

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

Independent Auditor's Reports and Financial Statements

September 30, 2017 and 2016



Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
September 30, 2017 and 2016

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Sharkey-Issaquena Community Hospital (the Hospital), a component unit of Sharkey County, as of and for the years ended September 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sharkey-Issaquena Community Hospital as of September 30, 2017 and 2016, and the changes in its

financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2018, 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 effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

BKD, LLP

Jackson, Mississippi
May 30, 2018

Sharkey-Issaquena Community Hospital

A Component Unit of Sharkey County

Management's Discussion and Analysis

Years Ended September 30, 2017 and 2016

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, 2017 and 2016. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

2017 Highlights

- In order to extend the longevity of the nursing home in the area and complement hospital operations, the Hospital entered a nine-year lease for the neighboring nursing home facility in January 2016. Therefore, 2017 was the first full year of operations. It is the goal of the Hospital to improve operations and, therefore, enhance the financial strength of the nursing home, which, in turn, benefits the citizenry of Sharkey and Issaquena Counties.
- Cash and temporary cash investments increased by \$532,605, or 23%, from 2017 to 2016, due primarily to the addition of the Texas and Louisiana clinical toxicology and blood testing laboratories.
- The Hospital reported operating income of \$558,383 for 2017 and, ultimately, an increase in net position of \$1,550,653. The increase in earnings was driven by the addition of the Texas and Louisiana clinical toxicology and blood testing laboratories, which provided a net benefit of \$2,326,971. Due to litigation, the Texas and Louisiana labs were discontinued.
- Total operating expenses for 2017 increased by \$9,371,745, or 83%, over the prior year. This was due primarily to the addition of the Texas and Louisiana labs which added \$8,505,354 in additional expense. Additionally, 2017 was the first full year of nursing home operations.

2016 Highlights

- Cash and temporary cash investments decreased by \$32,343, or 1%, from 2016 to 2015, due primarily to use of funds in general operations.
- The Hospital reported an operating loss of \$1,363,526 for 2016 and, ultimately, a decrease in net position of \$1,227,298. The operating loss increased by \$359,506, due to the low census in the nursing home and the continued decrease in census for the senior care unit. In addition, the nursing home upper payment limit (UPL) was less than expected for 2016.
- Total operating expenses for 2016 increased by \$3,232,136, or 40%, over the prior year. This was due primarily to the new operating lease and related costs to manage the nursing home.

Sharkey-Issaquena Community Hospital

A Component Unit of Sharkey County

Management's Discussion and Analysis

Years Ended September 30, 2017 and 2016

Using this Annual Report

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

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

One of the most important questions asked about any hospital's finances is "Is the hospital as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. The Hospital's total net assets – the difference between assets and liabilities – are one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Management's Discussion and Analysis
Years Ended September 30, 2017 and 2016

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 increased by \$1,550,653 in 2017 over 2016, and decreased by \$1,277,298 in 2016 over 2015, as shown in Table 1.

Table 1
Condensed Balance Sheets

	2017	2016	2015	Variance 2016 - 2017	Variance 2015 - 2016
Assets					
Current assets	\$ 4,443,659	\$ 4,174,115	\$ 4,135,303	\$ 269,544	\$ 38,812
Capital assets, net	1,465,780	818,056	847,989	647,724	(29,933)
Other assets	78,756	78,756	85,328	-	(6,572)
Total assets	<u>\$ 5,988,195</u>	<u>\$ 5,070,927</u>	<u>\$ 5,068,620</u>	<u>\$ 917,268</u>	<u>\$ 2,307</u>
Liabilities					
Current liabilities	\$ 1,439,991	\$ 1,999,579	\$ 872,566	\$ (559,588)	\$ 1,127,013
Long-term debt	88,312	162,109	59,517	(73,797)	102,592
Total liabilities	<u>1,528,303</u>	<u>2,161,688</u>	<u>932,083</u>	<u>(633,385)</u>	<u>1,229,605</u>
Net Position					
Net investment in capital assets	1,305,080	567,261	748,960	737,819	(181,699)
Restricted - expendable	43,441	18,292	60,193	25,149	(41,901)
Unrestricted	3,111,371	2,323,686	3,327,384	787,685	(1,003,698)
Total net position	<u>4,459,892</u>	<u>2,909,239</u>	<u>4,136,537</u>	<u>1,550,653</u>	<u>(1,227,298)</u>
Total liabilities and net position	<u>\$ 5,988,195</u>	<u>\$ 5,070,927</u>	<u>\$ 5,068,620</u>	<u>\$ 917,268</u>	<u>\$ 2,307</u>

