

COVINGTON COUNTY HOSPITAL
Collins, Mississippi

Audited Financial Statements
As of and for the Year Ended
September 30, 2015

COVINGTON COUNTY HOSPITAL

Collins, Mississippi

Board of Trustees

Robert Johnson, President

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Larry Robinson

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President and Chief Executive Officer
Woody White

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Covington County Hospital
Collins, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Covington County Hospital (the "Hospital"), a component unit of Covington County, Mississippi, as of and for the year ended September 30, 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Hospital, as of September 30, 2015 and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 4 to the financial statements, in 2015, Covington County refunded the Hospital's Special Obligation Bond – Series 2006A through the issuance of General Obligation Refunding Bonds and a related not payable to Covington County.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was 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 Officers and Employees on page 25 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Surety Bonds for Officers and Employees 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.

Restatement

As part of our audit of the 2015 financial statements, we also audited the adjustment described in Note 12 that was applied to restate the September 30, 2014 net position. In our opinion, the adjustment is appropriate and has been properly applied. We were not engaged to audit, review, or apply any procedures to the 2014 financial statements of the Hospital other than with respect to the adjustment and, accordingly, we do not express an opinion or any other form of assurance on the 2014 financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2016 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Home LLP".

Ridgeland, Mississippi

February 24, 2016

**COVINGTON COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2015**

This section of Covington County Hospital's ("Hospital's") annual financial report presents background information and our analysis of the Hospital's financial performance during the fiscal year ended on September 30, 2015. Please read it in conjunction with the financial statements in this report. The amounts contained within this section are rounded to the nearest thousand.

2015

FINANCIAL HIGHLIGHTS

- Total liabilities for the Hospital at year end were \$8,793,161, an increase of \$615,629, or 8 percent, from the prior fiscal year. Current liabilities were \$3,305,148, an increase of \$943,873 from the prior fiscal year. The long-term liabilities were \$5,488,013, a decrease of \$328,244 from the prior fiscal year.
- Total assets for the Hospital at year end were \$15,498,846, a decrease of \$2,095,514, or 12 percent from the prior fiscal year.
- Total net position for the Hospital at year end was \$6,958,661, a decrease of \$2,791,010 from the prior fiscal year. Unrestricted net position was \$4,745,316, a decrease of \$2,596,026 from the prior fiscal year. Net investment in capital assets was \$2,213,345, a decrease of \$122,984 from the prior fiscal year. Prior year net position was restated to apply the application of accounting principles.
- Operating expenses for the fiscal year were \$25,076,379, an increase of \$2,189,936, or less than 10 percent from the prior fiscal year primarily due to an increase in professional fees and supplies from the prior fiscal year.
- Operating revenues for the fiscal year were \$23,901,126, an increase of \$1,629,755 or approximately 7 percent, from the prior fiscal year primarily due to increase in inpatient services.

**COVINGTON COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2015**

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four components – the Management's Discussion and Analysis of Financial Condition and Operating Results (this section), the Independent Auditor's Report, the Financial Statements and Supplementary Information.

The financial statements of the Hospital report the financial position of the Hospital and the results of its operations and its cash flows. The financial statements are prepared on the accrual basis of accounting. These statements offer short-term and long-term financial information about the Hospital's activities.

The statements of net position include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the Hospital's creditors (liabilities) for both the current year and the prior year. They also provide the basis for evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the statements of revenue and expenses and changes in net position. These statements measure the performance of the Hospital's operations over the past two years and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service revenue and other revenue sources.

The primary purpose of the statements of cash flows is to provide information about the Hospital's cash from operations, investment and financial activities. The statements of cash flows outline where the cash comes from, what the cash is used for and the changes in the cash balance during the reporting period.

The annual report also includes notes to the financial statements that are essential to gain a full understanding of the data provided in the financial statements. The notes to the financial statements can be found immediately following the basic financial statements in this report. Following the notes to the financial statements is a section containing supplementary information that provides additional information as required.

**COVINGTON COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2015**

FINANCIAL ANALYSIS OF THE HOSPITAL

The statements of net position, the statements of revenue and expenses and changes in net position report information about the Hospital's activities. These statements report the net position of the Hospital and changes in them. Increases or improvements, as well as decreases or declines in the net position, is one indicator of the financial state of the Hospital. Other non-financial factors that should also be considered include changes in economic conditions, population growth (including uninsured and working poor) and new or changed government legislation.

