

COVINGTON COUNTY HOSPITAL
Collins, Mississippi

Audited Financial Statements
As of and for the Years Ended
September 30, 2016 and 2015

COVINGTON COUNTY HOSPITAL

Collins, Mississippi

Board of Trustees

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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 years ended September 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2016 and 2015 and the changes in financial position and 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 on pages 3 through 10 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 28 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2017 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.



Ridgeland, Mississippi
February 22, 2017

COVINGTON COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended September 30, 2016 and 2015

This section of Covington County Hospital's (the "Hospital") annual financial report presents background information and our analysis of the Hospital's financial performance during the fiscal year ended September 30, 2016 and 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.

2016

FINANCIAL HIGHLIGHTS

- Total liabilities for the Hospital at year end were \$7,205,707, a decrease of \$1,587,454, or 18 percent, from the prior fiscal year. Current liabilities were \$2,074,574, a decrease of \$1,230,574 from the prior fiscal year. The long-term liabilities were \$5,131,133, a decrease of \$356,880 from the prior fiscal year.
- Total assets for the Hospital at year end were \$14,862,871, a decrease of \$635,975, or 4 percent from the prior fiscal year.
- Total net position for the Hospital at year end was \$7,891,870, an increase of \$933,209 from the prior fiscal year. Unrestricted net position was \$5,853,504, an increase of \$1,108,188 from the prior fiscal year. Net investment in capital assets was \$2,038,366, a decrease of \$174,979 from the prior fiscal year.
- Operating expenses for the fiscal year were \$23,754,523, a decrease of \$1,321,856, or 5 percent from the prior fiscal year primarily due to a decrease in salaries and wages from the prior fiscal year.
- Operating revenues for the fiscal year were \$23,872,622, a decrease of \$28,504 or approximately 1 percent, from the prior fiscal year primarily due to a decrease in inpatient census.

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.

COVINGTON COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended September 30, 2016 and 2015

- 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.

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
Years Ended September 30, 2016 and 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.

2016

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 2016		Fiscal Year 2015	Dollar Change	Total Percent Change
Current and other assets	\$ 7,143	\$	7,377	\$ (234)	-3.2%
Capital assets	7,720		8,122	(402)	-4.9%
Total assets	14,863		15,499	(636)	-4.1%
Deferred outflows of resources	235		253	(18)	-7.1%
Long-term debt outstanding	5,682	\$	5,909	\$ (227)	-3.8%
Other liabilities	1,524		2,885	(1,361)	-47.2%
Total liabilities	7,206		8,794	(1,588)	-18.1%
Investment in capital assets, net of related debt	2,038		2,213	(175)	-7.9%
Unrestricted	5,854		4,745	1,109	23.4%
Total net position	\$ 7,892	\$	6,958	\$ 934	13.4%

Total assets decreased 4.1 percent primarily due to a decrease in cash of approximately \$1,116 and capital assets of approximately \$402, which was offset by an increase in estimated third-party payor settlements of approximately \$1,051.

Long-term debt decreased by 3.8 percent due to debt payments made during the year.

**COVINGTON COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended September 30, 2016 and 2015**

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
Years Ended September 30, 2016 and 2015

2016

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, 2016 and 2015:

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

	Fiscal Year 2016	Fiscal Year 2015	Dollar Change	Total Percent Change
Net patient service revenue	\$ 22,924	\$ 23,295	\$ (371)	-1.6%
Other operating revenue excluding interest income	949	606	343	56.6%
Total operating revenue	23,873	23,901	(28)	-.01%
Salaries and benefits	11,642	13,051	(1,409)	-10.8%
Professional fees, supplies, maintenance, other	11,300	11,172	128	1.1%
Total operating expenses before depreciation/amortization	22,942	24,223	(1,281)	-5.3%
Earnings (deficit) before interest depreciation and amortization ("EBITDA")	931	(322)	1,253	390.0%
Depreciation and amortization expense	813	854	(41)	-4.8%
Income (loss) from operations	118	(1,176)	1,294	-110.0%
Interest income	12	24	(12)	-50.0%
Debt issuance cost	-	(249)	249	-100.0%
Interest expense	(218)	(216)	(2)	0.9%
Total non-operating expenses	(206)	(441)	235	-53.3%
Decrease in net position	\$ (88)	\$ (1,617)	\$ 1,529	94.6%

