

**NOXUBEE GENERAL CRITICAL ACCESS HOSPITAL
AND NOXUBEE COUNTY NURSING HOME
MACON, MISSISSIPPI**

**AUDITED FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION
SEPTEMBER 30, 2016**

NOXUBEE GENERAL CRITICAL ACCESS HOSPITAL AND NOXUBEE COUNTY NURSING HOME
Audited Financial Statements and Additional Information
September 30, 2016

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Independent Auditors' Report

Board of Trustees
Noxubee General Critical Access Hospital
and Noxubee County Nursing Home
Macon, Mississippi

We have audited the accompanying financial statements of Noxubee General Critical Access Hospital and Noxubee County Nursing Home, a component unit of Noxubee County, Mississippi, as of and for the years ended September 30, 2016, and 2015, and the related notes to financial statements, which collectively comprise Noxubee General Critical Access Hospital and Noxubee County Nursing Home's basic financial statements as listed in the contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Noxubee General Critical Access Hospital and Noxubee County Nursing Home, a component unit of Noxubee County, Mississippi, as of September 30, 2016, and 2015, and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the financial information of Noxubee General Critical Access Hospital and Noxubee County Nursing Home and do not purport to, and do not, present fairly the financial position of Noxubee County, Mississippi as of September 30, 2016, and 2015, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis (pages 3 – 7) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Additional Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of surety bonds for officials and employees is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of surety bonds is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the audit procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of surety bonds is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2017 on our consideration of the Noxubee General Critical Access Hospital and Noxubee County Nursing Home's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reports and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Noxubee General Critical Access Hospital and Noxubee County Nursing Home's internal control over financial reporting and compliance.

Eupora, Mississippi
March 21, 2017

Watkins Ward and Stafford, PLLC

NOXUBEE GENERAL CRITICAL ACCESS HOSPITAL AND NOXUBEE COUNTY NURSING HOME
Management's Discussion and Analysis
Years Ended September 30, 2016, and 2015

Our discussion and analysis of Noxubee General Critical Access Hospital and Noxubee County Nursing Home's financial performance provides an overview of the facility's financial activities for the fiscal years ended September 30, 2016, and 2015. Please read it in conjunction with the facility's financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

- ◆ The facility's net position decreased from 2015 to 2016 by \$136,374, or 1.26%, and increased from 2014 to 2015 by \$1,391,608, or 14.81%.
- ◆ The facility reported an operating loss of \$169,571 in 2016, and operating income of \$1,363,683 in 2015.
- ◆ The facility received Medicaid upper payment limit payments of \$1,131,651 for the year ended September 30, 2016, and \$1,168,155 for the year ended September 30, 2015, this is a decrease of \$36,504.

USING THIS ANNUAL REPORT

The facility's financial statements consist of three statements – a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the facility, including resources held by the facility but restricted for specific purposes by contributors, grantors, or enabling legislation.

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position

Our analysis of the facility finances begins on page 4. One of the most important questions asked about the facility's finances is, "Is the facility as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the facility's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the facility's net position and changes in them. You can think of the facility's net position – the difference between assets and liabilities – as one way to measure the facility's financial health, or financial position. Over time, increases or decreases in the facility's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the facility's patient base and measures of the quality of service it provides to the community, as well as local economic factors, to assess the overall health of the facility.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

NOXUBEE GENERAL CRITICAL ACCESS HOSPITAL AND NOXUBEE COUNTY NURSING HOME
Management's Discussion and Analysis
Years Ended September 30, 2016, and 2015

THE FACILITY'S NET POSITION

The facility's net position is the difference between its assets and liabilities reported in the Statements of Net Position on pages 8 and 9. The facility's net position decreased from 2015 to 2016 by \$136,374, or 1.26%, and increased from 2014 to 2015 by \$1,391,608, or 14.81%, as reflected in Table 1.

The change in the facility's net position is due to several factors.

Cash and cash equivalents decreased by \$1,136,957 in 2016.

During 2016, the facility's net accounts receivable increased by \$240,321, compared to a decrease of \$135,058 in 2015.

During 2016, the facility's estimated third-party payor settlement increased by \$614,152, compared to a decrease of \$102,879 in 2015.

The facility acquired capital assets in the amounts of \$58,348, and \$114,854, for the years 2016, and 2015, respectively. Depreciation and amortization expenses amounted to \$606,747 in 2016, and \$703,597 in 2015.

