

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

Auditor's Reports and Financial Statements

September 30, 2014 and 2013



Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
September 30, 2014 and 2013

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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 balance sheets of Sharkey-Issaquena Community Hospital (the Hospital), a component unit of Sharkey County, as of September 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the basic financial statements.

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, 2014 and 2013, 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 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

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 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 March 30, 2015, 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, LLC

Jackson, Mississippi
March 30, 2015

Sharkey-Issaquena Community Hospital

A Component Unit of Sharkey County

Management's Discussion and Analysis

Years Ended September 30, 2014 and 2013

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, 2014 and 2013. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

2014 Highlights

- Cash and cash equivalents decreased by \$1,266,249, or 65%, from 2013 to 2014, due primarily to reduced Electronic Health Records (EHR) reimbursements and reduced third-party reimbursement.
- The Hospital reported an operating loss of \$1,584,772 for 2014 and, ultimately, a decrease in net position of \$1,416,243.
- Total operating expenses for 2014 decreased by \$477,375, or 5%, over the prior year. This was due primarily to a decrease in supplies and other expenses related to the intensive outpatient psychiatric (IOP) and rehabilitation services.

2013 Highlights

- Cash and cash equivalents decreased by \$1,071,533, or 35%, from 2012 to 2013, due primarily to reduced EHR reimbursements, reduced third-party reimbursement and Recovery Audit Contract (RAC) Program take backs.
- The Hospital reported an operating loss of \$1,561,925 for 2013 and, ultimately, a decrease in net position of \$1,438,283.
- Total operating expenses for 2013 increased by \$206,382, or 2%, over the prior year. This was due primarily to an increase in salaries and wages and related employee benefits.

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

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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.

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 \$1,416,243 in 2014 over 2013, and decreased by \$1,438,283 in 2013 over 2012, as shown in Table 1.

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Table 1
Condensed Balance Sheets

	2014	2013	2012	Variance 2013 - 2014	Variance 2012 - 2013
Assets					
Current assets	\$ 4,988,332	\$ 6,088,821	\$ 7,216,029	\$ (1,100,489)	\$ (1,127,208)
Capital assets, net	1,138,556	1,460,922	1,499,718	(322,366)	(38,796)
Other assets	29,934	123,262	55,762	(93,328)	67,500
Total assets	\$ 6,156,822	\$ 7,673,005	\$ 8,771,509	\$ (1,516,183)	\$ (1,098,504)
Liabilities					
Current liabilities	\$ 1,436,948	\$ 1,449,504	\$ 1,150,507	\$ (12,556)	\$ 298,997
Long-term debt	99,029	186,413	145,631	(87,384)	40,782
Total liabilities	1,535,977	1,635,917	1,296,138	(99,940)	339,779
Net Position					
Net investments in capital assets	952,144	1,142,602	1,241,514	(190,458)	(98,912)
Restricted - expendable	38,226	15,264	45,063	22,962	(29,799)
Unrestricted	3,630,475	4,879,222	6,188,794	(1,248,747)	(1,309,572)
Total net position	4,620,845	6,037,088	7,475,371	(1,416,243)	(1,438,283)
Total liabilities and net position	\$ 6,156,822	\$ 7,673,005	\$ 8,771,509	\$ (1,516,183)	\$ (1,098,504)

2014 Highlights

- Current assets decreased by \$1,100,489, or 18%. The main component was a decrease in combined cash and temporary cash of approximately \$1,251,158, or 27%, due, in part, to reduced EHR and Medicare reimbursements and repayment of capital leases.
- The decrease in other assets of approximately \$93,300 from 2014 to 2013 is due mainly to the repayments of a physician recruitment receivable.
- In 2014, total liabilities decreased approximately \$100,000, or 6%, compared to the prior year. Long-term debt was the largest decreasing factor, changing from a liability of approximately \$186,000 in 2013 to approximately \$100,000 in 2014.
- Net capital assets decreased in 2014 by \$322,366, or 22%, due to continued depreciation.

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2013 Highlights

- Current assets decreased by approximately \$1,127,000, or 16%. The main component was a decrease in combined cash and temporary cash of approximately \$1,059,000, or 18%, due, in part, to reduced EHR reimbursements and RAC take backs.
- The increase in other assets of approximately \$67,500 from 2013 to 2012 is due mainly to an increase in physician recruitment receivables.
- In 2013, current liabilities increased approximately \$299,000, or 26%, compared to the prior year. Accrued expenses were the largest increasing factor, changing from a current liability of approximately \$667,000 in 2012 to approximately \$889,000 in 2013.
- Net capital assets decreased in 2013 by approximately \$39,000, or 3%, due to continued depreciation.

