

MEMORIAL HOSPITAL AT GULFPORT
Gulfport, Mississippi

Audited Financial Statements
As of and for the Years Ended
September 30, 2019 and 2018

MEMORIAL HOSPITAL AT GULFPORT

Gulfport, Mississippi

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Memorial Hospital at Gulfport
Gulfport, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Memorial Hospital at Gulfport (the "Hospital") as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Memorial Hospital at Gulfport Retirement Plan, which statements reflect total assets of \$126,501,964 and \$118,439,137, respectively, as of September 30, 2019 and 2018, and total additions of \$17,367,105 and \$15,275,616, respectively, for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Memorial Hospital at Gulfport Retirement Plan, is based solely on the report of the other auditors. 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 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 business-type activities of the Hospital, as of September 30, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of the Hospital as of September 30, 2018 were audited by other auditors, whose report dated December 17, 2018, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 and the supplemental schedules on pages 47 through 49 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2019, on our consideration of the Hospital'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.



Sioux Falls, South Dakota
December 18, 2019

MEMORIAL HOSPITAL AT GULFPORT
Management's Discussion and Analysis (Unaudited)
Years Ended September 30, 2019 and 2018

This discussion and analysis provides management's analysis of Memorial Hospital at Gulfport's (the "Hospital") financial performance for the fiscal years ended September 30, 2019 and 2018. The intent of this discussion and analysis is to provide further information regarding the Hospital's financial performance as a whole. It should be read in conjunction with the Hospital's financial statements, which begin on page 10 of the audited financial statements.

Industry Highlights

The healthcare industry is in a continuous state of various transitions that are transforming the healthcare business model. Some of those areas of transition include value initiatives (and the associated trends in payment reform), consumer choice, mergers and acquisitions, and innovation. As the healthcare industry continues its journey to value, two things about the near-term future are clear:

- First, healthcare providers will increasingly face both upside and downside financial risk in their participation with Medicare and Medicaid and through arrangements with commercial health plans, whether through traditional contracting mechanisms, new partnerships with insurers, provider sponsored plans, or direct-to-employer arrangements.
- Second, consumerism will influence the success or failure of providers and health plans to a greater degree, requiring organizations to meet the increasing demand for convenience and for quantifiable information about the value of services they offer.

Most experts contend that the traditional volume-based healthcare business model is economically unsustainable. Payment reform has resulted in the development of a plethora of alternative payment models (APM), Accountable Care Organizations (ACO), bundled payments, primary care initiatives and other variations. Congress created the Center for Medicare & Medicaid Innovation (CMMI) through the Affordable Care Act to better study the impact of new models and reduce expenditures. As the healthcare industry is spinning through a cycle of payment experimentations, providers will assume greater risk for outcomes, and collaboration between health plans, physicians, and hospitals will become increasingly important. One of the hospital's stated goals is to get ahead of that curve and navigate how to handle that transition (before it becomes more than a small portion of the payment model).

Although the healthcare payment landscape in the next few years is hard to predict, the future of insurance benefit design is coming into clearer focus. A shift to value-based insurance design (VBID) will incentivize consumers to choose healthcare services based on value and may be the primary source of curbed utilization in the foreseeable future. Health plans, hospitals, and physician practices need to collaborate to create equitable payment models that reward all stakeholders only when high-quality, resource-efficient, cost-effective care is provided to the patient. Successful models will require the flow of financial and clinical data among internal and external stakeholders to efficiently manage care, transfer the appropriate type and amount of risk to providers based on their financial wherewithal, and engage patients in care processes. Currently, high deductibles are the primary design feature that encourages health plan members to curtail their use of healthcare services. However, that blunt instrument works against providers that are focused on population health management.

Also transformative in healthcare are the effects of consolidation on the healthcare industry over the next several years. This includes the outlook for hospitals and health systems, physician practices, and health plans and whether mergers and acquisitions can translate into value for the consumer, instead of merely for the consolidating entities.

MEMORIAL HOSPITAL AT GULFPORT
Management's Discussion and Analysis (Unaudited)
Years Ended September 30, 2019 and 2018

Lastly, is the need for healthcare organizations to stay ahead of the curve with respect to innovations in clinical care delivery and healthcare business processes that could reshape the competitive landscape. At stake is market share in both emerging and existing markets. Nurturing an innovative culture and developing the infrastructure to support innovation efforts are vital steps.

General Description of Services

Memorial Hospital at Gulfport (Memorial or Hospital) provides comprehensive services including 24-hour emergency services, general medicine, critical care, surgical, and obstetrics/gynecology services. These services are complimented by a complete range of diagnostic and therapeutic services. Memorial is licensed for 303 beds and currently staffs 281.

Medical Staff

The medical staff of the Hospital represents a diverse physician specialty representation and population of community physicians.

Composition of Medical Staff at 9/30/2019

Staff Category	Number of Physicians	Percent
Employed	185	40%
Non-Employed	276	60%
Total	461	100%

Historical Utilization

	Fiscal Year Ended September 30	
	<u>2019</u>	<u>2018</u>
Admissions - (excludes Nursery)		
Acute	13,382	13,063
ICU	1,577	1,640
NICU	<u>199</u>	<u>226</u>
TOTAL	<u>15,158</u>	<u>14,929</u>
Patient Days - (excludes Nursery)		
Acute	63,411	62,737
ICU	2,237	2,215
NICU	<u>4,199</u>	<u>4,679</u>
TOTAL	<u>69,847</u>	<u>69,631</u>
Average Daily Census	191.3	190.8
Emergency Department Visits	67,007	65,747
Outpatient Surgeries	3,384	3,378
Nursing Home Days	13,924	0
Deliveries	1,314	1,276

MEMORIAL HOSPITAL AT GULFPORT
Management's Discussion and Analysis (Unaudited)
Years Ended September 30, 2019 and 2018

Revenues by Payor

Memorial receives payment for services from commercial insurers and other private payors, the State of Mississippi under the Medicaid program, Health Maintenance Organizations ("HMO's"), other managed care entities, including Medicaid managed care, the federal government, under the Medicare program, and directly from patients.

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

	Fiscal Year 2019	Fiscal Year 2018
Medicare	56.6%	56.2%
Medicaid (includes Medicaid Managed Care)	10.1	10.6
Managed Care	24.2	24.4
Private Pay and Charity	9.1	8.8
Total gross charges	100.0%	100.0%

Summary of Assets, Liabilities, and Net Position (in millions of dollars)

	September 30, 2019	September 30, 2018	September 30, 2017
Assets			
Unrestricted cash	\$ 38.6	\$ 66.1	\$ 55.5
Other current assets	97.5	106.1	116.7
Current assets	136.1	172.2	172.2
Unrestricted noncurrent cash and investments	133.1	82.8	45.0
Restricted noncurrent cash and investments	3.3	3.6	14.1
Noncurrent cash and investments	136.4	86.4	59.1
Capital assets	164.3	173.5	190.7
Other assets	6.3	4.2	4.3
Total assets	443.1	436.3	426.3
Deferred outflows	12.8	11.2	8.3

MEMORIAL HOSPITAL AT GULFPORT
Management's Discussion and Analysis (Unaudited)
Years Ended September 30, 2019 and 2018

	September 30, 2019	September 30, 2018	September 30, 2017
Liabilities			
Current liabilities	\$ 52.8	\$ 53.3	\$ 56.6
Net pension liability	52.5	49.7	45.8
Long-term liabilities	50.8	56.9	63.4
Total liabilities	156.1	159.9	165.8
Deferred inflows	0.2	0.2	0.4
Unrestricted net position	293.0	280.6	251.3
Restricted net position	6.6	6.8	17.1
Total net position	\$ 299.6	\$ 287.4	\$ 268.4

Summary of Revenue, Expenses and Changes in Net Position (in millions of dollars)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net Patient Service Revenues	\$ 549.7	\$ 524.2	\$ 498.2
Other Operating Revenues	6.3	9.4	9.1
Total Operating Revenues	556.0	533.6	507.3
Operating Expenses			
Salary and Employee Benefits	276.0	263.7	271.7
Purchased Services, Supplies & Other	248.6	234.2	212.7
Depreciation and Amortization	25.6	29.5	29.1
Total Operating Expenses	550.2	527.4	513.5
Income (Loss) from Operations	5.8	6.1	(6.2)
Total Non-Operating Gains and (Losses)	6.4	12.9	11.3
Increase in Net Position	12.2	19.0	5.1
Net Position, Beginning of Year	287.4	268.4	263.3
Net Position End of Year	299.6	287.4	268.4

MEMORIAL HOSPITAL AT GULFPORT
Management's Discussion and Analysis (Unaudited)
Years Ended September 30, 2019 and 2018

Management's Discussion and Analysis of Recent Financial Performance

The Hospital recorded an Increase in Net Position of \$12.2 million and \$19.0 million in 2019 and 2018, respectively. The Increase in Net Position in 2018 included a one-time gain on the sale of Memorial Behavioral Health of \$12.4 million as well as a non-recurring FEMA grant of \$2.3 million. Total operating revenues, consisting of both net patient service revenues and other operating revenues, were \$556.0 million and \$533.5 million in fiscal years 2019 and 2018, respectively. The increase from 2018 to 2019 was attributable to an increase in service utilization, including inpatient, outpatient and ambulatory services. In 2019 and 2018 the Hospital recorded Medicaid supplemental payments of \$49.2 million and \$50.7 million, respectively. Overall inpatient volumes (excluding nursery) increased from 2018 to 2019. Inpatient admissions increased by 1.5% and inpatient days were up 0.5%. Emergency department (ED) visits increased by 1.5% from 65,747 to 67,007. These increases are attributed to the expansion of the Hospital's market position and associated footprint throughout Southern Mississippi. ED admissions increased 2.4%, which was disproportionately up compared to ED visit increases indicating an overall increase in acuity. Deliveries increased 3.0% from 2018 to 2019 from 1,276 to 1,314 from 2018 to 2019, respectively. 2019 NICU discharges were 315, a decrease of 23 from 2018 to 2019. NICU days totaled 4,199 in 2019, a decrease of 480 from 2018. The Memorial employed physician network's 2019 ambulatory visits increased 1.5% to 487,319 from 2018 and the associated ambulatory patient service revenues increased by \$49.2 million or 8.4% from 2018. Memorial Behavioral Health Operations were divested at the beginning of FY2018.