COVINGTON COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended September 30, 2016 and 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	23,901	22,271	1,630	7.3%
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	24,223	21,891	2,332	10.7%
Earnings (deficit) before interest depreciation and amortization ("EBITDA")	(322)	380	(702)	-184.7%
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	(441)	(276)	(165)	-59.8%
Decrease in net position	\$ (1,617)	\$ (891)	\$ (726)	-81.5%

COVINGTON COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended September 30, 2016 and 2015

2016

OPERATING AND FINANCIAL PERFORMANCE

The following summarizes the changes in the Hospital's statements of revenue and expenses and changes in net position for 2016 as compared to 2015:

- During 2016, the Hospital had patient days and admissions of 980 and 261, respectively. As compared to 2015, patient days decreased by 18.7 percent while admissions decreased by 20.9 percent.
- Outpatient and emergency registrations were 17,150 and 7,867, respectively, in 2016, which corresponds to a decrease of 4.3 percent for outpatient registrations while emergency was relatively unchanged compared to 2015.
- Patient days of care in swing bed were 3,812 and 5,014 in 2016 and 2015, respectively, which corresponds to a 1,202 or 24 percent decrease in 2016.
- Net patient service revenue decreased as stated in the Financial Highlights. Net patient service revenue decreased to \$22.9 million in 2016 from \$23.3 million in 2015.
- Professional fees increased \$0.7 million to \$6.7 in 2016 from \$6 million in 2015. The increase is primarily due to increased utilization of contract companies for ER staffing services.
- Salaries and wages decreased approximately \$1.2 million to \$9.9 million in 2016 from \$11.1 million in 2015. The decrease is primarily due to the closure of the senior care unit as well as outsourcing of IT, ER, Dietary, and Environmental Services.

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 1,325 or 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.

COVINGTON COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended September 30, 2016 and 2015

- 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.

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 2017 budget. Although the financial outlook for the Hospital is outstanding, of primary importance in setting the 2017 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 level of the Disproportionate Share and Mississippi Hospital Access Payment 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, and related political reform.

COVINGTON COUNTY HOSPITAL
(A Component Unit of Covington County)
Statements of Net Position
September 30, 2016 and 2015

	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,516,683	\$ 3,633,158
Patient receivables, net of allowances for uncollectible accounts of \$2,969,995 and \$2,165,850, respectively	3,016,656	3,176,999
Estimated third-party payor settlements	1,050,872	-
Inventories	319,527	226,959
Other current assets	238,957	339,840
Total current assets	7,142,695	7,376,956
Capital assets, net	7,720,176	8,121,890
Total assets	14,862,871	15,498,846
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on debt refunding	234,706	252,976
LIABILITIES		
Current liabilities		
Current maturities of long-term debt	550,677	420,532
Accounts payable, trade and other accrued expenses	1,065,008	1,555,908
Estimated third-party payor settlements	-	423,076
Accrued salaries and compensated absences	458,889	905,632
Total current liabilities	2,074,574	3,305,148
Long-term debt, less current maturities	5,131,133	5,488,013
Total liabilities	7,205,707	8,793,161
NET POSITION		
Net investment in capital assets	2,038,366	2,213,345
Unrestricted	5,853,504	4,745,316
Total net position	\$ 7,891,870	\$ 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
Years Ended September 30, 2016 and 2015

	2016	2015
Operating revenues		
Net patient service revenue, net of provision for bad debts of \$4,378,629 and \$5,656,071, respectively	\$ 22,923,930	\$ 23,295,000
Other operating revenue	948,692	606,126
Total operating revenue	<u>23,872,622</u>	<u>23,901,126</u>
Operating expenses		
Salaries and wages	9,907,259	11,085,513
Employee benefits	1,735,102	1,965,242
Professional fees	6,727,220	6,085,395
Supplies and other	3,224,070	3,720,806
Maintenance and utilities	1,348,169	1,365,776
Depreciation and amortization	812,703	853,647
Total operating expenses	<u>23,754,523</u>	<u>25,076,379</u>
Income (loss) from operations	<u>118,099</u>	<u>(1,175,253)</u>
Nonoperating revenue (expenses)		
Interest income	11,527	23,657
Debt issuance cost	-	(248,766)
Interest expense	(218,345)	(215,954)
Total nonoperating expenses	<u>(206,818)</u>	<u>(441,063)</u>
Decrease in net position	(88,719)	(1,616,316)
Transfers from (to) Covington County	1,021,928	(1,021,928)
Net position at beginning of year	<u>6,958,661</u>	<u>9,596,905</u>
Net position, end of year	<u>\$ 7,891,870</u>	<u>\$ 6,958,661</u>

See accompanying notes.

