



NORTH MISSISSIPPI HEALTH SERVICES, INC. AND SUBSIDIARIES

Consolidated Financial Statements and Schedules

September 30, 2018 and 2017

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 1100
One Jackson Place
188 East Capitol Street
Jackson, MS 39201-2127

Independent Auditors' Report

The Board of Directors
North Mississippi Health Services, Inc.:

We have audited the accompanying consolidated financial statements of North Mississippi Health Services, Inc. and subsidiaries (the System), which comprise the consolidated balance sheets as of September 30, 2018 and 2017, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of North Mississippi Health Services, Inc. and subsidiaries as of September 30, 2018 and 2017, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Jackson, Mississippi
January 18, 2019

NORTH MISSISSIPPI HEALTH SERVICES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2018 and 2017

(In thousands)

Assets	2018	2017
Current assets:		
Cash and cash equivalents	\$ 32,249	36,666
Investments	608,392	550,495
Net patient accounts receivable	148,628	161,517
Other current assets	38,896	31,771
Total current assets	828,165	780,449
Assets limited as to use	92,745	94,178
Property and equipment, net	260,995	267,816
Other assets	50,914	46,761
Total assets	\$ 1,232,819	1,189,204
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 50,270	39,691
Accrued expenses and other current liabilities	91,552	75,259
Current installments of long-term debt	77,685	81,336
Total current liabilities	219,507	196,286
Estimated professional and general liability costs	18,287	18,824
Long-term debt, excluding current installments	77,987	71,832
Fair value of interest rate swaps	3,710	5,663
Accrued pension cost	73,258	116,864
Other long-term liability	—	2,239
Total liabilities	392,749	411,708
Net assets:		
Unrestricted	833,944	770,508
Temporarily restricted	3,167	3,016
Permanently restricted	21	21
Total net assets attributable to North Mississippi Health Services, Inc.	837,132	773,545
Noncontrolling interests	2,938	3,951
Total net assets	840,070	777,496
Commitments and contingencies		
Total liabilities and net assets	\$ 1,232,819	1,189,204

See accompanying notes to consolidated financial statements.

NORTH MISSISSIPPI HEALTH SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended September 30, 2018 and 2017

(In thousands)

	<u>2018</u>	<u>2017</u>
Unrestricted revenues and other support:		
Net patient service revenue	\$ 1,032,630	1,031,498
Provision for uncollectible accounts	<u>(122,511)</u>	<u>(158,778)</u>
Net patient service revenue less provision for uncollectible accounts	910,119	872,720
Other revenue	<u>29,159</u>	<u>26,099</u>
Total unrestricted revenues and other support	<u>939,278</u>	<u>898,819</u>
Expenses:		
Salaries and wages	388,155	384,699
Employee benefits	116,091	120,813
Supplies	107,866	111,584
Drugs	85,420	76,546
Professional services	22,915	23,596
Purchased services	58,685	56,996
Administrative and general	87,715	86,265
Rent	3,970	3,947
Interest	4,641	5,001
Depreciation and amortization	<u>48,212</u>	<u>50,563</u>
Total expenses	<u>923,670</u>	<u>920,010</u>
Income (loss) from operations	15,608	(21,191)
Nonoperating gains, net	13,259	26,448
Loss on extinguishment of debt	<u>—</u>	<u>(376)</u>
Revenues, gains, and other support in excess of expenses and losses, before noncontrolling interests	28,867	4,881
Noncontrolling interests	<u>(3,766)</u>	<u>(4,067)</u>
Revenues, gains, and other support in excess of expenses and losses attributable to North Mississippi Health Services, Inc.	25,101	814
Other changes in unrestricted net assets:		
Pension-related changes other than net periodic pension cost	38,226	25,658
Other	<u>109</u>	<u>46</u>
Change in unrestricted net assets	\$ <u><u>63,436</u></u>	\$ <u><u>26,518</u></u>

See accompanying notes to consolidated financial statements.

NORTH MISSISSIPPI HEALTH SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended September 30, 2018 and 2017

(In thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Noncontrolling interests</u>	<u>Total</u>
Balances at September 30, 2016	\$ 743,990	2,820	20	4,464	751,294
Revenues, gains, and other support in excess of expenses and losses	814	—	—	4,067	4,881
Distributions to noncontrolling interests	—	—	—	(4,580)	(4,580)
Pension-related changes other than net periodic pension cost	25,658	—	—	—	25,658
Other	46	—	—	—	46
Increase in interest in net assets of affiliated foundation	—	196	1	—	197
Change in net assets	<u>26,518</u>	<u>196</u>	<u>1</u>	<u>(513)</u>	<u>26,202</u>
Balances at September 30, 2017	<u>770,508</u>	<u>3,016</u>	<u>21</u>	<u>3,951</u>	<u>777,496</u>
Revenues, gains, and other support in excess of expenses and losses	25,101	—	—	3,766	28,867
Distributions to noncontrolling interests	—	—	—	(4,779)	(4,779)
Pension-related changes other than net periodic pension cost	38,226	—	—	—	38,226
Other	109	—	—	—	109
Increase in interest in net assets of affiliated foundation	—	151	—	—	151
Change in net assets	<u>63,436</u>	<u>151</u>	<u>—</u>	<u>(1,013)</u>	<u>62,574</u>
Balances at September 30, 2018	\$ <u>833,944</u>	<u>3,167</u>	<u>21</u>	<u>2,938</u>	<u>840,070</u>

See accompanying notes to consolidated financial statements.

NORTH MISSISSIPPI HEALTH SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended September 30, 2018 and 2017

(In thousands)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 62,574	26,202
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized and realized investment losses (gains), net	3,660	(8,299)
Amortization of net premium/discount on bond issue	8	(563)
Change in fair value of interest rate swaps	(1,953)	(1,995)
Increase in interest in net assets of affiliated foundation	(151)	(197)
Pension-related changes other than net periodic pension cost	(38,226)	(25,658)
Equity in net income of equity investees	(1,128)	(813)
Depreciation and amortization	48,212	50,563
Distributions to noncontrolling interests	4,779	4,580
Loss on extinguishment of debt	—	376
Gain on disposal of assets	(307)	(256)
Changes in operating assets and liabilities, net of acquisition:		
Net patient accounts receivable	12,889	38,274
Other current assets	(7,125)	(1,677)
Other assets	(2,874)	5,273
Accrued pension cost	(5,380)	(844)
Accounts payable, accrued expenses, and other current liabilities	17,913	5,789
Estimated professional and general liability costs	(537)	(11,131)
Net cash provided by operating activities	<u>92,354</u>	<u>79,624</u>
Cash flows from investing activities:		
Capital expenditures	(33,397)	(31,050)
Sales of investments and assets limited as to use	798,471	513,797
Purchases of investments and assets limited as to use	(858,595)	(574,720)
Proceeds from sale of assets	519	2,530
Net cash used in investing activities	<u>(93,002)</u>	<u>(89,443)</u>
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	6,707	37,889
Defeasance of long-term debt	—	(37,500)
Bond issuance cost	—	(218)
Proceeds from line of credit	1,350	450
Repayment of line of credit	(450)	(150)
Repayment of long-term debt	(3,930)	(3,665)
Payment on other long-term liability	(2,239)	(2,023)
Repayment of capital lease obligations	(428)	(592)
Distributions to noncontrolling interests	(4,779)	(4,580)
Net cash used in financing activities	<u>(3,769)</u>	<u>(10,389)</u>
Net decrease in cash and cash equivalents	(4,417)	(20,208)
Cash and cash equivalents, beginning of year	<u>36,666</u>	<u>56,874</u>
Cash and cash equivalents, end of year	\$ <u>32,249</u>	\$ <u>36,666</u>
Supplemental disclosures of cash flow information:		
Non-cash additions to property, plant and equipment	\$ 8,059	420

See accompanying notes to consolidated financial statements.

NORTH MISSISSIPPI HEALTH SERVICES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

(1) Summary of Significant Accounting Policies

North Mississippi Health Services, Inc. and subsidiaries (the System) is a not-for-profit, nonstock, multidimensional provider of healthcare services with corporate headquarters located in Tupelo, Mississippi. The significant accounting policies used by the System in preparing and presenting its consolidated financial statements follow:

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the System and its controlled subsidiaries. The following corporations are the more significant of the System's subsidiaries:

- North Mississippi Medical Center, Inc. (NMMC), a tertiary-care hospital complex in Tupelo;
- Corporations which operate acute-care hospital facilities of various sizes in West Point, Iuka, Pontotoc and Eupora, Mississippi, and Hamilton, Alabama;
- North Mississippi Medical Clinics, Inc. (NMMCI), which operates 27 clinics;
- Tupelo Service Finance, Inc. (TSF), a collection agency for not-for-profit and charitable institutions;
- Acclaim, Inc., which provides healthcare claims processing, claims payment and utilization management services; and
- North Mississippi Joint Ventures, LLC (NMJV), which serves as a holding company for the System's interests in North Mississippi Ambulatory Surgery Center, LLC (ASC), Medical Imaging, LLC (MI), and Center for Digestive Health, LLC (CDH). All of the listed ventures are consolidated subsidiaries of NMJV. NMJV is the 51% controlling investor of ASC and CDH and the 72% controlling investor of MI.

All significant intercompany accounts and transactions have been eliminated in consolidation.

(b) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires that management make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues, and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Significant items subject to such estimates and assumptions include the determination of the allowances for uncollectible accounts and contractual adjustments, liabilities for general and professional liability claims, liabilities for workers' compensation claims, liabilities for employee healthcare claims, estimated third-party payor settlements, and the actuarially determined accrued pension cost related to the System's pension plan. In particular, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs will change by a material amount in the near-term.

(c) Cash Equivalents

The System considers investments in highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

NORTH MISSISSIPPI HEALTH SERVICES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

(d) Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets.

