

Sharkey-Issaquena Community Hospital

(A Component Unit of Sharkey County)

Independent Auditor's Reports and Financial Statements

September 30, 2020 and 2019

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
September 30, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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.

Emphasis of Matter

The accompanying financial statements have been prepared assuming the Hospital will continue as a going concern. As discussed in *Note 15*, the Hospital has suffered recurring losses and negative cash flows from

operations, which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in *Note 15*. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

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.

The Schedule of Surety Bonds for Officials 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 July 29, 2021, 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
July 29, 2021

Sharkey-Issaquena Community Hospital

A Component Unit of Sharkey County

Management's Discussion and Analysis

Years Ended September 30, 2020 and 2019

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, 2020 and 2019. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

2020 Highlights

- Cash and certificate of deposit increased by \$4,028,785 or 183%, from 2019 to 2020, of which approximately \$3,901,000 were received from the Coronavirus Aid, Relief, and Economic Security (CARES) Act,
- Current liabilities have increased approximately \$3,452,000 from 2019 to 2020, due to funds received through the CARES Act.
- The Hospital received approximately \$1,182,000 in accelerated Medicare payments as provided for in the CARES Act.
- The Hospital reported an operating loss of approximately \$2,069,000 for 2020 and a decrease in net position of approximately \$1,045,000. The decrease in net position was driven by the impacts of COVID-19 on volumes and net patient service revenues, while reducing operating costs but maintaining healthcare capacity to address the pandemic.

2019 Highlights

- Cash and certificate of deposit increased by \$19,896, or 1%, from 2018 to 2019.
- Current liabilities have increased \$1,251,852 from 2018 to 2019, due to the draw down of \$865,198 on the available line of credit and increased accounts payable.
- Total operating expenses for 2019 increased by \$657,136, or 5%, over the prior year. This was due primarily to an approximately \$474,000 increase in salaries and wages from the hiring of two new physicians during the year.
- The Hospital reported an operating loss of \$2,204,989 for 2019 and a decrease in net position of \$1,559,889. The decrease in net position was driven by the increase in operating expenses, primarily related to salaries, wages and employee benefits.

Sharkey-Issaquena Community Hospital

A Component Unit of Sharkey County

Management's Discussion and Analysis

Years Ended September 30, 2020 and 2019

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 position – the difference between assets and liabilities – is 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, 2020 and 2019

The Hospital's Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the balance sheet. The Hospital's net position decreased by \$1,044,827 in 2020 over 2019, and decreased by \$1,559,889 in 2019 over 2018, as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2020	2019	2018
Assets			
Current assets	\$ 6,412,488	\$ 2,035,154	\$ 2,331,471
Capital assets, net	1,408,924	1,417,772	1,507,691
Other assets	2,191,594	2,170,540	2,154,916
	<u>2,191,594</u>	<u>2,170,540</u>	<u>2,154,916</u>
Total assets	<u>\$ 10,013,006</u>	<u>\$ 5,623,466</u>	<u>\$ 5,994,078</u>
Liabilities			
Current liabilities	\$ 7,644,947	\$ 4,192,678	\$ 2,940,826
Long-term debt	1,177,197	73,649	136,224
Other long-term liabilities	878,550	-	-
	<u>878,550</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>9,700,694</u>	<u>4,266,327</u>	<u>3,077,050</u>
Net Position (Deficit)			
Net investment in capital assets	1,103,584	1,281,639	1,262,570
Restricted - expendable	97,310	1,511	6,100
Unrestricted	(888,582)	73,989	1,648,358
	<u>(888,582)</u>	<u>73,989</u>	<u>1,648,358</u>
Total net position	<u>312,312</u>	<u>1,357,139</u>	<u>2,917,028</u>
Total liabilities and net position	<u>\$ 10,013,006</u>	<u>\$ 5,623,466</u>	<u>\$ 5,994,078</u>

2020

- Current assets increased \$4,377,334 compared to 2019. The main component was CARES Act funding, including Medicare accelerated payments, provider relief funds and PPP loan.

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

- In 2020, current liabilities increased approximately \$3,452,000 due to the deferred CARES Act revenue, Medicare accelerated payments, and PPP loan.

2019

- Current assets decreased \$296,317 compared to 2018. The main component was a decrease of approximately \$241,000 in net patient accounts receivable due to reduced collections from nursing home operations.
- In 2019, current liabilities increased \$1,251,852 due to the draw down of \$865,198 on the available line of credit and increased accounts payable.