Table 1: Assets, Liabilities and Net Position

	<u>2016</u>	<u>2015</u> <u>As Restated</u>
Assets:		
Current assets	\$ 9,783,153	\$ 9,630,574
Noncurrent cash and investments	4,000,000	4,000,000
Capital assets, net	1,883,248	2,431,647
Other noncurrent assets	<u>124,947</u>	<u>124,947</u>
Total Assets	\$ <u>15,791,348</u>	\$ <u>16,187,168</u>
Liabilities:		
Current liabilities	\$ 1,975,340	\$ 1,999,566
Long-term debt outstanding	<u>3,162,073</u>	<u>3,397,293</u>
Total Liabilities	<u>5,137,413</u>	<u>5,396,859</u>
Net Position:		
Invested in capital assets, net of related debt (deficit)	(1,529,445)	(1,205,931)
Unrestricted	<u>12,183,380</u>	<u>11,996,240</u>
Total Net Position	<u>10,653,935</u>	<u>10,790,309</u>
Total Liabilities and Net Position	\$ <u>15,791,348</u>	\$ <u>16,187,168</u>

NOXUBEE GENERAL CRITICAL ACCESS HOSPITAL AND NOXUBEE COUNTY NURSING HOME
Management's Discussion and Analysis
Years Ended September 30, 2016, and 2015

OPERATING RESULTS AND CHANGES IN THE FACILITY'S NET POSITION

	2016	2015 As Restated
Operating Revenues:		
Net patient service revenues	\$ 17,571,846	\$ 18,734,171
Other revenues	1,451,983	1,363,386
Incentive payments for E H R	122,175	76,799
	<u>19,146,004</u>	<u>20,174,356</u>
Operating Expenses:		
Salaries and benefits	12,364,427	11,891,802
Supplies and drugs	1,613,362	1,600,420
Other operating expenses	4,448,407	4,339,872
Insurance	282,632	274,982
Depreciation and amortization	606,747	703,597
Total Operating Expenses	<u>19,315,575</u>	<u>18,810,673</u>
Operating Income (Loss)	<u>(169,571)</u>	<u>1,363,683</u>
Nonoperating Revenues (Expenses):		
Investment income	136,516	130,158
Noncapital grants and contributions	67,061	42,343
Interest expense	(170,380)	(144,576)
Loss on disposal of capital assets	-	-
	<u>33,197</u>	<u>27,925</u>
Total Nonoperating Revenues (Expenses)	<u>33,197</u>	<u>27,925</u>
Increase (Decrease) in Net Position	<u>(136,374)</u>	<u>1,391,608</u>
Net Position Beginning of Year as Restated	10,790,309	9,314,057
Prior Period Adjustment	<u>-</u>	<u>84,644</u>
Net Position End of Year as Restated	<u>\$ 10,653,935</u>	<u>\$ 10,790,309</u>

NOXUBEE GENERAL CRITICAL ACCESS HOSPITAL AND NOXUBEE COUNTY NURSING HOME
Management's Discussion and Analysis
Years Ended September 30, 2016, and 2015

OPERATING RESULTS AND CHANGES IN THE FACILITY'S NET POSITION (Continued)

Operating Income

The first component of the overall change in the facility's net position is its operating income – generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The facility reported an operating loss of \$169,571 in 2016, as compared to operating income of \$1,363,683 in 2015. The operating income of \$1,363,683 in 2015, compared to an operating loss of \$518,354 in 2014.

The primary components responsible for the fluctuations in operating income are:

- ◆ An decrease in net patient service revenue of \$1,162,325 from 2015 to 2016, as compared to an increase of \$2,794,636 from 2014 to 2015.
- ◆ Medicaid UPL payments decreased by \$36,504 from 2015 to 2016, as compared to a decrease of \$95,808 from 2014 to 2015. Medicaid UPL payments totaled \$1,131,651 in 2016, \$1,168,155 in 2015, and \$1,263,963 in 2014.
- ◆ Incentive payments for electronic health records technology of \$122,175 were received in 2016, compared to \$76,799 in 2015, and \$61,964 in 2014.
- ◆ An increase in operating expenses of \$504,902 from 2015 to 2016, as compared to an increase of \$943,923 from 2014 to 2015.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of interest income, net investment earnings, and noncapital grants and contributions. The facility had interest income, primarily from checking accounts and certificates of deposit, of \$136,516 for the year ended September 30, 2016, and \$130,158 for the year ended September 30, 2015. The facility also recorded expenses paid and funds contributed by Noxubee County, Mississippi and other agencies in the amounts of \$67,061, and \$42,343, for the years ended September 30, 2016, and 2015, respectively.

Nonoperating expenses consist of interest expense in the amount of \$170,380 in 2016, and \$144,576 in 2015.