2015

Net Position

A summary of the Hospital's statements of net position is presented in the following table:

**Condensed Statements of Net Position
(In Thousands)**

	Fiscal Year 2015	Fiscal Year 2014	Dollar Change	Total Percent Change
Current and other assets	\$ 7,377	\$ 9,266	\$ (1,889)	-20.4%
Capital assets	8,122	8,509	(387)	-4.5%
Total assets	15,499	17,775	(2,276)	-12.8%
Deferred outflows of resources	253	-	253	100.0%
Long-term debt outstanding	5,909	\$ 6,172	\$ (263)	-4.3%
Other liabilities	2,885	2,006	879	43.8%
Total liabilities	8,794	8,178	616	7.5%
Investment in capital assets, net of related debt	2,213	3,915	(1,702)	-43.5%
Unrestricted	4,745	5,682	(937)	-16.5%
Total net position	\$ 6,958	\$ 9,597	\$ (2,639)	-27.5%

Total assets decreased 12.8 percent primarily due to decreases in assets limited to use of approximately \$1,600,000 and capital assets of approximately \$387,000.

Long-term debt decreased by 4.3 percent due to debt payments made and refunding of debt during the year.

**COVINGTON COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS**
Year Ended September 30, 2015

2015

Summary of Revenue and Expenses

The following table presents a summary of the Hospital's historical revenues and expenses and changes in net position for each of the fiscal years ended September 30, 2015 and 2014:

**Condensed Statements of Revenues and Expenses and Changes in Net Position
(In Thousands)**

	Fiscal Year 2015	Fiscal Year 2014	Dollar Change	Total Percent Change
Net patient service revenue	\$ 23,295	\$ 20,995	\$ 2,300	10.9%
Other operating revenue excluding interest income	606	1,276	(670)	-52.5%
Total operating revenue	<u>23,901</u>	<u>22,271</u>	<u>1,630</u>	<u>7.3%</u>
Salaries and benefits	13,051	12,712	339	2.6%
Professional fees, supplies, maintenance, other	11,172	9,179	1,993	21.7%
Total operating expenses before depreciation/amortization	<u>24,223</u>	<u>21,891</u>	<u>2,332</u>	<u>10.7%</u>
Earnings/(deficit) before interest depreciation and amortization ("EBITDA")	<u>(322)</u>	<u>380</u>	<u>(702)</u>	<u>-184.7%</u>
Depreciation and amortization expense	854	995	(141)	-14.2%
Loss from operations	(1,176)	(615)	(561)	-91.2%
Interest income	24	29	(5)	-17.2%
Debt issuance cost	(249)	-	(249)	-100.0%
Interest expense	(216)	(305)	89	29.2%
Total non-operating expenses	<u>(441)</u>	<u>(276)</u>	<u>(165)</u>	<u>-59.8%</u>
Decrease in net position	<u>\$ (1,617)</u>	<u>\$ (891)</u>	<u>\$ (726)</u>	<u>-81.5%</u>

COVINGTON COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended September 30, 2015 and 2014

2015

OPERATING AND FINANCIAL PERFORMANCE

The following summarizes the changes in the Hospital's statements of revenue and expenses and changes in net position for 2015 as compared to 2014:

- During 2015, the Hospital had patient days and admissions of 1,205 and 330, respectively. As compared to 2014, patient days increased by 2.3 percent while admissions increased by 2.8 percent.
- Outpatient and emergency registrations were 17,921 and 7,869, respectively, in 2015 which corresponds to an increase of 0.9 percent and an increase of 7.1 percent, respectively, as compared to 2014.
- Patient days of care in swing bed were 5,014 and 3,689 in 2015 and 2014, respectively, which corresponds to a 35.9 percent increase in 2015.
- Net patient service revenue increased as stated in the Financial Highlights. Net patient service revenue increased to \$23.3 million in 2015 from \$21.0 million in 2014.
- Professional fees increased \$1.1 million to \$6 million in 2015 from \$4.9 million in 2014. The increase is primarily due to increased utilization of contract companies to cover the ER services and the outsourcing of Dietary and Environmental services, as well as increased utilization in Physical, Occupational, and Speech therapies.
- Salaries and wages increased approximately \$200,000 to \$11.1 million in 2015 from \$10.9 million in 2014. The increase is primarily due to an increase in full-time equivalents as well as an increase in the average hourly rate paid as a result of salary increases as well as an increased skill mix.

**COVINGTON COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2015**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

While the annual budget of the Hospital is not presented within these financial statements, the Hospital's Board and management considered many factors when setting the fiscal year 2016 budget. Although the financial outlook for the Hospital is outstanding, of primary importance in setting the 2016 budget is the status of the economy and the healthcare environment, which takes into account market forces and environmental factors such as:

- Medicare reimbursement changes;
- Medicaid reimbursement changes, as well as the continuation at the current or increased level of the Disproportionate Share and Upper Payment Limit programs;
- Increased number of uninsured and working poor;
- Ongoing competition for services;
- Cost of supplies, primarily pharmaceuticals;
- Ability to continue recruiting medical staff physicians to maintain the high level of services offered to our service area;
- Continued growth of service levels in the ancillary departments;
- Continuation of the excellent working relationship between the Medical Staff, the Board and the Hospital administration;
- Impact of Healthcare Reform as it relates to reimbursement and employee health insurance coverage.