COVINGTON COUNTY HOSPITAL
(A Component Unit of Covington County)
Statements of Cash Flows
Years Ended September 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 21,610,325	\$ 24,881,513
Payments to suppliers and contractors	(11,782,044)	(10,681,361)
Payments to employees	(12,089,104)	(13,056,811)
Other receipts and payments, net	948,692	606,126
Net cash provided by (used in) operating activities	<u>(1,312,131)</u>	<u>1,749,467</u>
Cash flows from capital and related financing activities		
Principal payments on long-term debt	(483,422)	(6,111,219)
Borrowings on long-term debt	207,351	5,700,000
Transfer (to) from Covington County	1,021,928	(1,021,928)
Interest paid on long-term debt	(200,075)	(215,954)
Payments to escrow agent	-	(252,976)
Debt issuance costs	-	(248,766)
Purchase of capital assets	(368,959)	(319,444)
Proceeds from sale of capital assets	7,306	-
Net cash provided by (used in) capital and related financing activities	<u>184,129</u>	<u>(2,470,287)</u>
Cash flows from investing activities		
Release of assets limited as to use	-	1,578,540
Interest income	11,527	23,657
Net cash provided by investing activities	<u>11,527</u>	<u>1,602,197</u>
Net increase (decrease) in cash and cash equivalents	(1,116,475)	881,377
Cash and cash equivalents, beginning of year	<u>3,633,158</u>	<u>2,751,781</u>
Cash and cash equivalents, end of year	<u>\$ 2,516,683</u>	<u>\$ 3,633,158</u>

See accompanying notes.

	2016	2015
Reconciliation of income (loss) from operations to net cash provided by (used in) operating activities		
Income (loss) from operations	\$ 118,099	\$ (1,175,253)
Adjustments to reconcile income (loss) from operations to net cash provided by (used in) operating activities		
Depreciation and amortization	812,703	853,647
Provision for bad debts	4,378,629	5,656,071
Changes in assets and liabilities		
Receivables	(4,218,286)	(4,766,154)
Inventories	(92,568)	35,368
Other current and noncurrent assets	100,883	(7,295)
Accounts payable, trade	(490,900)	532,444
Estimated third-party payor settlements	(1,473,948)	696,596
Accrued salaries and other liabilities	(446,743)	(75,957)
Net cash provided by (used in) operating activities	<u>\$ (1,312,131)</u>	<u>\$ 1,749,467</u>
Supplemental disclosures of noncash investing and financing activities		
Purchase of equipment through increase in capital lease obligations	<u>\$ 49,336</u>	<u>\$ 147,285</u>

COVINGTON COUNTY HOSPITAL
Years Ended September 30, 2016 and 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. GASB Accounting Standards Codification is 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
Years Ended September 30, 2016 and 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.

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
Years Ended September 30, 2016 and 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 is 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 statements of revenues and expenses and changes in net position distinguish 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
Years Ended September 30, 2016 and 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 \$-0- and \$58,770 of revenues related to the Medicare incentive program for the years ended September 30, 2016 and 2015, respectively. These revenues are reflected in other operating revenues on the accompanying statements 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
Years Ended September 30, 2016 and 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

In 2016, the Hospital adopted the following accounting standard:

The Hospital adopted GASB 72, *Fair Value Measurement and Application*. This Statement provides guidance for determining a fair value measurement 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 adoption of this statement did not have a significant impact on the financial statements of the Hospital.

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 Depositary 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
Years Ended September 30, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS

Note 3. Capital Assets

A summary of capital assets at September 30, 2016 and 2015 is set forth below:

	2016	2015
Land	\$ 290,366	\$ 290,366
Land improvements	305,645	305,645
Building	10,443,114	10,443,114
Fixed and major moveable equipment	11,419,275	11,126,728
Leasehold improvements	101,410	101,410
Capital assets, at cost	22,559,810	22,267,263
Less accumulated depreciation and amortization	(14,881,302)	(14,147,173)
Construction in progress	41,668	1,800
Capital assets, net	\$ 7,720,176	\$ 8,121,890

Depreciation expense for the years ended September 30, 2016 and 2015 totaled \$812,703 and \$853,647, respectively. Capitalized lease equipment and related accumulated amortization was \$419,656 and \$102,331, respectively at September 30, 2016 and \$370,320 and \$94,563, respectively, at September 30, 2015.