NOXUBEE GENERAL CRITICAL ACCESS HOSPITAL AND NOXUBEE COUNTY NURSING HOME
Management's Discussion and Analysis
Years Ended September 30, 2016, and 2015

THE FACILITY'S CASH FLOWS

Changes in the facility's cash flows are consistent with changes in operating income and nonoperating revenues and expenses.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, and 2015, the facility's investment in capital assets net of accumulated depreciation was \$1,883,248, and \$2,431,647, respectively. In 2016, the facility purchased capital assets costing \$58,348. In 2015, the facility purchased capital assets costing \$114,854.

Debt

At year-end, the facility had \$3,412,693 in long-term debt outstanding, as compared to \$3,637,578 in 2015. The facility did not issue new debt in 2016, or 2015, while making \$224,885 in principal payments in 2016, and \$252,507 in principal payments in 2015.

CONTACTING THE FACILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the facility's finances and to show the facility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Noxubee General Critical Access Hospital and Noxubee County Nursing Home's administrative Offices at (662) 726-4231.

NOXUBEE GENERAL CRITICAL ACCESS HOSPITAL AND NOXUBEE COUNTY NURSING HOME
Statements of Net Position
September 30, 2016, and 2015

	2016	2015 As Restated
Assets		
Current Assets:		
Cash and cash equivalents	\$ 4,962,493	\$ 6,099,450
Cash - nursing home residents' funds	38,962	23,239
Health insurance trust fund	61,265	83,996
Patient accounts receivable (net of estimated uncollectibles and allowances of \$2,498,248 in 2016 and \$2,865,001 in 2015)	2,688,801	2,448,480
Other receivable	1,124,806	462,398
Estimated third-party payor settlement	418,740	-
Physician loan receivable	3,142	34,142
Inventory, at lower of cost (first-in, first-out) or market	276,021	253,255
Accrued interest receivable	2,355	2,435
Prepaid expenses	206,568	223,179
Total Current Assets	9,783,153	9,630,574
Noncurrent Cash and Investments:		
Restricted by board for capital improvements	4,000,000	4,000,000
Capital Assets:		
Land	69,166	69,166
Depreciable capital assets (net of accumulated depreciation and amortization of \$9,038,013 in 2016 and \$8,431,266 in 2015)	1,814,082	2,362,481
Total Capital Assets, Net of Accumulated Depreciation and Amortization	1,883,248	2,431,647
Other Assets:		
Equity in Healthcare Providers Insurance Company	124,947	124,947
Total Assets	\$ 15,791,348	\$ 16,187,168

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

NOXUBEE GENERAL CRITICAL ACCESS HOSPITAL AND NOXUBEE COUNTY NURSING HOME
Statements of Net Position
September 30, 2016, and 2015

	2016	2015 As Restated
Liabilities and Net Position		
Current Liabilities:		
Accounts payable	\$ 809,459	\$ 527,367
Funds held for nursing home residents	38,962	23,239
Accounts receivable credit balances	83,686	283,588
Accrued expenses and payroll withholdings	792,613	729,675
Estimated third-party payor settlement	-	195,412
Current portion of bonds payable	219,454	210,339
Current installments of notes payable	31,166	29,946
Total Current Liabilities	1,975,340	1,999,566
 Long-Term Debt (Net of Current Maturities):		
Bonds payable	3,071,986	3,278,390
Notes payable	90,087	118,903
Total Long-Term Debt	3,162,073	3,397,293
 Total Liabilities	 5,137,413	 5,396,859
 Net Position:		
Invested in capital assets, net of related deficit	(1,529,445)	(1,205,931)
Unrestricted	12,183,380	11,996,240
Total Net Position	10,653,935	10,790,309
 Total Liabilities and Net Position	 \$ 15,791,348	 \$ 16,187,168

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

NOXUBEE GENERAL CRITICAL ACCESS HOSPITAL AND NOXUBEE COUNTY NURSING HOME
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2016, and 2015

