximately \$5,608,000 and \$8,306,000, respectively, from the MHAP program. MHAP amounts are shown as a reduction of contractual adjustments, with the related tax assessment of approximately \$2,405,000 and \$2,185,000 recorded as a reduction of contractual adjustments for the years ended September 30, 2021 and 2020, respectively.

At September 2021 and 2020, the Health System recognized a liability of approximately \$22,284,000 and \$17,744,000, respectively, for estimated overpayments from the DSH program due to excess uncompensated cost of care overpayments. The estimated liability was a result of

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excess uncompensated cost of care overpayments of approximately \$4,540,000 in 2021, \$4,509,000 in 2020, \$8,570,000 in 2019, and \$4,665,000 in 2018. It is reasonably possible that this estimate could change materially in the near term.

Approximately 58% and 61% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2021 and 2020, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Health System has also entered into payment agreements with certain commercial insurance carriers, Health Maintenance Organizations (HMOs) and Preferred Provider Organizations (PPOs). The basis for payment to the Health System under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Health System's deposit policy for custodial credit risk requires compliance with the provisions of state law. The collateral for public entities deposited in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the Health System's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). All deposits with financial institutions must be collateralized in an amount equal to 105% of uninsured deposits and are therefore fully insured. The collateralized and insured bank balance was \$80,609,278 and \$118,142,871 at September 30, 2021 and 2020, respectively. The above amounts exclude deposits held by the Health System's blended component units with bank balances of approximately \$3,941,000 and \$1,416,000 at September 30, 2021 and 2020, respectively. As nongovernmental entities, the blended component units are not subject to collateralization requirements. At September 30, 2021, the blended component units' cash balances exceeded federally insured limits by approximately \$3,028,000.

Investments

The statutes of the State of Mississippi restrict the authorized investments of the Health System to obligations of the U.S. Treasury, agencies and instrumentalities and certain other types of

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investments. The Health System’s investment policy further limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

At September 30, 2021 and 2020, the Health System had the following investments and maturities:

September 30, 2021	Fair Value	Years			
		< 1	1 – 5	6 – 10	More than 10
Money market funds	\$ 3,801,068	\$ 3,801,068	\$ -	\$ -	\$ -
U.S. government obligations	14,261,210	1,009,060	13,252,150	-	-
Municipal obligations	6,714,945	555,849	6,159,096	-	-
Mortgage-backed securities	4,022,799	-	233,212	1,133,792	2,655,795
Collateralized mortgage obligations	24,266,621	-	2,217,964	1,841,208	20,207,449
Mutual funds - equities	342,303	342,303	-	-	-
Mutual funds - fixed income	554,535	554,535	-	-	-
Annuities	457,861	-	-	-	457,861
	<u>\$ 54,421,342</u>	<u>\$ 6,262,815</u>	<u>\$ 21,862,422</u>	<u>\$ 2,975,000</u>	<u>\$ 23,321,105</u>

September 30, 2020	Fair Value	Years			
		< 1	1 – 5	6 – 10	More than 10
Money market funds	\$ 6,787,179	\$ 6,787,179	\$ -	\$ -	\$ -
Certificates of deposit	850,901	850,901	-	-	-
U.S. government obligations	10,880,470	3,163,949	7,279,600	-	436,921
Municipal obligations	4,340,427	-	4,340,427	-	-
Mortgage-backed securities	2,644,083	-	-	1,896,890	747,193
Collateralized mortgage obligations	28,491,258	547,609	5,035,399	1,059,388	21,848,862
Mutual funds - equities	359,188	359,188	-	-	-
Mutual funds - fixed income	558,029	558,029	-	-	-
Annuities	332,860	-	-	-	332,860
	<u>\$ 55,244,395</u>	<u>\$ 12,266,855</u>	<u>\$ 16,655,426</u>	<u>\$ 2,956,278</u>	<u>\$ 23,365,836</u>

Interest Rate Risk

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

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The Health System’s investment policy, which conforms to Mississippi state law, limits investments to those rated “A” or better by either Moody’s Investor Service or Standard & Poor’s. These authorized investments, within established guidelines, are limited to securities of the U.S. government or its agencies, U.S. government obligations, U.S. and

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Mississippi municipal bonds, interest-bearing accounts and certificates of deposits of financial institutions, open-end or closed-end management type investment company or investment trust and an investment trust consisting of pooled or commingled funds of other hospitals.

At September 30, 2021 and 2020, the Health System’s investments not directly guaranteed by the U.S. government were rated as follows:

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

Custodial Credit Risk

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

Concentration of Credit Risk

The Health System’s investment policy limits investments to those rated “A” or better by either S&P or Moody’s at the time of purchase. The Health System places no limit on the amount that may be invested in any one issuer. However, investment in non-treasury or agency issuers is limited to a maximum of 5%. At September 30, 2021 and 2020, the Health System had no individual investments in excess of 5% of total investments.