2017 Highlights

- Current assets remained steady with a \$269,544 increase, or 6% over 2016. The main component was an increase of \$519,428 in cash and cash equivalents, driven mainly by the addition of the Texas and Louisiana laboratories. Patient accounts receivable at year-end remained consistent with 2016.
- In 2017, capital assets increased a net of \$647,724, or 79%. The Hospital began renovations in 2017, which were funded by Sharkey and Issaquena Counties and the Sharkey Issaquena

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Medical Foundation (the Foundation). At year-end, the amount of construction in progress totaled \$747,434, resulting in the increase in capital assets as compared to 2016.

2016 Highlights

- Current assets remained steady with a \$38,812 increase, or 1%, over 2015. The main components were a decrease in the electronic health records (EHR) receivable, as EHR payments came to a close and increases in patient accounts receivable and amounts due from third-party payers. Increase in patient accounts receivable was due to collection efforts. The increase in third-party payer receivable was related to the increase in the expected Disproportionate Share Hospital (DSH) receivable and an increase in the cost report receivable.
- In 2016, capital assets decreased a net of \$29,933, or 4%. Additions narrowly exceeded the annual depreciation, resulting in a much smaller decrease, as compared to 2015. A majority of these additions were items purchased for the nursing home through capital leases.

Sharkey-Issaquena Community Hospital
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Management's Discussion and Analysis
Years Ended September 30, 2017 and 2016

Operating Results and Changes in the Hospital's Net Position

In 2017, the Hospital's net position increased by \$1,550,653, as shown in Table 2, compared to a decrease in net position in the prior year of \$1,227,298.

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

	2017	2016	2015	Variance 2016 - 2017	Variance 2015 - 2016
Operating Revenues					
Net patient service revenue	\$ 20,656,078	\$ 9,413,028	\$ 6,134,870	\$ 11,243,050	\$ 3,278,158
Other operating revenue	589,000	538,395	943,923	50,605	(405,528)
Total operating revenues	<u>21,245,078</u>	<u>9,951,423</u>	<u>7,078,793</u>	<u>11,293,655</u>	<u>2,872,630</u>
Operating Expenses					
Salaries, wages and employee benefits	6,231,312	5,322,854	4,177,604	908,458	1,145,250
Supplies and other	14,223,372	5,730,372	3,529,769	8,493,000	2,200,603
Depreciation	232,011	261,723	375,440	(29,712)	(113,717)
Total operating expenses	<u>20,686,695</u>	<u>11,314,949</u>	<u>8,082,813</u>	<u>9,371,746</u>	<u>3,232,136</u>
Operating Income (Loss)	<u>558,383</u>	<u>(1,363,526)</u>	<u>(1,004,020)</u>	<u>1,921,909</u>	<u>(359,506)</u>
Nonoperating Revenues	<u>205,742</u>	<u>86,196</u>	<u>90,519</u>	<u>119,546</u>	<u>(4,323)</u>
Capital Grants	<u>786,528</u>	<u>50,032</u>	<u>60,193</u>	<u>736,496</u>	<u>(10,161)</u>
Increase (Decrease) in Net Position	<u>\$ 1,550,653</u>	<u>\$ (1,227,298)</u>	<u>\$ (853,308)</u>	<u>\$ 2,777,951</u>	<u>\$ (373,990)</u>

Operating Income

The first component of the overall change in the Hospital's net position is its operating income or loss – and generally, the difference between net patient service revenue and other operating revenues and the expenses incurred to perform those services. In fiscal year 2017, the Hospital reported

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operating income of \$558,383, compared to a reported operating loss of \$1,363,526 for fiscal year 2016.