	<u>2016</u>	<u>2015</u> <u>As Restated</u>
Operating Revenues:		
Net patient service revenue (net of provision for bad debts of \$1,456,543 in 2016 and \$969,040 in 2015)	\$ 17,571,846	\$ 18,734,171
Other revenues	1,451,983	1,363,386
Incentive payments for electronic health record technology	<u>122,175</u>	<u>76,799</u>
Total Operating Revenues	<u>19,146,004</u>	<u>20,174,356</u>
Operating Expenses:		
Salaries and benefits	12,364,427	11,891,802
Medical supplies and drugs	1,613,362	1,600,420
Other operating expenses	4,448,407	4,339,872
Insurance	282,632	274,982
Depreciation and amortization	<u>606,747</u>	<u>703,597</u>
Total Operating Expenses	<u>19,315,575</u>	<u>18,810,673</u>
Operating Income (Loss)	<u>(169,571)</u>	<u>1,363,683</u>
Nonoperating Revenues (Expenses):		
Investment income	136,516	130,158
Noncapital grants and contributions	67,061	42,343
Interest expense	<u>(170,380)</u>	<u>(144,576)</u>
Total Nonoperating Revenues (Expenses)	<u>33,197</u>	<u>27,925</u>
Excess of Revenues Over (Under) Expenses	<u>(136,374)</u>	<u>1,391,608</u>
Net Position Beginning of the Year as Restated	10,790,309	9,314,057
Prior Period Adjustment	<u>-</u>	<u>84,644</u>
Net Position End of the Year as Restated	<u>\$ 10,653,935</u>	<u>\$ 10,790,309</u>

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

NOXUBEE GENERAL CRITICAL ACCESS HOSPITAL AND NOXUBEE COUNTY NURSING HOME
Statements of Cash Flows
Years Ended September 30, 2016, and 2015

	2016	2015 As Restated
Cash Flows From Operating Activities:		
Receipts from and on behalf of patients	\$ 16,268,610	\$ 19,943,877
Payments to suppliers and contractors	(6,479,139)	(7,087,212)
Payments to and on behalf of employees	(12,209,861)	(11,739,991)
Other receipts and payments, net	<u>1,561,007</u>	<u>1,316,048</u>
Net Cash Provided (Used) by Operating Activities	<u>(859,383)</u>	<u>2,432,722</u>
 Cash Flows From Noncapital Financing Activities:		
Noncapital grants and contributions	<u>67,061</u>	<u>42,343</u>
 Cash flows From Capital and Related Financing Activities:		
Principal payments on bonds payable	(197,289)	(225,991)
Principal payments on notes payable	(27,596)	(26,516)
Interest paid on long-term debt	(197,999)	(172,195)
Purchase of capital assets	<u>(58,347)</u>	<u>(105,118)</u>
Total Cash Flows Used by Capital and Related Financing Activities	<u>(481,231)</u>	<u>(529,820)</u>
 Cash Flows From Investing Activities:		
Investment income	<u>136,596</u>	<u>129,153</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	(1,136,957)	2,074,398
 Cash and Cash Equivalents, Beginning of Year	<u>6,099,450</u>	<u>4,025,052</u>
 Cash and Cash Equivalents, End of Year	<u><u>\$ 4,962,493</u></u>	<u><u>\$ 6,099,450</u></u>

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

NOXUBEE GENERAL CRITICAL ACCESS HOSPITAL AND NOXUBEE COUNTY NURSING HOME
Statements of Cash Flows
Years Ended September 30, 2016, and 2015

	2016	2015 As Restated
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating income (loss)	\$ (169,571)	\$ 1,363,683
Adjustments to reconcile operating income to net cash flows provided by operating activities:		
Depreciation and amortization	606,747	703,597
Provision for bad debts	1,456,543	969,040
Changes in:		
Patient accounts receivable	(1,896,766)	(860,477)
Inventories and other current assets	(614,833)	678,717
Accounts payable, accrued expenses, and other current liabilities	372,649	(319,791)
Estimated third-party payor settlements	(614,152)	(102,047)
Net Cash Provided (Used) by Operating Activities	\$ (859,383)	\$ 2,432,722

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

NOXUBEE GENERAL CRITICAL ACCESS HOSPITAL AND NOXUBEE COUNTY NURSING HOME
Notes to Financial Statements

Note 1: Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity - Noxubee General Critical Access Hospital and Noxubee County Nursing Home, (the “facility”), is a 25-bed critical access hospital and a 60-bed long-term care nursing home owned by Noxubee County, Mississippi. The facility provides inpatient, outpatient, emergency, long-term care, and rural clinical services for residents of Noxubee County, Mississippi, and surrounding areas. The hospital is governed by a Board of Trustees appointed by the Board of Supervisors of Noxubee County.

Under *Governmental Accounting Standards Board (GASB) Statement Number 14: The Financial Reporting Entity*, the facility is defined as a component unit of Noxubee County, Mississippi. These financial statements present only the financial position and results of operations and cash flows of Noxubee General Critical Access Hospital and Noxubee County Nursing Home.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include allowance for uncollectibles and third-party settlements.

Enterprise Fund Accounting - The facility uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the facility has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents - Cash and cash equivalents include unrestricted cash used for operating purposes only.

Accounts Receivable - 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 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, established guidelines are used for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts.