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Summary of Carrying Values

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

	2021	2020
Carrying value		
Deposits	\$ 87,295,476	\$ 116,821,419
Investments	54,421,342	55,244,395
Cash on hand	5,313	4,913
	\$ 141,722,131	\$ 172,070,727
Included in the following balance sheets' captions		
Cash and cash equivalents	\$ 81,000,019	\$ 111,264,709
Investments	54,508,145	54,563,344
Trusteed bond funds - required for current liabilities	2,573,654	2,606,390
Trusteed bond funds	49	3,442
Internally designated for self-insurance funding	3,640,264	3,632,842
	\$ 141,722,131	\$ 172,070,727

Investment Income

Investment income for the years ended September 30 consisted of:

	2021	2020
Interest and dividend income	\$ 1,252,522	\$ 1,945,881
Unrealized gain (loss) on investments, net	(1,038,455)	239,930
	\$ 214,067	\$ 2,185,811

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Note 4: Patient Accounts Receivable

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

	2021	2020
Medicare	\$ 16,822,956	\$ 11,562,212
Medicaid	19,867,246	13,475,039
Other third-party payers	31,099,447	19,753,996
Patients	109,432,300	63,572,594
	177,221,949	108,363,841
Less allowance for uncollectible accounts	111,486,434	64,485,012
	\$ 65,735,515	\$ 43,878,829

Note 5: Capital Assets

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

	2021			
	Beginning Balance	Transfers in and Additions	Transfers out and Retirements	Ending Balance
Land	\$ 6,072,289	\$ 2,975,000	\$ -	\$ 9,047,289
Land improvements	7,524,591	91,251	-	7,615,842
Buildings and improvements	262,465,804	13,789,711	(174,476)	276,081,039
Fixed equipment	13,946,381	441,760	-	14,388,141
Movable equipment	291,607,704	21,748,408	(1,946,360)	311,409,752
Construction in progress	4,866,901	7,330,834	(7,132,262)	5,065,473
	586,483,670	46,376,964	(9,253,098)	623,607,536
Less accumulated depreciation for				
Land improvements	5,240,163	228,882	-	5,469,045
Buildings and improvements	149,573,092	9,617,440	(191,529)	158,999,003
Fixed equipment	12,650,080	178,850	-	12,828,930
Movable equipment	218,971,925	16,927,253	(1,946,360)	233,952,818
	386,435,260	26,952,425	(2,137,889)	411,249,796
Capital assets, net	\$ 200,048,410	\$ 19,424,539	\$ (7,115,209)	\$ 212,357,740

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	2020			
	Beginning Balance	Transfers in and Additions	Transfers out and Retirements	Ending Balance
Land	\$ 5,797,289	\$ 275,000	\$ -	\$ 6,072,289
Land improvements	6,498,528	1,026,063	-	7,524,591
Buildings and improvements	257,390,464	5,221,669	(146,329)	262,465,804
Fixed equipment	13,946,381	-	-	13,946,381
Movable equipment	272,909,786	21,030,304	(2,332,386)	291,607,704
Construction in progress	7,032,355	8,350,199	(10,515,653)	4,866,901
	<u>563,574,803</u>	<u>35,903,235</u>	<u>(12,994,368)</u>	<u>586,483,670</u>
Less accumulated depreciation for				
Land improvements	5,049,847	190,316	-	5,240,163
Buildings and improvements	141,125,843	8,458,224	(10,975)	149,573,092
Fixed equipment	12,475,336	174,744	-	12,650,080
Movable equipment	207,129,237	14,175,074	(2,332,386)	218,971,925
	<u>365,780,263</u>	<u>22,998,358</u>	<u>(2,343,361)</u>	<u>386,435,260</u>
Capital assets, net	<u>\$ 197,794,540</u>	<u>\$ 12,904,877</u>	<u>\$ (10,651,007)</u>	<u>\$ 200,048,410</u>

Construction in progress at September 30, 2021 and 2020, consists of expenditures associated with hospital building improvements.

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

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

Description	2021				
	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
Series 2018 (A)	\$ 16,831,000	\$ -	\$ 3,075,000	\$ 13,756,000	\$ 3,317,000
Series 2019 (B)	34,361,000	-	34,361,000	-	-
Series 2021 (C)	-	29,783,000	207,000	29,576,000	5,507,000
	<u>\$ 51,192,000</u>	<u>\$ 29,783,000</u>	<u>\$ 37,643,000</u>	<u>\$ 43,332,000</u>	<u>\$ 8,824,000</u>

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Description	2020				
	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
Series 2018 (A)	\$ 19,727,000	\$ -	\$ 2,896,000	\$ 16,831,000	\$ 3,075,000
Series 2019 (B)	39,347,000	-	4,986,000	34,361,000	5,204,000
	<u>\$ 59,074,000</u>	<u>\$ -</u>	<u>\$ 7,882,000</u>	<u>\$ 51,192,000</u>	<u>\$ 8,279,000</u>

- (A) On December 19, 2018, the Health System issued \$21,347,000 of Limited Tax Hospital Refunding Bonds, Series 2018 (the Series 2018 Bonds). The purpose of the Series 2018 Bonds was to refund the outstanding Series 2011 Bonds. The Series 2018 Bonds bear interest at the taxable fixed rate of 4.78% until the tax-exempt reissuance date at April 2, 2021, on which the interest rate will use the tax-exempt fixed rate of 3.79%. The Series 2018 Bonds mature on July 1, 2035. The unamortized premium on the Series 2018 Bonds at September 30, 2021 and 2020 was approximately \$1,441,000 and \$1,545,000, respectively.
- (B) On April 2, 2019, the Health System issued \$43,119,000 of Limited Tax Hospital Revenue Refunding Bonds, Series 2019 (the Series 2019 Bonds). The purpose of the Series 2019 Bonds was to refund the outstanding Series 2009 Bonds. The Series 2019 Bonds pay interest semiannually (January 1 and July 1) at a fixed rate of 3.95% and principal annually (July 1). The Series 2019 Bonds mature on July 1, 2038. The unamortized premium on the Series 2019 Bonds at September 30, 2021 and 2020 was approximately \$0 and \$1,069,000, respectively. These bonds were refunded with the issuance of the Series 2021 Bonds.
- (C) On March 15, 2021, the Health System issued \$29,783,000 of Limited Tax Hospital Revenue Refunding Bonds, Series 2021 (the Series 2021 Bonds). The purpose of the Series 2021 Bonds was to refund the outstanding Series 2019 Bonds. The Series 2021 Bonds pay interest semiannually (January 1 and July 1) at a fixed rate of 3.20% and principal annually (July 1). The Series 2021 Bonds mature on July 1, 2038. The unamortized premium on the Series 2021 Bonds at September 30, 2021 was approximately \$1,009,000.