2017 Financial Highlights

- Revenues for the nursing home, net of contractual adjustments, was approximately \$2,520,000 for 2017.
- Other operating revenue increased by \$50,605, or 10%. Other operating revenue includes the annual contributions from Sharkey and Issaquena Counties for the operation of the Hospital and the ambulance program. As such, these amounts do not fluctuate significantly from year to year.
- Acute patient days decreased to 957 in 2017, compared to 991 in 2016. Swing bed days decreased to 991 in 2017 from 1,187 in 2016.
- The Hospital experienced significant changes in total operating expenses which increased by \$9,371,745, or 83%, over the prior year. This was due primarily to the addition of the Texas and Louisiana laboratories and the nursing home being in its first full year of operation. As noted earlier, the laboratories have been discontinued.

2016 Financial Highlights

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

Sharkey-Issaquena Community Hospital

A Component Unit of Sharkey County

Management's Discussion and Analysis

Years Ended September 30, 2017 and 2016

Nonoperating Revenues (Expenses)

Nonoperating revenues (expenses), which consist primarily of interest income and noncapital grants, increased by \$119,546, or 139%, in 2017, compared to 2016 and decreased by \$4,323, or 5%, in 2016 compared to 2015.

The Hospital's Cash Flows

In 2017, the Hospital's cash provided by operations was used, in part to pay down the line of credit.

Capital Assets

At the end of 2017, the Hospital had \$1,465,780 of net capital assets as detailed in *Note 5* to the financial statements. At the end of 2016, the Hospital had \$818,056 net capital assets as detailed in *Note 5* to the financial statements. The increase in net capital assets was primarily the result of ongoing renovations donated by member counties and the Foundation. At September 30, 2017, construction in progress related to these renovations totaled \$747,434.

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 2018 budget. While the financial outlook for the Hospital is uncertain at this point, many factors must be considered for the future:

- The current economic conditions present the Hospital with challenges, including the increase of self-pay patients
- These economic conditions present Sharkey and Issaquena Counties with the same challenges as the Hospital, which could negatively impact emergency medical services operated by the Hospital on behalf of the counties
- Medicare/Medicaid reimbursement changes – The Hospital's percentage of gross patient revenue is 47% Medicare and 32% Medicaid (majority nursing home)
- During the subsequent fiscal year of 2018, the Texas and Louisiana clinical toxicology and blood testing laboratories, which provided a net benefit of \$2,326,971 in 2017, were discontinued due to litigation.
- Significant legislative funding cuts for Medicare under the Affordable Care Act

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- Population decreases in the Hospital's service area
- Shortage of licensed professional medical staff in the Hospital's geographic area
- UPL payments for the nursing home

Contacting Hospital Financial Personnel

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

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

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County

Balance Sheets

September 30, 2017 and 2016

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 773,226	\$ 253,798
Temporary cash investments	2,040,522	2,027,345
Patient accounts receivable, net of allowance for uncollectible accounts; 2017 - \$1,311,000, 2016 - \$559,000	1,327,340	1,357,255
Estimated amounts due from third-party payers	121,381	149,169
Electronic Health Records (EHR) incentive payment receivable	-	142,793
Supplies	143,215	140,470
Prepaid expenses and other	37,975	103,285
Total current assets	4,443,659	4,174,115
Capital Assets, Net	1,465,780	818,056
Investment in Insurance Providers	78,756	78,756
Total assets	\$ 5,988,195	\$ 5,070,927

	2017	2016
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 72,388	\$ 88,686
Accounts payable	866,853	1,006,115
Accrued expenses	500,750	282,678
Line of credit	-	622,100
	<u>1,439,991</u>	<u>1,999,579</u>
Long-term Debt	<u>88,312</u>	<u>162,109</u>
	<u>1,528,303</u>	<u>2,161,688</u>
Net Position		
Net investment in capital assets	1,305,080	567,261
Restricted - expendable	43,441	18,292
Unrestricted	3,111,371	2,323,686
	<u>4,459,892</u>	<u>2,909,239</u>
	<u>\$ 5,988,195</u>	<u>\$ 5,070,927</u>