Capital Assets – The facility’s policy is to capitalize acquisition and construction costs greater than \$5,000 which will provide benefit to future periods. The facility’s capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized using the straight-line method of depreciation using these asset lives:

Land improvements	10 to 30 years
Buildings and building improvements	5 to 50 years
Equipment, computers, and furniture	3 to 15 years

NOXUBEE GENERAL CRITICAL ACCESS HOSPITAL AND NOXUBEE COUNTY NURSING HOME
Notes to Financial Statements

Note 1: Description of Reporting Entity and Summary of Significant Accounting Policies
(Continued)

Cost of Borrowing - Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The facility capitalized no interest cost in 2016, or 2015.

Grants and Contributions - From time to time, the facility receives grants from Noxubee County and the State of Mississippi as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Restricted Resources - When the facility has both restricted and unrestricted resources available to finance a particular program, it is the facility's policy to use restricted resources before unrestricted resources.

Net Position - Net position of the facility are classified in two components. *Net position invested in capital assets net of related debt (deficit)* consists of capital assets net of accumulated depreciation and is reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Unrestricted net position* are the remaining net position that do not meet the definition of *invested in capital assets net of related debt*.

Net Patient Services Revenue - The facility has agreements with third-party payors that provide for payments to the hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amount from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Operating Revenues and Expenses - The facility's statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the facility's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Charity Care - The facility provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the hospital does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue. The cost of charity care provided in 2016, and 2015, approximated \$106,000, and \$109,000, respectively.

NOXUBEE GENERAL CRITICAL ACCESS HOSPITAL AND NOXUBEE COUNTY NURSING HOME
Notes to Financial Statements

Note 1: Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)

Risk Management - The facility is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health benefits. The facility purchases coverage of risks of loss related to torts and malpractice up to \$500,000 per case from the Healthcare Providers Insurance Company. The facility purchases coverage of risks of loss related to theft of, damage to, and destruction of assets, business interruption, errors and omissions, natural disasters and employee health benefits from various commercial insurance carriers. The facility purchases coverage of risk of loss related to workers' compensation claims from Healthcare Employers Resources Exchange.

Under *Governmental Accounting Standards Board Statement Number 10: Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, a liability for a claim must be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and that the amount of the loss can be reasonably estimated. The facility has not been exposed to any risk of loss above the applicable insurance coverage amounts at September 30, 2016; therefore, no liability has been accrued at this time.

Income Taxes - As a political subdivision of the State of Mississippi, the facility qualifies as a tax exempt organization under existing provisions of the Internal Revenue Code, and its income is not subject to federal or state income taxes.

Inventories of Supplies and Drugs - Inventories of supplies and drugs are stated at the lower of cost (first-in, first-out) or market.

Excess of Revenue Over (Under) Expenses - The statements of revenues, expenses, and changes in net position includes excess of revenues over (under) expenses. Changes in net position which are excluded from excess of revenues over (under) expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Electronic Health Record Incentive Program - The Centers for Medicare and Medicaid Services (CMS) have implemented provisions of the American Recovery and Reinvestment Act of 2009 that provide incentive payments for the meaningful use of certified electronic health record (EHR) technology. CMS has defined meaningful use as meeting certain objectives and clinical quality measures based on current and updated technology capabilities over predetermined reporting periods as established by CMS. The Medicare EHR incentive program provides annual incentive payments to eligible professionals, eligible hospitals, and critical access hospitals, as defined, that are meaningful users of certified EHR technology. The Medicaid EHR incentive program provides annual incentive payments to eligible professionals and hospitals for efforts to adopt, implement, and meaningfully use certified EHR technology. The EHR reporting period for hospitals is based on the federal fiscal year, which runs from October 1 through September 30. For the year ended September 30, 2016, and 2015, the facility received EHR incentive revenue of \$122,175, and \$76,799, respectively. EHR incentive revenues are included in operating revenues in the accompanying Statements of Revenues, Expenses and Changes in Net Position.

NOXUBEE GENERAL CRITICAL ACCESS HOSPITAL AND NOXUBEE COUNTY NURSING HOME
Notes to Financial Statements

Note 2: Designated Net Assets

Of the \$12,183,380, and \$11,996,240, of unrestricted net assets reported in 2016, and 2015, respectively, \$4,000,000 in 2016, and \$4,000,000 in 2015, has been designated by the facility's Board of Trustees for capital acquisitions. Designated funds remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes.

Note 3: Deposits and Investments

The collateral for public entities' deposits in financial institutions are now held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation. As of September 30, 2016, all of the facility's funds were covered by the collateral program.