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

	Balance September 30, 2015	Increases	Decreases	Balance September 30, 2016
Capital assets not being depreciated				
Land	\$ 290,366	\$ -	\$ -	\$ 290,366
Construction in progress	1,800	49,768	(9,900)	41,668
Total capital assets not being depreciated	292,166	49,768	(9,900)	332,034
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	2,391,437	238,628	(8,338)	2,621,727
Major moveable equipment	8,735,291	139,799	(77,542)	8,797,548
Total capital assets being depreciated	21,976,897	378,427	(85,880)	22,269,444

COVINGTON COUNTY HOSPITAL
Years Ended September 30, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS

Note 3. Continued

	Balance September 30, 2015	Increases	Decreases	Balance September 30, 2016
Less accumulated depreciation for				
Land improvements	\$ (199,218)	\$ (10,953)	\$ -	\$ (210,171)
Leasehold improvements	(101,410)	-	-	(101,410)
Buildings	(4,621,455)	(177,684)	-	(4,799,139)
Fixed equipment	(2,005,497)	(169,083)	-	(2,174,580)
Major moveable equipment	(7,219,593)	(454,983)	78,574	(7,596,002)
Total accumulated depreciation	(14,147,173)	(812,703)	78,574	(14,881,302)
Capital assets being depreciated, net	7,829,724	(434,276)	(7,306)	7,388,142
Capital assets, net	\$ 8,121,890	\$ (384,508)	\$ (17,206)	\$ 7,720,176

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
Less accumulated depreciation for				
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

COVINGTON COUNTY HOSPITAL
Years Ended September 30, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS

Note 4. Long-Term Debt

A summary of long-term debt, inclusive of capital lease obligations, at September 30, 2016 and 2015 follows:

	2016	2015
Promissory note with Covington County at varying rates of interest from 2.0 percent to 3.4 percent, Principal maturing in varying annual amounts through 2031, with semi-annual interest payments	\$ 5,348,967	\$ 5,700,000
Loan, \$207,351 original principal balance, with 35 equal monthly installments of \$5,977 at an interest rate of 2.38 percent, due through March 2019, collateralized by equipment	173,791	-
Capital lease obligations at varying rates of imputed interest from 2.0 percent to 5.1 percent, collateralized by leased equipment	159,052	208,545
	5,681,810	5,908,545
Less current portion of long-term debt	(550,677)	(420,532)
Long-term debt, excluding current portion	\$ 5,131,133	\$ 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 2.0 percent to 3.4 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.

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 are reflected as a contribution by the County to the Hospital on the same statement in 2016.

COVINGTON COUNTY HOSPITAL
Years Ended September 30, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS

Note 4. Continued

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
2017	\$ 444,789	\$ 106,935	\$ 105,888	\$ 7,250
2018	454,031	97,692	53,164	1,423
2019	427,298	88,436	-	-
2020	399,718	80,282	-	-
2021	407,786	72,214	-	-
2022 - 2026	2,165,767	234,233	-	-
2027 - 2031	1,223,369	8,536	-	-
	<u>\$ 5,522,758</u>	<u>\$ 688,328</u>	<u>\$ 159,052</u>	<u>\$ 8,673</u>

A schedule of changes in the Hospital's noncurrent liabilities for 2016 follows:

	Balance September 30, 2015	Additions	Retirements	Balance September 30, 2016	Due Within One Year
Notes payable	\$ 5,700,000	\$ 207,351	\$ 384,593	\$ 5,522,758	\$ 444,789
Capital lease obligations	208,545	49,336	98,829	159,052	105,888
Total noncurrent liabilities	<u>\$ 5,908,545</u>	<u>\$ 256,687</u>	<u>\$ 483,422</u>	<u>\$ 5,681,810</u>	<u>\$ 550,677</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>

COVINGTON COUNTY HOSPITAL
Years Ended September 30, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS

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 matching contributions for the years ended September 30, 2016 and 2015 totaled \$157,041 and \$206,750, respectively.

Note 6. Net Position

Net investment in capital assets was as follows at September 30, 2016 and 2015:

	2016	2015
Capital assets	\$ 22,601,478	\$ 22,269,063
Less accumulated depreciation	(14,881,302)	(14,147,173)
Less debt outstanding related to capital assets	(5,681,810)	(5,908,545)
Net investment in capital assets	\$ 2,038,366	\$ 2,213,345

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. DSH and UPL amounts are shown as a reduction of contractual adjustments and are recorded net of related taxes paid.

