

**Sharkey-Issaquena Community Hospital  
A Component Unit of Sharkey County**

Independent Auditor's Reports and Financial Statements

September 30, 2016 and 2015



**Sharkey-Issaquena Community Hospital**  
**A Component Unit of Sharkey County**  
**September 30, 2016 and 2015**

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## Independent Auditor's Report

Board of Trustees  
Sharkey-Issaquena Community Hospital  
Rolling Fork, Mississippi

### Report on the Financial Statements

We have audited the accompanying financial statements of Sharkey-Issaquena Community Hospital (the Hospital), a component unit of Sharkey County, as of and for the years ended September 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sharkey-Issaquena Community Hospital 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.

***Other Matters***

*Required Supplementary Information*

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

*Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The schedule of surety bonds for officials and employees, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2017, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

**BKD, LLP**

Jackson, Mississippi  
August 31, 2017

# **Sharkey-Issaquena Community Hospital**

## **A Component Unit of Sharkey County**

### **Management's Discussion and Analysis**

#### **Years Ended September 30, 2016 and 2015**

## **Introduction**

This management's discussion and analysis of the financial performance of Sharkey-Issaquena Community Hospital (the Hospital) provides an overview of the Hospital's financial activities for the years ended September 30, 2016 and 2015. It should be read in conjunction with the accompanying financial statements of the Hospital.

## **Financial Highlights**

### ***2016 Highlights***

- In order to extend the longevity of the nursing home in the area and complement hospital operations, the Hospital entered a nine-year lease for the neighboring nursing home facility. It is the goal of the Hospital to improve operations and, therefore, enhance the financial strength of the nursing home, which, in turn, benefits the citizenry of Sharkey and Issaquena Counties.
- Cash and temporary cash investments decreased by \$32,343, or 1%, from 2016 to 2015, due primarily to use of funds in general operations.
- The Hospital reported an operating loss of \$1,363,526 for 2016 and, ultimately, a decrease in net position of \$1,227,298. The operating loss increased by \$359,506, due to the low census in the nursing home and the continued decrease in census for the senior care unit. In addition, the nursing home upper payment limit (UPL) was less than expected for 2016.
- Total operating expenses for 2016 increased by \$3,232,136, or 40%, over the prior year. This was due primarily to the new operating lease and related costs to manage the nursing home.

### ***2015 Highlights***

- Cash and temporary cash investments decreased by \$1,128,968, or 33%, from 2014 to 2015, due primarily to use of funds in operations to cover operating loss.
- The Hospital reported an operating loss of \$1,004,020 for 2015 and, ultimately, a decrease in net position of \$853,308. The operating loss decreased by \$518,752 due to the Hospital meeting meaningful use in the current year and a decrease in expenses.
- Total operating expenses for 2015 decreased by \$258,949, or 3%, over the prior year. This was due primarily to a decrease in depreciation, decrease in salaries and wages and employee benefits, and a decrease in central supply rehab services.

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**Management's Discussion and Analysis**  
**Years Ended September 30, 2016 and 2015**

**Using this Annual Report**

The Hospital's financial statements consist of three statements – a balance sheet, a statement of revenues, expenses and changes in net position and a statement of cash flows. These statements provide information about the activities of the Hospital. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

**The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position**

One of the most important questions asked about any hospital's finances is "Is the hospital as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net position report information about the Hospital'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. Using the accrual basis of accounting means that 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 Hospital's net position and changes in them. The Hospital's total net assets – the difference between assets and liabilities – are one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

**The Statement of Cash Flows**

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of 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 and cash equivalents during the reporting period.

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**The Hospital's Net Position**

The Hospital's net position is the difference between its assets and liabilities reported in the balance sheet. The Hospital's net position decreased by \$1,227,298 in 2016 over 2015, and decreased by \$853,308 in 2015 over 2014, as shown in Table 1.

**Table 1**  
**Condensed Balance Sheets**

|                                    | 2016                | 2015                | 2014                | Variance<br>2015 - 2016 | Variance<br>2014 - 2015 |
|------------------------------------|---------------------|---------------------|---------------------|-------------------------|-------------------------|
| <b>Assets</b>                      |                     |                     |                     |                         |                         |
| Current assets                     | \$ 4,174,115        | \$ 4,135,303        | \$ 4,988,332        | \$ 38,812               | \$ (853,029)            |
| Capital assets, net                | 818,056             | 847,989             | 1,138,556           | (29,933)                | (290,567)               |
| Other assets                       | 78,756              | 85,328              | 29,934              | (6,572)                 | 55,394                  |
| Total assets                       | <u>\$ 5,070,927</u> | <u>\$ 5,068,620</u> | <u>\$ 6,156,822</u> | <u>\$ 2,307</u>         | <u>\$ (1,088,202)</u>   |
| <b>Liabilities</b>                 |                     |                     |                     |                         |                         |
| Current liabilities                | \$ 1,999,579        | \$ 872,566          | \$ 1,067,948        | \$ 1,127,013            | \$ (195,382)            |
| Long-term debt                     | 162,109             | 59,517              | 99,029              | 102,592                 | (39,512)                |
| Total liabilities                  | <u>2,161,688</u>    | <u>932,083</u>      | <u>1,166,977</u>    | <u>1,229,605</u>        | <u>(234,894)</u>        |
| <b>Net Position</b>                |                     |                     |                     |                         |                         |
| Net investment in capital assets   | 567,261             | 748,960             | 952,144             | (181,699)               | (203,184)               |
| Restricted - expendable            | 18,292              | 60,193              | 38,226              | (41,901)                | 21,967                  |
| Unrestricted                       | <u>2,323,686</u>    | <u>3,327,384</u>    | <u>3,999,475</u>    | <u>(1,003,698)</u>      | <u>(672,091)</u>        |
| Total net position                 | <u>2,909,239</u>    | <u>4,136,537</u>    | <u>4,989,845</u>    | <u>(1,227,298)</u>      | <u>(853,308)</u>        |
| Total liabilities and net position | <u>\$ 5,070,927</u> | <u>\$ 5,068,620</u> | <u>\$ 6,156,822</u> | <u>\$ 2,307</u>         | <u>\$ (1,088,202)</u>   |

**2016 Highlights**

- Current assets remained steady with a \$38,812 increase, or 1% over 2015. The main components were a decrease in the electronic health records (EHR) receivable, as EHR payments came to a close and increases in patient accounts receivable and amounts due from third-party payers. Increase in patient accounts receivable is due to collection efforts. The increase in third-party payer receivable is related to the increase in the expected

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Disproportionate Share Hospital (DSH) receivable and an increase in the cost report receivable.