Note 4: Patient Account Receivables - Estimated Uncollectibles and Allowances

The balance in the estimated uncollectibles and allowances account at September 30, 2016, and 2015, is composed of the following:

	<u>2016</u>	<u>2015</u>
Provision for uncollectible accounts	\$ 1,956,248	\$ 2,503,001
Allowance for Medicare adjustment	480,000	290,000
Allowance for Medicaid adjustment	<u>62,000</u>	<u>72,000</u>
	<u>\$ 2,498,248</u>	<u>\$ 2,865,001</u>

NOXUBEE GENERAL CRITICAL ACCESS HOSPITAL AND NOXUBEE COUNTY NURSING HOME
Notes to Financial Statements

Note 5: Capital Assets

Capital asset additions, retirements, and balances for the years ended September 30, 2016, and 2015, were as follows:

	Balance September 30,			Balance September 30,			Balance September 30,
	2014	Additions	Other/ Retirements	2015	Additions	Other/ Retirements	2016
Land	\$ 69,166	-	-	\$ 69,166	-	-	\$ 69,166
Land improvements	212,668	16,800	-	229,468	28,664	-	258,132
Buildings and improvements	6,707,645	-	-	6,707,645	29,684	-	6,737,329
Fixed equipment	314,023	-	-	314,023	-	-	314,023
Motor vehicles	118,128	-	-	118,128	-	-	118,128
Major moveable equipment	3,312,662	98,054	-	3,410,716	-	-	3,410,716
Minor equipment	13,767	-	-	13,767	-	-	13,767
Totals at Historical Cost	<u>10,748,059</u>	<u>114,854</u>	<u>-</u>	<u>10,862,913</u>	<u>58,348</u>	<u>-</u>	<u>10,921,261</u>
Less accumulated depreciation for:							
Land improvements	(111,927)	(11,609)	-	(123,536)	(13,096)	-	(136,632)
Buildings and improvements	(4,921,185)	(263,496)	-	(5,184,681)	(259,958)	-	(5,444,639)
Fixed equipment	(289,628)	(4,494)	-	(294,122)	(4,441)	-	(298,563)
Motor vehicles	(78,246)	(21,709)	-	(99,955)	(12,215)	-	(112,170)
Major moveable equipment	(2,326,683)	(402,289)	-	(2,728,972)	(317,037)	-	(3,046,009)
	<u>(7,727,669)</u>	<u>(703,597)</u>	<u>-</u>	<u>(8,431,266)</u>	<u>(606,747)</u>	<u>-</u>	<u>(9,038,013)</u>
Construction in progress	9,736	-	(9,736)	-	-	-	-
Capital Assets, Net	<u>\$ 3,030,126</u>	<u>(588,743)</u>	<u>(9,736)</u>	<u>\$ 2,431,647</u>	<u>(548,399)</u>	<u>-</u>	<u>\$ 1,883,248</u>

NOXUBEE GENERAL CRITICAL ACCESS HOSPITAL AND NOXUBEE COUNTY NURSING HOME
Notes to Financial Statements

Note 6: Long-Term Debt and Other Noncurrent Liabilities

A schedule of changes in the facility's long-term debt for 2016, and 2015, follows:

	Balance September 30, 2014			Balance September 30, 2015			Balance September 30, 2016		Amounts Due Within One Year
	Balance	Additions	Reductions	Balance	Additions	Reductions	Balance	Amounts	
Bonds and Notes Payable:									
General obligation bonds	\$ 3,714,720	-	(225,991)	\$ 3,488,729	-	(197,289)	\$ 3,291,440	\$ 219,454	
Note payable	175,365	-	(26,516)	148,849	-	(27,596)	121,253	31,166	
Total Long-Term Debt	<u>\$ 3,890,085</u>	<u>-</u>	<u>(252,507)</u>	<u>\$ 3,637,578</u>	<u>-</u>	<u>(224,885)</u>	<u>\$ 3,412,693</u>	<u>\$ 250,620</u>	

The terms and due dates of the facility's long-term debt, including capital lease obligations, at September 30, 2016, and 2015, follow:

- 4.25% general obligation community hospital taxable bonds payable to USDA Rural Development – the principal amount of this bond is being supplied by multiple advances as needed not to exceed \$4,810,000. Payments of principal and interest began May 12, 2010 through 2029. Payment of principal and interest is payable in equal annual installments in the amount of \$361,808.20.
- 4.85% note payable to Bank First, due November 30, 2017, secured by land and medical clinics. 59 monthly payments of \$2,754 of principal and interest began on December 30, 2012 and continue on the 30th day of each month thereafter. A single "balloon payment" of the entire unpaid balance of principal and interest will be due November 30, 2017.