As the Health System is a political subdivision of the State of Mississippi and is owned by Jackson County, Mississippi, legally available mills have been pledged by Jackson County as additional security for the 2018 and 2021 Revenue Bonds. To date, no such mills have been levied to support these or any other borrowings of the Health System.

Under the terms of the respective loan agreements in connection with the Series 2018 Bonds and Series 2021 Bonds, the Health System is obligated to meet certain financial covenants on March 31 and September 30 each year, including availability of cash, debt service coverage and limitations on additional debt.

In 2021, the Health System issued the Series 2021 Bonds in the principal amount of \$29,783,000, which were used to advance refund \$29,414,909 of the outstanding bonds [(C) above]. The net

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proceeds of \$29,414,909 (after payment of \$368,091 in issuance costs) were used to refund the Series 2019 Bonds.

The advance refunding resulted in no difference between the reacquisition price and the net carrying amount of the old debt. The Health System completed the advance refunding to reduce its total debt service payments over the next 20 years by \$1,592,358 and to obtain an economic gain between the present values of the old and new debt service payments of \$1,232,989.

In prior years, the Health System defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Health System's financial statements. At September 30, 2020, \$18,115,000 of bonds outstanding are considered defeased, with \$18,498,004 held in trust to pay the debt service. These bonds were fully retired in 2021.

Debt service requirements on long-term debt other than capital lease obligations as of September 30, 2021, are as follows:

	Principal	Interest	Total
2022	\$ 8,824,000	\$ 1,603,969	\$ 10,427,969
2023	4,621,000	1,269,192	5,890,192
2024	1,685,000	1,066,873	2,751,873
2025	1,741,000	993,801	2,734,801
2026	1,804,000	929,893	2,733,893
2027 - 2031	9,942,000	3,611,790	13,553,790
2032 - 2036	11,007,000	1,688,549	12,695,549
2037 - 2041	3,708,000	178,944	3,886,944
	<u>\$ 43,332,000</u>	<u>\$ 11,343,011</u>	<u>\$ 54,675,011</u>

Capital Lease Obligations

The Health System is obligated under leases for buildings and equipment that are accounted for as capital leases. Assets under capital leases at September 30, 2021 and 2020, totaled approximately \$33,327,000 and \$31,569,000, respectively. Related accumulated amortization was approximately \$13,905,000 and \$13,718,000 at September 30, 2021 and 2020, respectively.

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

Description	Interest Rate	Date of Issuance/ Assumption	2021				
			Beginning Balance	Additions	Payments/ Adjustments	Ending Balance	Due Within One Year
Stryker SRH	3.95%	September 2018	\$ 885,001	\$ -	\$ 255,001	\$ 630,000	\$ 270,000
Stryker OSH	3.95%	March 2020	1,270,000	-	160,000	1,110,000	270,000
Pet Scan	3.20%	February 2021	-	1,713,930	203,347	1,510,583	348,596
Imaging Center	6.50%	August 2007	4,016,232	-	470,320	3,545,912	503,499
Systemex	4.55%	August 2016	-	15,022	-	15,022	15,022
Pyxis	6.75%	June 2017	-	115,144	-	70,278	10,903
LA Barrington	4.55%	March 2017	-	93,115	-	93,115	93,115
MOB	9.39%	February 2011	21,950,499	-	197,510	21,752,989	292,503
			<u>\$ 28,121,732</u>	<u>\$ 1,937,211</u>	<u>\$ 1,286,178</u>	<u>\$ 28,727,899</u>	<u>\$ 1,803,638</u>

Description	Interest Rate	Date of Issuance/ Assumption	2020				
			Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
GE Capital	4.20%	April 2010	\$ 11,656	\$ -	\$ 11,656	\$ -	\$ -
Stryker	3.95%	March 2020	-	1,350,000	80,000	1,270,000	270,000
Stryker	3.95%	September 2018	1,170,000	-	284,999	885,001	270,000
Imaging Center	6.84%	August 2007	4,455,547	-	439,315	4,016,232	470,312
MOB	9.39%	February 2011	22,063,932	-	113,433	21,950,499	197,510
			<u>\$ 27,701,135</u>	<u>\$ 1,350,000</u>	<u>\$ 929,403</u>	<u>\$ 28,121,732</u>	<u>\$ 1,207,822</u>

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The following is a schedule by year of future minimum lease payments under the capital leases, including interest rates as noted above with the present value of the future minimum lease payments as of September 30, 2021:

2022	\$ 4,268,216
2023	4,229,159
2024	4,103,390
2025	3,937,753
2026	3,624,468
2027 - 2031	15,701,308
2031 - 2035	14,952,489
Total minimum lease payments	50,816,783
Less amount representing interest	22,088,884
 Present value of future minimum lease payments	 \$ 28,727,899

Rental expense for all operating leases was approximately \$5,669,000 and \$3,488,000 for the years ended September 30, 2021 and 2020, respectively. There were no significant noncancelable operating leases at September 30, 2021. Management expects that most lease agreements will be replaced as they expire with similar agreements.