- In 2016, capital assets decreased a net of \$29,933, or 4%. Additions narrowly exceeded the annual depreciation, resulting in a much small decrease, as compared to 2015. A majority of these additions were items purchased for the nursing home through capital leases.

***2015 Highlights***

- Current assets decreased by \$853,029, or 17%. The main component was a decrease in combined cash and temporary cash of approximately \$1,128,968, or 33%, due, in part, to a decrease in cash flows due to a change of billing systems in the current year and use of funds in operations to cover operating loss.
- The increase in other assets of \$55,394 from 2014 to 2015 is due mainly to the investment in Healthcare Employers Resources Exchange (HERE).
- In 2015, capital assets decreased a net of \$290,567, or 26%, due mainly to continued depreciation.

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**Operating Results and Changes in the Hospital's Net Position**

In 2016, the Hospital's net position decreased by \$1,227,298, as shown in Table 2, compared to a decrease in net position in the prior year of \$853,308.

**Table 2**  
**Condensed Statements of Revenues, Expenses and Changes in Net Position**

|                                       | <b>2016</b>           | <b>2015</b>         | <b>2014</b>           | <b>Variance<br/>2015 - 2016</b> | <b>Variance<br/>2014 - 2015</b> |
|---------------------------------------|-----------------------|---------------------|-----------------------|---------------------------------|---------------------------------|
| <b>Operating Revenues</b>             |                       |                     |                       |                                 |                                 |
| Net patient service revenue           | \$ 9,413,028          | \$ 6,134,870        | \$ 6,416,941          | \$ 3,278,158                    | \$ (282,071)                    |
| Other operating revenue               | 538,395               | 943,923             | 402,049               | (405,528)                       | 541,874                         |
| Total operating revenues              | <u>9,951,423</u>      | <u>7,078,793</u>    | <u>6,818,990</u>      | <u>2,872,630</u>                | <u>259,803</u>                  |
| <b>Operating Expenses</b>             |                       |                     |                       |                                 |                                 |
| Salaries, wages and employee benefits | 5,322,854             | 4,177,604           | 4,215,588             | 1,145,250                       | (37,984)                        |
| Supplies and other                    | 5,730,372             | 3,529,769           | 3,728,856             | 2,200,603                       | (199,087)                       |
| Depreciation                          | 261,723               | 375,440             | 397,318               | (113,717)                       | (21,878)                        |
| Total operating expenses              | <u>11,314,949</u>     | <u>8,082,813</u>    | <u>8,341,762</u>      | <u>3,232,136</u>                | <u>(258,949)</u>                |
| <b>Operating Loss</b>                 | <u>(1,363,526)</u>    | <u>(1,004,020)</u>  | <u>(1,522,772)</u>    | <u>(359,506)</u>                | <u>518,752</u>                  |
| <b>Nonoperating Revenues</b>          | <u>86,196</u>         | <u>90,519</u>       | <u>141,817</u>        | <u>(4,323)</u>                  | <u>(51,298)</u>                 |
| <b>Capital Grants</b>                 | <u>50,032</u>         | <u>60,193</u>       | <u>26,712</u>         | <u>(10,161)</u>                 | <u>33,481</u>                   |
| <b>Decrease in Net Position</b>       | <u>\$ (1,227,298)</u> | <u>\$ (853,308)</u> | <u>\$ (1,354,243)</u> | <u>\$ (373,990)</u>             | <u>\$ 500,935</u>               |

**Operating Income**

The first component of the overall change in the Hospital's net position is its operating income or loss – and generally, the difference between net patient service revenue and other operating revenues

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and the expenses incurred to perform those services. In fiscal year 2016, the Hospital reported an operating loss of \$1,363,526, compared to reported operating loss of \$1,004,020 for fiscal year 2015.

***2016 Financial Highlights***

- Revenues for the nursing home, net of contractual adjustments, was approximately \$2,140,000 for 2016.
- Other operating revenue remained steady, only increasing by \$3,448, or 1%. This other operating revenue includes the annual contributions from Sharkey and Issaquena Counties for the operation of the Hospital and the ambulance program. As such, these amounts do not fluctuate from year to year.
- Acute patient days increased to 991 in 2016, compared to 879 in 2015. Swing bed days increased to 1,187 in 2016 from 916 in 2015.
- The Hospital experienced significant changes in total operating expenses which increased by \$3,232,136, or 40%, over the prior year. This was due primarily to the addition of the operations of the nursing home.

***2015 Financial Highlights***

- Other operating revenue increased by \$541,874 in 2015, due mainly to the Hospital meeting meaningful use which resulted in EHR revenue of \$424,803.
- Acute patient days decreased to 879 in 2015, compared to 1,004 in 2014. Swing bed days decreased from 974 in 2014 to 916 in 2015.
- The Hospital experienced significant changes in total operating expenses which decreased by \$258,949, or 3%, over the prior year. This was due primarily to a decrease in depreciation, decrease in salaries, wages and employee benefits, and a decrease in central supply rehab services.

**Nonoperating Revenues (Expenses)**

Nonoperating revenues (expenses), which consist primarily of interest income and noncapital grants, decreased by \$4,323, or 5%, in 2016, compared to 2015 and decreased by \$51,298, or 36%, in 2015 compared to 2014.

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**Years Ended September 30, 2016 and 2015**

**The Hospital's Cash Flows**

In 2016 and 2015, the Hospital's cash used in operations was offset, in part, by proceeds from the line of credit and increases in accounts payable.

**Capital Assets**

At the end of 2016, the Hospital had \$818,056 of net capital assets as detailed in *Note 5* to the financial statements. There were no significant changes other than depreciation and the capitalization of several leased assets acquired for the nursing home. At the end of 2015, the Hospital had \$847,989 net capital assets as detailed in *Note 5* to the financial statements.