In 2019, the Hospital began nursing home operations at three locations. These three locations are in the counties of Harrison, Hancock and Stone. In June of 2019, the Hospital began nursing home operations as Memorial Driftwood Nursing Home in Harrison County. In September of 2019 the Hospital began nursing home Operations as Memorial Woodland Village Nursing Center in Hancock County and Memorial Stone County Nursing and Rehab Center in Stone County.

Other operating revenues declined by \$3.1 million from 2018 to 2019 due primarily to a non-recurring FEMA grant.

The provision for bad debts, as a percentage of gross patient service revenues was 3.5% and 4.6% in fiscal years 2019 and 2018, respectively. The favorable 2019 rate, as compared to 2018, is attributable to continued improvement in accelerated collection practices.

Total operating expenses were \$550.1 million and \$527.4 million in fiscal years 2019 and 2018 respectively. The increase in total operating expenses from 2018 to 2019 was \$22.7 million (4.3%), the components of which are described below.

Salary and employee benefits have increased \$12.3 million or 4.7% from 2018 to 2019. Of the increase in salary and employee benefits, \$7.6 million was due to merit and market adjustments, \$1.7 million was due to ambulatory and employed physician network and support staff growth, \$1.3 million was due to nursing home startup operations, and \$2.2 million was due to the increase in self-funded health insurance expense. Total benefit expense increased 4.5% or \$1.5 million. Total benefit expense (as a percent of salaries) remained steady at 14.6% for 2019 and 2018, respectively. The Hospital funded the pension plan by \$10.9 million and the net pension liability increased 5.6% to \$52.5 million from \$49.7 million in 2018.

MEMORIAL HOSPITAL AT GULFPORT
Management's Discussion and Analysis (Unaudited)
Years Ended September 30, 2019 and 2018

Purchased services, supplies and other increased \$14.3 million from 2018 to 2019 or 6.1%. Purchased services increased by \$3.7 million from 2018 to 2019, most of which is due to provider expansion. Supply and other expenses increased \$9.3 million from 2018 to 2019. The increase in supply and other expenses was due to increased drug costs of \$3.9 million from 2018 to 2019, \$2.1 million increase in outpatient pharmacy operations expense, increased implant supplies expense of \$3.1 million, and increased other medical supplies of \$0.6 million. The reason for the increases represents a blend of utilization and inflationary increases. The estimated inflationary increase of overall supply expense is approximately \$2.9 million. Other expenses, consisting mainly of professional fees, increased by \$1.4 million from 2018 to 2019 for two primary reasons. First, outsourcing of collection services, which in turn enhanced overall collections to the hospital, and second, other legal and professional services related to various merger and acquisition activity. Depreciation expense decreased by \$3.9 million mostly due to certain IT capitalized equipment becoming fully depreciated. Interest expense decreased by \$0.1 million.

Income from operations was \$5.8 million and \$6.1 million in fiscal years 2019 and 2018, respectively. The income translates into operating margins of 1.0% and 1.1% in the same fiscal years, respectively.

Total non-operating gains were \$6.4 million in 2019 and \$12.9 million in 2018. The Hospital recorded a non-recurring gain on sale of Memorial Behavioral Health of \$12.4 million in 2018. In 2019, The Hospital began recording income from 20% ownership in Encompass Health (formerly Health South) was \$1.1 million and \$0.3 million in 2018 and 2019, respectively.

The Hospital's liquidity represented by cash, cash equivalents, investments and board designated funds ended at \$178.3 million, \$155.9 million and \$117.8 million in fiscal year end 2019, 2018 and 2017 respectively. This equates to 121.8, 111.6 and 78.1 days cash on hand, for 2019, 2018 and 2017 respectively.

Capital Assets and Debt Administration

Capital assets consist of the following at June 30 (in millions of dollars):

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Land and land improvements	\$ 11.2	\$ 11.2	\$ 12.2
Building and improvements	232.3	229.4	231.0
Fixed and major moveable equipment	354.3	345.2	336.2
Construction in progress	5.0	3.1	2.8
Less accumulated depreciation and amortization	(438.5)	(415.4)	(391.5)
Capital assets, net	164.3	173.5	190.7

Total debt capitalization of the 2016 Series Bonds issuance as of September 30, 2019 is \$50.9 million which includes \$4.4 million of unamortized bond premium. Principal repayment of the debt began in 2019 and continues through maturity in 2031.

MEMORIAL HOSPITAL AT GULFPORT
Management's Discussion and Analysis (Unaudited)
Years Ended September 30, 2019 and 2018

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenues, expenses and changes in net position, discussed earlier.

Contacting the Hospital Chief Executive Officer

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Hospital's finances. If you have any questions about this report or need additional financial information, please contact the Chief Executive Officer, Memorial Hospital at Gulfport, P.O. Box 1810, Gulfport, Mississippi 39502-1810.

MEMORIAL HOSPITAL AT GULFPORT

Statements of Net Position
September 30, 2019 and 2018

ASSETS	2019	2018
Current assets		
Cash and cash equivalents	\$ 38,598,325	\$ 66,083,874
Restricted cash and investments		
Held by trustee under indenture agreements	1,126	147,045
Held by trustee for self-insurance fund	3,299,669	3,269,048
Total restricted cash and investments	3,300,795	3,416,093
Patient accounts receivable, net of allowance for doubtful accounts of \$144,137,641 and \$156,194,882, respectively	80,566,502	90,730,441
Inventories	10,266,618	9,186,898
Estimated receivables, third-party payors	938,509	-
Other current assets	2,464,069	2,767,657
Total current assets	136,134,818	172,184,963
Noncurrent cash and investments		
Investments	87,805,911	42,596,635
Restricted investments by contributors and grantors Internally designated by the Board for plant replacement and expansion	1,824,990	2,143,515
Held by trustee under indenture agreements	45,268,430	40,135,535
Permanent endowments	6,022	5,112
Total noncurrent cash and investments	1,476,258	1,476,258
Total noncurrent cash and investments	136,381,611	86,357,055
Capital assets, net	164,324,581	173,532,929
Other assets	6,292,654	4,250,086
Total assets	443,133,664	436,325,033
DEFERRED OUTFLOW OF RESOURCES		
Deferred pension outflows	12,581,150	10,922,486
Deferred refunding outflow	185,389	240,959
Total deferred outflow of resources	12,766,539	11,163,445
Total assets and deferred outflow of resources	455,900,203	447,488,478

See accompanying notes.

MEMORIAL HOSPITAL AT GULFPORTStatements of Net Position
September 30, 2019 and 2018

LIABILITIES	2019	2018
Current liabilities		
Current maturities of bonds and capital lease	\$ 4,760,439	\$ 4,968,947
Accounts payable, trade and other	18,817,022	15,480,081
Accrued expenses	29,213,148	30,284,735
Estimated payables, third-party payors	-	2,578,091
Total current liabilities	52,790,609	53,311,854
Long-term liabilities, net of current maturities		
Net pension liability	52,510,457	49,676,183
Bonds payable, Series 2016	47,999,205	52,246,850
Capital lease	2,834,134	4,674,572
Total long-term liabilities, net of current maturities	103,343,796	106,597,605
Total liabilities	156,134,405	159,909,459
DEFERRED INFLOW OF RESOURCES		
Deferred pension inflows	176,773	218,465
Total deferred inflow of resources	176,773	218,465
Total liabilities and deferred inflow of resources	156,311,178	160,127,924
NET POSITION		
Invested in capital assets, net of related debt	108,730,803	111,642,560
Restricted		
Debt service	7,148	152,157
Use in self-funded insurance programs	3,299,669	3,269,048
Restricted expendable net assets	1,824,990	1,896,296
Nonexpendable permanent endowments	1,476,258	1,476,258
Unrestricted	184,250,157	168,924,235
Total net position	\$ 299,589,025	\$ 287,360,554

See accompanying notes.

MEMORIAL HOSPITAL AT GULFPORT
 Statements of Revenues, Expenses and Changes in Net Position
 Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Patient service revenues, net of provision for bad debts of \$147,578,538 and \$178,895,809, respectively	\$ 549,689,719	\$ 524,170,759
Other operating revenues	6,276,304	9,362,813
Total operating revenues	<u>555,966,023</u>	<u>533,533,572</u>
Operating expenses		
Salaries and wages	240,942,315	230,130,655
Employee benefits	35,080,433	33,618,006
Professional fees	7,116,781	5,723,730
Supplies and other	184,518,524	175,242,183
Purchased services	56,839,350	53,169,936
Depreciation and amortization	25,638,593	29,544,588
Total operating expenses	<u>550,135,996</u>	<u>527,429,098</u>
Income from operations	5,830,027	6,104,474
Nonoperating revenues (expenses)		
Grants, contributions and other	263,628	20,673
Gain on disposal of operations	-	12,525,118
Gain (loss) on sale of capital assets	163,119	(220,363)
Interest and investment income, net	6,102,662	1,597,468
Interest expense	(1,262,569)	(1,356,632)
Gain on joint venture	1,131,604	292,708
Total nonoperating revenues	<u>6,398,444</u>	<u>12,858,972</u>
Increase in net position	12,228,471	18,963,446
Net position, beginning of year	<u>287,360,554</u>	<u>268,397,108</u>
Net position, end of year	<u>\$ 299,589,025</u>	<u>\$ 287,360,554</u>

See accompanying notes.