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Other Long-term Liabilities

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

Description	2021				
	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
ForcePoint SBITA	\$ 283,127	\$ -	\$ 94,376	\$ 188,751	\$ 167,538
Stryker Defibrillators	497,564	-	248,782	248,782	248,782
EA License	1,357,289	-	678,645	678,644	678,644
	<u>\$ 2,137,980</u>	<u>\$ -</u>	<u>\$ 1,021,803</u>	<u>\$ 1,116,177</u>	<u>\$ 1,094,964</u>

Description	2020				
	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
MedOne	\$ 354,574	\$ -	\$ 354,574	\$ -	\$ -
ForcePoint SBITA	450,664	-	167,537	283,127	167,537
Stryker Defibrillators	-	746,345	248,781	497,564	248,782
EA License	-	2,035,934	678,645	1,357,289	678,645
	<u>\$ 805,238</u>	<u>\$ 2,782,279</u>	<u>\$ 1,449,537</u>	<u>\$ 2,137,980</u>	<u>\$ 1,094,964</u>

Note 7: Medical Malpractice Claims

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

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The self-insured liability for medical malpractice claims is included in accrued workers' compensation, professional and general liability costs line on the balance sheets. Activity in the Health System's accrued medical malpractice claims liability during 2021 and 2020 is summarized as follows:

	2021	2020
Balance, October 1	\$ 4,106,260	\$ 9,924,540
Provisions for claims reported and claims incurred but not reported	-	(1,343,280)
Claims and related expenses paid	(1,189,000)	(4,475,000)
Balance, September 30	\$ 2,917,260	\$ 4,106,260

Note 8: Workers' Compensation Coverage

The Health System purchased insurance to cover workers' compensation claims through 2002. In 2003, the Health System purchased high-deductible workers' compensation insurance with losses limited to \$500,000 per claim, which had the effect that the Health System is largely self-insured.

The self-insurance liability for workers' compensation claims is included in the accrued workers' compensation, professional and general liability costs line item on the balance sheets. The following is a summary of changes in the Health System's self-insurance liability for workers' compensation coverages for fiscal years 2021 and 2020:

	2021	2020
Balance, October 1	\$ 2,000,000	\$ 970,000
Provisions for claims reported and claims incurred but not reported	2,990,811	2,439,123
Claims paid	(1,840,721)	(1,409,123)
Balance, September 30	\$ 3,150,090	\$ 2,000,000

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Note 9: Employee Health Claims

Substantially all of the Health System’s employees and their dependents are eligible to participate in the Health System’s employee health insurance plan. The Health System is self-insured for the first \$350,000 for health claims of participating employees and dependents up to an annual aggregate amount. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount.

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

The self-insured liability for employee health claims is included in accrued payroll and employee benefits line on the balance sheets. Activity in the Health System’s accrued employee health claims liability during 2021 and 2020 is summarized as follows:

	2021	2020
Balance, October 1	\$ 2,270,980	\$ 3,100,927
Provisions for claims reported and claims incurred but not reported	17,853,906	17,293,131
Claims paid	(18,281,375)	(18,123,078)
Balance, September 30	\$ 1,843,511	\$ 2,270,980

Note 10: Charity Care

The Health System maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated costs of these services and supplies, and equivalent service statistics. Charges foregone, based on established rates, were approximately \$46,274,000 and \$33,893,000 for the years ended September 30, 2021 and 2020, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges. The estimated costs incurred to provide charity care were approximately \$6,882,000 and \$4,867,000 for the years ended September 30, 2021 and 2020, respectively.

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Note 11: Pension Plan

On September 26, 2018, the Fifth Circuit Court of Appeals made a final ruling to uphold a settlement of a class-action lawsuit (the Settlement) related to the Health System’s funding of the Singing River Health System Employees’ Retirement Plan and Trust (the Plan). The Settlement provides that the Health System fund \$156,400,000 into the Plan trust over a 35-year period. The Settlement also provides that the payment of this \$156,400,000 is the Health System’s only obligation to the Plan. The Health System recorded its obligation under the Settlement, discounted at a rate of 6%. The pension settlement liability, included in the accompanying balance sheets, was approximately \$66,786,000 and \$66,229,000 as of September 30, 2021 and 2020, respectively. The following is a schedule by fiscal year of future payments to the Plan under the pension settlement liability as of September 30, 2021:

2022	\$ 4,200,000
2023	4,200,000
2024	5,700,000
2025	5,700,000
2026	4,500,000
2027 - 2031	22,500,000
2032 - 2036	22,500,000
2037 - 2041	22,500,000
2042 - 2046	22,500,000
2047 - 2051	22,500,000
	22,500,000
Total payments	\$ 136,800,000

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

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

Note 12: Other Retirement Plans

The Health System maintains supplementary retirement plans under IRS Code Sections 403(b) and 457(b) which are administered by Diversified Retirement Corporation and Transamerica Retirement Solutions, respectively. The 403(b) plan is a contributory plan with the Health System matching a fixed percentage of base earnings for each eligible employee. To receive an employer contribution, eligible employees must have completed 90 days of continuous service. Contributions by eligible employees are matched by the Health System at a rate of 50% of the first 6% of each

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employee's eligible compensation that is contributed by the participant to the 403(b) plan. Employees contributing a portion of their eligible salary to the 457(b) plan do not receive a matching employer contribution. All employees are eligible to participate in both plans at the date of hiring. The employee contributions are made on a tax-deferred basis. The benefit to the employee under each plan is the amount contributed plus investment earnings. Employees are fully vested after four or more years of continuous employment.

The Health System's contributions to the 403(b) plan were \$2,074,268 (or 1.1% of covered payroll) and \$1,829,272 (or 1.4% of covered payroll) for the years ended September 30, 2021 and 2020, respectively. Employee contributions to the 403(b) plan totaled \$7,248,828 and \$5,767,107 for the years ended September 30, 2021 and 2020, respectively.