The System also has investments in alternative funds, which represent investments in hedge funds through fund-of-funds structures generally organized as corporations. The System's investments in alternative funds are recorded at net asset value (NAV) as a practical expedient to fair value. The estimated fair value of these alternative funds is based on the most recent valuations by external investment managers. The System reviews and evaluates the values provided by the managers and the valuation methods and assumptions used to determine those values. Therefore, the System believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because these assets are not readily marketable, their estimated fair value is subject to uncertainty and therefore, may differ from the fair value that would have been used had a ready market for such investments existed.

All investment income or loss (including realized and unrealized gains and losses, interest, and dividends) is included in the determination of revenues, gains, and other support in excess of expenses and losses, unless temporarily or permanently restricted by the donor. The System considers all of its investments to be trading securities.

Investment income from assets that are held by trustees is reported as other revenue. Investment income or loss from unrestricted or Board-designated investments is reported as nonoperating gains or losses.

(e) Equity Investments

Investments in jointly owned companies in which the System exercises significant influence are accounted for using the equity method.

(f) Inventories

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost (first-in, first-out method) or net realizable value.

(g) Assets Limited as to Use

Assets limited as to use include assets set aside by the Board of Directors for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes, and assets held by trustees under indenture and self-insurance funding agreements. Trusteed amounts required to meet current liabilities are classified as current assets.

(h) Costs of Borrowing

Bond issuance costs and bond premiums and discounts are being amortized over the terms of the related bond issues using the effective interest method.

Bond issuance costs related to recognized debt liabilities are presented in the accompanying consolidated balance sheets as a direct deduction from the carrying amount of that debt liability.

NORTH MISSISSIPPI HEALTH SERVICES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

The System capitalizes interest costs on qualified construction expenditures, net of income earned on related trusteed assets, as a component of the cost of related projects.

(i) Property and Equipment

Property and equipment are stated at cost at the date of acquisition or fair value at the date of donation. Provisions for depreciation are computed using the straight-line method based on the estimated useful lives of the assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used, and are excluded from revenues, gains, and other support in excess of expenses and losses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed into service. Contributions restricted to the purchase of property and equipment for which restrictions are met within the same year as received are reported as increases in unrestricted net assets in the accompanying consolidated financial statements.

(j) Impairment of Long-lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the use and eventual disposal of the asset, excluding interest. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized to the extent the carrying amount of the asset exceeds its fair value. Assets to be disposed of are separately presented in the consolidated balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held-for-sale are presented separately in the asset and liability sections of the consolidated balance sheets.

No impairment adjustments were necessary in 2018 or 2017.

In addition to consideration of impairment upon the events or changes in circumstances described above, management regularly evaluates the remaining lives of its long-lived assets. If estimates are revised, the carrying value of affected assets is depreciated or amortized over remaining lives.

(k) Derivative Instruments and Hedging Activities

The System applies Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 815 for *Derivatives and Hedging*, which requires that all derivative instruments be recorded on the consolidated balance sheets at their respective fair values.

All of the System's interest rate swaps are carried in the System's consolidated balance sheets at fair value, with related changes in fair value included in nonoperating gains or losses in the consolidated statements of operations. The System does not apply hedge accounting with respect to any of its derivatives.

NORTH MISSISSIPPI HEALTH SERVICES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

(l) Consolidated Statements of Operations

For purposes of presentation, transactions deemed by management to be ongoing, major or central to the provision of healthcare services are reported as revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

(m) Revenues, Gains, and Other Support in Excess of Expenses and Losses

The consolidated statements of operations include revenues, gains, and other support in excess of expenses and losses. Changes in unrestricted net assets which are excluded from revenues, gains, and other support in excess of expenses and losses, consistent with relevant accounting literature, include pension-related changes other than net periodic pension cost, and adjustments which may from time-to-time be required to apply new accounting standards.

(n) Net Patient Service Revenue and Accounts Receivable

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors and others for services rendered, and includes estimated retroactive revenue adjustments (if necessary) due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

The System provides a standard discount from gross charges for uninsured patients. Such discounts are included in the provision for contractual and other adjustments.

For uninsured patients who do not qualify for charity care, the System recognizes revenue based on established rates, subject to certain discounts as determined by the System. An estimated provision for uncollectible accounts is recorded that results in net patient service revenue being reported at the net amount expected to be received. The System has determined, based on an assessment at the consolidated entity level, that patient service revenue is primarily recorded prior to assessing the patient's ability to pay and as such, the entire provision for uncollectible accounts related to patient revenue is recorded as a deduction from patient service revenue in the accompanying consolidated statements of operations.

Patient receivables are reduced by an allowance for uncollectible accounts. The allowance for uncollectible accounts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in healthcare coverage, major payor sources and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category. The results of this review are then used to make modifications to the provision for uncollectible accounts to establish an appropriate allowance for uncollectible receivables. After satisfaction of amounts due from insurance, the System follows established guidelines for placing certain past-due patient balances with TSF and other collection agencies, subject to the terms of certain restrictions on collection efforts as determined by the System.

NORTH MISSISSIPPI HEALTH SERVICES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

(o) Charity Care

The System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the System does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue.

(p) Income Taxes

The System and most of its subsidiaries qualify as tax-exempt under Internal Revenue Code (IRC) Section 501(a) as organizations described in IRC Section 501(c)(3), and their income is generally not subject to Federal or state income taxes. Three of the System's subsidiaries are subject to such income taxes, which have been recognized in the accompanying consolidated financial statements. The amount of income tax expense is not significant.

The System applies FASB ASC Topic 740, *Income Taxes (Topic 740)*, which clarifies the accounting for uncertainty in income tax positions and provides guidance on when tax positions are recognized in an entity's financial statements and how the values of these positions are determined. There has been no impact on the System's consolidated financial statements as a result of applying Topic 740.

(q) Functional Expense Classification

All expenses in the accompanying consolidated statements of operations were incurred for or related to the provision of healthcare services by the System.

(r) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the System has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the System in perpetuity.

The System applies the provisions of FASB ASC Subtopic 958-205 for *Classification of Donor-Restricted Endowment Funds Subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) (Subtopic 958-205)*. Subtopic 958-205 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA. The State of Mississippi enacted a version of UPMIFA effective July 1, 2012.

(s) Pension Accounting Standard

The System applies the recognition and disclosure provisions of FASB ASC Subtopic 715-20, *Defined Benefit Plans (Subtopic 715-20)*. Subtopic 715-20 requires (among other things) that a plan sponsor recognize the unfunded status of its defined benefit pension plan on its consolidated balance sheet. The System measures the plan at September 30 each year.

Subtopic 715-20 requires enhanced disclosures related to pension plan assets, including disclosures related to the fair value of plan assets. These enhanced disclosures are included in these consolidated financial statements.

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(t) Fair Value Measurement

The System applies FASB ASC Topic 820, *Fair Value Measurement (Topic 820)*, which establishes an enhanced framework for measuring fair value and expands disclosures about fair value measurements.

(u) Recent Accounting Pronouncements

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 requires an entity to evaluate whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 or as exchange (reciprocal) transactions subject to other guidance. Additionally, an entity must determine whether a contribution is conditional and the related impact on revenue recognition. The new standard is effective for annual reporting periods beginning after June 15, 2018. The System plans to adopt ASU 2018-08 as of its fiscal year beginning October 1, 2018. The System has not yet determined the impact ASU 2018-08 will have on the consolidated financial statements.

The FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, in May 2014 as amended by ASU 2015-14, *Revenue from Contracts with Customers (Topic 606) Deferral of the Effective Date*. ASU 2014-09 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should also disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2015-14 amends the effective date for public business entities, certain not-for-profit entities, and certain employee benefit plans. The System has not yet determined the impact of the new standard on its current policies for revenue recognition. The System plans to implement ASU 2014-09 as of its fiscal year beginning October 1, 2018.

The FASB issued ASU 2015-11, *Inventory (Topic 330) Simplifying the Measurement of Inventory*, in July 2015, which changes the measurement principle for inventory from the lower of cost or market to the lower of cost or net realizable value. Management adopted ASU 2015-11 as of October 1, 2017. The adoption of ASU 2015-11 did not have a material impact on the System's consolidated financial position.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements – Going Concern, Disclosure of Uncertainties about an Entities Ability to Continue as a Going Concern*, which requires that for each annual reporting period, an entity's management should evaluate whether there are conditions or events, considered in aggregate, that raise substantial doubt about the entity's ability to continue as going concern within one year after the date that the financial statements are issued. Management's evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. ASU 2014-15 was effective for the System's fiscal year 2018 and had no effect on the consolidated financial statements.

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The FASB issued ASU 2016-02, *Leases (Topic 842)*, in February 2016, which supersedes FASB ASC Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. ASU 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on its balance sheet through both a right-of-use asset and a corresponding lease obligation liability, and additional qualitative and quantitative disclosures. Early adoption is permitted and ASU 2016-02 mandates a modified retrospective transition method. Management plans to adopt the provisions of ASU 2016-02 in its fiscal year 2020. The System has not yet determined the impact ASU 2016-02 will have on the consolidated financial statements.

The FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (ASC 958)*, which changes how not-for-profit entities, including healthcare entities, report net asset classes, expenses, and liquidity in their financial statements. ASU 2016-14 is effective for annual periods in fiscal years beginning after December 15, 2017 and for interim periods in fiscal years beginning after December 15, 2018. Early application is permitted. ASU 2016-14 must be initially adopted either for an annual fiscal period or for the first interim period within the fiscal year of adoption. The System does not expect ASU 2016-14 to have a material effect on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments – a consensus of the FASB Emerging Issues Task Force*. ASU 2016-15 amends ASC 230, *Statement of Cash Flows*, to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows with the intent of reducing diversity in practice with respect to eight types of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2018 and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, and entities must apply the guidance retrospectively to all periods presented. The System plans to adopt ASU 2016-15 for its fiscal year beginning October 1, 2019. The System has not determined the impact of ASU 2016-15 on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires companies to present amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents on the statement of cash flows. ASU 2016-18 is effective for annual periods in fiscal years beginning after December 15, 2017 and requires retrospective application. The System plans to implement ASU 2016-18 for its fiscal year beginning October 1, 2018. The System does not expect ASU 2016-18 to have a material effect on the consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires companies to present the service cost component of net benefit cost in the income statement line items where they report compensation cost, and all other components of net benefit cost in the income statement separately from the service cost component and outside of operating income, if this subtotal is presented. Additionally, the service cost component will be the only component that can be capitalized. ASU 2017-07 is effective in annual periods in fiscal years beginning after December 15, 2018. The standard requires retrospective application for the amendments related to the presentation of the service cost component and other components of net benefit cost, and prospective application for the amendments related to the capitalization requirements for the service cost components of net benefit cost. The System plans to

NORTH MISSISSIPPI HEALTH SERVICES, INC. AND SUBSIDIARIES

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implement ASU 2017-07 for its fiscal year beginning October 1, 2018. The System does not expect ASU 2017-07 to have a material effect on the consolidated financial statements.

(2) Investments and Assets Limited as to Use

The composition of investments follows (in thousands):

	<u>2018</u>	<u>2017</u>
Obligations of the U.S. government and its agencies	\$ 229,124	138,797
Corporate debt securities	174,735	164,153
Corporate equity securities	5,580	6,091
Mutual funds	178,755	222,144
Certificates of deposit	404	400
Hedge funds	18,615	17,725
Interest in Mississippi Hospital Association pooled investments	1,179	1,185
	<u>\$ 608,392</u>	<u>550,495</u>

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The composition of assets limited as to use follows (in thousands):

	<u>2018</u>	<u>2017</u>
Under indenture agreements – held by trustee:		
Obligations of the U.S. government and its agencies	\$ 928	1,839
Less deposits classified as other current assets	<u>10</u>	<u>7</u>
	<u>918</u>	<u>1,832</u>
Under professional and general liability funding arrangement – held by trustee:		
Cash and cash equivalents	1,490	645
Obligations of the U.S. government and its agencies	6,727	4,745
Corporate debt securities	5,302	9,026
Mutual funds	6,619	7,678
Accrued interest receivable	<u>475</u>	<u>910</u>
	<u>20,613</u>	<u>23,004</u>
By Board for capital improvements:		
Cash and cash equivalents	331	1,160
Obligations of the U.S. government and its agencies	26,697	17,193
Corporate debt securities	20,360	20,334
Corporate equity securities	650	754
Mutual funds	20,828	27,518
Hedge funds	2,169	2,195
Interest in Mississippi Hospital Association pooled investments	137	147
Accrued interest receivable	<u>42</u>	<u>41</u>
	<u>71,214</u>	<u>69,342</u>
Total noncurrent assets limited as to use	\$ <u><u>92,745</u></u>	\$ <u><u>94,178</u></u>

The funds held by trustee under indenture agreements were established in accordance with the requirements of the indentures related to the various Mississippi Hospital Equipment and Facilities Authority revenue bond issues discussed in note 10. Deposits classified as current assets will be used to relieve obligations classified as current liabilities at September 30.

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The composition of net investment income follows (in thousands):

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 13,959	14,813
Unrealized and realized investment (losses) gains, net	<u>(3,660)</u>	<u>8,299</u>
Net investment income	10,299	23,112
Less investment income included in other revenue	<u>1</u>	<u>2</u>
Investment income classified as a component of nonoperating gains, net	<u>\$ 10,298</u>	<u>23,110</u>

(3) Investment in Equity Investees

The System's investment in Healthcare Providers Insurance Company (HPIC), a reciprocal insurance exchange, is accounted for using the equity method and consists of a subscriber interest of approximately 41% at both years ended September 30, 2018 and 2017. The System recorded year-end investment activity related to HPIC based on financial data as of December 31, 2017 and 2016, respectively, which is the latest available data.

HPIC provides the System with a claims-made policy covering certain layers of general and professional liability risks as described in note 16. The costs associated with the policy were approximately \$1,987,000 and \$2,135,000 in 2018 and 2017, respectively, and were charged to administrative and general expenses in the accompanying consolidated statements of operations.

The carrying amount of the investment in HPIC was approximately \$20,688,000 and \$19,560,000 at September 30, 2018 and 2017, respectively, and is recorded in other assets in the accompanying consolidated balance sheets. The System's equity in the net income of HPIC was approximately \$1,128,000 and \$813,000 for the years ended September 30, 2018 and 2017, respectively.

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Summary unaudited financial information for HPIC as of and for the years ended December 31, 2017 and 2016 follows (in thousands):

	<u>2017</u>	<u>2016</u>
Cash and invested assets	\$ 79,879	77,007
Other assets	1,628	2,006
	<u>\$ 81,507</u>	<u>79,013</u>
Total liabilities	\$ 30,662	31,696
Accumulated surplus	50,845	47,317
	<u>\$ 81,507</u>	<u>79,013</u>
Net underwriting gain	\$ 2,873	2,891
Investment gain	2,136	2,058
Other changes in accumulated surplus	(1,481)	(3,307)
Change in accumulated surplus	<u>\$ 3,528</u>	<u>1,642</u>

The System's other equity investees were insignificant at September 30, 2018 and 2017.

(4) Patient Accounts Receivable

The composition of net patient accounts receivable follows (in thousands):

	<u>2018</u>	<u>2017</u>
Gross patient accounts receivable	\$ 347,814	369,409
Less allowance for uncollectible accounts	199,186	207,892
	<u>\$ 148,628</u>	<u>161,517</u>

For patient receivables associated with self-pay patients, including patients with deductibles and copayment balances for which third-party coverage provides for a portion of the services provided, the System records an estimated provision for uncollectible accounts in the year of service. Changes from year to year in the allowance for uncollectible accounts are principally caused by a number of factors, including but not limited to, timing of write-offs from year to year, changes in unemployment in the System's service area, changes in employer-sponsored insurance plans and rising patient responsibility balances. The System does not maintain a material allowance for uncollectible accounts from third-party payors.

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(5) Business and Credit Concentrations

The System grants credit to patients, substantially all of whom reside in the service areas of the related subsidiaries. The System generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross, preferred provider arrangements, and commercial insurance policies).

The mix of receivables, net of contractual adjustments, from patients and third-party payors follows:

	<u>2018</u>	<u>2017</u>
Medicare	21 %	21 %
Self-pay	40	37
Commercial and other third party payors	19	24
Blue Cross	10	11
Medicaid	10	7
	<u>100 %</u>	<u>100 %</u>

(6) Other Current Assets

The composition of other current assets follows (in thousands):

	<u>2018</u>	<u>2017</u>
Assets limited as to use – required for current liabilities	\$ 10	7
Due from third-party payors	207	199
Other receivables	3,580	2,586
Inventories	26,650	24,142
Prepaid expenses and other current assets	8,449	4,837
	<u>\$ 38,896</u>	<u>31,771</u>

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(7) Other Assets

The composition of other assets follows (in thousands):

	<u>2018</u>	<u>2017</u>
Investment in equity investees	\$ 20,688	19,560
Interest in net assets of affiliated foundation	3,188	3,037
Prepaid software maintenance and training costs, net (note 18)	1,748	3,497
Insurance receivables	2,426	2,131
Deferred compensation 457(b)	20,817	17,511
Other	<u>2,047</u>	<u>1,025</u>
	<u>\$ 50,914</u>	<u>46,761</u>

(8) Property and Equipment

A summary of property and equipment follows (in thousands):

	<u>2018</u>	<u>2017</u>
Land and improvements	\$ 33,282	33,539
Buildings and improvements	385,183	385,126
Fixed equipment	135,340	135,571
Movable equipment, including computer hardware and software	460,831	447,165
Construction in progress	<u>18,888</u>	<u>1,134</u>
	1,033,524	1,002,535
Less accumulated depreciation	<u>772,529</u>	<u>734,719</u>
	<u>\$ 260,995</u>	<u>267,816</u>

Construction in progress at September 30, 2018 is principally comprised of costs incurred for system implementation of EPIC software, with the most significant portions of the implementation planned for completion through the year ending September 30, 2019. The estimated total remaining cost to complete the EPIC implementation at September 30, 2018 is approximately \$17,000,000. The System expects to fund the future implementation costs through operations and unrestricted assets.

Depreciation expense was approximately \$48,066,000 in 2018 and \$50,446,000 in 2017. The System capitalized approximately \$230,000 and \$131,000 of interest expense in 2018 and 2017, respectively.

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(9) Accrued Expenses and Other Current Liabilities

The composition of accrued expenses and other current liabilities follows (in thousands):

	<u>2018</u>	<u>2017</u>
Accrued payroll costs	\$ 23,789	16,929
Accrued compensated absences	19,000	18,453
Deferred compensation 457(b)	20,817	17,511
Accrued workers' compensation costs	3,463	3,360
Due to third-party payors	10,045	8,441
Accrued interest	1,311	2,154
Current portion of other long-term liability	6,493	2,128
Other	6,634	6,283
	<u>\$ 91,552</u>	<u>75,259</u>

(10) Long-term Debt

A summary of long-term debt follows (in thousands):

	<u>2018</u>	<u>2017</u>
Notes payable	\$ 670	—
Mississippi Hospital Equipment and Facilities Authority		
Revenue Bonds:		
2017 Series 1	43,806	37,889
2010 Series 1	34,130	34,130
2003 Series 2	29,175	29,175
2001 Series 1	35,540	37,815
1997 Series 1	12,390	13,925
	<u>155,711</u>	<u>152,934</u>
Unamortized net discount/premium, net	(53)	(61)
Unamortized debt issuance costs	<u>(796)</u>	<u>(943)</u>
	154,862	151,930

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	<u>2018</u>	<u>2017</u>
Capital lease obligations of NMJV and subsidiaries, payable in monthly installments at varying amounts through September 2020, at interest rates ranging from 0% to prime plus 3%, secured by leased equipment	<u>810</u>	<u>1,238</u>
	155,672	153,168
Less current installments	<u>77,685</u>	<u>81,336</u>
	<u>\$ 77,987</u>	<u>71,832</u>

In September 2017, the 2017 Series 1 revenue bonds were authorized in an amount not to exceed \$50,000,000. The bond indenture is between North Mississippi Medical Center, Clay County Medical Center, and Webster Health Services, Inc. (collectively, the Obligated Group) and Mississippi Hospital Equipment and Facilities Authority. The 2017 Series 1 revenue bonds are secured by a pledge of the net revenues of the Obligated Group as established under the Obligated Group's Master Trust Indenture. The 2017 Series 1 revenue bonds are tax-exempt variable rate debt and were placed directly with Bank of America Public Capital Corp.