MEMORIAL HOSPITAL AT GULFPORT
 Statements of Cash Flows
 Years Ended September 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Cash received from patients and third-party payors	\$ 558,214,076	\$ 531,414,886
Cash paid to and on behalf of employees	(277,120,588)	(264,180,439)
Cash paid to suppliers	(247,555,908)	(234,164,671)
Cash received from other operating activities	6,276,304	9,362,813
	<hr/>	<hr/>
Net cash provided by operating activities	39,813,884	42,432,589
Cash flows from noncapital financing activities		
Noncapital grants and contributions	263,628	20,673
Cash flows from capital and related financing activities		
Purchase of capital assets	(16,343,077)	(13,112,058)
Proceeds from sales of operations	-	13,532,326
Payments on bonds and note payable	(4,968,947)	(3,511,295)
Interest paid on long-term debt	(2,444,441)	(2,942,136)
	<hr/>	<hr/>
Net cash used in capital and related financing activities	(23,756,465)	(6,033,163)
Cash flows from investing activities		
Maturities and sales of investments	16,125,967	6,534,438
Purchases of investments	(55,169,229)	(44,194,039)
Interest and investment income	6,102,662	1,597,468
	<hr/>	<hr/>
Net cash used in investing activities	(32,940,600)	(36,062,133)
Net (decrease) increase in cash and cash equivalents	(16,619,553)	357,966
Cash and cash equivalents, beginning of year	<hr/>	<hr/>
	84,876,506	84,518,540
Cash and cash equivalents, end of year	<hr/> <hr/>	<hr/> <hr/>
	\$ 68,256,953	\$ 84,876,506

See accompanying notes.

MEMORIAL HOSPITAL AT GULFPORT
 Statements of Cash Flows
 Years Ended September 30, 2019 and 2018

	2019	2018
<hr/>		
Reconciliation of income from operations to net cash provided by operating activities		
Income from operations	\$ 5,830,027	\$ 6,104,474
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation and amortization	25,638,593	29,544,588
Provision for bad debts	147,578,538	178,895,809
Changes in		
Patient receivables	(137,414,599)	(167,924,798)
Estimated third-party payor settlements	(3,516,600)	(3,726,884)
Inventories	(916,601)	(392,968)
Other assets	(655,511)	171,748
Accounts payable	3,336,941	(1,356,072)
Accrued expenses	(66,904)	1,116,692
	<hr/>	<hr/>
Net cash provided by operating activities	\$ 39,813,884	\$ 42,432,589
Reconciliation of cash and cash equivalents		
Cash and cash equivalents in current assets	\$ 38,598,325	\$ 66,083,874
Cash and cash equivalents in noncurrent cash and investments		
Investments	25,085,945	10,061,692
Held by Trustee	3,306,817	3,421,205
Internally designated by the Board	1,265,866	5,309,735
	<hr/>	<hr/>
Total	\$ 68,256,953	\$ 84,876,506

See accompanying notes.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Operations, Reporting Entity and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Memorial Hospital at Gulfport (the "Hospital") is an acute-care hospital organized as an enterprise (proprietary) operation. The Hospital provides inpatient, outpatient, rehabilitation and emergency care services primarily for residents of the six coastal counties of Mississippi and surrounding area. Admitting physicians are primarily practitioners in the same Mississippi Gulf Coast area. The Hospital is currently licensed to operate 303 inpatient beds.

The Hospital is a joint venture of the City of Gulfport (the "City") and the Gulfport-West Harrison County Hospital District (the "District"). The Hospital operates in the form of a government authority, governed by a Board of Trustees pursuant to Sections 41-13-15 et seq. of Mississippi Code of 1972, as amended, consisting of members from the City and the District. The Hospital is an independent enterprise held and operated separate and apart from all other assets and activities of the City and the District. The Hospital is not a taxable entity and does not file an income tax return. Budgets are prepared on a basis consistent with accounting principles generally accepted in the United States of America with concurrence by the Hospital's Board of Trustees on an annual basis. The Hospital, however, is not required by statute to adopt a legally binding budget. Accordingly, budgetary information is not a required part of these financial statements.

Basis of Accounting

The Hospital prepares its financial statements as a business-type activity in conformity with the applicable pronouncements of the Governmental Accounting Standards Board ("GASB"). The accompanying financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus.

Blended Component Units

The Hospital has five entities that have been, for financial reporting purposes only, presented as blended component units as of September 30, 2019 and 2018 into the Hospital's financial statements. The Hospital exerts control and there is a financial benefit relationship with these entities. All significant intercompany transactions between these five entities and the Hospital have been eliminated. These entities are as follows:

Memorial Hospital Ambulatory Health Services, Inc.

Memorial Hospital Ambulatory Health Services, Inc. ("MHAHS") is a wholly-owned, nonprofit component unit of the Hospital initially set up to hold an interest in an ambulatory surgery center, Gulfport Surgery Center ("GSC"), operating on the Hospital's main campus. Operations of GSC were absorbed into the Hospital.

Select Hospital Corporation

Select Hospital Corporation ("SHC") is a wholly-owned subsidiary of the Hospital that was formed in 1997 for the purpose of holding the Hospital's ownership interest in Mississippi Select Health Care, LLC ("MSHC"), also formed in 1997. MSHC operates as an administrator (non-risk assuming) of the Hospital's employee medical and dental benefit plans.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Medical Foundation of South Mississippi, Inc.

The Medical Foundation of South Mississippi, Inc. (the "Foundation") is a 501(c)(3) tax-exempt entity formed for the purpose of providing medical care to the community of the Mississippi Gulf Coast through the ownership and operation of a number of health clinics. Effective October 1, 2008, all medical services and business operations of the Foundation were assumed by the Hospital. The transactions to sell the tangible assets owned by the Foundation to the Hospital were completed in part by September 30, 2008, with the remainder sold in fiscal year 2009. The Foundation is fiscally dependent upon the Hospital's continuing financial support and could not continue as a going concern without this support.

Memorial Properties, Inc.

Memorial Properties, Inc. ("MPI") is a wholly-owned, nonprofit component unit of the Hospital that assisted in the development of a new medical office building ("MOB") and atrium and parking deck expansion with bridge connections to the Hospital ("APD"). The Hospital appoints the Board of Directors. The Hospital, the City and the District conveyed approximately two acres of land to MPI in order to allow for the development of the MOB and APD. The Hospital has since purchased both the APD and MOB at fair market values in 2002 and 2007, respectively. MOB activities include leasing, build out and rental of available space. In addition, MPI holds the Hospital's equity interest in the Encompass Health Rehabilitation Hospital at Gulfport (Encompass) (formerly HealthSouth Rehabilitation Hospital of Gulfport, LLC) joint venture (Note 7).

Memorial Hospital at Gulfport Foundation, Inc.

Memorial Hospital at Gulfport Foundation, Inc. ("MHG Foundation") is a nonstock, nonprofit corporation exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. The members of the MHG Foundation Board consist principally of persons selected from the trustees, executive staff and medical staff of the Hospital, as well as local civic leaders and professionals.

The MHG Foundation is organized and operated exclusively for charitable scientific and educational purposes for the benefit of the Hospital. The primary sources of financial support for the MHG Foundation are gifts, grants and contributions from the general public, corporations and charitable organizations.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used for, but not limited to contractual allowances for revenue adjustments, allowance for doubtful accounts, net pension liability and depreciable lives of assets.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

The accounting estimates used in the preparation of the financial statements will change as new events occur, as more experience is acquired and as additional information is obtained. Future events and their effects cannot be predicted with certainty; accordingly, management's accounting estimates require the exercise of judgment. In particular, laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates related to these programs will change by a material amount in the near term.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with original maturities of three months or less when purchased and insignificant risk of changes in value, excluding amounts designated as to use by the Board of Trustees or under trust agreements.

Investments

Investments in debt and equity securities are carried at fair value except for investments in money market investments, certificates of deposit and participating interest-earning investment contracts with a remaining maturity of less than one year at the time of purchase. These investments are reported at amortized cost, which approximates fair value. Money market investments are short-term highly liquid instruments including commercial paper, bankers' acceptances and U.S. Treasury and agency obligations. Investment income on investments in debt and equity securities, including realized and unrealized gains and losses, is included in nonoperating revenue when earned.

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 losses 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 Hospital'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.

Restricted Cash and Investments

Restricted cash and investments include assets held by trustees under indenture agreements, assets set aside under the Hospital's self-insured insurance programs, as well as assets designated for future capital improvements. Amounts that are required for obligations classified as current liabilities are reported as current assets, with the excess reported as noncurrent assets.

Inventories

Inventories, which consist primarily of medical supplies and drugs, are stated at average cost, which approximates the lower of cost or market.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Prepaid Expenses

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

Capital Assets, Net

Capital asset acquisitions are recorded at cost, if purchased, or at fair value at the date of the gift, if donated. The Hospital utilizes a capitalization threshold of \$500. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Except for capital assets acquired through gifts, contributions or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Management evaluates assets for potential impairment when a significant, unexpected decline in the service utility of a capital asset occurs.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until the future period. As of September 30, 2019 and 2018, the Hospital recognized \$12,766,539 and \$11,163,445, respectively, as deferred outflows of resources. In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. As of September 30, 2019 and 2018, the Hospital recognized \$176,773 and \$218,465, respectively, as deferred inflows of resources.

Cost of Borrowing

Costs incurred in connection with the obtaining of financing are expensed when incurred. Premiums or discounts incurred in connection with the issuance of bonds and indentures are amortized over the life of the obligations on the interest method, and the unamortized amount is included in the balance of the outstanding debt.

Pensions

The Hospital recognizes the net pension liability, deferred outflows and deferred inflows of resources, pension expense, and information about and changes in the fiduciary net position on the same basis as reported by the respective defined benefit pension plans. The Hospital recognizes benefit payments when due and payable in accordance with benefit terms. Investment assets are reported at fair value. More information on pension activity for the Hospital is included in Note 11.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Compensated Absences

The Hospital's policy is to compensate employees for absences due to earned vacation, personal and sick leave. Accumulated vacation, personal and sick pay is accrued as of the statements of net position date as it is payable upon termination of employment.

Net Position

Net position of the Hospital is classified in three components. Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings used to finance the purchase or construction of those assets. Restricted are those resources that are externally restricted by creditors, grantors, contributors or laws and regulations or those restricted by constitutional provisions and enabling legislation. Unrestricted net position is remaining resources that do not meet the definition of invested in capital assets, net of related debt or restricted.

When both restricted and unrestricted resources are available to finance a particular program, it is the Hospital's policy to use the restricted resources before using the unrestricted resources.