Employee contributions to the 457(b) plan totaled \$1,699,381 and \$1,403,007 for the years ended September 30, 2021 and 2020, respectively.

Note 13: County Fund Receivable

Jackson County entered into a Contribution Agreement with the Health System to fund \$13,600,000 of indigent care provided by the Health System over ten years. The Health System received \$7,600,000 upon the Settlement (*Note 11*) and will receive \$1,200,000 per year for the next three years. As of September 30, 2021 and 2020, the Health System has recorded a receivable of \$3,600,000 and \$4,800,000, respectively, discounted at net present value over five years at the Health System's incremental borrowing rate. Jackson County fund receivable was \$3,229,052 and \$4,192,559 at September 30, 2021 and 2020, respectively, recorded in other receivables for the current portion and other assets for the noncurrent portion on the balance sheets.

Note 14: Disclosures About Fair Value of Assets

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

Level 1 Quoted prices in active markets for identical assets

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets

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Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets

Recurring Measurements

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

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2021				
Money market funds	\$ 3,801,068	\$ 3,801,068	\$ -	\$ -
U.S. government obligations	14,261,210	12,558,833	1,702,377	-
Municipal obligations	6,714,945	-	6,714,945	-
Mortgage-backed securities	4,022,799	-	4,022,799	-
Collateralized mortgage obligations	24,266,621	-	24,266,621	-
Mutual funds - equities	342,303	342,303	-	-
Mutual funds - fixed income	554,535	554,535	-	-
Annuities	457,861	-	457,861	-
Total investments by fair value level	<u>\$ 54,421,342</u>	<u>\$ 17,256,739</u>	<u>\$ 37,164,603</u>	<u>\$ -</u>

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	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2020				
Money market funds	\$ 6,787,179	\$ 6,787,179	\$ -	\$ -
Certificates of deposit	850,901	-	850,901	-
U.S. government obligations	10,880,470	8,261,381	2,619,089	-
Municipal obligations	4,340,427	-	4,340,427	-
Mortgage-backed securities	2,644,083	-	2,644,083	-
Collateralized mortgage obligations	28,491,258	-	28,491,258	-
Mutual funds - equities	359,188	359,188	-	-
Mutual funds - fixed income	558,029	558,029	-	-
Annuities	332,860	-	332,860	-
Total investments by fair value level	<u>\$ 55,244,395</u>	<u>\$ 15,965,777</u>	<u>\$ 39,278,618</u>	<u>\$ -</u>

Investments

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

Note 15: Investments in Uncombined Entities

SRHSAS holds a noncontrolling 24.5% ownership interest in two ambulatory surgery centers, MCEASC and OSSEC. SRHSAS accounts for the investments in uncombined entities using the equity method of accounting. SRHAS' investment in the uncombined entities was \$4,170,101 and \$4,298,729 at September 30, 2021 and 2020, respectively. Financial position and results of operations of the investee are summarized below:

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MCEASC		
	2021	2020
Current assets	\$ 785,300	\$ 1,255,459
Property and other long-term assets, net	<u>14,161,659</u>	<u>14,481,306</u>
Total assets	<u>14,946,959</u>	<u>15,736,765</u>
Current liabilities	435,000	492,954
Long-term liabilities	<u>6,134,100</u>	<u>6,352,706</u>
Total liabilities	<u>6,569,100</u>	<u>6,845,660</u>
Net assets - without donor restrictions	<u>\$ 8,377,859</u>	<u>\$ 8,891,105</u>
Revenues	\$ 3,594,494	\$ 3,361,965
Excess (deficit) of revenues over expenses	\$ (21,262)	\$ 122,309
OSSEC		
	2021	2020
Current assets	\$ 1,416,358	\$ 1,457,769
Property and other long-term assets, net	<u>12,626,196</u>	<u>12,730,645</u>
Total assets	<u>14,042,554</u>	<u>14,188,414</u>
Current liabilities	485,903	554,550
Long-term liabilities	<u>4,796,212</u>	<u>4,832,032</u>
Total liabilities	<u>5,282,115</u>	<u>5,386,582</u>
Net assets - without donor restrictions	<u>\$ 8,760,439</u>	<u>\$ 8,801,832</u>
Revenues	\$ 5,571,107	\$ 4,290,222
Excess of revenues over expenses	\$ 1,398,412	\$ 604,525

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Note 16: 340B Outpatient Drug Discount Program

The Health System participates in the 340B outpatient drug discount program administered by the Office of Pharmacy Affairs of the Health Resources and Services Administration (HRSA). Under this program, the Health System received approximately \$7,784,000 and \$18,971,000 in benefits generated from purchases of outpatient pharmaceuticals in 2021 and 2020, respectively. The benefit is presented as a reduction of supplies and other expenses within the statements of revenues, expenses and changes in net position.

The Health System also contracts with certain local pharmacies to assist them in providing outpatient drugs to the Health System's patients. The Health System purchases outpatient drugs at 340B outpatient drug discount prices to replenish those dispensed to outpatients on the Health System's behalf. The Health System recognized revenue from these contracts of \$21,618,000 and \$17,861,000 recorded in other revenues, with associated costs of goods sold of \$11,569,000 and \$6,540,000 recorded in supplies, in 2021 and 2020, respectively.

Regulations associated with the program are complex, and eligibility for the program is determined annually. Changes in the 340B outpatient drug discount program regulations could have a significant impact on the operations of the Health System.

Note 17: Contingencies

Medical Malpractice Claims

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

General Litigation

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

Investments

The Health System invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of

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investment securities will occur in the near term, and that such changes could materially affect the amounts reported in the accompanying balance sheets.

Note 18: COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 (COVID-19) as a global pandemic.