COVINGTON COUNTY HOSPITAL
(A Component Unit of Covington County)
Statement of Net Position
September 30, 2015

ASSETS

Current assets

Cash and cash equivalents	\$	3,633,158
Patient receivables, net of allowances for uncollectible accounts of \$2,165,850		3,176,999
Inventories		226,959
Other current assets		339,840
Total current assets		7,376,956

Capital assets, net

8,121,890

Total assets

15,498,846

DEFERRED OUTFLOWS OF RESOURCES

Deferred loss on debt refunding

252,976

LIABILITIES

Current liabilities

Current maturities of long-term debt		420,532
Accounts payable, trade		1,383,122
Estimated third-party payor settlements		423,076
Accrued salaries and compensated absences		1,078,418
Total current liabilities		3,305,148

Long-term debt, less current maturities

5,488,013

Total liabilities

8,793,161

NET POSITION

Net investment in capital assets

2,213,345

Unrestricted

4,745,316

Total net position

\$ 6,958,661

See accompanying notes.

COVINGTON COUNTY HOSPITAL
(A Component Unit of Covington County)
Statement of Revenues and Expenses and Changes in Net Position
Year Ended September 30, 2015

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Operating revenues	
Net patient service revenue, net of provision for bad debts of \$5,656,071 in 2015	\$ 23,295,000
Other operating revenue	606,126
Total operating revenue	<u>23,901,126</u>
 Operating expenses	
Salaries and wages	11,085,513
Employee benefits	1,965,242
Professional fees	6,085,395
Supplies and other	3,720,806
Maintenance and utilities	1,365,776
Depreciation and amortization	853,647
Total operating expenses	<u>25,076,379</u>
 Loss from operations	<u>(1,175,253)</u>
 Nonoperating revenue (expenses)	
Interest income	23,657
Debt issuance cost	(248,766)
Interest expense	(215,954)
Total nonoperating expenses	<u>(441,063)</u>
 Decrease in net position	(1,616,316)
 Transfers to Covington County	(1,021,928)
 Net position at beginning of year, as previously reported	9,677,671
Restatement adjustment for adoption of GASB 65	(80,766)
Net position at beginning of year (restated)	<u>9,596,905</u>
 Net position, end of year	<u><u>\$ 6,958,661</u></u>

See accompanying notes.

COVINGTON COUNTY HOSPITAL
(A Component Unit of Covington County)
Statement of Cash Flows
Year Ended September 30, 2015

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Cash flows from operating activities	
Receipts from and on behalf of patients	\$ 24,881,513
Payments to suppliers and contractors	(10,854,147)
Payments to employees	(12,884,025)
Other receipts and payments, net	606,126
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Net cash provided by operating activities	1,749,467
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Cash flows from capital and related financing activities	
Principal payments on long-term debt	(6,111,219)
Borrowings on long-term debt	5,700,000
Transfer to Covington County	(1,021,928)
Interest paid on long-term debt	(215,954)
Payments to escrow agent	(252,976)
Debt issuance costs	(248,766)
Purchase of capital assets	(319,444)
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Net cash used in capital and related financing activities	(2,470,287)
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Cash flows from investing activities	
Release of assets limited as to use	1,578,540
Interest income	23,657
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Net cash provided by investing activities	1,602,197
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Net increase in cash and cash equivalents	881,377
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Cash and cash equivalents, beginning of year	2,751,781
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Cash and cash equivalents, end of year	\$ 3,633,158
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See accompanying notes.

Reconciliation of loss from operations to net cash provided by operating activities	
Loss from operations	\$ (1,175,253)
Adjustments to reconcile loss from operations to net cash provided by operating activities	
Depreciation and amortization	853,647
Provision for bad debts	5,656,071
Changes in assets and liabilities	
Receivables	(4,766,154)
Inventories	35,368
Other current and noncurrent assets	(7,295)
Accounts payable, trade	359,658
Estimated third-party payor settlements	696,596
Accrued salaries and other liabilities	96,829
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Net cash provided by operating activities	\$ <u>1,749,467</u>

Supplemental disclosures of noncash investing and financing activities

Purchase of equipment through increase in capital lease obligations	\$ <u>147,285</u>
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COVINGTON COUNTY HOSPITAL
Year Ended September 30, 2015

NOTES TO FINANCIAL STATEMENTS

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

Nature of Operations and Reporting Entity

Covington County Hospital (the "Hospital") is a regional healthcare provider established by Covington County ("the County") as a special purpose government entity under the laws of the State of Mississippi. The Hospital is owned by Covington County and is governed by a Board of Trustees pursuant to Sections 41-13-15 et. Seq. of Mississippi Code of 1972, as amended. Because of the relationship between the Hospital and Covington County, the Hospital has been defined as a component unit of the County.