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

Operating Results and Changes in the Hospital's Net Position

In 2020, the Hospital's net position decreased by \$1,044,827, as shown in Table 2, compared to an decrease in net position in the prior year of \$1,559,889.

Table 2: Operating Results and Changes in Net Position

	2020	2019	2018
Operating Revenues			
Net patient service revenue	\$ 9,678,612	\$ 11,048,572	\$ 10,387,174
Other	<u>37,342</u>	<u>7,650</u>	<u>35,600</u>
Total operating revenues	<u>9,715,954</u>	<u>11,056,222</u>	<u>10,422,774</u>
Operating Expenses			
Salaries, wages and employee benefits	7,022,133	6,990,342	6,420,592
Supplies and other	4,530,618	6,034,346	5,955,789
Depreciation	<u>232,089</u>	<u>236,523</u>	<u>227,694</u>
Total operating expenses	<u>11,784,840</u>	<u>13,261,211</u>	<u>12,604,075</u>
Operating Loss	<u>(2,068,886)</u>	<u>(2,204,989)</u>	<u>(2,181,301)</u>
Net Nonoperating Revenues	<u>956,749</u>	<u>594,380</u>	<u>616,829</u>
Capital Grants and Gifts	<u>67,310</u>	<u>50,720</u>	<u>21,608</u>
Decrease in Net Position	<u><u>\$ (1,044,827)</u></u>	<u><u>\$ (1,559,889)</u></u>	<u><u>\$ (1,542,864)</u></u>

Operating Income (Loss)

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 2020, the Hospital reported an operating loss of \$2,068,886 compared to a reported operating loss of \$2,204,989 for fiscal year 2019.

Sharkey-Issaquena Community Hospital
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Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

2020

- Operating revenues decreased by \$1,340,268 due to decreased volumes during the year as a result of the COVID-19 pandemic.
- Acute patient days decreased to 308 in 2020, compared to 600 in 2019. Swing bed days decreased to 961 in 2020 from 978 in 2019.

2019

- Operating revenues increased by \$633,448 due to expansion of lab services and addition of a pain management clinic.
- The Hospital experienced significant changes in operating expenses, which increased by \$657,136, or 5%. This was due primarily to the increase in salaries, wages and employee benefits resulting from the hiring of two new physicians.
- Acute patient days decreased to 600 in 2019, compared to 1,121 in 2018. Swing bed days decreased to 978 in 2019 from 981 in 2018.

Nonoperating Revenues (Expenses)

Nonoperating revenues (expenses), which consist primarily of county subsidies, interest income and noncapital grants and gifts, increased by \$362,369 or 61%, in 2020, compared to 2019 and decreased by \$22,449, or 4%, in 2019 compared to 2018.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses for 2020, 2019 and 2018. In 2020, a significant amount of cash was provided by the CARES Act.

Sharkey-Issaquena Community Hospital

A Component Unit of Sharkey County

Management's Discussion and Analysis

Years Ended September 30, 2020 and 2019

Capital Assets

At the end of 2020, the Hospital had \$1,408,924 of net capital assets as detailed in *Note 5* to the financial statements. At the end of 2019, the Hospital had \$1,417,772 of net capital assets as detailed in *Note 5* to the financial statements. The decrease in net capital assets was primarily the result of depreciation.

Debt

At September 30, 2020, the Hospital had \$3,610,605 in outstanding lines of credit, notes payable and capital lease obligations. In 2020, the Hospital repaid \$122,327 in 2020 and borrowed \$865,198 in 2019 on the existing line of credit. The Hospital also received a Paycheck Protection Program loan in the amount of \$1,375,000, see *Notes 6* and *16*.

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 2020 budget. While the financial outlook for the Hospital is uncertain at this point, many factors must be considered for the future:

- The current economic conditions present the Hospital with challenges, including the increase of self-pay patients and overall patient volumes
- 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 net patient revenue is 57% Medicare and 37% Medicaid
- Significant legislative funding cuts for Medicare under the Affordable Care Act
- Population decreases in the Hospital's service area
- Shortage of licensed professional medical staff in the Hospital's geographic area
- In late 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in China. The spread of COVID-19 began to cause some business disruption through reduced patient revenue, specifically related to elective procedures and physician office visits. As the economy adjusts to the pandemic caused by COVID-19, certain changes in availability of supplies and equipment, reduction in patient visits and other yet undetermined impacts will