The extent of the COVID-19 pandemic's adverse impact on the Health System's operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the Health System's control and ability to forecast.

Because of these and other uncertainties, the Health System cannot estimate the length or severity of the impact of the pandemic on the Health System's business. Decreases in cash flows and results of operations may have an impact on debt covenant compliance and on the inputs and assumptions used in significant accounting estimates, including estimated bad debts and contractual adjustments related to uninsured patient accounts, and self-insured health liability reserves.

Provider Relief Funds

During the year ended September 30, 2021 and 2020, the Health System received approximately \$1,700,000 and \$8,443,000 from the general other targeted distributions from the Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Funds. These distributions from the Provider Relief Funds are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for health care related expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services (HHS).

The Health System is accounting for such payments as voluntary nonexchange transactions. These payments are recognized as nonoperating revenue once the applicable terms and conditions required to retain the funds have been met and completion of the measurement period. Based on an analysis of the compliance and reporting requirements of the Provider Relief Funds and the impact of the pandemic on the Health System's operating results through September 30, 2021, the Health System recognized approximately \$5,797,000 and \$4,344,000, in 2021 and 2020, respectively, related to these general distribution and targeted funds, as Provider Relief Funds are applied after all other assistance received, including state grants. These payments are recorded as nonoperating revenues – noncapital grants and gifts received and other in our statements of revenues, expenses and changes in net position. The unrecognized amount of general distributions and targeted distributions are recorded as part of other accrued expenses in the accompanying balance sheets.

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Guidance for reporting use of Provider Relief Fund payments received has changed significantly since distributions were authorized through the CARES Act in March 2020. The Health System has evaluated the “Post-Payment Notice of Reporting Requirements” (Notice) and the Frequently Asked Questions (FAQs) issued by HHS subsequent to September 30, 2021, in accordance with GASB Codification Section 2250 and has concluded any impact on the September 30, 2021 FAQs would be recognized.

The Health System has recognized revenue from the Provider Relief Funds based on guidance issued by the HHS as of September 30, 2021, and any clarifications issued by HHS subsequent to year-end, as recognized subsequent events. The Health System will continue to monitor compliance with the terms and conditions of the Provider Relief Funds and the effect of the pandemic on the Health System’s revenues and expenses. The terms and conditions governing the Provider Relief Funds are complex and subject to interpretation and change. If the Health System is unable to attest to or comply with current or future terms and conditions, its ability to retain some or all of the distributions may be affected. Additionally, the amounts recorded in the financial statements compared to the Health System’s Provider Relief Funds reporting could differ. Provider Relief Funds payments are subject to government oversight, including potential audits.

Medicare Accelerated and Advanced Payment Program

During the year ended September 30, 2020, the Health System requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. These amounts are expected to be recaptured by Centers for Medicare and Medicaid Services (CMS) according to the payback provisions.

On September 30, 2020, the payback provisions were revised and extended the payback period to begin one year after the issuance of the advance payment through a phased payback period approach. The first 11 months of the payback period will be at 25% of the remittance advice payment followed by a six-month payback period at 50% of the remittance advice payment. After 29 months, CMS expects any amount not paid back through the withhold amounts to be paid back in a lump sum, or interest will begin to accrue subsequent to the 29 month at a rate of 4%.

The Health System received approximately \$52,884,000 from these accelerated Medicare payment requests during 2020, and these amounts are recorded in estimated amounts due to third-party payers in the accompanying balance sheets. These are not current income but rather are advanced payments that cannot be recognized as revenue until services in the future are provided. As of September 30, 2021, there was approximately \$41,076,000 remaining to be recouped from Medicare.

Singing River Health System
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Notes to Financial Statements
September 30, 2021 and 2020

State Grants Agreement

During the year ended September 30, 2021 and 2020, the Health System received approximately \$1,317,000 and \$2,600,000, respectively, from the State of Mississippi Reserve Fund as part of the response to the COVID-19 pandemic. These distributions from the State are not subject to repayment, provided the Health System is able to use the funds for health care related expenses attributable to COVID-19. The Health System met these requirements and recorded as nonoperating revenue in fiscal year 2021.

Note 19: Singing River Gulfport Acquisition

On October 1, 2020, the Health System acquired the assets of Garden Park Medical Center, a 130 licensed bed acute care hospital located in Gulfport, Mississippi in exchange for approximately \$18,241,000. The Health System acquired the hospital to expand the coverage area of the Health System in order to better serve the community. The Health System will operate and maintain this hospital and account for the operations. The acquisition included substantially all assets of the hospital and certain liabilities assumed by the Health System. Total net assets acquired through the acquisition was approximately \$30,507,000.

Note 20: Future Change in Accounting Principle

GASB recently issued its Statement No. 87 (GASB No. 87), *Leases*. The Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Health System expects to first apply GASB No. 87 during the year ending September 30, 2022. The impact of applying the Statement has not been determined.

Note 21: Subsequent Events

On November 18, 2021, The Supreme Court of Mississippi reversed and remanded the rulings between the Health System and Singing River MOB, LLC. The result of these rulings invalidates the lease of a medical office building by the Health System. The medical office building is currently recorded as a capital lease obligation shown in detail at *Note 6*. The Health System is currently using the building for operations of a clinic and the building continues to be owned by Singing River MOB, LLC. Further negotiations and legal proceedings will be necessary to determine the impact to the Health System.

Singing River Health System
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Note 22: Condensed Combining Information

The following tables include condensed balance sheet information for the Health System and its blended component units as of September 30, 2021 and 2020.