The Hospital, located in Collins, Mississippi, is a critical access hospital ("CAH"). The Hospital provides inpatient, outpatient, geriatric psychiatric, rural health clinic and emergency care services for residents of Covington County, Mississippi, and surrounding areas. The Hospital is currently licensed to provide 25 acute care inpatient beds and 10 geriatric psychiatric beds for patient care. Additionally, the Hospital operates a 60-bed long-term care facility, which started full operations in 2011. The Hospital is governed by a seven-member Board of Trustees (the "Board"), all of whom are appointed by the Board of Supervisors of the County.

Basis of Accounting

The Hospital prepares its financial statements as a business-type activity in conformity with the applicable pronouncements of the Governmental Accounting Standards Board ("GASB"). The accompanying financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 makes the GASB Accounting Standards Codification the sole source of authoritative accounting guidance for governmental entities in the United States of America.

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. The most sensitive estimates included in these financial statements relate to contractual discounts under third-party contracts and the allowance for uncollectible accounts.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less, including amounts limited as to use by the Board or under trust agreements.

COVINGTON COUNTY HOSPITAL
Year Ended September 30, 2015

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Patient Receivables

Patient receivables are reported at net realizable value, after deduction of allowances for estimated uncollectible accounts and third-party contractual discounts. The allowance for uncollectible accounts is based on historical losses and an analysis of currently outstanding amounts. This account is generally increased by charges to a provision for uncollectible accounts, and decreased by write-offs of accounts determined by management to be uncollectible. The allowances for third-party contractual discounts are based on the estimated differences between the Hospital's established rates and the actual amounts to be received under each contract.

Board Designated Funds

Funds designated by the Board include assets set aside by the Board of Trustees for plan replacement and expansion, over which the Board retains control and may, at its discretion, use for other purposes.

Inventories

Inventories, which consist primarily of medical supplies and drugs, are stated at the lower of cost based on the first-in, first-out method, or market.

Prepaid Expenses and Deferred Charges

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

Capital Assets, Net

Capital asset acquisitions are recorded at cost, if purchased, or at fair value at the date of the gift, if donated. Depreciation is provided over the estimated useful life for each class of depreciable asset and is computed using the straight-line method.

Assets under capital lease obligations are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset, and are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the assets. Such amortization is included in depreciation and amortization in the financial statements. Interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

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

Cost of Borrowing

Costs incurred in connection with the obtaining of financing are expensed as incurred. Premium or discount incurred in connection with the issuance of bonds and indentures is amortized over the life of the obligations on the straight-line method, which approximates the interest method, and the unamortized amount is included in the balance of the outstanding debt.

COVINGTON COUNTY HOSPITAL
Year Ended September 30, 2015

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Compensated Absences

The Hospital employees can accumulate earned time off, which is vested with the employee and upon termination is payable under certain circumstances. All vested compensated absences are recorded as of the statements of net position date.

Net Position

Net position consists of net investment in capital assets, restricted and unrestricted. The net investment in capital assets consists of capital assets net of accumulated depreciation and the outstanding balances of any related debt that is attributable to the acquisition of the capital asset. Restricted net position are those resources that are externally restricted by creditors, grantors, contributors or laws and regulations or those restricted by constitutional provisions and enabling legislation. Unrestricted net position consists of all other resources.

Operating Revenue and Expenses

The Hospital's statement of revenues and expenses and changes in net position distinguishes between operating and nonoperating revenue and expenses. Operating revenues result from exchange transactions associated with providing healthcare services, which is the Hospital's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

Grants and Contributions

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

Patient Service Revenue

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

COVINGTON COUNTY HOSPITAL
Year Ended September 30, 2015

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

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

Charity Care

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

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments beginning in 2011 for eligible hospitals and professionals that adopt and meaningfully use certified electronic health record ("EHR") technology. The Hospital must also attest to certain criteria in order to qualify to receive the incentive payments. The amount of the incentive payments are calculated using predetermined formulas based on available information, primarily related to discharges and patient days. The Hospital recognizes revenues related to Medicare incentive payments ratably over each EHR reporting period (October 1 to September 30) when it has demonstrated meaningful use requirements of certified EHR technology for the EHR reporting period. The Hospital recognizes Medicaid incentive payments in the period that it qualifies for the funds based on the provisions of the State of Mississippi Division of Medicaid.