Sharkey-Issaquena Community Hospital
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Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

affect the operations of the Hospital. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. The Hospital expects this matter could negatively impact its financial condition and operating results. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Contacting Hospital Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Business Administration by contacting:

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, 2020 and 2019

	2020	2019
Assets		
Current Assets		
Cash	\$ 4,119,232	\$ 111,501
Patient accounts receivable, net of allowance for uncollectible accounts; 2020 - \$2,837,000, 2019 - \$2,445,000	1,226,613	1,471,526
Estimated amounts due from third-party payers	832,100	233,189
Supplies	161,380	155,538
Prepaid expenses and other	73,163	63,400
Total current assets	6,412,488	2,035,154
Capital Assets, Net	1,408,924	1,417,772
Certificate of Deposit	2,112,838	2,091,784
Investment in Insurance Providers	78,756	78,756
Total assets	\$ 10,013,006	\$ 5,623,466

See Notes to Financial Statements

	2020	2019
Liabilities and Net Position		
Current Liabilities		
Line of credit	\$ 1,930,265	\$ 2,052,592
Current maturities of long-term debt	503,143	62,484
Estimated amounts due to third-party payors	303,178	-
Accounts payable	701,194	1,610,968
Revenue received in advance	3,672,117	-
Accrued expenses	535,050	466,634
	<hr/>	<hr/>
Total current liabilities	7,644,947	4,192,678
Estimated Amounts Due to Third Party Payors	878,550	-
Long-term Debt	<hr/>	<hr/>
	1,177,197	73,649
	<hr/>	<hr/>
Total liabilities	9,700,694	4,266,327
	<hr/>	<hr/>
Net Position (Deficit)		
Net investment in capital assets	1,103,584	1,281,639
Restricted - expendable	97,310	1,511
Unrestricted	(888,582)	73,989
	<hr/>	<hr/>
Total net position	312,312	1,357,139
	<hr/>	<hr/>
Total liabilities and net position	<u><u>\$ 10,013,006</u></u>	<u><u>\$ 5,623,466</u></u>

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2020 and 2019

	2020	2019
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2020 - \$2,489,000, 2019 - \$1,287,000	\$ 9,678,612	\$ 11,048,572
Other	37,342	7,650
Total operating revenues	9,715,954	11,056,222
Operating Expenses		
Salaries and wages	5,607,324	5,668,921
Employee benefits	1,414,809	1,321,421
Supplies and other	4,530,618	6,034,346
Depreciation	232,089	236,523
Total operating expenses	11,784,840	13,261,211
Operating Loss	(2,068,886)	(2,204,989)
Nonoperating Revenues (Expenses)		
County subsidies	598,500	539,927
Interest income	24,734	15,822
CARES Act funding	229,330	-
Noncapital grants and gifts	181,040	102,988
Interest expense	(76,855)	(64,357)
Net nonoperating revenues (expenses)	956,749	594,380
Deficiency of Revenues Over Expenses		
Before Capital Contributions	(1,112,137)	(1,610,609)
Capital Grants and Gifts	67,310	50,720
Decrease in Net Position	(1,044,827)	(1,559,889)
Net Position, Beginning of Year	1,357,139	2,917,028
Net Position, End of Year	\$ 312,312	\$ 1,357,139

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Receipts from and on behalf of patients	\$ 10,506,342	\$ 11,334,540
Payments to suppliers and contractors	(5,445,354)	(5,447,757)
Payments to employees	(6,964,360)	(7,003,514)
Other cash receipts	80,669	7,650
	<u>(1,822,703)</u>	<u>(1,109,081)</u>
Cash Flows from Noncapital Financing Activities		
Decrease in outstanding checks in excess of bank balance	-	(125,729)
Proceeds (payments) from line of credit, net	(122,327)	865,198
Interest paid on line of credit	(53,737)	(25,295)
CARES Act funding	3,901,447	-
Noncapital grants and gifts	181,040	102,988
Paycheck Protection Program loan	1,375,000	-
County subsidies	598,500	539,927
	<u>5,879,923</u>	<u>1,357,089</u>
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(221,251)	(146,604)
Principal payments on long-term debt	(90,033)	(108,988)
Interest paid on long-term debt	(23,118)	(39,062)
Proceeds from issuance of long-term debt	175,000	-
Capital grants and gifts	67,310	50,720
Insurance proceeds on loss of capital assets	38,923	-
	<u>(53,169)</u>	<u>(243,934)</u>
Cash Flows from Investing Activities		
Interest earned on investments	24,734	15,822
Purchase of long-term certificate of deposit	(21,054)	(15,624)
	<u>3,680</u>	<u>198</u>
Increase in Cash	4,007,731	4,272
Cash, Beginning of Year	<u>111,501</u>	<u>107,229</u>
Cash, End of Year	<u><u>\$ 4,119,232</u></u>	<u><u>\$ 111,501</u></u>