Operating Results and Changes in the Hospital's Net Position

In 2014, the Hospital's net position decreased by \$1,416,243, as shown in Table 2, compared to a decrease in net position in the prior year of \$1,438,283.

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

	2014	2013	2012	Variance 2013 - 2014	Variance 2012 - 2013
Operating Revenues					
Net patient service revenue	\$ 6,354,941	\$ 6,184,210	\$ 7,688,499	\$ 170,731	\$ (1,504,289)
Other operating revenue	402,049	1,073,002	1,904,565	(670,953)	(831,563)
Total operating revenues	<u>6,756,990</u>	<u>7,257,212</u>	<u>9,593,064</u>	<u>(500,222)</u>	<u>(2,335,852)</u>
Operating Expenses					
Salaries, wages and employee benefits	4,215,588	4,161,017	3,844,907	54,571	316,110
Supplies and other	3,728,856	4,302,331	4,415,042	(573,475)	(112,711)
Depreciation	397,318	355,789	352,806	41,529	2,983
Total operating expenses	<u>8,341,762</u>	<u>8,819,137</u>	<u>8,612,755</u>	<u>(477,375)</u>	<u>206,382</u>
Operating Income (Loss)	<u>(1,584,772)</u>	<u>(1,561,925)</u>	<u>980,309</u>	<u>(22,847)</u>	<u>(2,542,234)</u>
Nonoperating Revenues	<u>141,817</u>	<u>85,647</u>	<u>81,496</u>	<u>56,170</u>	<u>4,151</u>
Capital Grants	<u>26,712</u>	<u>37,995</u>	<u>41,638</u>	<u>(11,283)</u>	<u>(3,643)</u>
Increase (Decrease) in Net Position	<u>\$ (1,416,243)</u>	<u>\$ (1,438,283)</u>	<u>\$ 1,103,443</u>	<u>\$ 22,040</u>	<u>\$ (2,541,726)</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 and other operating revenues and the expenses incurred to perform those services. In fiscal year 2014, the Hospital reported operating loss of \$1,584,772, compared to reported operating loss of \$1,561,925 for fiscal year 2013.

2014 Financial Highlights

- The Hospital census decreased slightly during 2014, resulting in a decrease in gross patient service revenues for routine services, ancillary services and senior care of approximately

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\$1,004,000, or 6%. Gross patient service revenues from intensive outpatient psychotherapy services increased by approximately \$890,000, and over 100%, which offset the decline in rehabilitation services.

- Acute patient days decreased to 1,004 in 2014, compared to 1,207 in 2013. Swing bed days increased from 843 in 2013 to 974 in 2014.
- The Hospital experienced significant changes in total operating expenses which decreased by \$477,375 or 5%, attributable mainly to the decrease in expenses related to IOP and rehabilitation services.

2013 Financial Highlights

- The Hospital census increased during 2013, resulting in an increase in gross patient service revenues for routine services, ancillary services and senior care of approximately \$127,000, or 1%. Gross patient service revenues from rehabilitation services decreased by approximately \$270,000, or 8%. Net patient service revenue was hurt by declining reimbursement and RAC take backs.
- Acute patient days increased to 1,207 in 2013, compared to 981 in 2012. Swing bed days decreased from 1,053 in 2012 to 843 in 2013.
- The Hospital did not experience significant changes in total operating expenses which increased by \$206,382, or 2%.

Nonoperating Revenues (Expenses)

Nonoperating revenues (expenses), which consist primarily of interest income and noncapital grants, is up \$56,170, or 66%, in 2014, compared to 2013 and down \$4,151, or 5%, in 2013 compared to 2012.

The Hospital's Cash Flows

In 2014 and 2013, the Hospital's cash flows were consistent with the changes in operating loss and nonoperating revenues (expenses).