The Hospital recognized \$58,770 of revenues related to the Medicare incentive program for the year ended September 30, 2015. These revenues are reflected in other operating revenues on the accompanying statement of revenues and expenses and changes in net position. Future incentive payments could vary due to certain factors such as availability of federal funding for both Medicare and Medicaid incentive payments and the Hospital's ability to implement and demonstrate meaningful use of certified EHR technology. The Hospital has and will continue to incur both capital costs and operating expenses in order to implement its certified EHR technology and meet meaningful use requirements in the future. These expenses are ongoing and are projected to continue over all stages of implementation of meaningful use. The timing of recognizing the expenses may not correlate with the receipt of the incentive payments and the recognition of revenues. There can be no assurance that the Hospital will be able to continue to demonstrate meaningful use of certified EHR technology in the future, and the failure to do so could have a material, adverse effect on the results of operations. As a part of operating this program, there is a possibility that government authorities may make adjustments to amounts previously recorded by the Hospital. The Hospital's attestation of demonstrating meaningful use is also subject to review by the appropriate government authorities. The amount of revenue recognized is based on management's best estimate, which is subject to change. Such changes will be reflected in the period in which the changes occur.

COVINGTON COUNTY HOSPITAL
Year Ended September 30, 2015

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Budgetary Information

The Hospital is required by statute of the State of Mississippi to prepare a non-appropriated annual budget. The budget is not subject to the appropriation and is, therefore, not required to be presented as supplementary information.

Income Taxes

The Hospital's operation is a governmental entity and, as such, is exempt from federal and state income taxes.

New Accounting Standards Adopted

During 2015, the Hospital adopted the following new accounting standards:

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement provides guidance for financial accounting and reporting of government combinations and disposals of government operations. The adoption of this standard during 2015 did not have a material impact on the Hospital's financial statements.

Accounting Pronouncements Issued Not Yet Adopted

Governmental Accounting Standards Board Statement No. 72 ("GASB 72")

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement provides guidance for determining fair value measurements for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this statement are effective for financial statements for reporting periods beginning after June 15, 2015. The Hospital is currently assessing the impact of adopting this accounting standard.

Note 2. Cash Deposits and Investments

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Hospital's deposits might not be recovered. The collateral for public entities' deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the Hospital's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation ("FDIC"). All deposits with financial institutions must be collateralized in an amount equal to 105 percent of uninsured deposits and are therefore fully insured.

COVINGTON COUNTY HOSPITAL
Year Ended September 30, 2015

NOTES TO FINANCIAL STATEMENTS

Note 3. Capital Assets

A summary of capital assets at September 30, 2015 is set forth below:

Land	\$	290,366
Land improvements		305,645
Building		10,443,114
Fixed and major moveable equipment		11,126,728
Leasehold improvements		101,410
Capital assets, at cost		22,267,263
Less accumulated depreciation and amortization		(14,147,173)
Construction in progress		1,800
Capital assets, net	\$	8,121,890

Depreciation expense for the year ended September 30, 2015 totaled \$853,647. Capitalized lease equipment and related accumulated amortization was \$370,320 and \$94,563, respectively at September 30, 2015.

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

	Balance September 30, 2014	Increases	Decreases	Balance September 30, 2015
Capital assets not being depreciated				
Land	\$ 290,366	\$ -	\$ -	\$ 290,366
Construction in progress	-	44,414	(42,614)	1,800
Total capital assets not being Depreciated	290,366	44,414	(42,614)	292,166
Capital assets being depreciated				
Land improvements	305,645	-	-	305,645
Leasehold improvements	101,410	-	-	101,410
Buildings	10,443,114	-	-	10,443,114
Fixed equipment	2,303,810	87,627	-	2,391,437
Major moveable equipment	8,357,989	377,302	-	8,735,291
Total capital assets being depreciated	21,511,968	464,929	-	21,976,897

COVINGTON COUNTY HOSPITAL
Year Ended September 30, 2015

NOTES TO FINANCIAL STATEMENTS

Note 3. Continued

	Balance September 30, 2014	Increases	Decreases	Balance September 30, 2015
Land improvements	\$ (188,059)	\$ (11,159)	\$ -	\$ (199,218)
Leasehold improvements	(101,410)	-	-	(101,410)
Buildings	(4,470,313)	(151,142)	-	(4,621,455)
Fixed equipment	(1,838,490)	(167,007)	-	(2,005,497)
Major moveable equipment	(6,695,254)	(524,339)	-	(7,219,593)
Total accumulated depreciation	(13,293,526)	(853,647)	-	(14,147,173)
Capital assets being depreciated, net	8,218,442	(388,718)	-	7,829,724
Capital assets, net	\$ 8,508,808	\$ (344,304)	\$ (42,614)	\$ 8,121,890