COVINGTON COUNTY HOSPITAL
Years Ended September 30, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS

Note 7. Continued

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 is administered by the DOM through the Mississippi CAN coordinated care organizations ("CCO"). The CCO's 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 began December 1, 2015 and the MHAP payments and associated tax were distributed and collected in seven equal installments during the months of December 2015 through June 2016. MHAP amounts are shown as a reduction of contractual adjustments and are recorded net of related taxes paid.

The Hospital participates in the Mississippi Nursing Home UPL Program. This program is funded by Intergovernmental Transfers ("IGTs") from participating providers to the 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 shown as a reduction of contractual adjustments and are recorded net of IGTs paid. Under the Hospital and Nursing Home MHAP and UPL programs, the Hospital received enhanced reimbursement for 2016 and 2015 as follows:

	2016	2015
UPL revenue, gross	\$ -	\$ 498,140
DSH revenue, gross	534,095	694,507
MHAP revenue, gross	168,294	-
DSH, UPL, and MHAP assessments	(143,991)	(238,674)
DSH, UPL and MHAP revenue, net of assessment	\$ 558,398	\$ 953,973

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2016 revenue increased approximately \$421,000 due to retroactive adjustments in excess of amounts previously estimated.

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.

COVINGTON COUNTY HOSPITAL
Years Ended September 30, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS

Note 7. Continued

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

	2016	2015
Gross patient service revenue	\$ 47,504,402	\$ 54,500,631
Less provisions for		
Contractual adjustments under third-party reimbursement programs and other deductions	(20,201,843)	(25,549,560)
Provision for bad debts	(4,378,629)	(5,656,071)
Net patient service revenue	<u>\$ 22,923,930</u>	<u>\$ 23,295,000</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 \$127,754 and \$134,085 for the years ended September 30, 2016 and 2015, respectively. The estimated cost of charity care, estimated using a ratio of cost to gross charges, totaled approximately \$111,000 and \$62,000 for the years ended September 30, 2016 and 2015, respectively.

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, 2016 and 2015 was as follows:

	2016	2015
Medicare	31%	33%
Medicaid	11	10
Commercial	41	41
Other	17	16
Total	<u>100%</u>	<u>100%</u>

COVINGTON COUNTY HOSPITAL
Years Ended September 30, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS

Note 9. Continued

Patient Service Revenue Under Contract

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

	September 30, 2016		September 30, 2015	
	Amount	Percent of Total Gross Patient Revenue	Amount	Percent of Total Gross Patient Revenue
Medicare	\$ 23,499,060	49.4%	\$ 27,878,482	52.1%
Medicaid	6,021,600	12.7%	8,044,269	15.0%
Other	17,983,742	37.9%	18,577,880	32.9%
Total	\$ 47,504,402	100.0%	\$ 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 years ended September 30, 2016 and 2015 for all operating leases was \$162,000 and \$147,000, respectively.

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, 2016 that have initial or remaining lease terms in excess of one year:

Year Ending September 30,	Amount
2017	\$ 105,889
2018	51,384
	<u>\$ 157,273</u>

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.

During 2016, the Hospital identified a potential non-compliance violation for various technical violations of Centers for Medicare and Medicaid Services ("CMS") rules. The Hospital voluntarily self-reported the violations to CMS and the matters are currently under review by CMS. It is not possible at this time to evaluate the likelihood of an unfavorable outcome or to estimate the amount or range of any potential loss and/or penalties.

COVINGTON COUNTY HOSPITAL
Years Ended September 30, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS

Note 11. Risks and Uncertainties

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 as well as significant changes in the political landscape.

COVINGTON COUNTY HOSPITAL
Schedule of Surety Bonds for Officers and Employees
September 30, 2016

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
Charlie Anglin	Trustee	Brierfield Insurance Company	100,000
Larry Robinson	Trustee	Brierfield Insurance Company	100,000
Greg Sanford	Trustee	Brierfield Insurance Company	100,000
Greg Sullivan	Trustee	Brierfield Insurance Company	100,000
Gregg Gibbes	Administrator	Brierfield Insurance Company	100,000
Public Employees	Trustee	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, 2016, 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 22, 2017.

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 charges 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. Given these limitations, significant deficiencies or material weaknesses may exist that have not been identified. However, 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*.

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.

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

Ridgeland, Mississippi
February 22, 2017