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Capital Assets

At the end of 2014, the Hospital had \$1,138,556 of capital assets as detailed in *Note 5* to the financial statements. There were no significant changes other than depreciation and work in process related to the computer system. At the end of 2013, the Hospital had \$1,460,922 of 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 2015 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 and increases in more aged patient receivable categories
- 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 73% Medicare and 7% Medicaid
- Medicare/Medicaid paybacks due to various audits, including RAC and Medicaid Integrity Contractors (MIC) audits
- Changes in the way the State of Mississippi funds the Upper Payment Limit (UPL) program through Medicaid
- 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
- Centers for Medicare and Medicaid Services (CMS) mandates related to EHR will continue to impact cash flows in fiscal year 2015

**Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Management's Discussion and Analysis
Years Ended September 30, 2014 and 2013**

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
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Balance Sheets

September 30, 2014 and 2013

	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 687,276	\$ 1,953,525
Temporary cash investments	2,755,178	2,740,087
Patient accounts receivable, net of allowance for uncollectible accounts; 2014 - \$11,133,000, 2013 - \$9,668,000	1,295,503	1,152,833
Supplies	155,933	150,975
Prepaid expenses	94,442	91,401
Total current assets	4,988,332	6,088,821
Note Receivable	-	67,500
Capital Assets, Net	1,138,556	1,460,922
Investment in Healthcare Providers Insurance Company	29,934	55,762
Total assets	\$ 6,156,822	\$ 7,673,005

	<u>2014</u>	<u>2013</u>
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 87,383	\$ 131,907
Accounts payable	961,412	888,686
Accrued expenses	360,405	339,898
Estimated amounts due to third-party payers	<u>27,748</u>	<u>89,013</u>
Total current liabilities	<u>1,436,948</u>	<u>1,449,504</u>
Long-term Debt	<u>99,029</u>	<u>186,413</u>
Total liabilities	<u>1,535,977</u>	<u>1,635,917</u>
Net Position		
Net investment in capital assets	952,144	1,142,602
Restricted - expendable	38,226	15,264
Unrestricted	<u>3,630,475</u>	<u>4,879,222</u>
Total net position	<u>4,620,845</u>	<u>6,037,088</u>
Total liabilities and net position	<u><u>\$ 6,156,822</u></u>	<u><u>\$ 7,673,005</u></u>

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2014 and 2013

	2014	2013
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2014 - \$1,538,000; 2013 - \$1,623,000	\$ 6,354,941	\$ 6,184,210
Electronic health records incentive (repayment)	(96,800)	563,609
Other	498,849	509,393
	<u>6,756,990</u>	<u>7,257,212</u>
Operating Expenses		
Salaries and wages	3,358,601	3,310,064
Employee benefits	856,987	850,953
Supplies and other	3,728,856	4,302,331
Depreciation	397,318	355,789
	<u>8,341,762</u>	<u>8,819,137</u>
	<u>(1,584,772)</u>	<u>(1,561,925)</u>
Operating Loss		
Nonoperating Revenues (Expenses)		
Interest income	22,309	17,107
Noncapital grants	38,195	53,188
Interest expense	(12,161)	(13,929)
Miscellaneous	93,474	29,281
	<u>141,817</u>	<u>85,647</u>
	<u>(1,442,955)</u>	<u>(1,476,278)</u>
Excess (Deficiency) of Revenues Over Expenses Before Capital Grants		
Capital Grants	<u>26,712</u>	<u>37,995</u>
	<u>(1,416,243)</u>	<u>(1,438,283)</u>
Decrease in Net Position		
Net Position, Beginning of Year	<u>6,037,088</u>	<u>7,475,371</u>
Net Position, End of Year	<u>\$ 4,620,845</u>	<u>\$ 6,037,088</u>

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Statements of Cash Flows
Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 6,098,031	\$ 6,558,688
Payments to suppliers and contractors	(3,699,971)	(4,176,058)
Payments to employees	(4,211,445)	(4,182,483)
Other cash receipts	<u>533,058</u>	<u>941,993</u>
Net cash used in operating activities	<u>(1,280,327)</u>	<u>(857,860)</u>
Investing Activities		
Interest earned on short-term investments	22,309	17,107
Purchase of temporary cash investments, net	(15,091)	(12,938)
Advances under notes receivable	-	(67,500)
Receipts on notes receivable	<u>67,500</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>74,718</u>	<u>(63,331)</u>
Noncapital Financing Activities		
Rent and other cash receipts, net	93,474	29,281
Noncapital grants	<u>38,195</u>	<u>53,188</u>
Net cash provided by noncapital financing activities	<u>131,669</u>	<u>82,469</u>
Capital and Related Financing Activities		
Purchase of capital assets	(74,953)	(100,346)
Principal payments on long-term debt	(131,907)	(156,531)
Capital grants	26,712	37,995
Interest paid on long-term debt	<u>(12,161)</u>	<u>(13,929)</u>
Net cash used in capital and related financing activities	<u>(192,309)</u>	<u>(232,811)</u>
Decrease in Cash and Cash Equivalents	(1,266,249)	(1,071,533)
Cash and Cash Equivalents, Beginning of Year	<u>1,953,525</u>	<u>3,025,058</u>
Cash and Cash Equivalents, End of Year	<u>\$ 687,276</u>	<u>\$ 1,953,525</u>