In September 2017, the Obligated Group drew down approximately \$37,889,000 of the available 2017 Series 1 revenue bonds and used \$37,500,000 of these proceeds to advance refund \$37,500,000 of principal maturity of the 2010 Series 1 revenue bonds, which was due on October 1, 2017. Of the remaining \$389,000 of proceeds received, approximately \$218,000 were used for debt issuance costs with the remaining amount used to reimburse NMMC for eligible project costs.

The remaining \$34,130,000 of the 2010 Series 1 revenue bonds will mature in accordance with the original bond agreement.

In fiscal 2018, the Obligated Group drew down approximately \$5,917,000 of the 2017 Series 1 revenue bonds and used these proceeds to purchase medical equipment. The interest rate on all issued debt under the 2017 Series 1 revenue bonds is 70 percent of LIBOR plus 40 basis points.

In July 2003, the Obligated Group issued the 2003 Series 2 revenue bonds for \$98,400,000. A portion of the 2003 Series 2 revenue bonds was used to refund the outstanding bonds from the 1993 bond series. The bond indenture between the Obligated Group and Mississippi Hospital Equipment and Facilities Authority has been released and the Obligated Group no longer has any obligations associated with the refunded issue.

In April 2008, the Obligated Group converted, as permitted under the original indenture agreement, the 2003 Series 2 revenue bonds through a mandatory tender option from auction rate securities to variable rate demand obligations. Since the market liquidity of the 2003 Series 2 revenue bonds is supported solely by the Obligated Group, the bonds are classified as current installments of long-term debt in the accompanying consolidated balance sheets.

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In December 2008, the outstanding portions of the 1997 Series 1 and 2001 Series 1 revenue bonds of \$26,795,000 and \$40,000,000, respectively, were remarketed by the Obligated Group due to the expiration of the original Liquidity Facility on December 29, 2008. The revenue bonds as currently structured are not supported by an external liquidity facility or a financial institution credit facility, but are secured solely by the Obligated Group through notes issued between the Obligated Group and The Bank of New York Mellon Trust Company, N.A., trustee for the bondholders. The notes are the joint and several obligations of the Obligated Group and are secured by the pledge of the net revenues of each Obligated Group member, subject to permitted liens. The notes are equal to the principal amounts of the 1997 Series 1 and 2001 Series 1 revenue bonds and have terms and conditions requiring payments thereon sufficient to pay the contractual maturities of the bonds when due. Since the market liquidity of the 1997 Series 1 and 2001 Series 1 revenue bonds is supported solely by the Obligated Group, the bonds are classified as current installments of long-term debt in the accompanying consolidated balance sheets.

In August 2010, the System issued the 2010 Series 1 revenue bonds for \$71,630,000 (interest fixed at coupon rates ranging from 4.75% to 5.00%) with an original issue net premium of \$4,388,658. Proceeds from the bonds were used for certain renovations of the NMMC main hospital facility and for the payment of costs incurred in connection with the issuance of the bonds.

Certain trusteed assets as described in note 2 and the future net revenues of the Obligated Group are pledged as security for payment of the various revenue bonds. Additionally, the Obligated Group is required to comply with certain financial and nonfinancial covenants customary of such obligations.

Except for the 2010 Series 1 fixed rate bonds and 2017 Series 1 revenue bonds, all other currently outstanding revenue bonds bear interest at variable rates and are supported by remarketing agreements and the Obligated Group's institutional commitment to provide market liquidity. Interest rates are periodically adjusted based upon prevailing rates for the contract period related to the remarketed tranche. In the event a market for variable rate instruments is not sustained, the Obligated Group would be required, if necessary, to provide sustaining liquidity to honor the "put" feature of the then-existing bondholders. The maximum annual interest rate which the 2003, 2001 and 1997 bonds may bear is 13%. The average annual interest rate paid on the 2003, 2001, 1997 and 2017 revenue bonds approximated 1.9% and 1.1% for the years ended September 30, 2018 and 2017, respectively.

Interest is periodically due on the variable rate revenue bonds at the end of related contract periods, while interest on the fixed rate bonds is due semi-annually.

The notes payable are guaranteed by the System and the other members of each respective joint venture at their proportionate interests in each entity.

The System paid interest on long-term debt of approximately \$3,424,000 in 2018 and \$4,246,000 in 2017.

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Principal is due in varying amounts each May 15 until the year 2033. Future maturities of long-term debt, excluding the capital lease obligations and assuming the demand bonds are not called prior to the stated maturities, by year and in the aggregate, follow (in thousands):

2019	\$	4,117
2020		48,083
2021		4,452
2022		4,622
2023		4,667
Thereafter		89,770
	\$	<u>155,711</u>

(11) Derivative Financial Instruments

The Obligated Group has executed interest rate swap agreements for the purpose of synthetically converting certain variable rate debt obligations to fixed rate instruments. Accordingly, notional swap amounts are tied to related revenue bond principal balances. A summary of information related to these instruments at September 30, 2018 and 2017 follows:

2018						
<u>Related bond issuance</u>	<u>Notional amount (in thousands)</u>	<u>Maturity date</u>	<u>Rate paid</u>	<u>Average rate received</u>	<u>Net settlement amount (in thousands)</u>	<u>Swap fair value liability (in thousands)</u>
2003 Series 2	\$ 23,875	5/15/2033	3.437 %	1.1750 %	\$ (537)	(3,710)
2017						
<u>Related bond issuance</u>	<u>Notional amount (in thousands)</u>	<u>Maturity date</u>	<u>Rate paid</u>	<u>Average rate received</u>	<u>Net settlement amount (in thousands)</u>	<u>Swap fair value liability (in thousands)</u>
2003 Series 2	\$ 23,875	5/15/2033	3.437 %	0.6094 %	\$ (673)	(5,663)

The Obligated Group's interest rate swaps are executed over the counter and are valued using the net present value of cash flow streams, adjusted for risk associated with credit default, as no quoted market prices exist for such instruments. NMHS also employs an independent third party to perform mark to market valuation assessments on the swaps to assess the valuations otherwise received by NMHS. The Obligated Group has categorized its interest rate swap fair value estimates as Level 2, as defined in note 19, in the fair value hierarchy.

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(12) Net Patient Service Revenue

Certain subsidiaries of the System have agreements with governmental and other third-party payors that provide for reimbursement to such subsidiaries at amounts different from established rates. Contractual adjustments under third-party reimbursement programs represent the difference between billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors follows:

- Medicare – Substantially all acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic and other factors. Certain types of exempt services and other defined payments related to Medicare program beneficiaries are paid based upon cost reimbursement or other retroactive-determination methodologies. As applicable, subsidiaries of the System are paid for retroactively determined items at a tentative rate with final settlement determined after submission of annual cost reports by the related subsidiaries and audits by the Medicare fiscal intermediary. Related cost reports have been audited and substantially settled for all fiscal years through September 30, 2014.
- Medicaid – Inpatient and outpatient services rendered to Medicaid program beneficiaries are generally paid based upon prospective reimbursement methodologies established by the State of Mississippi and the State of Alabama.

The System participates in certain supplemental Medicaid reimbursement programs for the purpose of offsetting the cost of providing care to Medicaid patients. These programs are funded with a combination of state and federal resources, including fees or taxes paid by the providers. Amounts received by certain subsidiaries of the System in excess of amounts paid into the programs were approximately \$24,063,000 and \$24,732,000 for the years ended September 30, 2018 and 2017, respectively, and have been recognized as reductions in related contractual adjustments in the accompanying consolidated statements of operations. There can be no assurance that applicable subsidiaries of the System will continue to qualify for future participation in these programs or that the programs will not ultimately be discontinued or materially modified.

- Blue Cross and Blue Shield of Mississippi (Blue Cross) – All acute care services rendered to Blue Cross program beneficiaries are reimbursed at prospectively determined rates.

Related subsidiaries of the System have also entered into other reimbursement arrangements providing for payment methodologies which include prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates.

The composition of net patient service revenue before the provision for uncollectible accounts follows (in thousands):

	<u>2018</u>	<u>2017</u>
Gross patient service revenue	\$ 3,403,928	3,246,084
Less provision for contractual and other adjustments	<u>2,371,298</u>	<u>2,214,586</u>
Net patient service revenue	<u>\$ 1,032,630</u>	<u>1,031,498</u>

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The composition of net patient service revenue before the provision for uncollectible accounts by major payor source follows (in thousands):

	<u>2018</u>	<u>Percentage</u>	<u>2017</u>	<u>Percentage</u>
Medicare	\$ 392,977	38 %	\$ 374,683	36 %
Managed care and commercial	260,766	25	257,058	25
Blue Cross	154,388	15	161,925	16
Medicaid	139,979	14	136,718	13
Self-pay	84,520	8	101,114	10
	<u>\$ 1,032,630</u>	<u>100 %</u>	<u>\$ 1,031,498</u>	<u>100 %</u>

Changes in estimates related to prior cost reporting periods resulted in an increase (decrease) of approximately \$810,000 and \$(459,000) in net patient service revenue for the years ended September 30, 2018 and 2017, respectively.