**Economic Factors and Next Year's Budget**

While the annual budget of the Hospital is not presented within these financial documents and analyses, the Board of Trustees and management considered many factors when setting the fiscal year 2017 budget. While the financial outlook for the Hospital is uncertain at this point, many factors must be considered for the future:

- The current economic conditions present the Hospital with challenges, including the increase of self-pay patients
- These economic conditions present Sharkey and Issaquena Counties with the same challenges as the Hospital, which could negatively impact emergency medical services operated by the Hospital on behalf of the counties
- Medicare/Medicaid reimbursement changes – The Hospital's percentage of gross patient revenue is 50% Medicare and 26% Medicaid (majority nursing home)
- Significant legislative funding cuts for Medicare under the Affordable Care Act
- Population decreases in the Hospital's service area
- Shortage of licensed professional medical staff in the Hospital's geographic area
- UPL payments for the nursing home

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Management's Discussion and Analysis  
Years Ended September 30, 2016 and 2015**

**Contacting Hospital Financial Personnel**

This report is designed to provide our citizens, customers and creditors with a general overview of the Hospital's finances. If you have any questions about this report or need additional information, please contact:

Administrator  
Sharkey-Issaquena Community Hospital  
Post Office Box 339  
Rolling Fork, MS 39159-0339

**Sharkey-Issaquena Community Hospital**  
**A Component Unit of Sharkey County**

**Balance Sheets**

**September 30, 2016 and 2015**

|  | <b>2016</b>  | <b>2015</b>  |
|--|--------------|--------------|
| <b>Assets</b>  |              |              |
| <b>Current Assets</b>  |              |              |
| Cash and cash equivalents  | \$ 253,798   | \$ 286,141   |
| Temporary cash investments   | 2,027,345    | 2,027,345    |
| Patient accounts receivable, net of allowance for uncollectible accounts; 2016 - \$559,000, 2015 - \$198,000 | 1,357,255    | 1,109,755    |
| Estimated amounts due from third-party payers  | 149,169      | 11,195       |
| Electronic Health Record (EHR) incentive payment receivable  | 142,793      | 424,347      |
| Supplies   | 140,470      | 171,665      |
| Prepaid expenses and other   | 103,285      | 104,855      |
| Total current assets   | 4,174,115    | 4,135,303    |
| <b>Capital Assets, Net</b>   | 818,056      | 847,989      |
| <b>Investment in Insurance Providers</b>   | 78,756       | 85,328       |
| Total assets   | \$ 5,070,927 | \$ 5,068,620 |

|                                      | <b>2016</b>         | <b>2015</b>         |
|--------------------------------------|---------------------|---------------------|
| <b>Liabilities and Net Position</b>  |                     |                     |
| <b>Current Liabilities</b>           |                     |                     |
| Current maturities of long-term debt | \$ 88,686           | \$ 39,512           |
| Accounts payable                     | 1,006,115           | 363,960             |
| Accrued expenses                     | 282,678             | 172,094             |
| Line of credit                       | <u>622,100</u>      | <u>297,000</u>      |
| Total current liabilities            | <u>1,999,579</u>    | <u>872,566</u>      |
| <b>Long-term Debt</b>                | <u>162,109</u>      | <u>59,517</u>       |
| Total liabilities                    | <u>2,161,688</u>    | <u>932,083</u>      |
| <b>Net Position</b>                  |                     |                     |
| Net investment in capital assets     | 567,261             | 748,960             |
| Restricted - expendable              | 18,292              | 60,193              |
| Unrestricted                         | <u>2,323,686</u>    | <u>3,327,384</u>    |
| Total net position                   | <u>2,909,239</u>    | <u>4,136,537</u>    |
| Total liabilities and net position   | <u>\$ 5,070,927</u> | <u>\$ 5,068,620</u> |

**Sharkey-Issaquena Community Hospital**  
**A Component Unit of Sharkey County**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended September 30, 2016 and 2015**

|  | <b>2016</b>         | <b>2015</b>         |
|--|---------------------|---------------------|
| <b>Operating Revenues</b>  |                     |                     |
| Net patient service revenue, net of provision for uncollectible accounts; 2016 - \$986,000, 2015 - \$1,532,000 | \$ 9,413,028        | \$ 6,134,870        |
| EHR incentive  | 15,827              | 424,803             |
| Other  | 522,568             | 519,120             |
|  | <u>9,951,423</u>    | <u>7,078,793</u>    |
| <b>Operating Expenses</b>  |                     |                     |
| Salaries and wages   | 4,410,572           | 3,347,775           |
| Employee benefits  | 912,282             | 829,829             |
| Supplies and other   | 5,730,372           | 3,529,769           |
| Depreciation   | 261,723             | 375,440             |
|  | <u>11,314,949</u>   | <u>8,082,813</u>    |
|  | <u>(1,363,526)</u>  | <u>(1,004,020)</u>  |
| <b>Operating Loss</b>  |                     |                     |
| <b>Nonoperating Revenues (Expenses)</b>  |                     |                     |
| Interest income  | 23,830              | 23,071              |
| Noncapital grants  | 39,083              | 40,407              |
| Interest expense   | (14,861)            | (6,351)             |
| Miscellaneous  | 38,144              | 33,392              |
|  | <u>86,196</u>       | <u>90,519</u>       |
|  | <u>(1,277,330)</u>  | <u>(913,501)</u>    |
| <b>Deficiency of Revenues Over Expenses Before Capital Grants</b>  |                     |                     |
|  | <u>50,032</u>       | <u>60,193</u>       |
| <b>Capital Grants</b>  |                     |                     |
|  | <u>(1,227,298)</u>  | <u>(853,308)</u>    |
| <b>Decrease in Net Position</b>  |                     |                     |
| <b>Net Position, Beginning of Year</b>   | <u>4,136,537</u>    | <u>4,989,845</u>    |
| <b>Net Position, End of Year</b>   | <u>\$ 2,909,239</u> | <u>\$ 4,136,537</u> |