Sharkey-Issaquena Community Hospital
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Statements of Cash Flows (Continued)
Years Ended September 30, 2014 and 2013

	2014	2013
Reconciliation of Net Operating Expenses to Net Cash Used In Operating Activities		
Operating income (loss)	\$ (1,584,772)	\$ (1,561,925)
Depreciation	397,318	355,789
Provision for uncollectible accounts	1,537,987	1,623,441
Changes in operating assets and liabilities		
Patient accounts receivable	(1,680,657)	(1,575,088)
Supplies	(4,958)	(18,839)
Prepaid expenses and other assets	22,787	6,120
Accounts payable	72,726	221,689
Accrued expenses	20,507	(31,039)
Increase (decrease) in estimated amounts due from/to third-party payers	(61,265)	121,992
	\$ (1,280,327)	\$ (857,860)
 Supplemental Cash Flows Information		
Interest paid	\$ 12,161	\$ 13,929
Capital leases incurred	\$ -	\$ 216,647

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Notes to Financial Statements
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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.

Basis of Accounting and Presentation

The financial statements of the Hospital 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.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, (GASB 65) is effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Implementation of GASB 65 had no impact on the financial statements during the current fiscal period.

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.

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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. 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, 2014 and 2013, 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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Notes to Financial Statements
September 30, 2014 and 2013

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 fair market 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	10 - 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.

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.

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

In 2014, the Hospital did not meet meaningful use requirements. The Hospital repaid approximately \$97,000 of EHR funds.

In 2013, the Hospital completed the second-year requirements under the Medicare program and recorded revenue of approximately \$564,000, which is included within operating revenues in the accompanying statements of revenues, expenses and changes in net position.

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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.

Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 financial statement presentation. These reclassifications had no effect on net loss.

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 and certain outpatient services rendered to Medicaid program beneficiaries are generally paid based upon prospective reimbursement methodologies established by the state of Mississippi. 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. Medicaid changed its reimbursement methodology for inpatient services beginning October 1, 2012, to a prospective-payment system based on All Patient Refined Diagnosis Related Groups (APR-DRG). For outpatient services beginning September 1, 2012, the methodology was changed to Ambulatory Payment Classification (APC), similar to the Medicare payment model.

In addition to these Medicaid reimbursements, the state of Mississippi maintains the Medicaid Upper Payment Limit (UPL) program for providers participating in the state's Medicaid

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program. The net benefit to the Hospital for participating in this program for the years ended September 30, 2014 and 2013 totaled approximately \$414,000 and \$379,000, respectively, of additional reimbursement that was used to provide services to Medicaid and indigent patients. Such amounts are recognized as a reduction in related contractual adjustments in the accompanying statements of revenues, expenses and changes in net position. There can be no assurances that the UPL program will remain in effect in future years or that the Hospital will continue to participate in the program at reimbursement levels experienced to date.

Approximately 80% and 84% of gross patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2014 and 2013, 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.

Net patient service revenue decreased by approximately \$87,000 and increased by approximately \$50,000 for 2014 and 2013, respectively, due to changes in previously estimated amounts that are no longer considered necessary as a result of final settlements.