(13) Service to the Community

The mission of the System is to continuously improve the health of its service population. In carrying out its mission and in being an active, caring member of the community, the System serves the community in a variety of ways.

One of the primary ways the System serves the community is by providing care to various populations for which it receives little or no compensation, or for which it receives compensation at rates significantly less than established rates. This is a critical matter of community service which is further described below.

Based on gross charges, approximately 7% of the System's total services and 20% of total emergency room services were provided to patients with no insurance for both of the years ended September 30, 2018 and 2017. Historically, the System collects only a small percentage of amounts otherwise due from uninsured patients; a significant portion of these uncollectible accounts ultimately meet the charity requirements described below and the remaining uncollectible accounts result in write-offs to bad debt.

The System applies the community benefit reporting guidance provided in *A Guide for Planning and Reporting Community Benefit* published by the Catholic Health Association of the United States in 2006 and, therefore, does not formally consider bad debt to be a part of the community benefit it provides. Nevertheless bad debt is an important component of the System's overall uncompensated care burden.

The Board of Directors of the System has established a policy under which the System provides care, without charge, to needy members of its community. The charity care policy states that the System will provide necessary hospital services free of charge to patients at threshold household income levels, which are based on the federal poverty guidelines. The policy applies to individuals who reside in the System's 24-county service area, as defined by the policy. Patients from outside the service area may also be granted charity care based on the judgment of System management and depending on individual circumstances. The policy also requires patients to cooperate fully with the System's requests for information to verify patient eligibility.

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Following that policy, the System maintains records to identify and monitor the level of charity care it provides. The net cost of charity care provided by the System was approximately \$15,803,000 and \$20,367,000 in 2018 and 2017, respectively. The total cost estimate is based on the ratio of operating costs, less adjustments for non-patient care activities, community benefits expense and Medicaid provider taxes to charges. In addition to this level of charity care, the System also foregoes collection on a portion of all self-pay gross charges, which is known as the uninsured upfront discount. The uninsured upfront discount was approximately \$98,988,000 and \$74,411,000 in 2018 and 2017, respectively.

In addition to community services directly associated with providing clinical care, the System seeks to strengthen community relationships through developing and maintaining a proactive involvement and outreach program aimed at creating an inclusive and lasting relationship with the community. Examples of the System's community involvement include the following:

School Nurses – The System employs registered nurses and certified health educators and provides their services to schools in its service area at no cost to the school systems. These nurses and educators provide basic healthcare and instructional services to the students in the schools they serve. The cost of providing these services was approximately \$411,000 and \$596,000 for the years ended September 30, 2018 and 2017, respectively. The System discontinued these services during fiscal year 2018.

Athletic Trainers – The System employs certified athletic trainers who provide services to high schools in its service area at no cost. The trainers work with the sports teams at these schools on a daily basis during practice and training, as well as at in-season competitions. The cost of providing these services was approximately \$713,000 and \$657,000 for the years ended September 30, 2018 and 2017, respectively.

Nurse Link – Nurse Link is a free community telephone service that assists callers with health information, offers triage for symptom-based calls, and makes recommendations for care by utilizing a physician approved, computerized protocol system and reference materials. Nurse Link is staffed by registered nurses and is available from 4 p.m. until midnight on weekdays and from 8 a.m. until midnight on weekends and holidays, and also includes The Appointment Desk and Physician Consult Line. The Appointment Desk is a free community health information and physician referral service. Physician Consult Line is a free service that provides regional physicians and their staff access to all System departments, specialists and clinics. In addition, Nurse Link provides after-hours coverage for physician clinics throughout northeast Mississippi and for the branch offices of NMMC Home Health Agency and Hospice. Nurse Link has also teamed with various System clinical services departments to provide a call-back service to their discharged patients. The cost of providing these services was approximately \$547,000 and \$640,000 for the years ended September 30, 2018 and 2017, respectively.

Donations to Charitable Organizations – The System makes cash donations to a wide variety of community charitable organizations involved in local schools, the arts, public health, and community development activities. The System contributed approximately \$178,000 and \$182,000 in charitable corporate donations to these organizations for the years ended September 30, 2018 and 2017, respectively.

Although the System has estimated the cost of each of these efforts to serve north Mississippi and the surrounding area, management and the Board of Directors believe that such costs represent only one facet of the many ways the System serves the community. The above examples relate only to certain measurable benefits that the System provides to its service area. This presentation is not intended to measure all such community benefits, many of which are intangible in nature or otherwise not quantifiable.

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(14) Leases

Rental expense for all operating leases was approximately \$3,970,000 and \$3,947,000 in 2018 and 2017, respectively. There were no significant noncancelable operating leases at September 30, 2018.

(15) Employee Benefit Plans

(a) Pension Plan

The System sponsors a defined benefit pension plan (the Plan) covering all permanent employees who make application to become participants, have attained the age of 21 and completed one year of service as defined in the plan. Participants are required to contribute 1% of their annual compensation. The System contributes an amount equal to the difference between employees' contributions and the amount required to fund the plan as determined by consulting actuaries. Effective March 31, 2014, the plan was closed to new participants. Effective January 1, 2016, the Plan was frozen.

The Plan's funded status (measured at September 30, 2018 and 2017) and amounts recognized in the System's consolidated financial statements follow (in thousands):

	2018	2017
Change in projected benefit obligation:		
Projected benefit obligation at the beginning of year	\$ 516,698	495,185
Service cost	10,967	10,950
Interest cost	18,590	16,998
Plan participants' contributions	684	722
Benefits paid	(11,969)	(11,035)
Actuarial (gain) loss	(48,797)	3,878
Projected benefit obligation at the end of year	\$ 486,173	516,698
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 399,834	351,819
Actual return on plan assets	11,366	47,632
Employer contributions	13,000	10,696
Plan participants' contributions	684	722
Benefits paid	(11,969)	(11,035)
Fair value of plan assets at end of year	\$ 412,915	399,834
Funded status:		
Projected benefit obligation	\$ 486,173	516,698
Fair value of plan assets	412,915	399,834
Funded status at end of year	\$ (73,258)	(116,864)
Accumulated benefit obligation	\$ 464,437	476,776

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	<u>2018</u>	<u>2017</u>
Amounts recognized in the consolidated balance sheets consist of:		
Accrued pension cost	\$ (73,258)	(116,864)
Unrestricted net assets	(80,115)	(118,341)
Amounts not yet reflected in net periodic benefit cost and included in unrestricted net assets:		
Prior service cost	\$ —	—
Accumulated loss	(80,115)	(118,341)
	<u>\$ (80,115)</u>	<u>(118,341)</u>
Components of net periodic pension cost:		
Service cost	\$ 10,967	10,950
Interest cost	18,590	16,998
Expected return on plan assets	(28,093)	(25,999)
Amortization of net loss	6,156	7,902
Net periodic pension cost	<u>\$ 7,620</u>	<u>9,851</u>
Other changes recognized in unrestricted net assets:		
Net gain arising during period	\$ (32,070)	(17,756)
Amortization of net loss	(6,156)	(7,902)
Total recognized in unrestricted net assets	<u>\$ (38,226)</u>	<u>(25,658)</u>

The following are the estimated amounts that will be amortized from unrestricted net assets over the next fiscal year:

Amortization of prior service cost	\$ —
Amortization of loss	<u>3,198</u>
	<u>\$ 3,198</u>

NORTH MISSISSIPPI HEALTH SERVICES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Weighted average assumptions used to determine benefit obligations in the accompanying consolidated balance sheets at September 30:		
Discount rate	4.36 %	4.06 %
Rate of compensation increase	3.00	3.00
Measurement date	September 30, 2018	September 30, 2017
Weighted average assumptions used to determine net periodic benefit cost:		
Discount rate	4.06 %	4.01 %
Expected long-term rate of return on plan assets	7.00	7.25
Rate of compensation increase	3.00	3.00

The Plan's expected long-term rate of return on assets is determined by reviewing the historical returns of each asset category comprising the Plan's target asset allocation. This review produces an annual return assumption for each asset category. The product of the annual return assumption and the Plan's target asset allocation percentage for each asset category equals the annual return attribution by asset category. The asset allocation for the portfolio is based on the long-term funding goals of the Plan and the desired risk levels of the Plan's asset investments. The target allocation is monitored and is adjusted as the funded status of the Plan changes.

(i) *Plan Assets*

The System's pension plan weighted average asset allocations follow:

	<u>Plan assets at September 30,</u>	
	<u>2018</u>	<u>2017</u>
Asset category:		
Equities:		
Large cap equity securities	13 %	16 %
Small and mid cap equity securities	2	2
International equity securities	11	16
Global equity securities	13	17
Debt securities	52	40
Cash and cash equivalents	1	1
Alternative investments	8	8
Total	<u>100 %</u>	<u>100 %</u>

NORTH MISSISSIPPI HEALTH SERVICES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

The Plan's investment objectives are to protect long-term asset values by applying prudent, low risk, high quality investment disciplines and to enhance the values by maximizing investment returns through active security management within the framework of the investment policy. Asset allocation strategies and investment management structure are designed to meet the Plan's investment objectives.

(ii) *Cash Flows*

The System expects to contribute approximately \$13,000,000 to the Plan in 2019.