NOXUBEE GENERAL CRITICAL ACCESS HOSPITAL AND NOXUBEE COUNTY NURSING HOME
Notes to Financial Statements

Note 6: Long-Term Debt and Other Noncurrent Liabilities (Continued)

Scheduled principal and interest repayments on long-term debt are as follows:

<u>Year Ending September 30:</u>	<u>Long-Term Debt</u>	
	<u>Principal</u>	<u>Interest</u>
2017	250,620	146,990
2018	319,051	133,445
2019	238,888	122,920
2020	249,241	112,567
2021	260,042	101,766
Thereafter	<u>2,094,851</u>	<u>349,394</u>
Total	<u>\$ 3,412,693</u>	<u>\$ 967,082</u>

Note 7: Net Patient Service Revenue

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

Medicare - Inpatient acute care services, outpatient services, non-acute inpatient services and rural health clinic services rendered to Medicare program beneficiaries are paid based upon a cost reimbursement methodology. The hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the hospital and audits thereof by the Medicare fiscal intermediary. The facility's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2014.

Medicaid - Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The facility is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the facility and audits thereof by the Medicaid fiscal intermediary. Nursing home services are reimbursed under a cost based case mix reimbursement system.

Medicaid Upper Payment Limit Payments - The hospital recorded Medicaid upper payment limit payments of \$1,131,651 for the year ended September 30, 2016, and \$1,168,155 for the year ended September 30, 2015.

The Medicaid Upper Payment Limit Program is a program whereby the hospital qualifies for upper payment limit funds in addition to regular funds. The Division of Medicaid administers the upper payment limit program and the continuation of the program rests with the federal government.

Medicaid Disproportionate Share Payment – The hospital recorded Medicaid disproportionate share payments of \$195,855, and \$375,327, for the years ended September 30, 2016, and 2015, respectively.

The Medicaid disproportionate share program is a program whereby the hospital qualifies for disproportionate share funds in addition to regular funds as a result of providing care to a disproportionate share of low-income patients as well as providing certain required services. The Mississippi Division of Medicaid controls the disproportionate share program and the continuation of the program rests with the agency.

NOXUBEE GENERAL CRITICAL ACCESS HOSPITAL AND NOXUBEE COUNTY NURSING HOME
Notes to Financial Statements

Note 7: Net Patient Service Revenue (Continued)

A summary of gross and net patient service revenue for the years ended September 30, 2016, and 2015:

	2016	2015
Gross patient service revenues	\$ 25,014,307	\$ 24,836,728
Less provision for bad debts	(1,456,543)	(969,040)
Less provision for contractual adjustments under third-party agreements	(6,331,033)	(5,588,299)
Less provision for employee and policy discounts	(786,536)	(713,373)
Plus Medicaid Upper Payment Limit Funds	1,131,651	1,168,155
Net Patient Service Revenue	\$ 17,571,846	\$ 18,734,171

Note 8: Medical Benefit Plan

The facility has a self-funded medical benefit plan covering substantially all of its employees and certain dependents of the employees. The total benefit expense for the years ended September 30, 2016, and 2015 amounted to \$887,781, and \$722,415, respectively. The facility's policy is to fund the estimated medical benefit claims that will be filed against the plan less the contributions made by employees covered by the plan. In addition, an allowance representing the write-off of charges applicable to in-house claims of the employees and their dependents for the years ended September 30, 2016, and 2015, was provided in the amount of \$437,691, and \$311,570, respectively.

Note 9: Retirement Plan

A defined contribution plan for employees was established by the facility on January 1, 1978, covering all regular permanent employees who have completed one year of service. The plan generally provides for retirement benefits based on earnings and length of service with normal retirement at age 65 and early retirement at age 55 provided that employees have completed fifteen (15) years of service; disability and death benefits are also provided. Contributions to the plan are made by the facility and additional contributions can be made at the discretion of the employee. The facility contributes 5% of an employee's compensation up to \$12,000 and 9.3% of an employee's compensation in excess of \$12,000. The 2016, and 2015, employer contributions were \$416,458, and \$480,943, respectively. The 2016, and 2015, employee contributions were \$289,948, and \$287,152, respectively.

Note 10: Commitments

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. Total rental expense in 2016, and 2015, for all operating leases was approximately \$51,642, and \$49,492, respectively. There were no non-cancellable leases for the years ended September 30, 2016, and 2015.