**Sharkey-Issaquena Community Hospital**  
**A Component Unit of Sharkey County**  
**Statements of Cash Flows**  
**Years Ended September 30, 2016 and 2015**

|   | <b>2016</b>  | <b>2015</b>  |
|---|--------------|--------------|
| <b>Operating Activities</b>                               |              |              |
| Receipts from and on behalf of patients                   | \$ 9,027,554 | \$ 5,856,872 |
| Payments to suppliers and contractors                     | (5,056,847)  | (3,469,897)  |
| Payments to employees                                     | (5,204,303)  | (4,310,975)  |
| Other cash receipts                                       | 819,949      | 519,576      |
| Net cash used in operating activities                     | (413,647)    | (1,404,424)  |
| <b>Investing Activities</b>                               |              |              |
| Interest earned on short-term investments                 | 23,830       | 23,071       |
| Redemption of temporary cash investments, net             | -            | 727,833      |
| Net cash provided by investing activities                 | 23,830       | 750,904      |
| <b>Noncapital Financing Activities</b>                    |              |              |
| Rent and other cash receipts, net                         | 38,144       | 33,392       |
| Proceeds from line of credit                              | 325,100      | 297,000      |
| Noncapital grants   | 39,083       | 40,407       |
| Net cash provided by noncapital financing activities      | 402,327      | 370,799      |
| <b>Capital and Related Financing Activities</b>           |              |              |
| Purchase of capital assets                                | (39,226)     | (84,873)     |
| Principal payments on long-term debt                      | (40,798)     | (87,383)     |
| Capital grants  | 50,032       | 60,193       |
| Interest paid on long-term debt                           | (14,861)     | (6,351)      |
| Net cash used in capital and related financing activities | (44,853)     | (118,414)    |
| <b>Decrease in Cash and Cash Equivalents</b>              | (32,343)     | (401,135)    |
| <b>Cash and Cash Equivalents, Beginning of Year</b>       | 286,141      | 687,276      |
| <b>Cash and Cash Equivalents, End of Year</b>             | \$ 253,798   | \$ 286,141   |

**Sharkey-Issaquena Community Hospital**  
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**Statements of Cash Flows (Continued)**  
**Years Ended September 30, 2016 and 2015**

|  | <b>2016</b>         | <b>2015</b>           |
|--|---------------------|-----------------------|
| <b>Reconciliation of Operating Loss to Net Cash</b>          |                     |                       |
| <b>Used In Operating Activities</b>                          |                     |                       |
| Operating loss   | \$ (1,363,526)      | \$ (1,004,020)        |
| Depreciation   | 261,723             | 375,440               |
| Provision for uncollectible accounts                         | 985,632             | 1,531,806             |
| Changes in operating assets and liabilities                  |                     |                       |
| Patient accounts receivable                                  | (1,233,132)         | (1,346,058)           |
| EHR incentive payment receivable                             | 281,554             | (424,347)             |
| Supplies   | 31,195              | (15,732)              |
| Prepaid expenses and other assets                            | 8,142               | (65,807)              |
| Accounts payable   | 642,155             | (228,452)             |
| Accrued expenses   | 110,584             | (188,311)             |
| Decrease in estimated amounts due from<br>third-party payers | (137,974)           | (38,943)              |
| Net cash used in operating activities                        | <b>\$ (413,647)</b> | <b>\$ (1,404,424)</b> |
| <br><b>Supplemental Cash Flows Information</b>               |                     |                       |
| Interest paid  | \$ 14,861           | \$ 6,351              |
| Capital leases obligations incurred for capital assets       | \$ 192,564          | \$ -                  |

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

***Nature of Operations and Reporting Entity***

Sharkey-Issaquena Community Hospital (the Hospital) is an acute care hospital located in Rolling Fork, Mississippi. It was created by the Boards of Supervisors of Sharkey and Issaquena Counties (the Counties) to operate, control and manage matters concerning the Counties' health care functions. The Boards of Supervisors appoint the Board of Trustees of the Hospital. The Hospital may not issue debt without the Counties' approval. Since the Sharkey County Board of Supervisors appoints three of the Hospital's five board members, the Hospital is considered a component unit of Sharkey County. The accompanying financial statements also include the Sharkey Issaquena Medical Foundation as a blended component unit of the Hospital as defined by Governmental Accounting Standards.

The Hospital entered into a nine-year sublease agreement for the facility known as Heritage Manor Nursing Home of Rolling Fork, Mississippi effective January 1, 2016. The 54-bed nursing home facility, with an approximate 82% occupancy rate, is subleased.

***Basis of Accounting and Presentation***

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

***Foundation***

Sharkey Issaquena Medical Foundation (the Foundation) was founded during 2010 as a legally separate, tax-exempt component unit of the Hospital. The Foundation's primary function is to raise and hold funds to support the Hospital and its programs and to promote community health. The board of the Foundation is self-perpetuating.

Although the Hospital does not control the timing or amount of receipts from the Foundation, the majority of the Foundation's resources and related income are held for the benefit of the Hospital.

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Because these resources held by the Foundation will be primarily used by, or for the benefit of, the Hospital, the Foundation is considered a component unit of the Hospital and is blended in the Hospital's financial statements.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Cash Equivalents***

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2016 and 2015, cash equivalents consisted primarily of certificates of deposit.

***Temporary Cash Investments***

The Hospital considers all certificates of deposits with original maturities from three months to one year to be temporary cash investments.

***Risk Management***

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

***Patient Accounts Receivable***

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

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**Supplies**

Supplies inventories are stated at the lower of cost determined using the first-in, first-out method, or market.

**Capital Assets**

Capital assets are stated at cost or, if donated, at acquisition value at date of donation. The cost of additions and improvements, which substantially extend the useful life of a particular asset, is capitalized. Expenditures for maintenance and repairs are charged to expense. Depreciation expense is calculated using the straight-line method based on the estimated useful lives of the assets.

Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term, or their respective estimated useful lives. Amortization of leased equipment under capital assets is included in depreciation expense. The following estimated useful lives are being used by the Hospital:

|                                      |              |
|--------------------------------------|--------------|
| Land improvements                    | 10 years     |
| Buildings and leasehold improvements | 9 - 33 years |
| Equipment                            | 5 - 15 years |

**Compensated Absences**

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Sick leave benefits are recognized as expense when the time off occurs, and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

In 2016, the Hospital changed their compensated absences policy to a single type of compensated absence referred to as paid time off (PTO). Each employee accrues PTO based on length of service to be used for compensated absences instead of the separate vacation and sick leave detailed above. All vacation and sick leave time accumulated prior to the policy change are rolled forward until used, expired or the employment relationship is terminated.

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***Net Position***

Net position of the Hospital is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital. Unrestricted net position is the remaining net position that does not meet the definition of investment in capital assets or restricted net position.