Patient Service Revenues

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

The primary third-party programs include Medicare and Medicaid, which account for a significant amount of the Hospital's revenue. The laws and regulations under which Medicare and Medicaid programs operate are complex, and subject to interpretation and frequent changes. As part of operating under these programs, there is a possibility that government authorities may review the Hospital's compliance with these laws and regulations. Such review may result in adjustments to program reimbursement previously received and subject the Hospital to fines and penalties. Although no assurance can be given, management believes it has complied with the requirements of these programs.

Charity Care

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

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Grants and Contributions

From time to time, the Hospital receives grants from other governmental entities as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted either for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose, but considered nonexchange transactions, are reported as nonoperating revenues.

Income Tax

The Hospital qualifies as a tax-exempt organization under existing provisions of the Internal Revenue Code and its income is generally not subject to federal and state income taxes.

Operating Revenues and Expenses

The Hospital's statements of revenues, expenses and changes in net position distinguish between operating and nonoperating revenues and expenses.

Operating revenues and expenses result from exchange transactions associated with providing healthcare services, the Hospital's principal activity. Nonexchange revenues, including grants and contributions received, are reported as nonoperating revenues. Revenues and expenses associated with investment income and financing activities are reported as nonoperating revenues and expenses.

Accounting Pronouncements Issued Not Yet Adopted

Governmental Accounting Standards Board Statement No. 84 ("GASB 84")

The Hospital will adopt GASB 84, *Fiduciary Activities*, in fiscal year 2020 with any changes applied retroactively. This statement is meant to provide guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes. Fiduciary activities meeting certain criteria (i.e. pension and other employee benefit trust funds, investment trust funds, private-purpose trust funds, and custodial funds) will now be reported in a fiduciary fund as part of the basic financial statements. The Hospital is currently assessing the impact of the adoption of this GASB and its effect on the Hospital's financial position and results of operations.

Governmental Accounting Standards Board Statement No. 87 ("GASB 87")

The Hospital will adopt GASB 87, *Leases*, in fiscal year 2021 with any changes applied retroactively. This statement will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. Under this statement all leases are required to be recognized as assets and liabilities with associated deferred inflows and outflows of resources on the financial statements. Furthermore, the statement defines a lease and details the considerations for determining the lease term. The Hospital is currently assessing the impact of the adoption of this GASB and its effect on the Hospital's financial position and results of operations.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Governmental Accounting Standards Board Statement No. 89 ("GASB 89")

The Hospital will adopt GASB 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, in fiscal year 2021. This statement will improve financial reporting by (1) enhancing the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and (2) simplifying accounting for interest cost incurred before the end of a construction period. This statement will supersede GASB 62, requiring that interest cost incurred before the end of a construction period to be recognized as an expense in the period in which the cost was incurred. The Hospital is currently assessing the impact of the adoption of this GASB and its effect on the Hospital's financial position and results of operations.

Governmental Accounting Standards Board Statement No. 90 ("GASB 90")

The Hospital will adopt GASB 90, *Majority Equity Interests*, in fiscal year 2020. This statement will require the Hospital to report any majority equity interests in a legally separate organization as an investment if that equity interest meets the GASB's definition of an investment. For majority equity interest in a legally separate entity that does not meet the definition of an investments, the Statement requires a government to report the legally separate entity as a component unit. The Hospital is currently assessing the impact of the adoption of this GASB and its effect on the Hospital's financial position and results of operations.

Note 2. Disposal of Operations and Affiliations

Disposal of Memorial Behavioral Health

Effective December 18, 2017, the Hospital entered into an agreement with TBD Acquisition II, LLC ("TBD"), whereby TBD purchased the assets of the Hospital's 109-bed inpatient behavioral health facility and ancillary services provided to the unit's patients. Per the purchase agreement, the Hospital transferred capital and intangible assets, including a related certificate of need, to TBD. The Hospital received proceeds of \$15,397,947 and recognized a gain of \$12,378,233 in non-operating revenues as of the date of sale of the operations. The condensed statements of revenues, expenses and changes in net position as of and for the two-month period ended November 30, 2017 for the operations disposed of are detailed below:

	November 30, 2017 (Unaudited)
Condensed statements of revenues, expenses and changes in net position	
Operating revenues	\$ 2,104,517
Operating expenses	<u>2,994,409</u>
Decrease in net position	<u>\$ (889,892)</u>

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 2. Continued

Disposal of Pediatric Clinics

Effective January 22, 2018, the Hospital entered into an affiliation agreement and an asset purchase agreement (the "Agreements") with the University of Mississippi Medical Center ("UMMC"), whereby UMMC acquired certain assets and assumed certain liabilities associated with the Hospital's pediatric and neonatal services for proceeds of \$76,385. UMMC will also provide management services for the Hospital in pediatric neonatal intensive care as well as provide pediatric hospitalists and certain other physician neonatology and related allied health professional services to the Hospital. The Hospital retained ownership of the facilities in which the acquired pediatric clinics are located and accordingly, in coordination with the Agreements, the Hospital and UMMC entered into sublease agreements for each of the related facilities. Other terms of the Agreements include a mutually beneficial academic affiliation and collaboration on clinical trials and research.

The Agreements also provided that the Hospital remain responsible for compensation of certain professionals through an additional Professional Services and Staffing Agreement and the Hospital also must compensate UMMC through an incentive fee in the event certain financial metrics are achieved as well as periodically reimburse UMMC for operating losses, as defined, for a period of four years from the effective date of the Agreements. As of September 30, 2019 and 2018, the Hospital has accrued approximately \$450,000 and \$980,000, respectively, for such commitments. The Hospital made approximately \$1,300,000 in payments in accordance with these agreements during the year ended September 30, 2019. The Hospital recognized a gain of \$76,385 in 2018 on the sale of assets related to this transaction.

The condensed statements of revenues, expenses and changes in net position for the three-month period ended December 31, 2017 for the operations disposed of are detailed below:

	December 31, 2017 (Unaudited)
Condensed statements of revenues, expenses and changes in net position	
Operating revenues	\$ 949,565
Operating expenses	<u>5,483,035</u>
Decrease in net position	<u>\$ (4,533,470)</u>

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 2. Continued

Disposal of Nephrology Clinics

Effective May 31, 2018, the Hospital terminated their professional services agreement with South Mississippi Nephrology, PLLC ("SMN"), whereby SMN had been contracted to provide professional services related to the Hospital's nephrology services. With the termination of the agreement, SMN disengaged from the Hospital to return to private practice in providing these services and acquired from the Hospital certain assets previously used in providing these services. The condensed statements of revenues, expenses and changes in net position for the eight-month period ended May 31, 2018 for the operations disposed of are detailed below:

	May 31, 2018 (Unaudited)
<hr/>	
Condensed statements of revenues, expenses and changes in net position	
Operating revenues	\$ 821,365
Operating expenses	<u>4,269,014</u>
Decrease in net position	<u>\$ (3,447,649)</u>

Note 3. Designated Net Position

Of the \$184,250,157 and \$168,924,235 of unrestricted net position reported at September 30, 2019 and 2018, respectively, \$45,268,430 and \$40,135,535 for 2019 and 2018, respectively, have been designated by the Hospital's Board of Trustees for capital acquisitions. Designated funds remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 4. Deposits and Investments

The carrying amounts of deposits and investments shown above are included in the Hospital's statements of net position as follows at September 30:

	2019	2018
Cash and cash equivalents	\$ 38,598,325	\$ 66,083,874
Current restricted cash and investments		
Held by trustee under indenture agreements	1,126	147,045
Held by trustee for self-insurance fund	3,299,669	3,269,048
Total current restricted cash and investments	3,300,795	3,416,093
Noncurrent cash and investments		
Investments	87,805,911	42,596,635
Restricted investments by contributors and grantors	1,824,990	2,143,515
Internally designated by the Board for plant replacement and expansion	45,268,430	40,135,535
Held by trustee under indenture agreements	6,022	5,112
Principal of permanent endowments	1,476,258	1,476,258
Total noncurrent cash and investments	136,381,611	86,357,055
Total	<u>\$ 178,280,731</u>	<u>\$ 155,857,022</u>

Deposits

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

Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation ("FDIC"). All deposits with financial institutions must be collateralized in an amount equal to 105 percent of uninsured deposits and are therefore fully insured. The bank balance of the collateralized and insured balances was \$38,281,586 and \$68,774,656 at September 30, 2019 and 2018, respectively.

The Hospital also has cash deposits held by a trustee. The use of these funds is restricted for self-insurance related to professional liability and workers' compensation claims. The carrying value of these deposits was \$3,299,669 and \$3,269,048 at September 30, 2019 and 2018, respectively.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 4. Continued

Investments and Deposits

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

The Hospital's investment policy does not further limit types of investments available to the Hospital. The Hospital's investments and cash equivalents consisted of the following funds at September 30, 2019:

Investment Type	Carrying Amount	Investment Maturities (in Years)		
		Less Than 1	1-5	6-10
U.S. Treasury Notes	\$ 47,386,103	\$10,965,380	\$ 36,420,723	\$ -
Municipal Bonds	3,636,378	-	1,284,295	2,352,083
Governmental Agency Bonds	48,925,753	9,986,900	11,623,844	27,315,009
Equity and Mutual Funds	3,625,948	3,625,948	-	-
Certificates of Deposit	6,449,596	5,556,213	643,218	250,165
Cash and Cash Equivalents	68,256,953	-	-	-
Total investments and deposits	\$ 178,280,731	\$30,134,441	\$ 49,972,080	\$ 29,917,257

The Hospital's investments and cash equivalents consisted of the following funds at September 30, 2018:

Investment Type	Carrying Amount	Investment Maturities (in Years)		
		Less Than 1	1-5	6-10
Governmental Agency Bonds	\$ 59,813,180	\$ 4,965,338	\$ 54,847,842	\$ -
Equity and Mutual Funds	3,619,773	3,619,773	-	-
Certificates of Deposit	7,552,675	4,522,025	2,780,650	250,000
Cash and Cash Equivalents	84,876,506	-	-	-
Total investments and deposits	\$ 155,862,134	\$13,107,136	\$ 57,628,492	\$ 250,000

As a means of limiting its exposure to fair value losses arising from interest rates, the Hospital's investment policy provides the following investment maturity guidelines:

Maturity	Maximum Investment
One to three years	50%
Three to ten years	25%
More than ten years	25%

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 4. Continued

As of September 30, 2019, the Hospital's nongovernmental investments were rated as follows:

	Rating	Source	Market Value
Money Market Funds	AAAm	Standard & Poor's	\$ 26,352,937
Municipal Bonds	AA	Standard & Poor's	\$ 3,636,378

As of September 30, the Hospital's noncurrent cash and investments internally designated by the Board for plant replacement and expansion are as follows:

	2019	2018
Total cash equivalents	1,265,866	5,309,735
Total investments	44,002,564	34,825,800
Total internally designated by Board	<u>\$ 45,268,430</u>	<u>\$ 40,135,535</u>

Note 5. Fair Value Measurement

The Hospital holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the Hospital's mission, the Hospital determined that the disclosures related to these investments only need to be disaggregated by major type. The Hospital elected a narrative format for the fair value disclosures.