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2017 and 2016

	2017	2016
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2017 - \$1,516,000, 2016 - \$986,000	\$ 20,656,078	\$ 9,413,028
EHR incentive	-	15,827
Other	589,000	522,568
	<u>21,245,078</u>	<u>9,951,423</u>
Operating Expenses		
Salaries and wages	4,956,126	4,410,572
Employee benefits	1,275,186	912,282
Supplies and other	14,223,372	5,730,372
Depreciation	232,011	261,723
	<u>20,686,695</u>	<u>11,314,949</u>
	<u>558,383</u>	<u>(1,363,526)</u>
Operating Income (Loss)		
Nonoperating Revenues (Expenses)		
Interest income	36,878	23,830
Noncapital grants	-	39,083
Interest expense	(22,060)	(14,861)
Miscellaneous	190,924	38,144
	<u>205,742</u>	<u>86,196</u>
	<u>764,125</u>	<u>(1,277,330)</u>
Excess (Deficiency) of Revenues Over Expenses Before Capital Contributions		
Capital Contributions	<u>786,528</u>	<u>50,032</u>
	<u>1,550,653</u>	<u>(1,227,298)</u>
Increase (Decrease) in Net Position		
Net Position, Beginning of Year	<u>2,909,239</u>	<u>4,136,537</u>
Net Position, End of Year	<u><u>\$ 4,459,892</u></u>	<u><u>\$ 2,909,239</u></u>

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 20,713,781	\$ 9,027,554
Payments to suppliers and contractors	(14,260,402)	(5,056,847)
Payments to employees	(6,052,907)	(5,204,303)
Other cash receipts	<u>731,793</u>	<u>819,949</u>
Net cash provided by (used in) operating activities	<u>1,132,265</u>	<u>(413,647)</u>
Investing Activities		
Interest earned on short-term investments	36,878	23,830
Redemption of temporary cash investments, net	<u>(13,177)</u>	<u>-</u>
Net cash provided by investing activities	<u>23,701</u>	<u>23,830</u>
Noncapital Financing Activities		
Rent and other cash receipts, net	190,924	38,144
Proceeds from line of credit	-	325,100
Payments on line of credit	(622,100)	-
Noncapital grants	<u>-</u>	<u>39,083</u>
Net cash provided by (used in) noncapital financing activities	<u>(431,176)</u>	<u>402,327</u>
Capital and Related Financing Activities		
Purchase of capital assets	(132,301)	(39,226)
Principal payments on long-term debt	(90,095)	(40,798)
Capital grants	39,094	50,032
Interest paid on long-term debt	<u>(22,060)</u>	<u>(14,861)</u>
Net cash used in capital and related financing activities	<u>(205,362)</u>	<u>(44,853)</u>
Increase (Decrease) in Cash and Cash Equivalents	519,428	(32,343)
Cash and Cash Equivalents, Beginning of Year	<u>253,798</u>	<u>286,141</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 773,226</u></u>	<u><u>\$ 253,798</u></u>

Sharkey-Issaquena Community Hospital
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Statements of Cash Flows (Continued)
Years Ended September 30, 2017 and 2016

	2017	2016
Reconciliation of Operating Income (Loss) to Net Cash		
Used In Operating Activities		
Operating income (loss)	\$ 558,383	\$ (1,363,526)
Depreciation	232,011	261,723
Provision for uncollectible accounts	1,639,692	985,632
Changes in operating assets and liabilities		
Patient accounts receivable	(1,609,777)	(1,233,132)
EHR incentive payment receivable	142,793	281,554
Supplies	(2,745)	31,195
Prepaid expenses and other assets	65,310	8,142
Accounts payable	(139,262)	642,155
Accrued expenses	218,072	110,584
Decrease in estimated amounts due from third-party payers	27,788	(137,974)
Net cash provided by (used in) operating activities	\$ 1,132,265	\$ (413,647)
Supplemental Cash Flows Information		
Interest paid	\$ 22,060	\$ 14,861
Capital leases obligations incurred for capital assets	\$ -	\$ 192,564
Noncash capital contributions	\$ 747,434	\$ -
Noncash capital expenditures	\$ (747,434)	\$ -

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Notes to Financial Statements
September 30, 2017 and 2016

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

Nature of Operations and Reporting Entity

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

The Hospital entered into a nine-year sublease agreement for the facility known as Heritage Manor Nursing Home of Rolling Fork, Mississippi effective January 1, 2016. The 54-bed nursing home facility, with an approximate 85% occupancy rate, is subleased.

Basis of Accounting and Presentation

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

Foundation

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

Although the Hospital does not control the timing or amount of receipts from the Foundation, the majority of the Foundation's resources and related income are held for the benefit of the Hospital. Because these resources held by the Foundation will be primarily used by, or for the benefit of, the

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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, 2017 and 2016, 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.