Note 4. Long-Term Debt

A summary of long-term debt, inclusive of capital lease obligations, at September 30, 2015 follows:

Promissory note with Covington County at varying rates of interest from 2.000 percent to 3.375 percent, principal maturing in varying annual amounts through 2031, with semi-annual interest payments	\$ 5,700,000
Capital lease obligations at varying rates of imputed interest from 1.990 percent to 5.074 percent, collateralized by leased equipment	208,545
	5,908,545
Less current portion of long-term debt	(420,532)
Long-term debt, excluding current portion	\$ 5,488,013

During 2015, the Hospital had long-term obligations under a Special Obligation Bond – Series 2006A with a stated maturity of 2031 and collateralized by the Hospital's net revenue and the full faith and credit of Covington County, Mississippi. On September 3, 2015, the Hospital refunded the Series 2006A Bonds in the amount of \$5,755,000 through the issuance of a promissory note with Covington County (the "Promissory Note") in the amount of \$5,700,000 with interest rates ranging from 2.000 percent to 3.375 percent, maturing in July 2031. Although the refunding resulted in the recognition of an accounting loss of \$252,976 for the year ended September 30, 2015, the Hospital in effect reduced its aggregate debt service payments by approximately \$1.2 million over the next 16 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$402,000. The Hospital incurred debt issuance costs associated with the Promissory Note in the amount of \$248,766. This amount was expensed as a non-operating expense in the statement of revenues and expenses and changes in net position.

COVINGTON COUNTY HOSPITAL
Year Ended September 30, 2015

NOTES TO FINANCIAL STATEMENTS

Note 4. Continued

Additionally, in connection with the transactions around the refunding of the Series 2006A Bonds on September 3, 2015, \$1,021,928 of Hospital funds that were designated by the bond holder as restricted for debt service but were in excess of that required to refund the bonds, were transferred by the bond holder to the possession of the County and therefore, the County had control of those funds at September 30, 2015. Subsequently, on October 9, 2015, the County contributed that amount back to the Hospital. The transfer of the previously restricted funds to the County are reflected as Transfers to Covington County in the 2015 statement of revenues and expenses and changes in net position and the return of the funds will be reflected as a contribution by the County to the Hospital on the same statement in 2016.

The maturities on long-term debt and capital lease obligations are as follows:

Year Ending September 30,	Long-Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2016	\$ 320,000	\$ 132,160	\$ 100,532	\$ 6,585
2017	300,000	153,256	56,553	3,984
2018	305,000	147,256	51,460	1,423
2019	315,000	141,156	-	-
2020	315,000	134,856	-	-
2021 - 2025	1,710,000	541,805	-	-
2026 - 2030	1,985,000	268,869	-	-
2031	450,000	15,190	-	-
	<u>\$ 5,700,000</u>	<u>\$ 1,534,548</u>	<u>\$ 208,545</u>	<u>\$ 11,992</u>

A schedule of changes in the Hospital's noncurrent liabilities for 2015 follows:

	Balance September 30, 2014	Additions	Retirements	Balance September 30, 2015	Due Within One Year
Bonds payable					
2006 indenture	\$ 6,000,000	\$ -	\$ 6,000,000	\$ -	\$ -
Note payable	22,014	5,700,000	22,014	5,700,000	320,000
Capital lease obligations	150,465	147,285	89,205	208,545	100,532
Total noncurrent liabilities	<u>\$ 6,172,479</u>	<u>\$ 5,847,285</u>	<u>\$ 6,111,219</u>	<u>\$ 5,908,545</u>	<u>\$ 420,532</u>

Note 5. Retirement Plan

The Hospital has established the Covington County Hospital Retirement Plan (the "Plan"), a defined contribution plan, for the benefit of its employees. Under provisions of the Plan, all employees with one year of service are eligible to participate. Hospital contributions to the Plan may be made in amounts up to a maximum of 2 percent, plus 1/10 percent for each year of service of each participating employee's eligible compensation. This percentage is determined by the Board on an annual basis. The Hospital's contributions for the year ended September 30, 2015 totaled \$206,750.