The Hospital categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Hospital has the following recurring fair value measurements:

- Equity securities and mutual funds of \$3,625,948 and \$3,619,773 as of September 30, 2019 and 2018, respectively, are valued using prices quoted in active markets for those securities (Level 1 inputs).
- Government agency bonds, municipal bonds, certificates of deposit and U.S. Treasury notes of \$106,397,830 and \$67,365,855 as of September 30, 2019 and 2018, respectively, are valued using significant other observable inputs for those securities (Level 2 inputs)

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets, Net

A summary of capital assets, net, at September 30 is set forth below:

	Estimated Useful Lives	2019	2018
Land	-	\$ 6,311,386	\$ 6,311,386
Land improvements	1-25	4,863,228	4,863,228
Building and improvements	1-40	232,286,627	229,374,585
Fixed equipment	3-30	105,014,974	104,232,286
Major moveable equipment	1-25	249,369,912	241,084,838
Total		597,846,127	585,866,323
Less accumulated depreciation and amortization		438,547,023	415,433,511
		159,299,104	170,432,812
Construction in progress		5,025,477	3,100,117
Capital assets, net		<u>\$ 164,324,281</u>	<u>\$ 173,532,929</u>

Depreciation expense for the years ended September 30, 2019 and 2018 totaled \$25,589,881 and \$29,421,595, respectively. Construction in progress at September 30, 2019 represents costs incurred for software upgrades and medical equipment not yet placed in service. Interest capitalized and included in construction in progress during the years ended September 30, 2019 and 2018, totaled \$204,842 and \$125,036, respectively. There were no material construction commitments at September 30, 2019.

Capital assets activity for the year ended September 30, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 6,311,386	\$ -	-	\$ 6,311,386
Construction in progress	3,100,117	2,232,788	(205,969)	5,025,477
Total capital assets not being depreciated	9,411,503	2,232,788	(205,969)	11,336,863
Other capital assets				
Land improvements	4,863,228	-	-	4,863,228
Building and improvements	229,374,585	2,912,042	-	232,286,627
Fixed equipment	104,232,286	1,471,020	(614,557)	105,014,974
Major moveable equipment	241,084,838	10,147,358	(1,862,284)	249,369,912
Total other capital assets at historical cost	579,554,937	14,506,108	(2,476,841)	591,534,741

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 6. Continued

	Beginning Balance	Increases	Decreases	Ending Balance
Less accumulated depreciation for:				
Land improvements	\$ 4,674,725	\$ 103,378	\$ -	\$ 4,478,103
Building and improvements	129,889,492	8,012,878	-	137,902,370
Fixed equipment	76,024,370	3,471,162	(614,557)	78,880,975
Major moveable equipment	204,844,924	14,002,463	(1,862,284)	216,985,575
Total accumulated depreciation	415,433,511	25,589,881	(2,476,841)	438,547,023
Depreciable capital assets, net	164,121,426	(11,083,773)	-	152,987,718
Total capital assets, net	\$ 173,532,929	\$ (8,850,985)	\$ (205,969)	\$ 164,324,581

Capital assets activity for the year ended September 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 7,121,386	\$ -	\$ (810,000)	\$ 6,311,386
Construction in progress	2,822,975	7,240,400	(6,963,258)	3,100,117
Total capital assets not being depreciated	9,944,361	7,240,400	(7,773,258)	9,411,503
Other capital assets				
Land improvements	5,046,349	80,196	(263,317)	4,863,228
Building and improvements	231,009,645	2,018,335	(3,653,395)	229,374,585
Fixed equipment	99,735,813	4,884,033	(387,560)	104,232,286
Major moveable equipment	236,463,546	6,769,584	(2,148,292)	241,084,838
Total other capital assets at historical cost	572,255,353	13,752,148	(6,452,564)	579,554,937
Less accumulated depreciation for:				
Land improvements	\$ 4,779,660	\$ 158,382	\$ (263,317)	\$ 4,674,725
Building and improvements	124,268,979	8,287,948	(2,667,435)	129,889,492
Fixed equipment	73,035,709	3,372,777	(384,116)	76,024,370
Major moveable equipment	189,390,728	17,602,488	(2,148,292)	204,844,924
Total accumulated depreciation	391,475,076	29,421,595	(5,463,160)	415,433,511
Depreciable capital assets, net	180,780,277	(15,669,447)	(989,404)	164,121,426
Total capital assets, net	\$ 190,724,638	\$ (8,429,047)	\$ (8,762,662)	\$ 173,532,929

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 7. Investments in Joint Venture

Effective April 1, 2017, the Hospital entered into an agreement with HealthSouth Gulfport Holdings, LLC ("HSGH"), whereby HSGH purchased the assets of the Hospital's 33-bed inpatient rehabilitation unit and ancillary services provided to the unit's patients. In coordination with the purchase, Encompass was created to serve as the owner and operator of the rehabilitation unit. Encompass is considered a joint venture between the Hospital and HSGH, in which the Hospital holds an equity interest. During fiscal years 2019 and 2018, the Hospital recognized approximately \$1,035,000 and \$997,000, respectively, in facility rent incurred by HSGH, which was recorded in other operating revenue. Per the purchase agreement, the Hospital transferred capital and intangible assets including a related certificate of need, into Encompass and received a twenty percent ownership interest in Encompass, which is accounted for under the equity method.

The following is summarized unaudited financial information for Encompass as of and for the years ended September 30, 2019 and 2018:

	September 30, 2019 (Unaudited)	September 30, 2018 (Unaudited)
Total assets	\$ 25,200,635	\$ 14,392,163
Liabilities	\$ 9,127,776	\$ 905,335
Equity	16,072,859	13,486,828
Total liabilities and equity	\$ 25,200,635	\$ 14,392,163
Net income	\$ 5,658,020	\$ 1,118,778

Note 8. Endowments

The MHG Foundation follows the provisions of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). In the absence of donor restrictions, the net appreciation on a donor restricted endowment fund is spendable under UPMIFA. The MHG Foundation's donors have not placed restrictions on the use of the investment income or net appreciation resulting from the donor-restricted endowment funds.

The MHG Foundation Board of Trustees has determined that the majority of the MHG Foundation's contributions are subject to the terms of its governing documents. Certain contributions are received subject to other gift instruments, or are subject to specific agreements with the MHG Foundation. Under the terms of the MHG Foundation's governing documents and UPMIFA, the MHG Foundation Board of Trustees has the ability to distribute so much of the original principal of any trust or separate gift, devise, bequest or fund as the Board, in its sole discretion, shall determine to be prudent.

The MHG Foundation implements investing activities for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of these endowment assets over the long-term. The primary goal is to preserve the real value of the endowment corpus by achieving a growth rate on the principal amount of the endowment cycle of not less than the rate of inflation as measured by the CPI. The secondary goal is to provide spendable income equivalent to the spending rate.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 8. Continued

The MHG Foundation Board of Trustees chooses to spend only a portion of the investment income (including changes in the value of investments) each year. The current spending policy is to distribute 3 to 5 percent of endowment earnings. This is consistent with the MHG Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through investment return.

Endowment net position composition by type of fund as of September 30, 2019 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Donor-restricted endowment funds	\$ -	\$ 2,673,381	\$ 2,673,381

Endowment net position composition by type of fund as of September 30, 2018 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Donor-restricted endowment funds	\$ -	\$ 2,626,062	\$ 2,626,062

Changes in endowment net position as of September 30, 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Endowment net position, beginning of year	\$ -	\$ 2,626,062	\$ 2,626,062
Investment income	-	47,319	47,319
Endowment net position, end of year	\$ -	\$ 2,673,381	\$ 2,673,381

Changes in endowment net position as of September 30, 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Endowment net position, beginning of year	\$ -	\$ 2,493,470	\$ 2,493,470
Contributions	-	10,000	10,000
Expenses	-	(26,824)	(26,824)
Investment income	-	149,416	149,416
Endowment net position, end of year	\$ -	\$ 2,626,062	\$ 2,626,062

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 9. Long-Term Debt

A summary of long-term debt at September 30 follows:

	2019	2018
Series 2016A Hospital Revenue Refunding Bonds, a rate of 5 percent, interest payable semi-annually, maturing in 2031, collateralized by a pledge of the Hospital's revenues.	\$ 46,490,000	\$ 49,270,000
Unamortized bond premium	4,429,205	5,756,850
Capital lease with imputed interest rate of 5.75 percent, payable annually, maturing in 2023, collateralized by the Hospital's capital assets (Note 10).	4,674,572	6,863,519
	55,593,777	61,890,369
Less current maturities	(4,760,438)	(4,968,947)
Long-term debt, less current maturities	\$ 50,833,339	\$ 56,921,422

Scheduled repayments on long-term debt are as follows:

Year Ending September 30,	Interest	Principal
2020	\$ 2,600,486	\$ 4,760,438
2021	2,345,827	4,295,685
2022	2,119,917	4,164,139
2023	1,903,176	4,039,310
2024	1,695,250	3,550,000
2025 – 2029	5,629,500	20,600,000
2030 – 2031	737,500	9,755,000
Total	\$ 17,031,656	\$ 51,164,572

A summary of interest cost on borrowed funds and interest income on funds held by trustees at September 30 is as follows:

	2019	2018
Interest paid on long-term debt	\$ 2,868,721	\$ 2,942,136
Capitalized	(204,842)	(125,036)
Amortized bond premium	(1,327,645)	(1,486,556)
Other changes in accruals	(73,665)	26,088
Interest expense	\$ 1,262,569	\$ 1,356,632
Interest income	\$ 11,205	\$ 96,820

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 9. Continued

Long-term debt activity for the year ended September 30, 2019 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Bonds and note payable					
Revenue bonds	\$ 49,270,000	-	\$ (2,780,000)	\$ 46,490,000	\$ 2,920,000
Premium on bonds	5,756,850	-	(1,327,645)	4,429,205	-
Capital lease	6,863,519	-	(2,188,947)	4,674,572	1,840,438
Total long-term debt	\$ 61,890,369	-	\$ (6,296,592)	\$ 55,593,778	\$ 4,760,438

Long-term debt activity for the year ended September 30, 2018 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Bonds and note payable					
Revenue bonds	\$ 52,297,841	-	\$ (3,027,841)	\$ 49,270,000	\$ 2,780,000
Premium on bonds	7,243,406	-	(1,486,556)	5,756,850	-
Capital lease	7,346,973	-	(483,454)	6,863,519	2,188,947
Total long-term debt	\$ 66,888,220	-	\$ (4,997,851)	\$ 61,890,369	\$ 4,968,947

Under the terms of the bond indenture for the revenue refunding bonds, the Hospital is required to maintain deposits with a trustee. The bond indenture also requires that the Hospital satisfy certain measures of financial performance as long as the bonds are outstanding. Under the most restrictive covenants under the bond indenture, the Hospital is required to maintain certain debt service coverage ratios. For the years ended September 30, 2019 and 2018, management asserts that the Hospital was in compliance with such covenants.

Note 10. Information Technology Contract – Capital Lease

In 2013, the Hospital entered into a ten-year equipment, software and services agreement with a major information technology vendor. The agreement generally commits the Hospital to the purchase of a variety of information technology products and services from this vendor for a defined payment stream over the term of the contract. The contract included a ten-year financing agreement for certain equipment, software licenses and support fees totaling \$17,401,754, maturing in 2023, and is included in capital lease in the accompanying financial statements. Software maintenance expense associated with this contract of \$4,208,122 and \$4,199,845 was recognized for the years ended September 30, 2019 and 2018, respectively.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 10. Continued

The following table summarizes the future payment commitments by year under the contract pertaining to fees, subscriptions and other related services, as of September 30, 2019. The Hospital has the ability under the contract to terminate these services on six months' notice and a termination fee, as defined in the contract.

	Software Maintenance Obligation
2020	\$ 4,225,501
2021	4,244,619
2022	4,265,648
2023	4,266,552
Total commitment	\$ 17,002,320

Note 11. Retirement Plans

The Hospital has established the Memorial Hospital at Gulfport Retirement Plan (the "Plan"), a contributory defined benefit pension plan. The Hospital elected to freeze the Plan to new entrants as of January 1, 2012. Information about the Plan follows:

Plan Description

The Plan is a single-employer defined benefit public employee retirement system plan, administered by the Director of the Hospital's Department of Human Resources. The Plan provides retirement, disability and death benefits to Plan members and beneficiaries. Benefit provisions are established by the Hospital's Board of Trustees. The Plan issues a financial report, available for all participants, that includes financial statements and required supplementary information. That information may be obtained by writing to Human Resources, Memorial Hospital, P.O. Box 1810, Gulfport, MS, 39501.

Benefits Provided

Plan participating members who are vested and retire at or after age 65 or those who retire at age 55 with at least 25 years of creditable service are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 1.00 percent of their average monthly earnings up to \$3,333, plus 1.5 percent of average monthly earnings in excess of \$3,333, multiplied by years of continuous services to a maximum of 25 years. Average compensation is the average of the employee's earnings for the highest 60 consecutive calendar months' earnings out of 120 months preceding retirement or termination, limited as required by Internal Revenue Code section 401(a)(17). A member may elect a reduced retirement benefit at age 55 with at least 10 years of consecutive service. Benefits vest upon completion of 5 years of continuous service. The Plan also provides certain death and disability benefits.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 11. Continued

Employees Covered by Benefit Terms

The following employees were covered by the benefit terms, as of the October 1 valuation date as follows:

	2018	2016
Active members	1,221	1,563
Active members with benefits suspended	118	161
Terminated vested members	241	228
Retired members	324	263
Beneficiaries of deceased members	7	7
Total	<u>1,911</u>	<u>2,222</u>

Contributions

Members of the Plan are not required or permitted to contribute any portion of their salary to fund the Plan. The Hospital has committed to fund an actuarially determined contribution based on a closed amortization period, which means that payment of the actuarially determined contribution each year will bring the Plan to a 100 percent funded position by the end of the amortization period.

Net Pension Liability

At September 30, 2019 and 2018, the Hospital reported a net pension liability of \$52,510,457 and \$49,676,183, respectively. The net pension liability was measured as of September 30, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2018 and 2016. The Hospital's net pension liability was based on a projection of the Hospital's long-term share of contributions to the pension plan, actuarially determined.

For the years ended September 30, 2019 and 2018, the Hospital recognized pension expense of \$12,117,376 and \$11,424,897, respectively.

Certain changes in actuarial assumptions impacted 2018 deferred outflows including:

- The net investment yield was changed from 6.50 to 6.25 percent;

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 11. Continued

At September 30, 2019 and 2018, the Hospital reported deferred outflows and inflows of resources related to pensions from the following sources:

	2019	2018
Deferred outflows of resources		
Changes of assumptions	\$ 4,569,313	\$ 5,827,092
Net difference between projected and actual earnings on pension plan investments	1,195,092	1,348,492
Differences between expected and actual experience on economic/demographic assumptions	6,816,745	3,746,902
Total deferred outflows of resources	<u>\$ 12,581,150</u>	<u>\$ 10,922,486</u>
Deferred inflows of resources		
Differences between expected and actual experience on economic/demographic assumptions	\$ (176,773)	\$ 218,465
Net difference between projected and actual earnings on pension plan investments	-	-
Total deferred inflows of resources	<u>\$ (176,773)</u>	<u>\$ 218,465</u>

Deferred outflows and inflows of resources related to pensions will be recognized as pension expense as follows:

Year ending September 30,

2020	\$ 2,988,104
2021	3,311,780
2022	3,597,436
2023	1,658,649
2024	848,408
Total	<u>\$ 12,404,377</u>

Actuarial Assumptions

The total pension liability in the October 1, 2018 and 2016 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Net investment yield	6.25 percent, reflects inflation
Inflation	2.60 percent
Salary increases	2.00 percent for plan years prior to 2018, 3.00 percent for 2018, and 4.00 percent thereafter

Mortality rates were based on the RP-2000 Mortality Table with generational projections using Scale AA for males or females.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 11. Continued

The Plan's valuation assumptions are based on actuarial experience studies performed as of July 2017.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future rate of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The net pension liability activity for the year ended September 30, 2019 and 2018 was as follows:

	Total Pension Liability	Increase (Decrease) Plan Fiduciary Net Position	Net Pension Liability
Balances as of October 1, 2017	\$ 160,130,948	\$ 102,882,526	\$ 45,790,489
Changes for the year:			
Service cost	5,234,042	-	5,234,042
Interest on total pension liability	10,392,920	-	10,392,920
Economic/demographic loss	(260,157)	-	(260,157)
Change in assumptions/inputs	3,794,505	-	3,794,505
Benefit payments	(11,122,938)	(11,122,938)	-
Employer contributions	-	10,678,521	(10,678,521)
Net investment income	-	4,597,095	(4,597,095)
Balances as of September 30, 2018	168,169,320	118,493,137	49,676,183
Changes for the year:			
Service cost	4,867,462	-	4,867,462
Interest on total pension liability	10,526,785	-	10,525,436
Economic/demographic loss	4,807,132	-	4,807,132
Benefit payments	(9,358,278)	(9,358,278)	-
Employer contributions	-	10,983,458	(10,983,458)
Net investment income	-	6,383,647	(6,383,647)
Balances as of September 30, 2019	\$ 179,012,421	\$ 126,501,964	\$ 52,510,457

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 11. Continued

Sensitivity Analysis

The following presents the net pension liability of the Hospital, calculated using the discount rate of 6.25 percent, as well as what the Hospital's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate.

	1% Decrease 5.25%	Current Discount Rate 6.25%	1% Increase 7.25%
2019	\$ 69,744,281	\$ 52,510,457	\$ 37,550,669

Discount Rate

The discount rate used to measure the total pension liability was 6.25 percent as of September 30, 2019 and 2018. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at the current contribution rate and that contributions from the Hospital will be made at contractually required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to always be sufficient to cover benefit payments and administrative expense. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Cash	1%	0.68%
US Short Bonds	13%	1.11%
US Interm Bonds	13%	1.41%
US Long Bonds	9%	2.40%
US Inflation-Indexed Bonds	1%	0.85%
US High Yield Bonds	10%	3.92%
Emerging Markets Bonds	1%	3.39%
US Small Caps	7%	5.99%
US Mid Caps	5%	5.02%
US Large Growth	13%	5.17%
US Large Value	5%	4.60%
Foreign Developed Equity	2%	6.32%
Emerging Markets Equity	13%	8.54%
Non U.S. Small Cap	5%	6.89%
Global REITs	2%	5.82%
Total	100%	

For the years ended September 30, 2019 and 2018, the net annual money-weighted rate of return was 5.61% and 4.23%, respectively. The net annual money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amount actually invested.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 11. Continued

Defined Contribution Plan

The Hospital sponsors a defined contribution plan qualified under Section 403b of the Internal Revenue Code (the "403b Plan"). Under the provisions of the 403b Plan, employees may contribute up to 100 percent of their annual compensation, as defined. Effective beginning January 1, 2010, the Hospital matches contributions up to 50 percent of the first 3 percent of an employee's contribution. Effective beginning January 1, 2011, the Hospital stopped matching the employee's contribution, with the exception of physicians. The Hospital's matching contributions, net of forfeiture credits, totaled \$886,904 and \$2,362,538 for the years ended September 30, 2019 and 2018, respectively.