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, 2014 and 2013, the Hospital was protected from custodial credit risk as follows:

	2014	2013
Amount insured by FDIC	\$ 250,000	\$ 250,000
Amount collateralized by securities held in collateral pool	<u>3,194,030</u>	<u>4,509,368</u>
Total depository balances	<u>\$ 3,444,030</u>	<u>\$ 4,759,368</u>
Carrying value	<u>\$ 3,442,454</u>	<u>\$ 4,693,612</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 687,276	\$ 1,953,525
Temporary cash investments	<u>2,755,178</u>	<u>2,740,087</u>
	<u>\$ 3,442,454</u>	<u>\$ 4,693,612</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, 2014 and 2013, consisted of:

	2014	2013
Medicare	\$ 1,540,079	\$ 2,025,119
Medicaid	155,797	112,400
Other third-party payers	772,639	420,597
Patients	<u>9,959,302</u>	<u>8,263,038</u>
	12,427,817	10,821,154
Allowance for uncollectible accounts	<u>(11,132,314)</u>	<u>(9,668,321)</u>
	<u>\$ 1,295,503</u>	<u>\$ 1,152,833</u>

Sharkey-Issaquena Community Hospital
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Note 5: Capital Assets

Capital assets activity for the years ended September 30, 2014 and 2013, was:

	Beginning Balance	Additions	Disposals/ Transfers	Ending Balance
2014				
Capital assets not being depreciated				
Land	\$ 5,750	\$ -	\$ -	\$ 5,750
Work in process	-	40,000	-	40,000
Total book value of capital assets not being depreciated	<u>5,750</u>	<u>40,000</u>	<u>-</u>	<u>45,750</u>
Capital assets being depreciated				
Land improvements	86,180	-	-	86,180
Buildings and leasehold improvements	1,699,927	-	-	1,699,927
Fixed equipment	911,373	14,420	-	925,793
Major moveable equipment	1,564,261	13,402	-	1,577,663
Minor equipment	48,550	7,130	-	55,680
EHR equipment	462,834	-	-	462,834
Total book value of capital assets being depreciated	<u>4,773,125</u>	<u>34,952</u>	<u>-</u>	<u>4,808,077</u>
Less accumulated depreciation for				
Land improvements	(30,575)	(7,693)	-	(38,268)
Buildings and leasehold improvements	(1,439,472)	(58,239)	-	(1,497,711)
Fixed equipment	(690,432)	(35,006)	-	(725,438)
Major moveable equipment	(958,945)	(222,625)	-	(1,181,570)
Minor equipment	(28,664)	(6,921)	-	(35,585)
EHR equipment	(169,865)	(66,834)	-	(236,699)
Total accumulated depreciation	<u>(3,317,953)</u>	<u>(397,318)</u>	<u>-</u>	<u>(3,715,271)</u>
Capital assets, net	<u>\$ 1,460,922</u>	<u>\$ (322,366)</u>	<u>\$ -</u>	<u>\$ 1,138,556</u>

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	Beginning Balance	Additions	Disposals/ Transfers	Ending Balance
2013				
Capital assets not being depreciated				
Land	\$ 5,750	\$ -	\$ -	\$ 5,750
Work in process	-	-	-	-
Total book value of capital assets not being depreciated	<u>5,750</u>	<u>-</u>	<u>-</u>	<u>5,750</u>
Capital assets being depreciated				
Land improvements	86,180	-	-	86,180
Buildings and leasehold improvements	1,699,927	-	-	1,699,927
Fixed equipment	893,610	17,763	-	911,373
Major moveable equipment	1,285,428	278,833	-	1,564,261
Minor equipment	44,130	4,420	-	48,550
EHR equipment	446,857	15,977	-	462,834
Total book value of capital assets being depreciated	<u>4,456,132</u>	<u>316,993</u>	<u>-</u>	<u>4,773,125</u>
Less accumulated depreciation				
Land improvements	(22,883)	(7,692)	-	(30,575)
Buildings and leasehold improvements	(1,380,363)	(59,109)	-	(1,439,472)
Fixed equipment	(655,883)	(34,549)	-	(690,432)
Major moveable equipment	(775,527)	(183,418)	-	(958,945)
Minor equipment	(23,145)	(5,519)	-	(28,664)
EHR equipment	(104,363)	(65,502)	-	(169,865)
Total accumulated depreciation	<u>(2,962,164)</u>	<u>(355,789)</u>	<u>-</u>	<u>(3,317,953)</u>
Capital assets, net	<u>\$ 1,499,718</u>	<u>\$ (38,796)</u>	<u>\$ -</u>	<u>\$ 1,460,922</u>

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Notes to Financial Statements
September 30, 2014 and 2013

Note 6: Long-term Debt

The following is a summary of long-term debt transactions for the Hospital for the years ended September 30, 2014 and 2013.