***Net Patient Service Revenue***

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such estimated amounts are revised in future periods as adjustments become known.

***Charity Care***

The Hospital provides charity care to patients who are unable to pay for services. The amount of charity care is included in net patient service revenue and is not separately classified from the provision for uncollectible accounts.

***Electronic Health Records (EHR) Incentive***

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified EHR technology. Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). Payment under both programs are contingent on the Hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital recognizes revenue in the reporting period in which it has met all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

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The Hospital completed the four years of EHR payments in 2015. In 2016, the Hospital received EHR payments for its employed physicians. In 2016 and 2015, the Hospital recorded approximately \$16,000 and \$425,000 of EHR revenue, respectively.

***Income Taxes***

As an essential government function of the county, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

**Note 2: Net Patient Service Revenue**

The Hospital is party to agreements with certain third-party payers that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at established rates for services and amounts reimbursed by third-party payers. A summary of the basis of reimbursement with major third-party payers follows.

- Medicare - Inpatient acute care services, senior care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patient acuity. Certain inpatient nonacute services and defined medical education costs are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at tentative rates, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor.
- Medicaid - Inpatient services rendered to Medicaid program beneficiaries are generally paid based upon a prospective-payment system based on All Patient Refined Diagnosis Related Groups (APR-DRG). Outpatient services are also paid on a prospective-payment system using Ambulatory Payment Classifications (APC), similar to the Medicare payment model. The Hospital is reimbursed for retroactively determined items at tentative rates, with final settlement determined after submission of annual cost reports by the Hospital and audits by the State of Mississippi Medicaid Program. Long-term care services are reimbursed based on the Hospital's specific cost-based per diem rate adjusted by certain factors, including patient severity. Certain categories of costs are subject to reimbursement ceilings established based on statewide medians. Nursing home Medicaid cost reports are subject to audit, with final settlement determined after audit by Medicaid.

Through June 30, 2015, the state of Mississippi maintained the Medicaid Upper Payment Limit (UPL) program for providers participating in the state's Medicaid program.

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Beginning July 1, 2015, UPL payments were phased out, and the Division of Medicaid (DOM) implemented the Mississippi Hospital Access Payment (MHAP) program in its place. The program is administered by DOM through the Mississippi Coordinated Access Network (MSCAN) coordinated care organizations (CCOs). The CCOs subcontract with the hospitals throughout the state for distribution of MHAP for the purpose of protecting patient access to hospital care. The MHAP program began on December 1, 2015, retroactive to July 1, 2015. The Hospital also participates in a voluntary disproportionate share program (DSH) available to certain qualifying hospitals in the state Medicaid program. The Hospital also receives UPL payments for its nursing home. The Hospital recognized UPL/MHAP/DSH revenue of approximately \$484,000 and \$204,000 in 2016 and 2015, respectively.

There can be no assurances that the MHAP and UPL programs will remain in effect in future years, or that the Hospital will continue to participate in the programs at reimbursement levels experienced to date.

Approximately 76% and 80% of gross patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2016 and 2015, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

**Note 3: Deposits**

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the 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 (FDIC).

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At September 30, 2016 and 2015, the Hospital was protected from custodial credit risk as follows:

|   | <u>2016</u>         | <u>2015</u>         |
|---|---------------------|---------------------|
| Amount insured by FDIC                                      | \$ 268,292          | \$ 316,704          |
| Amount collateralized by securities held in collateral pool | <u>2,126,568</u>    | <u>2,075,569</u>    |
| Total depository balances                                   | <u>\$ 2,394,860</u> | <u>\$ 2,392,273</u> |
| Carrying value  | <u>\$ 2,281,143</u> | <u>\$ 2,313,486</u> |
| Included in the following balance sheet captions            |                     |                     |
| Cash and cash equivalents                                   | \$ 253,798          | \$ 286,141          |
| Temporary cash investments                                  | <u>2,027,345</u>    | <u>2,027,345</u>    |
|   | <u>\$ 2,281,143</u> | <u>\$ 2,313,486</u> |

**Note 4: Patient Accounts Receivable**

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at September 30, 2016 and 2015, consisted of:

|                                      | <u>2016</u>         | <u>2015</u>         |
|--------------------------------------|---------------------|---------------------|
| Medicare                             | \$ 763,919          | \$ 579,349          |
| Medicaid                             | 349,298             | 134,719             |
| Other third-party payers             | 334,279             | 214,211             |
| Patients                             | <u>468,812</u>      | <u>379,359</u>      |
|                                      | 1,916,308           | 1,307,638           |
| Allowance for uncollectible accounts | <u>(559,053)</u>    | <u>(197,883)</u>    |
|                                      | <u>\$ 1,357,255</u> | <u>\$ 1,109,755</u> |

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**Note 5: Capital Assets**

Capital assets activity for the years ended September 30, 2016 and 2015, was:

|  | <b>Beginning<br/>Balance</b> | <b>Additions</b> | <b>Disposals/<br/>Transfers</b> | <b>Ending<br/>Balance</b> |
|--|------------------------------|------------------|---------------------------------|---------------------------|
| <b>2016</b>  |                              |                  |                                 |                           |
| Capital assets not being depreciated                     |                              |                  |                                 |                           |
| Land   | \$ 5,750                     | \$ -             | \$ -                            | \$ 5,750                  |
| Work in process  | 1,640                        | -                | -                               | 1,640                     |
|  | <hr/>                        | <hr/>            | <hr/>                           | <hr/>                     |
| Total book value of capital assets not being depreciated | 7,390                        | -                | -                               | 7,390                     |
|  | <hr/>                        | <hr/>            | <hr/>                           | <hr/>                     |
| Capital assets being depreciated                         |                              |                  |                                 |                           |
| Land improvements  | 86,180                       | -                | -                               | 86,180                    |
| Buildings and leasehold improvements                     | 1,699,927                    | -                | -                               | 1,699,927                 |
| Fixed equipment  | 950,386                      | 103,731          | (140,083)                       | 914,034                   |
| Major moveable equipment                                 | 1,672,203                    | 93,426           | (24,919)                        | 1,740,710                 |
| Minor equipment  | 59,780                       | 34,633           | -                               | 94,413                    |
| EHR equipment  | 462,834                      | -                | -                               | 462,834                   |
|  | <hr/>                        | <hr/>            | <hr/>                           | <hr/>                     |
| Total book value of capital assets being depreciated     | 4,931,310                    | 231,790          | (165,002)                       | 4,998,098                 |
|  | <hr/>                        | <hr/>            | <hr/>                           | <hr/>                     |
| Less accumulated depreciation for                        |                              |                  |                                 |                           |
| Land improvements  | (45,960)                     | (7,693)          | -                               | (53,653)                  |
| Buildings and leasehold improvements                     | (1,552,906)                  | (23,390)         | -                               | (1,576,296)               |
| Fixed equipment  | (757,826)                    | (44,796)         | 140,083                         | (662,539)                 |
| Major moveable equipment                                 | (1,387,520)                  | (111,222)        | 24,919                          | (1,473,823)               |
| Minor equipment  | (42,967)                     | (9,412)          | -                               | (52,379)                  |
| EHR equipment  | (303,532)                    | (65,210)         | -                               | (368,742)                 |
|  | <hr/>                        | <hr/>            | <hr/>                           | <hr/>                     |
| Total accumulated depreciation                           | (4,090,711)                  | (261,723)        | 165,002                         | (4,187,432)               |
|  | <hr/>                        | <hr/>            | <hr/>                           | <hr/>                     |
| Capital assets, net                                      | \$ 847,989                   | \$ (29,933)      | \$ -                            | \$ 818,056                |
|  | <hr/> <hr/>                  | <hr/> <hr/>      | <hr/> <hr/>                     | <hr/> <hr/>               |

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|  | <b>Beginning<br/>Balance</b> | <b>Additions</b>    | <b>Disposals/<br/>Transfers</b> | <b>Ending<br/>Balance</b> |
|--|------------------------------|---------------------|---------------------------------|---------------------------|
| <b>2015</b>  |                              |                     |                                 |                           |
| Capital assets not being depreciated                     |                              |                     |                                 |                           |
| Land   | \$ 5,750                     | \$ -                | \$ -                            | \$ 5,750                  |
| Work in process  | 40,000                       | 1,640               | (40,000)                        | 1,640                     |
|  | <u>45,750</u>                | <u>1,640</u>        | <u>(40,000)</u>                 | <u>7,390</u>              |
| Total book value of capital assets not being depreciated | <u>45,750</u>                | <u>1,640</u>        | <u>(40,000)</u>                 | <u>7,390</u>              |
| Capital assets being depreciated                         |                              |                     |                                 |                           |
| Land improvements  | 86,180                       | -                   | -                               | 86,180                    |
| Buildings and leasehold improvements                     | 1,699,927                    | -                   | -                               | 1,699,927                 |
| Fixed equipment  | 925,793                      | 24,593              | -                               | 950,386                   |
| Major moveable equipment                                 | 1,577,663                    | 54,540              | 40,000                          | 1,672,203                 |
| Minor equipment  | 55,680                       | 4,100               | -                               | 59,780                    |
| EHR equipment  | 462,834                      | -                   | -                               | 462,834                   |
|  | <u>4,808,077</u>             | <u>83,233</u>       | <u>40,000</u>                   | <u>4,931,310</u>          |
| Total book value of capital assets being depreciated     | <u>4,808,077</u>             | <u>83,233</u>       | <u>40,000</u>                   | <u>4,931,310</u>          |
| Less accumulated depreciation                            |                              |                     |                                 |                           |
| Land improvements  | (38,268)                     | (7,692)             | -                               | (45,960)                  |
| Buildings and leasehold improvements                     | (1,497,711)                  | (55,195)            | -                               | (1,552,906)               |
| Fixed equipment  | (725,438)                    | (32,388)            | -                               | (757,826)                 |
| Major moveable equipment                                 | (1,181,570)                  | (205,950)           | -                               | (1,387,520)               |
| Minor equipment  | (35,585)                     | (7,382)             | -                               | (42,967)                  |
| EHR equipment  | (236,699)                    | (66,833)            | -                               | (303,532)                 |
|  | <u>(3,715,271)</u>           | <u>(375,440)</u>    | <u>-</u>                        | <u>(4,090,711)</u>        |
| Total accumulated depreciation                           | <u>(3,715,271)</u>           | <u>(375,440)</u>    | <u>-</u>                        | <u>(4,090,711)</u>        |
| Capital assets, net                                      | <u>\$ 1,138,556</u>          | <u>\$ (290,567)</u> | <u>\$ -</u>                     | <u>\$ 847,989</u>         |

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**Note 6: Long-term Debt**

The following is a summary of long-term debt transactions for the Hospital for the years ended September 30, 2016 and 2015.

|  | <b>Beginning<br/>Balance</b> | <b>Additions</b> | <b>Deductions</b> | <b>Ending<br/>Balance</b> | <b>Current<br/>Portion</b> |
|--|------------------------------|------------------|-------------------|---------------------------|----------------------------|
| <b>2016</b>                            |                              |                  |                   |                           |                            |
| Leases payable to<br>finance companies | \$ 99,029                    | \$ 192,564       | \$ (40,798)       | \$ 250,795                | \$ 88,686                  |
| <b>2015</b>                            |                              |                  |                   |                           |                            |
| Leases payable to<br>finance companies | \$ 186,412                   | \$ -             | \$ (87,383)       | \$ 99,029                 | \$ 39,512                  |

Leased equipment under capital leases at September 30, 2016 and 2015, includes the following:

|                               | <b>2016</b>       | <b>2015</b>       |
|-------------------------------|-------------------|-------------------|
| Capital assets                | \$ 564,858        | \$ 372,294        |
| Less accumulated depreciation | (311,112)         | (231,112)         |
|                               | <u>\$ 253,746</u> | <u>\$ 141,182</u> |

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The following is a schedule by year of future minimum lease payments under the capital leases, including interest at rates of 4.01% to 11.65%, maturing between 2017 and 2021, together with the present value of the future minimum lease payments as of September 30, 2016.

|  | <b>Capital Lease Obligations</b> |
|--|----------------------------------|
| 2017   | \$ 105,496                       |
| 2018   | 79,055                           |
| 2019   | 54,925                           |
| 2020   | 41,050                           |
| 2021   | 5,322                            |
|  | 285,848                          |
| Less amount representing interest              | (35,053)                         |
| Present value of future minimum lease payments | \$ 250,795                       |