Note 12. Insurance Programs

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; medical malpractice; errors and omissions; employee injuries and illnesses; natural disasters and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters, or the Hospital is self-insured, as noted below.

Self-Funded Health Insurance

The Hospital is self-insured for employee medical and dental benefits. Employees have 3 options with varying benefits in relation to these plans for which the general terms are detailed in the plan documents. The Hospital purchases reinsurance coverage which limits the aggregate claim losses per employee. Employees participate in this plan, and the Hospital makes premium payments based on actuarial estimates of the amount needed to pay prior and current year claims and to establish a reserve for catastrophic losses.

The Hospital records a liability for claims incurred but not reported or paid. This liability at September 30, 2019 and 2018 is based on the requirements of GASB Statement No. 10, which requires that liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the Hospital's claims liability amount as of September 30:

		Medical and Dental			
		(Beginning) October 1, Claims Liability	Current Year Claims and Changes in Estimates	Current Year Claim Payments	(Ended) September 30, Claims Liability
2018	\$	1,334,929	\$ 11,052,864	\$ (10,880,652)	\$ 1,507,141
2019	\$	1,507,141	\$ 11,603,701	\$ (12,331,822)	\$ 779,020

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 12. Continued

The Hospital also has a self-insured workers' compensation program defined by the Workers' Compensation Law for employees injured in the course and scope of employment. The Hospital retains the first \$250,000 of incurred liability with the excess insurance being provided on unlimited basis over and above the self-insured retention. Changes in the Hospital's incurred but not reported claims liability amount as of September 30:

Workers' Compensation								
		(Beginning) October 1, Claims Liability		Current Year Claims and Changes in Estimates		Current Year Claim Payments		(Ended) September 30 Claims Liability
2018	\$	3,595,969	\$	(215,227)	\$	(1,266,590)	\$	2,114,152
2019	\$	2,114,152	\$	2,346,424	\$	(1,637,592)	\$	2,822,984

Medical Malpractice Insurance

The Hospital holds professional and general liability insurance under a self-funded plan. At year-end, the Hospital has accrued for an estimate of losses for malpractice and general liability claims outstanding, based on historical loss and loss adjustment expense development patterns. The future assertion of claims for occurrences prior to year-end is reasonably possible and may occur, although not anticipated. In any event, management believes that any such claims would be substantially covered under its insurance program.

The Mississippi Tort Claims Act ("MTCA") provides a cap on the amount of damages recoverable against government entities, including governmental hospitals. The amount recoverable for claims is the greater of \$500,000 or the amount of liability insurance coverage that has been retained. Changes in the Hospital's medical malpractice liability amount as of September 30:

Medical Malpractice								
		(Beginning) October 1, Claims Liability		Current Year Claims and Changes in Estimates		Current Year Claim Payments		(Ended) September 30 Claims Liability
2018	\$	1,903,022	\$	2,203,832	\$	(959,390)	\$	3,147,464
2019	\$	3,147,464	\$	(794,179)	\$	(1,219,935)	\$	1,133,350

Note 13. Patient Service Revenue

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

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 13. Continued

Medicare

Inpatient acute, rehabilitation and outpatient services rendered to Medicare beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, outcome and other factors. Medicare bad debts and disproportionate share payments are paid at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor.

Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon the Ambulatory Payment Classification ("APC") system for outpatient payments and an APR-DRG system for inpatient payment.

The Hospital participates in the Medicaid Disproportionate Share Hospital ("DSH") program. Under this program, the Hospital receives enhanced reimbursement through a matching mechanism. For the fiscal years ended September 30, 2019 and 2018, the Hospital reported \$29,926,370 and \$29,279,056, respectively, in enhanced reimbursement through the DSH program.

The Hospital participates in the Division of Medicaid ("DOM") Mississippi Hospital Access Payment ("MHAP") program (the "MHAP Program"). The MHAP program is administered by the DOM through the Mississippi CAN coordinated care organizations ("CCO"). The CCO's will subcontract with the Hospitals throughout the state for distribution of the MHAP for the purpose of protecting patient access to hospital care. The MHAP programs and associated tax were distributed and collected in seven equal installments during the months of December through June. For the fiscal years ended September 30, 2019 and 2018, the Hospital reported \$19,292,834 and \$21,468,980, respectively, in enhanced reimbursement from the MHAP program.

DSH and MHAP amounts are recorded as a reduction of contractual adjustments with related assessments of \$11,474,041 and \$10,146,762 recorded in operating expenses for the years ended September 30, 2019 and 2018, respectively.

Revenue from the Medicare and Medicaid programs accounted for approximately 56.2 percent and 9.8 percent, respectively, of the Hospital's gross patient revenue for the year ended September 30, 2019, and 56.2 percent and 10.5 percent, respectively, of the Hospital's gross patient revenue for the year ended September 30, 2018. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change. The 2019 and 2018 net patient service revenue increased \$959,969 and decreased \$993,439, respectively, due to adjustments in excess of amounts previously estimated. As of September 30, 2019, cost reports for fiscal years 2016 and prior have been settled.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 13. Continued

Other

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

A summary of patient service revenue as of September 30 follows:

	<u>2019</u>	<u>2018</u>
Gross patient service revenue	\$ 4,282,117,880	\$ 3,958,652,422
Less provisions for		
Contractual adjustments under third-party reimbursement programs and managed care contract	3,584,849,623	3,255,585,854
Uncollectible accounts	147,578,538	178,895,809
Net patient service revenue	<u>\$ 549,689,719</u>	<u>\$ 524,170,759</u>

Note 14. Charity Care

The Hospital 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 cost of those services and supplies and equivalent service statistics. The direct and indirect costs associated with these services cannot be identified to specific charity care patients. Therefore, management estimated the costs of these services by calculating a cost to gross charge ratio and multiplying it by the charges associated with services provided to patients meeting the Hospital's charity care guidelines. Costs incurred for charity care, based on the cost to charge ratio, were approximately \$6,798,233 and \$9,727,278 as of the years ended September 30, 2019 and 2018, respectively.

The Hospital also provides healthcare services to a significant portion of the uninsured and underinsured population in the surrounding community. While a portion of these patients may ultimately qualify for coverage under the Medicaid program or the financial assistance policy discussed above, the Hospital often admits a number of patients with the expectation/realization that it will likely be unable to collect a significant portion of these accounts.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 15. Concentrations of Credit Risk

Accounts Receivable

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

	2019	2018
Medicare	38.34%	37.43%
Medicaid	11.16	11.05
Commercial insurance	28.18	24.75
Private pay	19.65	20.45
Other	2.67	6.32
Total	100.00%	100.00%

Note 16. Investment in Blended Component Units

Medical Foundation of South Mississippi, Inc.

The Foundation is a legally separate, tax-exempt component of the Hospital. Because the Foundation is considered to be a blended component unit of the Hospital, its financial activity is included in the Hospital's financial activity on the accompanying financial statements. The condensed statements of net position, condensed statements of revenues, expenses and changes in net position and the condensed statements of cash flows as of and for the years ended September 30, 2019 and 2018 are detailed below.

Memorial Hospital Ambulatory Health Services, Inc.

MHAHS is a wholly-owned, nonprofit component unit of the Hospital. Because MHAHS is considered to be a blended component unit of the Hospital, its financial activity is included in the Hospital's financial activity on the accompanying financial statements. The condensed statements of net position, condensed statements of revenues, expenses and changes in net position and the condensed statements of cash flows as of and for the years ended September 30, 2019 and 2018 are detailed below.

Memorial Properties, Inc.

MPI is a wholly-owned, nonprofit component unit of the Hospital. Because MPI is considered to be a blended component unit of the Hospital, its financial activity is included in the Hospital's financial activity on the accompanying financial statements. The condensed statements of net position, condensed statements of revenues, expenses and changes in net position and the condensed statements of cash flows as of and for the years ended September 30, 2019 and 2018 are detailed below.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 16. Continued

Select Hospital Corporation

SHC is a wholly-owned component unit of the Hospital. Because the SHC is a blended component unit of the Hospital, its financial activity is included in the Hospital's financial activity on the accompanying financial statements. The condensed statements of net position, condensed statements of revenues, expenses and changes in net position and the condensed statements of cash flows as of and for the years ended September 30, 2019 and 2018 are detailed below.

Memorial Hospital at Gulfport Foundation, Inc.

MHG Foundation is a legally separate component unit of the Hospital. Because MHG Foundation is a blended component unit of the Hospital, its financial activity is included in the Hospital's financial activity on the accompanying financial statements. The condensed statements of net position, condensed statements of revenues, expenses and changes in net position and the condensed statements of cash flows as of and for the years ended September 30, 2019 and 2018 are detailed below.