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
2014					
Leases payable to finance companies	<u>\$ 318,320</u>	<u>\$ -</u>	<u>\$ (131,907)</u>	<u>\$ 186,413</u>	<u>\$ 87,383</u>
2013					
Leases payable to finance companies	<u>\$ 258,204</u>	<u>\$ 216,647</u>	<u>\$ (156,531)</u>	<u>\$ 318,320</u>	<u>\$ 131,907</u>

Leased equipment under capital leases at September 30, 2014 and 2013, includes the following:

	2014	2013
Major movable equipment	\$ 820,404	\$ 843,625
Less accumulated depreciation	<u>(533,806)</u>	<u>(383,803)</u>
	<u>\$ 286,598</u>	<u>\$ 459,822</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 5.52%, maturing between 2014 and 2018, together with the present value of the future minimum lease payments as of September 30, 2014:

	Capital Lease Obligations
2015	\$ 93,699
2016	43,329
2017	43,329
2018	18,338
	198,695
Less amount representing interest	(12,282)
Present value of future minimum lease payments	\$ 186,413

Note 7: Other Operating Revenue

Other operating revenue consists of:

	2014	2013
County subsidies - operating	\$ 174,833	\$ 174,833
County subsidies - ambulance	270,000	280,000
Other	54,016	54,560
	\$ 498,849	\$ 509,393

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Notes to Financial Statements
September 30, 2014 and 2013

Note 8: Accounts Payable and Accrued Expenses

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

	<u>2014</u>	<u>2013</u>
Payable to suppliers and contractors	\$ 543,669	\$ 512,554
Payable to employees (including payroll taxes and benefits)	358,740	358,017
Other	<u>419,408</u>	<u>358,013</u>
	<u>\$ 1,321,817</u>	<u>\$ 1,228,584</u>

Note 9: 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, 2014, 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 10: 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 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% for both 2014 and 2013. Contribution rates for the Hospital, expressed as a percentage of covered payroll rates, were 3% for both 2014 and 2013. Contributions actually made by plan members and the Hospital aggregated

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Notes to Financial Statements
September 30, 2014 and 2013

approximately \$86,000 and \$52,000 during 2014 and \$82,000 and \$55,000 during 2013, respectively.

Note 11: Sharkey Issaquena Medical Foundation (the Foundation)

Financial Statements

The financial statements of the Foundation are presented in accordance with the provisions of the 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 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.

The financial statements of the Foundation are consolidated with the Hospital. Condensed financial statements of the Foundation for the years ended December 31, 2013 and 2012, are as follows:

Condensed Balance Sheets
December 31, 2013 and 2012

	2013	2012
Assets		
Cash	\$ 47,278	\$ 21,069
Liabilities and Net Assets		
Unrestricted net position	\$ 47,278	\$ 21,069

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Notes to Financial Statements
September 30, 2014 and 2013

**Condensed Statements of Revenues, Expenses
and Changes in Net Position
Years Ended December 31, 2013 and 2012**

	2013	2012
Operating Revenues		
Contributions - unrestricted	\$ 37,147	\$ 9,652
Operating Expenses	10,938	1,976
Increase in Net Position	26,209	7,676
Unrestricted Net Position, Beginning of Year	21,069	13,393
Unrestricted Net Position, End of Year	\$ 47,278	\$ 21,069

Note 12: 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 85% and 88% of the Hospital's admissions for the years ended September 30, 2014 and 2013, respectively.

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Notes to Financial Statements
September 30, 2014 and 2013

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.

Patient Protection and Affordable Care Act (PPACA)

PPACA will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products.

Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional. The state of Mississippi has currently indicated it will not expand the Medicaid program, which may result in revenues from newly covered individuals not offsetting the Hospital's reduced revenue from other Medicare/Medicaid programs.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is reasonably possible that it will have a negative impact on the Hospital's net patient service revenue. Additionally, it is possible that the Hospital will experience payment delays and other operational challenges during PPACA's implementation.

**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 sheet as of September 30, 2014, 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 March 30, 2015.

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, 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, there can be no assurance that all material weaknesses or significant deficiencies have been identified. However, as discussed in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 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 2014-001, 2014-002 and 2014-004 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2014-003 to be a significant deficiency.

Compliance

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.

Other Matters

We also noted certain matters that we reported to the Hospital's management in a separate letter dated March 30, 2015.