**Note 7: Line of Credit**

The Hospital periodically borrows funds from a bank to finance operations on an interim basis. The line of credit bears interest at 1% above the interest being paid on certificates of deposit owned by the Hospital which secure the loan (.65% at September 30, 2016) plus 1%. The line of credit matures September 28, 2017. The line of credit is collateralized by the certificates of deposit included in temporary cash investments on the balance sheets. The following is a summary of line-of-credit transactions for the years ended September 30.

|                   | <b>2016</b> | <b>2015</b> |
|-------------------|-------------|-------------|
| Beginning balance | \$ 297,000  | \$ -        |
| Additions         | 325,100     | 297,000     |
| Deductions        | -           | -           |
| Ending balance    | \$ 622,100  | \$ 297,000  |

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**Note 8: Other Operating Revenue**

Other operating revenue consists of:

|                              | <u>2016</u>       | <u>2015</u>       |
|------------------------------|-------------------|-------------------|
| County subsidies - operating | \$ 214,833        | \$ 204,833        |
| County subsidies - ambulance | 280,000           | 270,000           |
| Other                        | <u>27,735</u>     | <u>44,287</u>     |
|                              | <u>\$ 522,568</u> | <u>\$ 519,120</u> |

**Note 9: Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses included in current liabilities at September 30 consisted of:

|  | <u>2016</u>         | <u>2015</u>       |
|--|---------------------|-------------------|
| Payable to suppliers and contractors                           | \$ 989,730          | \$ 318,025        |
| Payable to employees (including payroll taxes<br>and benefits) | 287,042             | 218,029           |
| Other  | <u>12,021</u>       | <u>-</u>          |
|  | <u>\$ 1,288,793</u> | <u>\$ 536,054</u> |

**Note 10: Operating Lease**

The Hospital leases a facility to operate a nursing home under a noncancelable lease. See further discussion in *Note 1*. The lease term is for approximately nine years, beginning January 1, 2016 and ending August 31, 2024, with no option for renewal. The monthly rental amount is \$17,650 and is due at the beginning of each month.

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Future minimum lease payments at September 30, 2016, were:

|           |    |           |
|-----------|----|-----------|
| 2017      | \$ | 211,800   |
| 2018      |    | 211,800   |
| 2019      |    | 211,800   |
| 2020      |    | 211,800   |
| 2021      |    | 211,800   |
| 2022-2024 |    | 617,750   |
|           | \$ | 1,676,750 |

Lease expense totaled approximately \$159,000 for the year ended September 30, 2016.

Additionally, the Hospital leases its general ledger software and other business and managed IT services under a noncancelable lease. The lease term is for seven years beginning June 2015. The monthly rental is 8.5% of certain cash collections as defined by the contract. Lease expense for the year under this lease was approximately \$600,000, and future minimum lease payments are expected to be approximately \$600,000 annually.

**Note 11: Malpractice Insurance**

The Hospital’s malpractice insurance coverage is a claims-made policy. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured. Claims may be asserted against the Hospital arising from services provided to patients through September 30, 2016, in excess of insurance policy limits. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. No amounts have been accrued for potential claims in excess of insurance coverage, since the Hospital has not incurred excess claims in excess of insurance coverage in the past three years and does not expect to incur such claims. It is reasonably possible this estimate could change materially in the near term.

**Note 12: Employee Benefit Plan**

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital’s contributions, which the

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**Notes to Financial Statements**  
**September 30, 2016 and 2015**

board of trustees has the discretion to vary from year to year. The plan is administered by a board of trustees appointed by the Boards of Supervisors of Sharkey and Issaquena Counties. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the Plan Document and were established and can be amended by action of the Hospital's governing body. Contribution rates for plan members were 4.0% for 2016 and 4.6% for 2015. Contribution rates for the Hospital, expressed as a percentage of covered payroll rates, were 3.3% for 2016 and 3.0% for 2015. Contributions actually made by plan members and the Hospital aggregated approximately \$70,000 and \$62,000 during 2016 and \$87,000 and \$59,000 during 2015, respectively.

**Note 13: Related Party**

The Hospital maintains the majority of its bank accounts and certificates of deposit with a local bank through which it has also obtained a line of credit. A member of the Hospital's board of trustees is also a member of the board of directors with the bank.

**Note 14: Sharkey Issaquena Medical Foundation (the Foundation)**

***Financial Statements***

The financial statements of the Foundation are presented in accordance with the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The FASB ASC requires the Foundation to distinguish between contributions that increase permanently restricted net position, temporarily restricted net position and unrestricted net position. It also requires recognition of contributions, including contributed services meeting certain criteria, at fair values. The FASB ASC establishes standards for external financial statements of not-for-profit organizations and requires a balance sheet, a statement of activities and a statement of cash flows. As permitted by Governmental Accounting Standards Board (GASB) Statement No. 34, the Hospital has elected not to present a statement of cash flows for the Foundation in the basic financial statements of the Hospital's reporting entity.

**Sharkey-Issaquena Community Hospital**  
**A Component Unit of Sharkey County**  
**Notes to Financial Statements**  
**September 30, 2016 and 2015**

The financial statements of the Foundation are consolidated with the Hospital. Condensed financial statements of the Foundation as of and for the years ended December 31, 2015 and 2014, are as follows:

**Condensed Balance Sheets**  
**December 31, 2015 and 2014**

|                            | <b>2015</b>      | <b>2014</b>      |
|----------------------------|------------------|------------------|
| Assets                     |                  |                  |
| Cash                       | <u>\$ 95,719</u> | <u>\$ 66,736</u> |
| Liabilities and Net Assets |                  |                  |
| Unrestricted net position  | <u>\$ 95,719</u> | <u>\$ 66,736</u> |

**Condensed Statements of Revenues, Expenses**  
**and Changes in Net Position**  
**Years Ended December 31, 2015 and 2014**

|  | <b>2015</b>      | <b>2014</b>      |
|--|------------------|------------------|
| Operating Revenues                           |                  |                  |
| Contributions - unrestricted                 | \$ 44,999        | \$ 32,786        |
| Operating Expenses                           | <u>16,016</u>    | <u>13,328</u>    |
| Increase in Net Position                     | 28,983           | 19,458           |
| Unrestricted Net Position, Beginning of Year | <u>66,736</u>    | <u>47,278</u>    |
| Unrestricted Net Position, End of Year       | <u>\$ 95,719</u> | <u>\$ 66,736</u> |

**Sharkey-Issaquena Community Hospital**  
**A Component Unit of Sharkey County**  
**Notes to Financial Statements**  
**September 30, 2016 and 2015**

**Note 15: Significant Estimates and Concentrations**

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

***Allowances for Net Patient Service Revenue Adjustments***

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1 and 4*.