COVINGTON COUNTY HOSPITAL
Year Ended September 30, 2015

NOTES TO FINANCIAL STATEMENTS

Note 6. Net Position

Net investment in capital assets was as follows at September 30, 2015:

Capital assets	\$ 22,269,063
Less accumulated depreciation	(14,147,173)
Less debt outstanding related to capital assets, net	<u>(5,908,545)</u>
Net position invested in capital assets, net of related debt	<u>\$ 2,213,345</u>

Note 7. Patient Service Revenue

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

Medicare

The Hospital is certified as a critical access hospital. As a CAH, the Hospital is reimbursed for substantially all inpatient and outpatient services to Medicare beneficiaries based on reasonable costs. Additionally, as a CAH, the Hospital's licensed beds are limited to 25, and the Hospital's acute average length of stay may not exceed 96 hours. The Hospital is reimbursed for substantially all 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

Beginning October 1, 2012, the Medicaid program changed to an APR-DRG system for inpatient payments and an Ambulatory Payment Classification ("APC") for outpatient payments. Under APR-DRG for inpatient payments, DRG payment is used for all inpatient acute care stays and includes those beneficiaries enrolled in Managed Care. For outpatient, the APC system groups are made up of CPT/HCPCS codes that share common types of service or common types of delivery of service.

The Hospital participates in the Mississippi Intergovernmental Transfer Program as a Medicaid Disproportionate Share Hospital ("DSH") and in the Medicare Upper Payment Limit Program ("UPL"). Under these programs, the Hospital receives enhanced reimbursement through a matching mechanism. For the year ended September 30, 2015, the Hospital received \$694,507 and \$168,058 from the DSH and UPL programs, respectively. DSH and UPL amounts are shown as a reduction of contractual adjustments along with the related assessment of \$146,182 for the year ended September 30, 2015.

The Hospital participates in the Mississippi Nursing Home UPL Program. This program is funded by Intergovernmental Transfers ("IGTs") from participating providers to the Division of Medicaid ("DOM"). Under this program, the Hospital receives enhanced reimbursement for nursing home services offered to the community. Unlike the Hospital UPL program, the Nursing Home UPL program does not prescribe specific payment timelines, therefore, creating uncertainties about both the timing and estimation of such UPL payments. Due to these uncertainties, Nursing Home UPL payments are recorded only when notified by the DOM of the imminence of such payments. UPL amounts are

COVINGTON COUNTY HOSPITAL
Year Ended September 30, 2015

NOTES TO FINANCIAL STATEMENTS

Note 7. Continued

shown as a reduction of contractual adjustments and are recorded net of IGTs paid. Under the Nursing Home UPL programs, the Hospital received enhanced reimbursement of \$330,082 and paid assessments of \$92,492 as of September 30, 2015.

Beginning with the state fiscal year 2016, July 1, 2015, UPL payments were phased out and the Division of Medicaid ("DOM") implemented the Mississippi Hospital Access Payment ("MHAP") program (the "MHAP Program") in its place. The MHAP Program will be administered by the DOM through the MississippiCAN coordinated care organizations ("CCO"). The CCO's will subcontract with the Hospitals throughout the state for distribution of the MHAP for the purpose of protecting patient access to hospital care. The MHAP Program is scheduled to begin December 1, 2015 and the MHAP payments and associated tax will be distributed and collected in seven equal installments during the months of December 2015 through June 2016. The MHAP Program, however, is currently pending CMS approval and therefore subject to significant modifications.

Other

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.

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

Gross patient service revenue	\$ 54,500,631
Less provisions for	
Contractual adjustments under third-party reimbursement programs and other deductions	(25,549,560)
Provision for bad debts	<u>(5,656,071)</u>
Net patient service revenue	<u><u>\$ 23,295,000</u></u>

Note 8. Charity Care

The Hospital maintains records to identify and monitor the level of charity care it provides. Management determined the amount of charges foregone for services and supplies furnished under the Hospital's charity care policy aggregated approximately \$134,085 for the year ended September 30, 2015. The estimated cost of charity care, estimated using a ratio of cost to gross charges, totaled approximately \$62,000 for the year ended September 30, 2015.

COVINGTON COUNTY HOSPITAL
Year Ended September 30, 2015

NOTES TO FINANCIAL STATEMENTS

Note 9. Concentration of Credit Risk

Accounts Receivable

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The percentage mix of accounts receivable, at net, from patients and major third-party payors at September 30, 2015 was as follows:

Medicare	45%
Medicaid	10
Commercial	43
Other	2
	100%
Total	100%

Patient Service Revenue Under Contract

A summary of revenue for gross patient services under contract with significant third-party payors follows:

	September 30, 2015	
	Amount	Percent of Total Gross Patient Revenue
Medicare	\$ 27,878,482	52.1%
Medicaid	8,044,269	15.0%
Other	18,577,880	32.9%
Total	\$ 54,500,631	100.0%

Note 10. Commitments and Contingencies

Operating Leases

The Hospital leases various equipment and facilities under operating leases expiring at various dates through 2018. Total rental expense for the year ended September 30, 2015 for all operating leases was \$147,000.