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
March 30, 2015

Sharkey-Issaquena Community Hospital
Schedule of Findings and Responses
Year Ended September 30, 2014

Reference Number	Finding
2014-001	<p>Criteria or Specific Requirement - Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition - Management does not have a process to review, analyze and record an allowance for doubtful accounts.</p> <p>Context - The design of the Hospital's month-end close process does not adequately allow management to reconcile account balances and record appropriate adjustments to the financial statements.</p> <p>Effect - The financial statements lack consistency from month to month and are not a true reflection of the results of operations of the Hospital. In addition, the Hospital does not have a process to retroactively compare actual results to estimates.</p> <p>Cause - The Hospital does not have a process to review, analyze and record an allowance for doubtful accounts.</p> <p>Recommendation - We recommend management review, analyze and record an allowance for doubtful accounts on a monthly basis and periodically compare actual results to recorded estimates. In addition to facilitate this process, management should regularly write off accounts which are determined to be uncollectible.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Management is aware of the situation and will consider a process to analyze the allowance for doubtful accounts.</p>
2014-002	<p>Criteria or Specific Requirement - Effective segregation of duties among differing personnel is a critical component of an effective internal control structure. When possible, the ability to access assets and to record and monitor transactions should be split between differing personnel. Inadequate segregation of duties can increase the risk that fraudulent activity will not be detected.</p> <p>Condition - The Administrator has the ability to authorize payments, write manual checks, sign checks and post journal entries to the general ledger.</p> <p>Context - The design of the Hospital's internal control does not provide adequate segregation of duties for the Administrator.</p> <p>Effect - Potentially material misstatements in the financial statements or material misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p>

Sharkey-Issaquena Community Hospital
Schedule of Findings and Responses
Year Ended September 30, 2014

Reference Number	Finding
	<p>Cause - The Hospital has not designed internal control procedures to adequately segregate the ability to access assets from the ability to record and monitor transactions related to those assets.</p> <p>Recommendation - We recommend the Administrator have his rights to make journal entries removed from the Hospital's accounting system.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The Administrator rarely, if ever, posts journal entries to the general ledger. He maintains these rights in case of unforeseen emergencies.</p>
2014-003	<p>Criteria or Specific Requirement - Effective segregation of duties among differing personnel is a critical component of an effective internal control structure. When possible, the ability to access assets and to record and monitor transactions should be split between differing personnel. Inadequate segregation of duties can increase the risk that fraudulent activity will not be detected.</p> <p>Condition - The Insurance/Rehabilitation Clerk and the Director of Finance have access to cash and post receipts and adjustments to patients' accounts.</p> <p>Context - The design of the Hospital's internal control does not provide adequate segregation of duties for the Insurance/Rehabilitation Clerk and the Director of Finance.</p> <p>Effect - Unauthorized discounts or payments could be posted without being detected.</p> <p>Cause - The Hospital has not designed internal control procedures to adequately segregate the ability to access assets from the ability to record and monitor transactions related to those assets.</p> <p>Recommendation - We recommend someone independent of the patient accounts receivable receive cash and checks. In addition, checks should be restrictively endorsed immediately upon receipt.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Due to our limited staff, the Insurance/Rehabilitation Clerk and Director of Finance both perform these duties to provide backup for one another. Management will assess the potential of redistribution of duties.</p>

Sharkey-Issaquena Community Hospital
Schedule of Findings and Responses
Year Ended September 30, 2014

Reference Number	Finding
2014-004	<p><i>Criteria or Specific Requirement</i> - Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p><i>Condition</i> - The Hospital relies on its outside auditors to assist in the preparation of external financial statements and related notes to the financial statements.</p> <p><i>Context</i> - 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><i>Effect</i> - 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><i>Cause</i> - The Hospital has not designed internal control procedures for preparing external financial statements.</p> <p><i>Recommendation</i> - Management should continue to assess the cost versus the benefits of improving internal controls over financial reporting.</p> <p><i>Views of Responsible Officials and Planned Corrective Actions</i> - 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, 2014

Name	Position	Company	Amount
Lynne Moses	Trustee/Chairman	Western Surety	\$ 100,000
Charles Darden, Jr.	Trustee/Vice Chairman	Western Surety	100,000
James Tankson	Trustee	Western Surety	100,000
Clarence Hall, Jr.	Trustee	Western Surety	100,000
Matthew Sharpe	Trustee	Western Surety	100,000
Steven G. "Jerry" Keever	Administrator	Western Surety	100,000