NOXUBEE GENERAL CRITICAL ACCESS HOSPITAL AND NOXUBEE COUNTY NURSING HOME
Notes to Financial Statements

Note 11: Concentrations of Credit Risk

The facility grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, 2016, and 2015, was as follows:

	2016	2015
Medicare	31%	22%
Medicaid	10%	9%
Patients and other third-party payors	<u>59%</u>	<u>69%</u>
	<u>100%</u>	<u>100%</u>

Note 12: Other Assets

Included in other assets on the Statements of Net Position is an investment in Healthcare Providers Insurance Company. The facility is a subscriber in the insurance company. The amount of the hospital's investment is \$124,947 for 2016, and \$124,947 for 2015. The hospital has elected to report this investment at cost since there is not a market for the ownership interest in the company.

Note 13: Litigation

The hospital is a defendant in lawsuits arising from normal business activities. Management and attorneys for the hospital do not expect any significant liability to result from these matters in excess of their insurance coverage.

Note 15: Restatement of September 30, 2015 Financial Statements and Prior Period Adjustment

Adjustment were made for the fiscal year ending September 30, 2015 to properly account for retirement forfeiture receivables. The effects of these adjustments to the statements of net position were an increase in other receivables of \$92,442 and an increase in net position of \$92,442. The effects of these adjustment on the statements of revenues, expenses, and changes in net position were a decrease in salaries and benefits of \$7,798 and an increase in net position of \$92,442, which includes a prior period adjustment of \$84,644, for the year ended September 30, 2015.

Note 15: Subsequent Events

Events that occur after the Statements of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of Noxubee General Critical Access Hospital and Noxubee County Nursing Home evaluated the activity of the facility through March 21, 2017, (the date the financial statement were available to be issued), and determined that there were no subsequent events requiring disclosures in the notes to financial statements.

**NOXUBEE GENERAL CRITICAL ACCESS HOSPITAL AND NOXUBEE COUNTY NURSING HOME
Schedule of Surety Bonds for Officials and Employees
Year Ended September 30, 2016**

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Amount of bond</u>
Vance Taylor	Trustee	Travelers	\$100,000
James Gillespie	Trustee	Travelers	\$100,000
Wesley Lee	Trustee	Western Surety	\$100,000
William Skinner	Trustee	Travelers	\$100,000
Willie Mary Reece	Trustee	Western Surety	\$100,000
James Mason, II	Trustee	Western Surety	\$100,000
Betty Robinson	Trustee	Western Surety	\$100,000
Danny McKay	Administrator	Western Surety	\$100,000



WATKINS, WARD and STAFFORD
Professional Limited Liability Company
Certified Public Accountants

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S. Keith Winfield, CPA
William B. Stagers, CPA
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Mort Stroud, CPA
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Marsha L. McDonald, CPA
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Thomas A. Davis, CPA
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Ricky D. Allen, CPA
Jason D. Brooks, CPA
Robert E. Cordle, Jr., CPA
Perry C. Rackley, Jr., CPA

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

Board of Trustees
Noxubee General Critical Access Hospital
and Noxubee County Nursing Home
Macon, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Noxubee General Critical Access Hospital and Noxubee County Nursing Home, a component unit of Noxubee County, Mississippi, as of and for the years ended September 30, 2016, and 2015, and the related notes to financial statements, which collectively comprise Noxubee General Critical Access Hospital and Noxubee County Nursing Home's basic financial statements as listed in the contents, and have issued our report thereon dated March 21, 2017

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Noxubee General Critical Access Hospital and Noxubee County Nursing Home's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Noxubee General Critical Access Hospital and Noxubee County Nursing Home's internal control. Accordingly, we do not express an opinion on the effectiveness of Noxubee General Critical Access Hospital and Noxubee County Nursing Home's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Eupora, Mississippi
March 21, 2017

Watkins Ward and Stafford, PLLC



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Perry C. Rackley, Jr., CPA

Independent Auditors' Report on Compliance with State Laws and Regulations

Board of Trustees
Noxubee General Critical Access Hospital
and Noxubee County Nursing Home
Macon, Mississippi

We have audited the financial statements of Noxubee General Critical Access Hospital and Noxubee County Nursing Home, a component unit of Noxubee County, Mississippi, as of and for the year ended September 30, 2016, and have issued our report thereon dated March 21, 2017.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with state laws and regulations applicable to Noxubee General Critical Access Hospital and Noxubee County Nursing Home is the responsibility of the facility's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Noxubee General Critical Access Hospital and Noxubee County Nursing Home's compliance with certain provisions of state laws and regulations. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate, with respect to the items tested, Noxubee General Critical Access Hospital and Noxubee County Nursing Home complied with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the facility had not complied with state laws and regulations.

This report is intended solely for the information and use of the Board of Trustees, management, and others within the facility, and the Board of Supervisors of Noxubee County, Mississippi, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Eupora, Mississippi
March 21, 2017

Watkins Ward and Stafford, P.C.