	2019				
	Foundation	MHAHS	MPI	SHC	MHG Foundation
Condensed Statements of Net Position					
Assets					
Current assets	\$ 21,966	\$ 1,414,623	\$ 294,818	\$ 2,152,119	\$ 391,580
Capital assets	-	-	1,528,100	104,183	125,000
Noncurrent cash and investments	-	-	3,547,448	4,642,320	3,625,948
Total assets	21,966	1,414,623	5,370,366	6,898,622	4,142,528
Liabilities					
Current liabilities	-	-	1,277,563	339,401	4,815
Due to the Hospital	36,750,238	941,500	4,469,750	-	10,615
Total liabilities	36,750,238	941,500	5,747,313	339,401	15,430
Net position					
Invested in capital assets	-	-	1,528,100	104,183	125,000
Restricted expendable	-	-	-	-	1,824,990
Nonexpendable permanent endowments	-	-	-	-	1,476,258
Unrestricted net (deficit) position	(36,728,272)	473,123	(1,905,047)	6,455,038	700,850
Total net position	\$(36,728,272)	\$ 473,123	\$(376,947)	\$ 6,559,221	\$ 4,127,098

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 16. Continued

	2019				
	Foundation	MHAHS	MPI	SHC	MHG Foundation
Condensed Statements of Revenues, Expenses and Changes in Net Position					
Operating revenues	\$ -	\$ -	\$ -	\$ 2,556,021	\$ 419,349
Operating expenses	-	-	1,025	2,332,823	422,092
Total operating revenues (expenses)	-	-	-	223,198	(2,743)
Nonoperating income	324	6,766	1,132,109	133,412	18,808
Increase in net position	324	6,766	1,131,084	356,610	16,065
Distribution to Hospital	-	-	(650,000)	-	-
Net position, beginning of year	(36,728,596)	466,357	(858,031)	6,202,612	4,111,033
Net position, end of year	\$ (36,728,272)	\$ 473,123	\$ (376,947)	\$ 6,559,222	\$ 4,127,098

Condensed Statements of Cash Flows

Cash provided by (used in) operating activities	\$ -	\$ -	\$ -	\$ 517,138	\$ (416,152)
Cash provided by (used in) investing activities	325	6,766	(368,997)	(183,783)	512,136
Increase (decrease) in cash and cash equivalents	325	6,766	(368,997)	333,355	95,984
Cash and cash equivalents, beginning of year	21,642	1,350,124	663,815	6,273,251	220,754
Cash and cash equivalents, end of year	\$ 21,967	\$ 1,356,890	\$ 294,818	\$ 5,939,896	\$ 316,738

	2018				
	Foundation	MHAHS	MPI	SHC	MHG Foundation
Condensed Statements of Net Position					
Assets					
Current assets	\$ 21,642	\$ 1,407,857	\$ 663,815	\$ 1,470,370	\$ 2,454,761
Capital assets	-	-	1,528,100	177,958	165,000
Noncurrent cash and investments	-	-	2,697,366	4,826,103	1,513,642
Total assets	21,642	1,407,857	4,889,281	6,474,431	4,133,403
Liabilities					
Current liabilities	-	-	1,277,563	271,819	1,134
Due to the Hospital	36,750,237	941,500	4,469,749	-	21,236
Total liabilities	36,750,237	941,500	5,747,312	271,819	22,370

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 16. Continued

	2018				
	Foundation	MHAHS	MPI	SHC	MHG Foundation
Net position					
Invested in capital assets	\$ -	\$ -	\$ 1,528,100	\$ 177,958	\$ 165,000
Restricted expendable	-	-	-	-	1,876,396
Nonexpendable permanent endowments	-	-	-	-	1,476,258
Unrestricted net (deficit) position	<u>(36,728,596)</u>	466,357	<u>(2,386,131)</u>	6,024,654	<u>593,379</u>
Total net position	<u>\$ (36,728,596)</u>	<u>\$ 466,357</u>	<u>\$ (858,031)</u>	<u>\$ 6,202,612</u>	<u>\$ 4,111,033</u>
Condensed Statements of Revenues, Expenses and Changes in Net Position					
Operating revenues	\$ -	\$ -	\$ -	\$ 2,709,768	\$ -
Operating expenses	-	-	-	2,394,156	505,960
Total operating revenues (expenses)	-	-	-	315,612	(505,960)
Nonoperating income	-	3,664	331,933	95,406	634,555
Increase in net position	-	3,664	331,933	411,018	128,595
Joint venture contribution to equity	-	-	2,700,000	-	-
Net position, beginning of year	<u>(36,728,595)</u>	462,693	<u>1,510,036</u>	5,791,594	<u>3,982,438</u>
Net position, end of year	<u>\$ (36,728,595)</u>	<u>\$ 466,357</u>	<u>\$ (858,031)</u>	<u>\$ 6,202,612</u>	<u>\$ 4,111,033</u>
Condensed Statements of Cash Flows					
Cash provided by (used in) operating activities	\$ -	\$ -	\$ -	\$ 840,702	\$ (506,553)
Cash provided by (used for) investing activities	-	3,664	(2,664,256)	95,406	589,856
Increase (decrease) in cash and cash equivalents	-	3,664	(2,664,256)	936,108	83,303
Cash and cash equivalents, beginning of year	<u>21,642</u>	<u>1,346,460</u>	<u>3,328,071</u>	<u>5,337,143</u>	<u>137,451</u>
Cash and cash equivalents, end of year	<u>\$ 21,642</u>	<u>\$ 1,350,124</u>	<u>\$ 663,815</u>	<u>\$ 6,273,251</u>	<u>\$ 220,754</u>

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2019 and 2018

NOTES TO FINANCIAL STATEMENTS

Note 17. Commitments and Contingencies

Operating Leases

The Hospital leases various equipment and facilities under operating leases expiring at various dates through September 30, 2023. Total rental expense for the years ended September 30, 2019 and 2018, for all operating leases was \$12,488,994 and \$11,732,564, respectively.

The following is a schedule by year of expiration of approximate future minimum lease payments under noncancellable operating leases as of September 30, 2019, that have initial or remaining lease terms in excess of one year:

**Year Ending
September 30,**

2020	\$ 13,671,144
2021	9,602,535
2022	5,976,516
2023	2,795,271
2024	<u>1,869,595</u>
Total	<u>\$ 33,915,061</u>

Litigation

The Hospital is involved in litigation arising in the normal course of business. Based on consultations with legal counsel, management is of the opinion that these matters will be resolved without material adverse effect on the Hospital's future financial position or on the results of its future operations.

Note 18. Risks and Uncertainties

The Patient Protection and Affordable Care Act ("ACA") is the comprehensive healthcare reform bill passed by Congress in March 2010. The law reshapes the way healthcare is delivered and financed by transitioning providers from a volume-based fee-for-service system toward value-based care. Through a series of new programs, regulations, fees and subsidies, the ACA seeks to achieve a triple aim of better population health, lower per capita costs and elevated patient experience. Several legal challenges have been made against the legislation since it was enacted, and uncertainty exists as to the ultimate impact of the legislation on the healthcare delivery system. On June 28, 2012, The United States Supreme Court upheld the constitutionality of components of the ACA, allowing the historic overhaul of the healthcare system to continue. On January 20, 2017, the U.S. President signed an Executive Order entitled *Minimizing the Economic Burden of the Patient Protection and Affordable Care Act Pending Appeal*. Subsequent attempts at repeal and replace of the ACA have been unsuccessful. Potential impacts of healthcare reform include political uncertainty and volatility in Medicare and Medicaid reimbursement, fundamental changes in payment systems, increased regulation and significant required investments in healthcare information technology.

The accompanying financial statements have been prepared using values and information currently available to the Hospital.

MEMORIAL HOSPITAL AT GULFPORT
 Supplementary Information
 Schedule of Employer Contributions
 Memorial Hospital at Gulfport Retirement Plan
 September 30, 2019, 2018, 2017, 2016 and 2015

	2019	2018	2017	2016	2015
Actuarially determined employer contribution	\$ 10,983,458	\$ 10,678,521	\$ 10,911,471	\$ 10,733,545	\$ 10,934,839
Contributions in relation to the actuarially determined contribution	(10,983,458)	(10,678,521)	(10,911,471)	(10,733,545)	(10,934,839)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 68,786,411	\$ 68,536,551	\$ 75,668,481	\$ 82,724,150	\$ 86,887,090
Contributions as a percentage of covered employee payroll	15.97%	15.58%	14.42%	12.98%	12.59%

See notes to supplementary information.

MEMORIAL HOSPITAL AT GULFPORT
Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
Memorial Hospital at Gulfport Retirement Plan
September 30, 2019, 2018, 2017, 2016 and 2015*

	2019	2018	2017	2016	2015
Total Pension Liability					
Service cost	\$ 4,867,462	\$ 5,234,042	\$ 5,693,697	\$ 6,037,324	\$ 6,434,641
Interest on total pension liability	10,526,785	10,392,920	10,130,465	9,561,477	9,029,915
Effect of plan changes	-	-	-	-	-
Effect of economic/demographic (gains) losses	4,807,132	(260,157)	5,583,619	-	-
Effect of assumption changes or inputs	-	3,794,505	3,695,767	286,113	-
Benefit payments	(9,358,278)	(11,122,938)	(7,866,611)	(6,974,244)	(7,956,179)
Net change in total pension liability	10,843,101	8,038,372	17,236,937	8,910,670	7,508,377
Total pension liability, beginning	168,169,320	160,130,948	142,894,011	133,983,341	126,474,964
Total pension liability, ending	179,012,421	168,169,320	160,130,948	142,894,011	133,983,341
Fiduciary Net Position					
Employer contributions	10,983,458	10,678,521	10,911,471	10,733,545	10,934,839
Investment income net of investment expenses	6,383,647	4,597,095	8,413,073	7,780,363	1,437,393
Benefit payments	(9,358,278)	(11,122,938)	(7,866,611)	(6,974,244)	(7,956,179)
Administrative expenses	-	-	-	-	-
Net change in fiduciary net position	8,008,827	4,152,678	11,457,933	11,539,664	4,416,053
Fiduciary net position, beginning	118,493,137	114,340,459	102,882,526	91,342,862	86,926,809
Fiduciary net position, ending	126,501,964	118,493,137	114,340,459	102,882,526	91,342,862
Net pension liability, ending	\$ 52,510,457	\$ 49,676,183	\$ 45,790,489	\$ 40,011,485	\$ 42,640,479
Fiduciary net position as a % of total pension liability	70.67%	70.46%	71.40%	72.00%	68.17%
Covered payroll	\$ 68,786,411	\$ 68,536,551	\$ 75,668,481	\$ 82,724,150	\$ 86,887,090
Net pension liability as a % of covered payroll	76.34%	72.48%	60.51%	48.37%	49.08%

*Complete data for this schedule is not available prior to 2015

See notes to supplementary information.



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

Board of Trustees
Memorial Hospital at Gulfport
Gulfport, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of Memorial Hospital at Gulfport, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise Memorial Hospital at Gulfport's basic financial statements, and have issued our report thereon dated December 18, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Memorial Hospital at Gulfport's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Memorial Hospital at Gulfport's internal control. Accordingly, we do not express an opinion on the effectiveness of Memorial Hospital at Gulfport'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 Memorial Hospital at Gulfport's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

The image shows a handwritten signature in cursive script that reads "Eide Sully LLP".

Sioux Falls, South Dakota
December 18, 2019