	September 30, 2021						
	SRHS	SRHSAS	Anesthesia Services, LLC	Singing River Gulport	SRHS Foundation	Eliminations	Total
Assets and Deferred Outflows of Resources							
Current assets	\$ 201,044,797	\$ 1,702,337	\$ 2,126,455	\$ 17,646,836	\$ 1,669,691	\$ (2,138,098)	\$ 222,052,018
Capital assets, net	187,373,951	3,203,661	-	21,659,097	121,031	-	212,357,740
Other assets	63,779,192	4,170,101	-	-	200	(56,170,421)	11,779,072
Deferred outflows of resources	2,668,608	-	-	-	-	-	2,668,608
Total assets and deferred outflows of resources	<u>\$ 454,866,548</u>	<u>\$ 9,076,099</u>	<u>\$ 2,126,455</u>	<u>\$ 39,305,933</u>	<u>\$ 1,790,922</u>	<u>\$ (58,308,519)</u>	<u>\$ 448,857,438</u>
Liabilities							
Current liabilities	\$ 114,523,864	\$ 42,000	\$ 1,108,605	\$ 34,790,722	\$ 7,073	\$ (30,170,567)	\$ 120,301,697
Long-term liabilities	132,788,579	-	-	74,367	-	-	132,862,946
Total liabilities	<u>247,312,443</u>	<u>42,000</u>	<u>1,108,605</u>	<u>34,865,089</u>	<u>7,073</u>	<u>(30,170,567)</u>	<u>253,164,643</u>
Net Position							
Net investment in capital assets	117,112,879	3,203,661	-	21,436,321	121,031	-	141,873,892
Restricted expendable	5,802,755	-	-	-	228,524	-	6,031,279
Unrestricted	84,638,471	5,830,438	1,017,850	(16,995,477)	1,434,294	(28,137,952)	47,787,624
Total net position	<u>207,554,105</u>	<u>9,034,099</u>	<u>1,017,850</u>	<u>4,440,844</u>	<u>1,783,849</u>	<u>(28,137,952)</u>	<u>195,692,795</u>
Total liabilities and net position	<u>\$ 454,866,548</u>	<u>\$ 9,076,099</u>	<u>\$ 2,126,455</u>	<u>\$ 39,305,933</u>	<u>\$ 1,790,922</u>	<u>\$ (58,308,519)</u>	<u>\$ 448,857,438</u>

	September 30, 2020					
	SRHS	SRHSAS	Anesthesia Services, LLC	SRHS Foundation	Eliminations	Total
Assets and Deferred Outflows of Resources						
Current assets	\$ 243,616,634	\$ 1,253,363	\$ 2,106,869	\$ 1,462,128	\$ (2,100,279)	\$ 246,338,715
Capital assets, net	196,772,681	3,215,099	-	60,630	-	200,048,410
Other assets	18,111,078	4,298,729	-	200	(8,749,191)	13,660,816
Deferred outflows of resources	3,098,391	-	-	-	-	3,098,391
Total assets and deferred outflows of resources	<u>\$ 461,598,784</u>	<u>\$ 8,767,191</u>	<u>\$ 2,106,869</u>	<u>\$ 1,522,958</u>	<u>\$ (10,849,470)</u>	<u>\$ 463,146,332</u>
Liabilities						
Current liabilities	\$ 86,485,905	\$ 18,000	\$ 1,108,605	\$ 7,073	\$ (1,252,472)	\$ 86,367,111
Long-term liabilities	180,991,581	-	-	-	-	180,991,581
Total liabilities	<u>267,477,486</u>	<u>18,000</u>	<u>1,108,605</u>	<u>7,073</u>	<u>(1,252,472)</u>	<u>267,358,692</u>
Net Position						
Net investment in capital assets	119,440,048	3,215,099	-	60,630	-	122,715,777
Restricted expendable	6,802,391	-	-	228,524	-	7,030,915
Unrestricted	67,878,859	5,534,092	998,264	1,226,731	(9,596,998)	66,040,948
Total net position	<u>194,121,298</u>	<u>8,749,191</u>	<u>998,264</u>	<u>1,515,885</u>	<u>(9,596,998)</u>	<u>195,787,640</u>
Total liabilities and net position	<u>\$ 461,598,784</u>	<u>\$ 8,767,191</u>	<u>\$ 2,106,869</u>	<u>\$ 1,522,958</u>	<u>\$ (10,849,470)</u>	<u>\$ 463,146,332</u>

Singing River Health System
(A Component Unit of Jackson County, Mississippi)
Notes to Financial Statements
September 30, 2021 and 2020

The following tables include condensed combining statements of revenues, expenses and changes in net position information for the Health System and its blended component units for the years ended September 30, 2021 and 2020.

	September 30, 2021						
	SRHS	SRHSAS	Anesthesia Services, LLC	Singing River Gulport	SRHS Foundation	Eliminations	Total
Operating Revenues							
Net patient service revenue	\$ 420,082,169	\$ -	\$ -	\$ 60,832,580	\$ -	\$ -	\$ 480,914,749
Other revenues	29,195,767	-	-	1,034,109	-	-	30,229,876
Total operating revenues	<u>449,277,936</u>	<u>-</u>	<u>-</u>	<u>61,866,689</u>	<u>-</u>	<u>-</u>	<u>511,144,625</u>
Operating Expenses							
Other operating expenses	406,735,174	48,315	(19,586)	73,918,034	488,096	(20,093)	481,149,940
Depreciation and amortization	25,808,692	11,438	-	2,564,098	-	-	28,384,228
Total operating expenses	<u>432,543,866</u>	<u>59,753</u>	<u>(19,586)</u>	<u>76,482,132</u>	<u>488,096</u>	<u>(20,093)</u>	<u>509,534,168</u>
Operating Income (Loss)	16,734,070	(59,753)	19,586	(14,615,443)	(488,096)	20,093	1,610,457
Nonoperating Revenues (Expenses)	(3,301,263)	344,661	-	815,575	756,060	(320,335)	(1,705,302)
Increase (Decrease) in Net Position	13,432,807	284,908	19,586	(13,799,868)	267,964	(300,242)	(94,845)
Net Position, Beginning of Year	194,121,298	8,749,191	998,264	18,240,712	1,515,885	(27,837,710)	195,787,640
Net Position, End of Year	<u>\$ 207,554,105</u>	<u>\$ 9,034,099</u>	<u>\$ 1,017,850</u>	<u>\$ 4,440,844</u>	<u>\$ 1,783,849</u>	<u>\$ (28,137,952)</u>	<u>\$ 195,692,795</u>