***Admitting Physicians***

The Hospital is served by Jackson Rural Health Clinic consisting of two physicians whose patients comprised approximately 90% and 94% of the Hospital's admissions for the years ended September 30, 2016 and 2015, respectively.

***Litigation***

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Management has consulted with legal counsel and estimates that these matters will be resolved without a material impact on the operations or financial position of the Hospital. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

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

Board of Trustees  
Sharkey-Issaquena Community Hospital  
Rolling Fork, Mississippi

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of Sharkey-Issaquena Community Hospital (the Hospital) which comprise the balance sheets as of September 30, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated August 31, 2017.

***Internal Control Over Financial Reporting***

Management of the Hospital is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the Hospital's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 significant deficiency is a deficiency, or 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. 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 Hospital's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2016-001, 2016-002 and 2016-003 to be material weaknesses.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Hospital'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*.

***Hospital's Responses to Findings***

The Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Hospital's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

We also noted certain matters that we reported to the Hospital's management in a separate letter dated August 31, 2017.

***Purpose of this Report***

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

**BKD, LLP**

Jackson, Mississippi  
August 31, 2017

# Sharkey-Issaquena Community Hospital

## Schedule of Findings and Responses

### Year Ended September 30, 2016

| Reference Number | Finding  |
|------------------|--|
| 2016-001         | <p><b>Criteria or Specific Requirement</b> - Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p><b>Condition</b> - Management does not have a month-end close process to ensure the monthly financial statements are fairly stated.</p> <p><b>Cause</b> - The Hospital does not have a month-end close process to:</p> <ul style="list-style-type: none"> <li>• Review, analyze and record an allowance for doubtful accounts</li> <li>• Ensure timely posting of charges</li> <li>• Reconcile cash</li> </ul> <p><b>Effect</b></p> <ul style="list-style-type: none"> <li>• The financial statements lack consistency from month to month and are not a true reflection of the results of operations of the Hospital</li> <li>• The financial statements may contain errors which are not detected</li> <li>• Misappropriation of assets may occur and not be detected</li> </ul> <p><b>Recommendation</b> - We recommend the following:</p> <ul style="list-style-type: none"> <li>• Management review, analyze and record an allowance for doubtful accounts on a monthly basis and periodically compare actual results to recorded estimates. To facilitate this process, management should regularly write off accounts which are determined to be uncollectible.</li> <li>• Management establish procedures to ensure all revenues are recorded in the proper period.</li> <li>• Management reconcile cash on a monthly basis.</li> </ul> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - Management is aware of this situation and will consider and add processes to analyze the allowance for doubtful accounts, to accrue invoices into the proper period to ensure proper posting of rehabilitation charges and to reconcile cash on a monthly basis.</p> |
| 2016-002         | <p><b>Criteria or Specific Requirement</b> - Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p><b>Condition</b> - Management does not have an effective process to ensure patient payments are posted properly.</p> <p><b>Cause</b> - The Hospital does not have a process to review third-party posting of patient receipts and did not routinely reconcile the operating bank account during the year.</p>  |

# Sharkey-Issaquena Community Hospital

## Schedule of Findings and Responses

Year Ended September 30, 2016

| Reference Number | Finding   |
|------------------|---|
|                  | <p><b>Effect</b> - A significant amount of credit balances in patient accounts receivable was adjusted during the audit and a large amount of unposted deposits exist at year-end.</p> <p><b>Recommendation</b> - We recommend management review third-party posting for accuracy. At a minimum, the credit balances could be reviewed before and after the posting, and any increase should be reported to the third-party processor for correction. Management should ensure credit balances and unapplied amounts are resolved by the third-party processor in a timely manner. Additionally, all bank accounts should be reconciled timely to ensure patient receipts are properly posted.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - Management is aware of this situation and is developing monthly policies to review credit balances in accounts receivable. Additionally, bank statements will be reconciled timely for all bank accounts going forward.</p>  |
| 2016-003         | <p><b>Criteria or Specific Requirement</b> - Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p><b>Condition</b> - The Hospital relies on its outside auditors to assist in the preparation of external financial statements and related notes to the financial statements. Under auditing standards generally accepted in the United States of America, outside auditors cannot be considered part of the Hospital's internal control structure and, because of limitations of the Hospital's small accounting staff, the design of the Hospital's internal control structure does not otherwise include procedures for the preparation of external financial statements.</p> <p><b>Cause</b> - The Hospital has not designed internal control procedures for preparing external financial statements.</p> <p><b>Effect</b> - Potentially material misstatements in the financial statements and related notes to the financial statements could occur and not be prevented or detected by the Hospital's internal control structure.</p> <p><b>Recommendation</b> - Management should continue to assess the cost versus the benefits of improving internal controls over financial reporting.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - Management will continue to consider the costs versus benefits of improving controls over financial statement preparation.</p> |

## **Other Information**

**Sharkey-Issaquena Community Hospital**  
**A Component Unit of Sharkey County**  
**Schedule of Surety Bonds for Officials and Employees**  
**Year Ended September 30, 2016**

| <b>Name</b>         | <b>Position</b>               | <b>Company</b> | <b>Amount</b> |
|---------------------|-------------------------------|----------------|---------------|
| Steven Keever       | Hospital Staff/Administration | Western Surety | \$ 100,000    |
| Lynne Moses         | Medical Foundation            | Western Surety | 100,000       |
| Charles Darden, Jr. | Trustee                       | Western Surety | 100,000       |
| Clarence Hall       | Trustee                       | Western Surety | 100,000       |
| Matthew Sharpe      | Trustee                       | Western Surety | 100,000       |
| Ben Bryant          | Trustee                       | Western Surety | 100,000       |
| Susie Evans         | Trustee                       | Western Surety | 100,000       |
| Rebecca Coates      | Hospital Staff/CFO            | Western Surety | 100,000       |