Supplies

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

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Notes to Financial Statements
September 30, 2017 and 2016

Capital Assets

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

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

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

Compensated Absences

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

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

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
Notes to Financial Statements
September 30, 2017 and 2016

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.

Income Taxes

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

Note 2: Net Patient Service Revenue

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

- Medicare - Inpatient acute care services, senior care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patient acuity. Certain inpatient nonacute services and defined medical education costs are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at tentative rates, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor.

Sharkey-Issaquena Community Hospital
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- Medicaid - Inpatient services rendered to Medicaid program beneficiaries are generally paid based upon a prospective-payment system based on All Patient Refined Diagnosis Related Groups (APR-DRG). Outpatient services are also paid on a prospective-payment system using Ambulatory Payment Classifications (APC), similar to the Medicare payment model. The Hospital is reimbursed for retroactively determined items at tentative rates, with final settlement determined after submission of annual cost reports by the Hospital and audits by the State of Mississippi Medicaid Program. Long-term care services are reimbursed based on the Hospital's specific cost-based per diem rate adjusted by certain factors, including patient severity. Certain categories of costs are subject to reimbursement ceilings established based on statewide medians. Nursing home Medicaid cost reports are subject to audit, with final settlement determined after audit by Medicaid.

Beginning July 1, 2015, the Division of Medicaid (DOM) implemented the Mississippi Hospital Access Payment (MHAP) program. The program is administered by DOM through the Mississippi Coordinated Access Network (MSCAN) coordinated care organizations (CCOs). The CCOs subcontract with the hospitals throughout the state for distribution of MHAP for the purpose of protecting patient access to hospital care. The MHAP program began on December 1, 2015, retroactive to July 1, 2015. The Hospital also participates in a voluntary disproportionate share program (DSH) available to certain qualifying hospitals in the state Medicaid program. The Hospital recognized MHAP/DSH revenue of approximately \$473,000 and \$484,000 in 2017 and 2016, respectively.

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

Approximately 76% of gross patient service revenue was from participation in the Medicare and state-sponsored Medicaid programs for both years ended September 30, 2017 and 2016. State laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Note 3: Deposits

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

Sharkey-Issaquena Community Hospital
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September 30, 2017 and 2016

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).

At September 30, 2017 and 2016, the Hospital was protected from custodial credit risk as follows:

	2017	2016
Amount insured by FDIC	\$ 268,292	\$ 268,292
Amount collateralized by securities held in collateral pool	<u>2,126,568</u>	<u>2,126,568</u>
Total depository balances	<u>\$ 2,394,860</u>	<u>\$ 2,394,860</u>
Carrying value	<u>\$ 2,813,748</u>	<u>\$ 2,281,143</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 773,226	\$ 253,798
Temporary cash investments	<u>2,040,522</u>	<u>2,027,345</u>
	<u>\$ 2,813,748</u>	<u>\$ 2,281,143</u>

Sharkey-Issaquena Community Hospital
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September 30, 2017 and 2016

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, 2017 and 2016, consisted of:

	<u>2017</u>	<u>2016</u>
Medicare	\$ 497,188	\$ 763,919
Medicaid	376,792	349,298
Other third-party payers	744,667	334,279
Patients	<u>1,020,130</u>	<u>468,812</u>
	2,638,777	1,916,308
Allowance for uncollectible accounts	<u>(1,311,437)</u>	<u>(559,053)</u>
	<u>\$ 1,327,340</u>	<u>\$ 1,357,255</u>

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Notes to Financial Statements
September 30, 2017 and 2016

Note 5: Capital Assets

Capital assets activity for the years ended September 30, 2017 and 2016, was:

	Beginning Balance	Additions	Disposals/ Transfers	Ending Balance
2017				
Capital assets not being depreciated				
Land	\$ 5,750	\$ -	\$ -	\$ 5,750
Work in process	1,640	747,434	-	749,074
	<u>7,390</u>	<u>747,434</u>	<u>-</u>	<u>754,824</u>
Total book value of capital assets not being depreciated	<u>7,390</u>	<u>747,434</u>	<u>-</u>	<u>754,824</u>
Capital assets being depreciated				
Land improvements	86,180	-	-	86,180
Buildings and leasehold improvements	1,699,927	13,750	-	1,713,677
Fixed equipment	914,034	-	(220)	913,814
Major moveable equipment	1,740,710	4,100	-	1,744,810
Minor equipment	94,413	114,450	-	208,863
EHR equipment	462,834	-	-	462,834
	<u>4,998,098</u>	<u>132,300</u>	<u>(220)</u>	<u>5,130,178</u>
Total book value of capital assets being depreciated	<u>4,998,098</u>	<u>132,300</u>	<u>(220)</u>	<u>5,130,178</u>
Less accumulated depreciation for				
Land improvements	(53,653)	(7,692)	-	(61,345)
Buildings and leasehold improvements	(1,576,296)	(7,637)	-	(1,583,933)
Fixed equipment	(662,539)	(48,439)	220	(710,758)
Major moveable equipment	(1,473,823)	(82,407)	-	(1,556,230)
Minor equipment	(52,379)	(21,501)	-	(73,880)
EHR equipment	(368,742)	(64,334)	-	(433,076)
	<u>(4,187,432)</u>	<u>(232,010)</u>	<u>220</u>	<u>(4,419,222)</u>
Total accumulated depreciation	<u>(4,187,432)</u>	<u>(232,010)</u>	<u>220</u>	<u>(4,419,222)</u>
Capital assets, net	<u>\$ 818,056</u>	<u>\$ 647,724</u>	<u>\$ -</u>	<u>\$ 1,465,780</u>

In 2017, the Hospital began renovations which were funded by capital contributions from Sharkey and Issaquena Counties and the Sharkey Issaquena Medical Foundation. The amount of construction work in progress at September 30, 2017 is shown above at \$747,434, and the total cost of the project completed in fiscal year 2018 was approximately \$1,177,000.

Sharkey-Issaquena Community Hospital
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September 30, 2017 and 2016

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

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Notes to Financial Statements
September 30, 2017 and 2016

Note 6: Long-term Debt

The following is a summary of long-term debt transactions for the Hospital for the years ended September 30, 2017 and 2016.

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
2017					
Leases payable to finance companies	<u>\$ 250,795</u>	<u>\$ -</u>	<u>\$ (90,095)</u>	<u>\$ 160,700</u>	<u>\$ 72,388</u>
2016					
Leases payable to finance companies	<u>\$ 99,029</u>	<u>\$ 192,564</u>	<u>\$ (40,798)</u>	<u>\$ 250,795</u>	<u>\$ 88,686</u>

Leased equipment under capital leases at September 30, 2017 and 2016, includes the following:

	2017	2016
Capital assets	\$ 564,858	\$ 564,858
Less accumulated depreciation	<u>(381,538)</u>	<u>(311,112)</u>
	<u>\$ 183,320</u>	<u>\$ 253,746</u>

Sharkey-Issaquena Community Hospital
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The following is a schedule by year of future minimum lease payments under the capital leases, including interest at rates of 4.01% to 11.65%, maturing between 2018 and 2021, together with the present value of the future minimum lease payments as of September 30, 2017.

	Capital Lease Obligations
2018	\$ 82,587
2019	53,678
2020	37,169
2021	3,636
	177,070
Less amount representing interest	(16,370)
Present value of future minimum lease payments	\$ 160,700

Note 7: Line of Credit

The Hospital periodically borrows funds from a bank to finance operations on an interim basis. The line of credit has a maximum balance of \$2,053,100 and bears interest at 1% above the interest being paid on certificates of deposit owned by the Hospital which secure the loan (.65% at September 30, 2017) plus 1%. The line of credit matures January 10, 2020. The line of credit is collateralized by the certificates of deposit included in temporary cash investments on the balance sheets. The following is a summary of line-of-credit transactions for the years ended September 30.

	2017	2016
Beginning balance	\$ 622,100	\$ 297,000
Additions	-	325,100
Deductions	(622,100)	-
Ending balance	\$ -	\$ 622,100

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Notes to Financial Statements
September 30, 2017 and 2016

Note 8: Other Operating Revenue

Other operating revenue consists of:

	2017	2016
County subsidies - operating	\$ 218,668	\$ 214,833
County subsidies - ambulance	280,000	280,000
Other	90,332	27,735
	\$ 589,000	\$ 522,568

Note 9: Operating Lease

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

Future minimum lease payments at September 30, 2017, were:

2018	\$ 211,800
2019	211,800
2020	211,800
2021	211,800
2022	211,800
2023-2024	405,950
	\$ 1,464,950

Lease expense totaled approximately \$211,800 and \$159,000 for the years ended September 30, 2017 and 2016, respectively.