	September 30, 2020					
	SRHS	SRHSAS	Anesthesia Services, LLC	SRHS Foundation	Eliminations	Total
Operating Revenues						
Net patient service revenue	\$ 367,236,990	\$ -	\$ -	\$ -	\$ -	\$ 367,236,990
Other revenues	23,380,043	-	8,378	-	-	23,388,421
Total operating revenues	<u>390,617,033</u>	<u>-</u>	<u>8,378</u>	<u>-</u>	<u>-</u>	<u>390,625,411</u>
Operating Expenses						
Other operating expenses	353,337,634	45,114	3,278	313,993	(20,093)	353,679,926
Depreciation and amortization	24,432,449	11,653	-	79	-	24,444,181
Total operating expenses	<u>377,770,083</u>	<u>56,767</u>	<u>3,278</u>	<u>314,072</u>	<u>(20,093)</u>	<u>378,124,107</u>
Operating Income (Loss)	12,846,950	(56,767)	5,100	(314,072)	20,093	12,501,304
Nonoperating Revenues (Expenses)	(363,568)	329,343	-	429,178	(692,388)	(297,435)
Increase in Net Position	12,483,382	272,576	5,100	115,106	(672,295)	12,203,869
Net Position, Beginning of Year	181,637,916	8,476,615	993,164	1,400,779	(8,924,703)	183,583,771
Net Position, End of Year	<u>\$ 194,121,298</u>	<u>\$ 8,749,191</u>	<u>\$ 998,264</u>	<u>\$ 1,515,885</u>	<u>\$ (9,596,998)</u>	<u>\$ 195,787,640</u>

Singing River Health System
(A Component Unit of Jackson County, Mississippi)
Notes to Financial Statements
September 30, 2021 and 2020

The following tables include condensed combining statements of cash flows information for the Health System and its blended component units for the years ended September 30, 2021 and 2020.

	September 30, 2021						
	SRHS	SRHSAS	Anesthesia Services, LLC	Singing River Gulport	SRHS Foundation	Eliminations	Total
Net Cash Provided by (Used in) Operating Activities	\$ 23,401,758	\$ 104,313	\$ 11,967	\$ (18,649,912)	\$ (476,658)	\$ -	\$ 4,391,468
Net Cash Provided by (Used in) Noncapital Financing Activities	(491,605)	-	-	-	641,576	-	149,971
Net Cash Used in Capital and Related Financing Activities	(28,376,385)	-	(11,438)	(7,081,805)	(71,838)	-	(35,541,465)
Net Cash Provided by (Used in) Investing Activities	(31,532,587)	344,661	-	28,899,069	10,201	-	(2,278,657)
Change in Cash and Cash Equivalents	(36,998,819)	448,974	529	3,167,352	103,281	-	(33,278,683)
Cash and Cash Equivalents, Beginning of Year	122,653,797	1,253,363	175,349	-	186,574	-	124,269,083
Cash and Cash Equivalents, End of Year	<u>\$ 85,654,978</u>	<u>\$ 1,702,337</u>	<u>\$ 175,878</u>	<u>\$ 3,167,352</u>	<u>\$ 289,855</u>	<u>\$ -</u>	<u>\$ 90,990,400</u>

	September 30, 2020					
	SRHS	SRHSAS	Anesthesia Services, LLC	SRHS Foundation	Eliminations	Total
Net Cash Provided by (Used in) Operating Activities	\$ 95,367,645	\$ (214,422)	\$ 5,100	\$ (270,111)	\$ -	\$ 94,888,212
Net Cash Provided by (Used in) Noncapital Financing Activities	8,514,301	-	-	360,575	-	8,874,876
Net Cash Used in Capital and Related Financing Activities	(38,677,633)	-	-	-	-	(38,677,633)
Net Cash Provided by (Used in) Investing Activities	(14,810,390)	345,361	-	(69,233)	-	(14,534,262)
Change in Cash and Cash Equivalents	50,393,923	130,939	5,100	21,231	-	50,551,193
Cash and Cash Equivalents, Beginning of Year	72,259,874	1,122,424	170,249	165,343	-	73,717,890
Cash and Cash Equivalents, End of Year	<u>\$ 122,653,797</u>	<u>\$ 1,253,363</u>	<u>\$ 175,349</u>	<u>\$ 186,574</u>	<u>\$ -</u>	<u>\$ 124,269,083</u>

Supplementary Information

Singing River Health System
(A Component Unit of Jackson County, Mississippi)
Schedule of Surety Bonds for Officials and Employees
September 30, 2021

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

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

Independent Auditor's Report

Board of Trustees
Singing River Health System
Pascagoula, Mississippi

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Singing River Health System (the Health System), a component unit of Jackson County, Mississippi, which comprise the balance sheet as of September 30, 2021, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 17, 2021.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 Health System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

BKD, LLP

Jackson, Mississippi
December 17, 2021