(iii) *Expected Future Benefit Payments*

The following benefit payments, which reflect future services as appropriate, are expected to be paid (in thousands):

	<u>Pension benefits</u>	
2019	\$	17,535
2020		17,517
2021		19,119
2022		20,760
2023		22,427
2024–2028		136,688

(iv) *Fair Value of Plan Assets*

The composition of plan assets follows (in thousands):

	<u>2018</u>		<u>2017</u>	
Mutual funds:				
Large cap equity securities	\$	53,634		64,683
Small and mid cap equity securities		6,693		7,954
International equity securities		47,354		65,304
Global equity securities		55,607		69,290
Debt securities		215,263		158,071
Cash and cash equivalents		2,985		1,801
Hedge funds		31,379		32,731
	\$	<u>412,915</u>		<u>399,834</u>

All of the Plan assets are categorized as Level 1 in the fair value hierarchy as described in note 19, except hedge funds which are not categorized because fair value is measured using the net asset value practical expedient.

NORTH MISSISSIPPI HEALTH SERVICES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

(b) Defined Contribution Plans

The System also sponsors a contributory savings plan, North Mississippi Health Services, Inc. Employer Savings Plan, which covers most employees aged 21 and older who have completed one year of service as defined in the plan. Eligible employees may contribute up to 20% of compensation in any one year, subject to a regulatory limit. The System makes matching contributions equal to 50% of the employees' contributions, not to exceed 2% of total compensation. Effective April 1, 2014, employees hired on or after April 1, 2013, are eligible for a supplemental employer contribution ranging from 5–200% (based on years of service) of the employee's contribution to the contributory savings plan, not to exceed 6% of compensation. The System contributed approximately \$13,479,000 and \$12,714,000 to this plan during the years ended September 30, 2018 and 2017, respectively.

NMMCI sponsors a defined contribution retirement plan covering all of its employees. Participants are not eligible to make contributions to this plan. NMMCI makes contributions equal to 5.7% of each participant's base compensation, plus 11.4% of each participant's excess compensation, as defined in the plan. Contributions are subject to regulatory limits. NMMCI contributed approximately \$485,000 to this plan during the year ended September 30, 2017. Effective January 1, 2017, the assets of this plan were merged into The North Mississippi Health Services, Inc. Employer Savings Plan which is described above.

NMMCI also sponsors a contributory savings plan covering all of its employees. Participating employees may contribute up to 20% of compensation in any one year, subject to regulatory limits. While NMMCI may make discretionary contributions to this plan, no such contributions were made during the years ended September 30, 2018 and 2017. Effective January 1, 2017, the assets of this plan were merged into The North Mississippi Health Services, Inc. Employer Savings Plan which is described above.

(16) Insurance Programs

The System has substantial claims-made basis excess insurance coverage in place for general and professional liability risks. The insurance program is made up of a combination of self-insurance retention and claims-made excess insurance coverage. As of and for the year ended September 30, 2018, the self-insurance retention was \$5 million per claim for professional liability and \$2 million per occurrence for general liability, subject to a combined \$7 million aggregate. Effective October 1, 2018, the System's excess insurance coverage was renewed at the same levels of retention.

The System's employed physicians are covered by a first-dollar claims-made physician liability policy with a \$1 million per professional incident limit and a \$3 million aggregate limit.

Incurred losses identified under the System's incident reporting system and incurred but not reported losses are accrued based on estimates that incorporate the System's past experience, as well as other considerations such as the nature of each claim or incident, relevant trend factors, and advice from consulting actuaries. Because the terms of the System's general and professional liability program provide for first-dollar claims-made coverage at the affiliate level, reserves and related insurance receivables related to general and professional liability exposures are held at the System consolidated level and not allocated to individual affiliates.

NORTH MISSISSIPPI HEALTH SERVICES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

The System has established a self-insurance trust fund for payment of liability claims and makes deposits to the fund in amounts determined by consulting actuaries. The System also has substantial excess liability coverage available under the provisions of certain claims-made policies, currently expiring on October 1, 2019. To the extent that any claims-made coverage is not renewed or replaced with equivalent insurance, claims based on occurrences during the term of such coverage, but reported subsequently, would be uninsured. Management believes, based on incidents identified through the System's incident reporting system, that any such claims would not have a material effect on the System's results of operations or financial position. In any event, management anticipates that the claims-made coverage currently in place will be renewed or replaced with equivalent insurance as the term of such coverage expires.

The System is also self-insured with respect to employee health coverage and workers' compensation (up to a limit of \$1,000,000 per individual claim, \$300,000 prior to October 1, 2012). Substantial excess insurance coverage is maintained for potential excess losses under the workers' compensation program.

(17) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets (currently held at Health Care Foundation of North Mississippi, an affiliated foundation) are available for the following purposes at September 30, 2018 and 2017 (in thousands):

	<u>2018</u>	<u>2017</u>
Patient assistance	\$ 1,102	1,016
Purchase of equipment and other property	231	230
Education	407	395
Employee benevolent fund	38	36
Time-restricted	<u>1,389</u>	<u>1,339</u>
	<u>\$ 3,167</u>	<u>3,016</u>

Permanently restricted net assets are to be held in perpetuity, the income from which is expendable for scholarships.

(18) Information Technology Contract

NMMC has entered into a ten-year software and services agreement with a major information technology vendor. The agreement generally commits NMMC 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. Certain software license and support fees and related implicit maintenance and training costs (totaling approximately \$37,670,000) were capitalized during fiscal 2010 with recognition of an associated liability related to NMMC's acquisition of these intangible assets. Software costs placed in service and transferred to affiliate hospitals of NMHS during 2012 were \$10,806,000. All remaining software costs were placed into service during 2013. Such costs are amortized as the software was placed in service. Implied maintenance costs of approximately \$17,483,000 are being amortized over the estimated useful life of the implicit maintenance period of ten years. Such costs are included in other assets in the accompanying consolidated balance sheets (note 7). Other contract costs are evaluated for capitalization or expense recognition under relevant accounting literature as associated products and/or services are provided.

NORTH MISSISSIPPI HEALTH SERVICES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

The following table summarizes the future payment commitments under the contract as of September 30, 2018 (in thousands):

	Capitalized software and implicit maintenance costs obligation
	<hr/>
2019	\$ 2,310
Less amounts representing interest at 5%	<hr/> 72
Total obligation	2,238
Less current portion (included in accrued expenses and other current liabilities)	<hr/> 2,238
Long-term obligation (included as other long-term liability in the accompanying 2018 consolidated balance sheet)	\$ <hr/> <hr/> —

Interest paid under the agreement in fiscal 2018 and 2017 was approximately \$72,000 and \$254,000, respectively.

(19) Fair Value Hierarchy of Investments and Assets Limited as to Use

In accordance with Topic 820, the System has categorized its financial instruments, based on the priority of inputs used in related valuation techniques, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1), inputs other than quoted market prices that are observable, either directly or indirectly (Level 2), and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within multiple levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

When available, the System uses quoted market prices to determine fair value, and classifies such items as Level 1. The System's Level 2 securities are bonds whose fair values are determined by independent vendors, or nontraded funds whose underlying securities would otherwise be considered Level 1. The vendors compile prices from various sources and may apply matrix pricing for similar bonds or loans where no price is observable in an actively traded market. If available, the vendor may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued.

NORTH MISSISSIPPI HEALTH SERVICES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

The System's alternative investments are not categorized within the fair value hierarchy because fair value is measured using the NAV per share practical expedient. The System's alternative investments' NAV's are obtained from the fund manager. For the System's hedge funds, the manager receives account statements directly from independent administrators or the underlying hedge funds managers, who are responsible for the valuation of these funds. Before reliance on these valuations, the managers evaluate the investee fund's fair value estimation processes and control environment, the investee fund's policies and procedures for estimating fair value of underlying investments, the investee fund's use of independent third party valuation experts, the portion of the underlying securities traded on active markets, and the professional reputation and standing of the investee fund's auditor.

The System is subject to limitation on redemption of their hedge fund investments and assets limited as to use as follows:

	Fair value at September 30, 2018 (in thousands)	Unfunded commitment	Redemption frequency	Redemption notice period
Hedge fund – Fund of funds (a)	\$ 10,336	—	Three-year lock-up	95 days
Hedge fund – Fund of funds (b)	<u>10,448</u>	<u>—</u>	One-year lock-up	90 days
	\$ <u><u>20,784</u></u>	<u><u>—</u></u>		

	Fair value at September 30, 2017 (in thousands)	Unfunded commitment	Redemption frequency	Redemption notice period
Hedge fund – Fund of funds (a)	\$ 9,888	—	Three-year lock-up	95 days
Hedge fund – Fund of funds (b)	<u>10,032</u>	<u>—</u>	One-year lock-up	90 days
	\$ <u><u>19,920</u></u>	<u><u>—</u></u>		

- (a) This category includes investments in hedge funds that invest primarily in a diversified group of long/short equity investment funds. The underlying investment funds may invest in U.S. and non U.S. equity securities, debt securities, derivatives and other financial instruments, in both long and short positions. The hedge funds investments in investment funds are comprised of funds with various investment strategies.
- (b) This category includes investments in hedge funds that invest primarily all of its assets into the Master Feeder Fund. The Master Feeder Fund invests primarily through pooled investment vehicles, and assets to reduce volatility and enhance return by allocating primarily to fundamental long/short equity managers with a diversifying component in opportunistic managers.