Additionally, the Hospital leases its general ledger software and other business and managed IT services under a noncancelable lease. The lease term is for seven years beginning June 2015. The monthly rental is 8.5% of certain cash collections as defined by the contract. Lease expense for 2017 and 2016 was \$358,000 and \$600,000, respectively.

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Notes to Financial Statements
September 30, 2017 and 2016

Note 10: 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, 2017, 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 11: 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 3.2% for 2017 and 4.0% for 2016. Contribution rates for the Hospital, expressed as a percentage of covered payroll rates, were 2.8% for 2017 and 3.3% for 2016. Contributions actually made by plan members and the Hospital aggregated approximately \$68,000 and \$70,000 during 2017 and \$70,000 and \$62,000 during 2016, respectively.

Note 12: Related Party

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

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Notes to Financial Statements
September 30, 2017 and 2016

Note 13: Sharkey Issaquena Medical Foundation (the Foundation)

Financial Statements

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

The financial statements of the Foundation are consolidated with the Hospital. Condensed financial statements of the Foundation as of and for the years ended December 31, 2016 and 2015, are as follows:

Condensed Balance Sheets
December 31, 2016 and 2015

	2016	2015
Assets		
Cash	\$ 189,251	\$ 95,719
Liabilities and Net Assets		
Unrestricted net position	\$ 189,251	\$ 95,719

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Notes to Financial Statements
September 30, 2017 and 2016

**Condensed Statements of Revenues, Expenses
and Changes in Net Position**
Years Ended December 31, 2016 and 2015

	2016	2015
Operating Revenues		
Contributions - unrestricted	\$ 105,440	\$ 44,999
Operating Expenses	11,908	16,016
Increase in Net Position	93,532	28,983
Unrestricted Net Position, Beginning of Year	95,719	66,736
Unrestricted Net Position, End of Year	\$ 189,251	\$ 95,719

Note 14: 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 61% and 90% of the Hospital's admissions for the years ended September 30, 2017 and 2016, respectively.

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Notes to Financial Statements
September 30, 2017 and 2016

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.

**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***

Independent Auditor's Report

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, 2017, 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 May 30, 2018.

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. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2017-001 and 2017-002 that we consider to be material weaknesses.

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 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.

Purpose of this Report

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

BKD, LLP

Jackson, Mississippi
May 30, 2018

Sharkey-Issaquena Community Hospital
Schedule of Findings and Responses
Year Ended September 30, 2017

Reference Number	Finding
2017-001	<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> - Management does not have a month-end close process to ensure the monthly financial statements are fairly stated.</p> <p><i>Cause</i> - The Hospital does not have a month-end close process to:</p> <ul style="list-style-type: none"> • Review, analyze and record an allowance for doubtful accounts • Ensure timely posting of charges • Reconcile unposted deposits • Ensure entries posted internally and by their third-party processor are accurate and correctly posted • Verify the subsidiary ledgers are reconciled to the general ledger <p><i>Effect</i></p> <ul style="list-style-type: none"> • The financial statements lack consistency from month to month and are not a true reflection of the results of operations of the Hospital • The financial statements may contain errors which are not detected • Misappropriation of assets may occur and not be detected <p><i>Recommendation</i> - We recommend the following:</p> <ul style="list-style-type: none"> • Management review, analyze and record an allowance for doubtful accounts on a monthly basis and periodically compare actual results to recorded estimates. To facilitate this process, management should regularly write off accounts which are determined to be uncollectible. • Management establish procedures to ensure all revenues are recorded in the proper period. • Management reconcile all subsidiary ledgers to the general ledger on a monthly basis. • Management review all entries to ensure they are posted correctly <p><i>Views of Responsible Officials and Planned Corrective Actions</i> - Management is aware of this situation and will consider and add processes to analyze the allowance for doubtful accounts, to accrue invoices into the proper period to ensure proper posting of rehabilitation charges and to reconcile account balances monthly.</p>

Sharkey-Issaquena Community Hospital
Schedule of Findings and Responses
Year Ended September 30, 2017

Reference Number	Finding
2017-002	<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. 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>Cause</i> - The Hospital has not designed internal control procedures for preparing 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>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, 2017

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