The following is a schedule, by year of expiration, of the approximate future minimum lease payments under non-cancelable operating leases as of September 30, 2015 that have initial or remaining lease terms in excess of one year:

Year Ending September 30,	Amount
2016	\$ 94,319
2017	50,759
2018	52,194
	\$ 197,272

COVINGTON COUNTY HOSPITAL
Year Ended September 30, 2015

NOTES TO FINANCIAL STATEMENTS

Note 10. Continued

Litigation

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

Note 11. Risks and Uncertainties

Current Economic Conditions

The current economic environment continues to present hospitals with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair values of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The accompanying financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of the Hospital's patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payors may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Furthermore, the effect of economic conditions on the state could have an adverse effect on cash flows related to the Medicaid program.

Patient Protection and Affordable Care Reconciliation Act

On March 23, 2010, the most sweeping healthcare legislation since the advent of Medicare was signed into law. The law promises to expand insurance coverage to an additional 32 million Americans, reduce the growth of Medicare expenditures, dramatically reform insurance markets, and continue the trend toward value-based payment. The Reconciliation Act adds some new provisions that were not included originally. Several legal challenges have been made against the legislation since it was enacted, and uncertainty exists as to the ultimate impact of the legislation on the healthcare delivery system. On June 28, 2012, The United States Supreme Court upheld the constitutionality of components of the Affordable Care Act, allowing the historic overhaul of the healthcare system to continue. Potential impacts of healthcare reform include uncertainty and volatility in Medicare and Medicaid reimbursement, fundamental changes in payment systems, increased regulation and significant required investments in healthcare information technology.

Note 12. Restatement

The accompanying financial statements as of and for the year ended September 30, 2015 include a restatement adjustment to the net position as of September 30, 2014 to reflect the adoption and implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain line 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. The implementation caused the Hospital to decrease net position by \$80,766 as of September 30, 2014.

COVINGTON COUNTY HOSPITAL
Schedule of Surety Bonds for Officers and Employees
September 30, 2015

Name	Position	Company	Amount of Bond
Robert Johnson	Trustee	Brierfield Insurance Company	\$ 100,000
James McPhail	Trustee	Brierfield Insurance Company	100,000
Everlean Booth	Trustee	Brierfield Insurance Company	100,000
Larry Robinson	Trustee	Brierfield Insurance Company	100,000
Greg Sanford	Trustee	Brierfield Insurance Company	100,000
Charlie Anglin	Trustee	Brierfield Insurance Company	100,000
Greg Sullivan	Trustee	Brierfield Insurance Company	100,000
S. L. White, III	Administrator	Brierfield Insurance Company	100,000
Public Employees	Employees	Brierfield Insurance Company	100,000
Public Employees	Retirement Plan	Travelers Insurance Company	350,000
Arrington Living Center	Patient Trust Bond	International Fidelity	65,000



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

Board of Trustees
Covington County Hospital
Collins, 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 financial statements of the business-type activities of Covington County Hospital (the "Hospital"), as of September 30, 2015, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements and have issued our report thereon dated February 24, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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.

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. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2015-1 to be a significant deficiency.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, significant deficiencies or material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of 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*.

The Hospital's Responses to Findings

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

Purpose of this Report

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



Ridgeland, Mississippi
February 24, 2016

Covington County Hospital
Schedule of Findings and Responses
Year Ended September 30, 2015

Significant Deficiency:

**Reference
Number**

Finding

Finding 2015-1

Criteria or Specific Requirement – Timely reconciliation of the operating bank account is a key component of effective controls over cash and accurate financial reporting. Timely reconciling of the bank balance with the book balance (general ledger) is necessary to ensure all receipts and disbursements are recorded, checks are clearing the bank timely, reconciling items are appropriate and being recorded, and the reconciled cash balance agrees to the general ledger cash balance reported.

Condition – The operating bank account was not properly reconciled at year-end. Through subsequent evaluation, management identified approximately a net \$70,000 in adjustments to the cash balance and recorded those adjustments in fiscal 2015. Additional unreconciled amounts exist and management is continuing to investigate; however, management does not believe the remaining unreconciled amounts are material to the financial statements at September 30, 2015.

Context – Timely reconciliations of bank accounts are required to maintain proper accounting between the general ledger balance and bank statement balance.

Effect – Failure to perform such procedures resulted in untimely detection of errors.

Cause – Management could not identify certain required information to properly reconcile the operating bank account at year-end.

Recommendation – Management should adopt a formal methodology for reconciling the bank accounts on a monthly basis.

Views of Responsible Official and Planned Corrective Actions – Management will evaluate the monthly and year-end process surrounding reconciliation of the bank account balances and begin developing and implementing procedures to address any and all operational and accounting process deficiencies.