NORTH MISSISSIPPI HEALTH SERVICES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

The fair value hierarchy of investments at September 30, 2018 and 2017 follows (in thousands):

	2018		Total
	Level 1	Level 2	
Obligations of the U.S. government and its agencies	\$ —	229,124	229,124
Corporate debt securities:			
Corporate bonds:			
Financials	—	51,811	51,811
Industrials	—	80,503	80,503
Utilities	—	6,411	6,411
Other	—	9,057	9,057
Foreign bonds and notes	—	26,953	26,953
Corporate equity securities:			
Consumer discretionary	1,334	—	1,334
Financial services	632	—	632
Foreign equities	696	—	696
Health care	142	—	142
Industrials	1,946	—	1,946
Information technology	184	—	184
Materials and processing	83	—	83
Telecommunication services	563	—	563
Mutual funds:			
Large cap equity securities	23,352	—	23,352
Small and mid cap equity securities	5,967	—	5,967
Core value equity securities	7,451	—	7,451
International equity securities	26,922	—	26,922
Debt securities	101,673	—	101,673
Other	13,390	—	13,390
Interest in Mississippi Hospital Association pooled investments	—	1,179	1,179
Certificates of deposit	—	404	404
	<u>\$ 184,335</u>	<u>405,442</u>	<u>589,777</u>
Hedge funds at net asset value			<u>18,615</u>
			<u>\$ 608,392</u>

NORTH MISSISSIPPI HEALTH SERVICES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

	2017		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Obligations of the U.S. government and its agencies	\$ —	138,797	138,797
Corporate debt securities:			
Corporate bonds:			
Financials	—	53,161	53,161
Industrials	—	50,389	50,389
Utilities	—	13,336	13,336
Other	—	14,056	14,056
Foreign bonds and notes	—	33,211	33,211
Corporate equity securities:			
Consumer discretionary	1,484	—	1,484
Financial services	764	—	764
Foreign equities	618	—	618
Health care	368	—	368
Industrials	1,974	—	1,974
Information technology	164	—	164
Materials and processing	102	—	102
Telecommunication services	617	—	617
Mutual funds:			
Large cap equity securities	30,492	—	30,492
Small and mid cap equity securities	7,347	—	7,347
Core value equity securities	9,470	—	9,470
International equity securities	26,287	—	26,287
Debt securities	135,692	—	135,692
Other	12,856	—	12,856
Interest in Mississippi Hospital Association pooled investments	—	1,185	1,185
Certificates of deposit	—	400	400
	<u>\$ 228,235</u>	<u>304,535</u>	<u>532,770</u>
Hedge funds at net asset value			<u>17,725</u>
			<u>\$ 550,495</u>

NORTH MISSISSIPPI HEALTH SERVICES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

The fair value hierarchy of assets limited as to use at September 30, 2018 and 2017 follows (in thousands):

	2018		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Under indenture agreements – held by trustee:			
Obligations of the U.S. government and its agencies	\$ —	928	928
Under professional and general liability funding arrangement – held by trustee:			
Cash and cash equivalents	\$ 1,490	—	1,490
Obligations of the U.S. government and its agencies	—	6,727	6,727
Corporate debt securities:			
Corporate bonds:			
Financials	—	2,077	2,077
Industrials	—	1,343	1,343
Utilities	—	393	393
Other	—	1,081	1,081
Foreign bonds and notes	—	408	408
Mutual funds:			
Large cap equity securities	856	—	856
Small and mid cap equity securities	488	—	488
Core value equity securities	281	—	281
International equity securities	902	—	902
Debt securities	2,111	—	2,111
Other	1,981	—	1,981
Accrued interest receivable	475	—	475
	<u>\$ 8,584</u>	<u>12,029</u>	<u>20,613</u>

NORTH MISSISSIPPI HEALTH SERVICES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

	2018		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
By Board for capital improvements:			
Cash and cash equivalents	\$ 331	—	331
Obligations of the U.S. government and its agencies	—	26,697	26,697
Corporate debt securities:			
Corporate bonds:			
Financials	—	6,037	6,037
Industrials	—	9,380	9,380
Utilities	—	747	747
Other	—	1,055	1,055
Foreign bonds and notes	—	3,141	3,141
Corporate equity securities:			
Consumer discretionary	155	—	155
Financial services	74	—	74
Foreign equities	81	—	81
Health care	17	—	17
Industrials	227	—	227
Information technology	21	—	21
Materials and processing	10	—	10
Telecommunication services	65	—	65
Mutual funds:			
Large cap equity securities	2,721	—	2,721
Small and mid cap equity securities	695	—	695
Core value equity securities	868	—	868
International equity securities	3,137	—	3,137
Debt securities	11,847	—	11,847
Other	1,560	—	1,560
Interest in Mississippi Hospital Association pooled investments	—	137	137
Accrued interest receivable	42	—	42
	<u>\$ 21,851</u>	<u>47,194</u>	<u>69,045</u>
Hedge funds at net asset value			<u>2,169</u>
			<u>\$ 71,214</u>

NORTH MISSISSIPPI HEALTH SERVICES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

	2017		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Under indenture agreements – held by trustee:			
Obligations of the U.S. government and its agencies	\$ —	1,839	1,839
Under professional and general liability funding arrangement – held by trustee:			
Cash and cash equivalents	\$ 645	—	645
Obligations of the U.S. government and its agencies	—	4,745	4,745
Corporate debt securities:			
Corporate bonds:			
Financials	—	2,625	2,625
Industrials	—	3,170	3,170
Utilities	—	647	647
Other	—	1,504	1,504
Foreign bonds and notes	—	1,080	1,080
Mutual funds:			
Large cap equity securities	1,052	—	1,052
Small and mid cap equity securities	691	—	691
Core value equity securities	455	—	455
International equity securities	1,231	—	1,231
Debt securities	3,084	—	3,084
Other	1,165	—	1,165
Accrued interest receivable	910	—	910
	<u>\$ 9,233</u>	<u>13,771</u>	<u>23,004</u>

NORTH MISSISSIPPI HEALTH SERVICES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

	2017		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
By Board for capital improvements:			
Cash and cash equivalents	\$ 1,160	—	1,160
Obligations of the U.S. government and its agencies	—	17,193	17,193
Corporate debt securities:			
Corporate bonds:			
Financials	—	6,585	6,585
Industrials	—	6,242	6,242
Utilities	—	1,652	1,652
Other	—	1,741	1,741
Foreign bonds and notes	—	4,114	4,114
Corporate equity securities:			
Consumer discretionary	184	—	184
Financial services	94	—	94
Foreign equities	76	—	76
Health care	46	—	46
Industrials	245	—	245
Information technology	20	—	20
Materials and processing	15	—	15
Telecommunication services	74	—	74
Mutual funds:			
Large cap equity securities	3,777	—	3,777
Small and mid cap equity securities	910	—	910
Core value equity securities	1,173	—	1,173
International equity securities	3,256	—	3,256
Debt securities	16,809	—	16,809
Other	1,593	—	1,593
Interest in Mississippi Hospital Association pooled investments	—	147	147
Accrued interest receivable	41	—	41
	<u>\$ 29,473</u>	<u>37,674</u>	<u>67,147</u>
Hedge funds at net asset value			<u>2,195</u>
			<u>\$ 69,342</u>

There were no significant transfers into or out of Level 1 and Level 2 during fiscal 2018 and 2017.

NORTH MISSISSIPPI HEALTH SERVICES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

(20) Subsequent Events

On December 31, 2018, the System acquired certain assets of Amory Regional Medical Center, Inc., an acute care hospital in Amory, Mississippi, for a purchase price of \$15,000,000, adjusted for working capital and assumed liabilities. The acquisition was funded with cash on hand.

The System has evaluated subsequent events from the balance sheet date through January 18, 2019, the date the consolidated financial statements were issued, and determined there are no additional subsequent events to be recognized in the consolidated financial statements and related notes.

NORTH MISSISSIPPI HEALTH SERVICES, INC. AND SUBSIDIARIES

Consolidating Schedule – Balance Sheet Information

September 30, 2018

(with comparative 2017 consolidated information)

(In thousands)

Assets	North Mississippi Health Services, Inc.	North Mississippi Medical Center, Inc.	North Mississippi Medical Clinics, Inc. and subsidiaries	Tupelo Service Finance, Inc.	Clay County Medical Corporation	Webster Health Services, Inc.	Marion Regional Medical Center, Inc.	Tishomingo Health Services, Inc.	North Mississippi Joint Ventures, LLC and subsidiaries
Current assets:									
Cash and cash equivalents	\$ 1,968	20,329	2,199	442	821	591	718	259	2,396
Investments	—	607,988	—	—	—	—	—	—	—
Net patient accounts receivable	—	90,579	7,243	40,947	6,453	2,786	2,266	1,631	3,395
Other current assets	1,854	31,523	1,011	—	958	503	286	419	1,721
Total current assets	3,822	750,419	10,453	41,389	8,232	3,880	3,270	2,309	7,512
Assets limited as to use	20,613	72,132	—	—	—	—	—	—	—
Property and equipment, net	1,398	211,138	16,313	—	10,105	4,073	4,005	5,132	4,735
Other assets	25,370	53,716	5,689	—	1,159	1,089	1,469	187	952
Total assets	\$ 51,203	1,087,405	32,435	41,389	19,496	9,042	8,744	7,628	13,199
Liabilities and Net Assets (Deficit)									
Current liabilities:									
Accounts payable	\$ 1,675	40,554	1,814	72	1,389	715	720	527	1,248
Accrued expenses and other current liabilities	11,957	53,415	11,632	13,676	2,943	4,865	19,971	12,400	2,468
Current installments of long-term debt	—	68,076	—	—	2,991	6,145	—	—	473
Total current liabilities	13,632	162,045	13,446	13,748	7,323	11,725	20,691	12,927	4,189
Estimated professional and general liability costs	18,287	—	—	—	—	—	—	—	—
Long-term debt, excluding current installments	—	77,651	—	—	—	—	—	—	336
Fair value of interest rate swaps	—	3,710	—	—	—	—	—	—	—
Accrued pension cost	8,258	52,305	—	316	3,993	1,560	2,289	1,932	—
Other long-term liability	—	—	—	—	—	—	—	—	—
Deferred collection fee revenue	—	—	—	2,652	—	—	—	—	—
Total liabilities	40,177	295,711	13,446	16,716	11,316	13,285	22,980	14,859	4,525
Common stock	—	—	—	1	—	—	—	—	—
Net assets (deficit):									
Unrestricted	11,024	789,111	18,796	24,672	8,115	(4,332)	(14,324)	(7,279)	5,736
Temporarily restricted	2	2,583	193	—	65	68	88	48	—
Permanently restricted	—	—	—	—	—	21	—	—	—
Total net assets (deficit) attributable to North Mississippi Health Services, Inc.	11,026	791,694	18,989	24,673	8,180	(4,243)	(14,236)	(7,231)	5,736
Noncontrolling interests	—	—	—	—	—	—	—	—	2,938
Total net assets (deficit)	11,026	791,694	18,989	24,673	8,180	(4,243)	(14,236)	(7,231)	8,674
Commitments and contingencies									
Total liabilities and net assets (deficit)	\$ 51,203	1,087,405	32,435	41,389	19,496	9,042	8,744	7,628	13,199

NORTH MISSISSIPPI HEALTH SERVICES, INC. AND SUBSIDIARIES

Schedule 1

Consolidating Schedule – Balance Sheet Information

September 30, 2018

(with comparative 2017 consolidated information)

(In thousands)

Assets	Pontotoc Health Services, Inc.	Acclaim, Inc.	North Mississippi Enterprises, Inc.	North Mississippi Emergency Services, Inc.	Connected Care, LLC	North Mississippi Grand Ambulance	Eliminations	Total	
								2018	2017
Current assets:									
Cash and cash equivalents	\$ 758	70	571	302	—	825	—	32,249	36,666
Investments	—	404	—	—	—	—	—	608,392	550,495
Net patient accounts receivable	2,924	—	1,261	565	—	1,289	(12,711)	148,628	161,517
Other current assets	313	215	4	20	—	69	—	38,896	31,771
Total current assets	3,995	689	1,836	887	—	2,183	(12,711)	828,165	780,449
Assets limited as to use	—	—	—	—	—	—	—	92,745	94,178
Property and equipment, net	1,811	9	—	27	—	2,249	—	260,995	267,816
Other assets	937	203	—	—	—	—	(39,837)	50,914	46,761
Total assets	\$ 6,743	901	1,836	914	—	4,432	(52,548)	1,232,819	1,189,204
Liabilities and Net Assets (Deficit)									
Current liabilities:									
Accounts payable	\$ 638	5	3	168	23	719	—	50,270	39,691
Accrued expenses and other current liabilities	2,030	170	997	257	551	4,104	(49,884)	91,552	75,259
Current installments of long-term debt	—	—	—	—	—	—	—	77,685	81,336
Total current liabilities	2,668	175	1,000	425	574	4,823	(49,884)	219,507	196,286
Estimated professional and general liability costs	—	—	—	—	—	—	—	18,287	18,824
Long-term debt, excluding current installments	—	—	—	—	—	—	—	77,987	71,852
Fair value of interest rate swaps	—	—	—	—	—	—	—	3,710	5,663
Accrued pension cost	1,877	—	—	—	—	728	—	73,258	116,864
Other long-term liability	—	—	—	—	—	—	—	—	2,239
Deferred collection fee revenue	—	—	—	—	—	—	(2,652)	—	—
Total liabilities	4,545	175	1,000	425	574	5,551	(52,536)	392,749	411,708
Common stock	—	1	10	—	—	—	(12)	—	—
Net assets (deficit):									
Unrestricted	2,078	725	826	489	(574)	(1,119)	—	833,944	770,508
Temporarily restricted	120	—	—	—	—	—	—	3,167	3,016
Permanently restricted	—	—	—	—	—	—	—	21	21
Total net assets (deficit) attributable to North Mississippi Health Services, Inc.	2,198	726	836	489	(574)	(1,119)	(12)	837,132	773,545
Noncontrolling interests	—	—	—	—	—	—	—	2,938	3,951
Total net assets (deficit)	2,198	726	836	489	(574)	(1,119)	(12)	840,070	777,496
Commitments and contingencies									
Total liabilities and net assets (deficit)	\$ 6,743	901	1,836	914	—	4,432	(52,548)	1,232,819	1,189,204

See accompanying independent auditors' report.

NORTH MISSISSIPPI HEALTH SERVICES, INC. AND SUBSIDIARIES

Consolidating Schedule – Revenues and Expenses Information

September 30, 2018

(with comparative 2017 consolidated information)

(In thousands)

	North Mississippi Health Services, Inc.	North Mississippi Medical Center, Inc.	North Mississippi Medical Clinics, Inc. and subsidiaries	Tupelo Service Finance, Inc.	Clay County Medical Corporation	Webster Health Services, Inc.	Marion Regional Medical Center, Inc.	Tishomingo Health Services, Inc.	North Mississippi Joint Ventures, LLC and subsidiaries
Unrestricted revenues and other support:									
Net patient service revenue	\$ —	788,183	51,685	—	45,684	26,197	21,036	15,271	32,823
Provision for uncollectible accounts	—	(85,342)	(2,896)	—	(6,439)	(3,922)	(2,924)	(2,932)	(2,424)
Net patient service revenue less provision for uncollectible accounts	—	702,841	48,789	—	39,245	22,275	18,112	12,339	30,399
Other revenue	1,462	17,106	7,044	2,767	499	581	125	639	(18)
Management fees from affiliates	32,365	—	—	—	—	—	—	—	—
Total unrestricted revenues and other support	33,827	719,947	55,833	2,767	39,744	22,856	18,237	12,978	30,381
Expenses:									
Salaries and wages	16,214	264,514	44,392	583	14,451	12,328	9,933	6,269	—
Employee benefits	6,098	80,014	10,823	295	4,577	3,775	3,190	2,312	—
Supplies	3	91,592	1,757	—	2,140	1,037	881	605	6,861
Drugs	—	72,275	3,989	—	5,720	1,110	405	976	—
Professional services	11	18,994	—	—	1,945	166	905	1,075	4,310
Purchased services	2,104	28,012	6,775	—	1,860	2,324	1,777	1,444	6,877
Administrative and general	4,825	95,425	3,811	796	3,253	2,382	2,724	1,521	2,312
Rent	405	2,453	683	65	397	148	122	29	1,426
Interest	—	4,444	—	—	39	81	—	—	77
Depreciation and amortization	206	38,506	1,841	—	1,553	1,266	1,218	966	1,145
Total expenses	29,866	696,229	74,071	1,739	35,935	24,617	21,155	15,197	23,008
Income (loss) from operations	3,961	23,718	(18,238)	1,028	3,809	(1,761)	(2,918)	(2,219)	7,373
Nonoperating gains (losses), net	95	14,159	723	—	452	9	4	5	(91)
Loss on extinguishment of debt	—	—	—	—	—	—	—	—	—
Revenues, gains, and other support in excess of (less than) expenses and losses, before noncontrolling interests	4,056	37,877	(17,515)	1,028	4,261	(1,752)	(2,914)	(2,214)	7,282
Noncontrolling interests	—	—	—	—	—	—	—	—	(3,766)
Revenues, gains, and other support in excess of (less than) expenses and losses attributable to North Mississippi Health Services, Inc.	\$ 4,056	37,877	(17,515)	1,028	4,261	(1,752)	(2,914)	(2,214)	3,516

NORTH MISSISSIPPI HEALTH SERVICES, INC. AND SUBSIDIARIES

Consolidating Schedule – Revenues and Expenses Information

September 30, 2018

(with comparative 2017 consolidated information)

(In thousands)

	Pontotoc Health Services, Inc.	Acclaim, Inc.	North Mississippi Enterprises, Inc.	North Mississippi Emergency Services, Inc.	Connected Care, LLC	North Mississippi Grand Ambulance	Eliminations	Total	
								2018	2017
Unrestricted revenues and other support:									
Net patient service revenue	\$ 27,066	—	—	5,652	—	19,033	—	1,032,630	1,031,498
Provision for uncollectible accounts	(4,311)	—	—	(2,628)	—	(8,693)	—	(122,511)	(158,778)
Net patient service revenue less provision for uncollectible accounts	22,755	—	—	3,024	—	10,340	—	910,119	872,720
Other revenue	355	2,913	11,803	232	—	58	(16,407)	29,159	26,099
Management fees from affiliates	—	—	—	—	—	—	(32,365)	—	—
Total unrestricted revenues and other support	23,110	2,913	11,803	3,256	—	10,398	(48,772)	939,278	898,819
Expenses:									
Salaries and wages	12,372	—	74	787	7	5,917	314	388,155	384,699
Employee benefits	4,006	—	22	—	—	2,248	(1,269)	116,091	120,813
Supplies	701	—	—	2,070	—	219	—	107,866	111,584
Drugs	892	—	—	—	—	53	—	85,420	76,546
Professional services	1,390	—	—	—	17	—	(5,898)	22,915	23,596
Purchased services	1,344	872	11,533	—	—	657	(6,894)	58,685	56,996
Administrative and general	2,277	1,717	69	—	454	1,173	(35,024)	87,715	86,265
Rent	297	—	—	—	—	66	(2,121)	3,970	3,947
Interest	—	—	—	—	—	—	—	4,641	5,001
Depreciation and amortization	969	2	—	4	—	536	—	48,212	50,563
Total expenses	24,248	2,591	11,698	2,861	478	10,869	(50,892)	923,670	920,010
Income (loss) from operations	(1,138)	322	105	395	(478)	(471)	2,120	15,608	(21,191)
Nonoperating gains (losses), net	18	4	1	—	—	—	(2,120)	13,259	26,448
Loss on extinguishment of debt	—	—	—	—	—	—	—	—	(376)
Revenues, gains, and other support in excess of (less than) expenses and losses, before noncontrolling interests	(1,120)	326	106	395	(478)	(471)	—	28,867	4,881
Noncontrolling interests	—	—	—	—	—	—	—	(3,766)	(4,067)
Revenues, gains, and other support in excess of (less than) expenses and losses attributable to North Mississippi Health Services, Inc.	\$ (1,120)	326	106	395	(478)	(471)	—	25,101	814

See accompanying independent auditors' report.