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Statements of Cash Flows (Continued)
Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Reconciliation of Operating Loss to Net Cash		
Used In Operating Activities		
Operating loss	\$ (2,068,886)	\$ (2,204,989)
Depreciation	232,089	236,523
Provision for uncollectible accounts	2,489,138	1,286,982
Changes in operating assets and liabilities		
Patient accounts receivable	(2,244,225)	(1,045,530)
Estimated amounts due from third-party payers	582,817	44,516
Supplies	(5,842)	23,968
Prepaid expenses and other assets	(9,763)	(9,347)
Accounts payable	(909,774)	561,325
Accrued expenses	111,743	(2,529)
	<u>\$ (1,822,703)</u>	<u>\$ (1,109,081)</u>
Net cash used in operating activities		
	<u>\$ (1,822,703)</u>	<u>\$ (1,109,081)</u>
Supplemental Cash Flows Information		
Capital leases obligations incurred for capital assets	\$ 84,240	\$ -

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Notes to Financial Statements
September 30, 2020 and 2019

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, including capital lease obligations, 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 Hospital leases and operates a 54-bed skilled nursing facility in Rolling Fork, Mississippi. The lease is for nine years and expires on August 31, 2024. The skilled nursing facility is operated as a department of the Hospital.

The Sharkey-Issaquena Medical Foundation (the Foundation) is a 501(c)3 nonprofit health organization, established in order to promote and support the Hospital in the provision of health care. The Foundation is a separate legal entity but is financially integrated with the Hospital and is reported as a blended component unit of the Hospital and does not issue separate financial statements.

Certain contributions and operating expenses are not eliminated when the Foundation is presented as a blended component unit of the Hospital due to differing fiscal year-ends. As such, \$1,400 and \$78,149 of contributions have been received by the Hospital in 2020 and 2019, respectively, that were not eliminated. In addition, Foundation transfers to the Hospital occurring within the Foundation's fiscal years ended 2019 and 2018 of \$77,018 and \$28,671, included within operating expenses, have not been eliminated from 2020 and 2019, respectively.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), 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.

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Notes to Financial Statements
September 30, 2020 and 2019

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.

County Subsidies

The Hospital receives contributions from Sharkey and Issaquena Counties to subsidize operations and ambulance services.

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 or market. Costs are determined using the first-in, first-out method (FIFO).

Capital Assets

Capital assets are recorded at cost at the date of acquisition or, at acquisition value at date of donation if acquired by gift. Depreciation expense is computed 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. 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

Capital Asset Impairment

The Hospital evaluated capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. No asset impairment was recognized during the years ended September 30, 2020 or 2019.

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Notes to Financial Statements
September 30, 2020 and 2019

Compensated Absences

The Hospital policies permit most employees to accumulate paid time off (PTO) benefits that may be realized as PTO or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as PTO benefits when earned, whether the employee is expected to realize the benefit as time off or in cash. PTO 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.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; 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.

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 remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted expendable net position.

Net Patient Service Revenue

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

Charity Care

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

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Income Taxes

As an essential government function of the Counties, 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.

The Foundation

Sharkey Issaquena Medical 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 Directors 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 Hospital, the Foundation is considered a component unit of the Hospital and is blended in the Hospital's financial statements.

Reclassifications

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 presentation. The reclassifications had no effect on the changes in financial position.

Note 2: 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. These payments include:

- Medicare - Certain inpatient acute care and skilled nursing services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.

Effective August 1, 2019, the Hospital became certified as a critical access hospital (CAH) for Medicare reimbursement purposes. As a CAH, the Medicare program reimburses the Hospital for inpatient and outpatient services under a cost reimbursement methodology. The designation as a CAH did not change how the skilled nursing facility is reimbursed.

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The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor.

- Medicaid - Inpatient services rendered to Medicaid program beneficiaries are generally paid based upon a prospective-payment system based on All Patient Refined Diagnosis Related Groups (APR-DRG). Outpatient services are also paid on a prospective-payment system using Ambulatory Payment Classifications (APC), similar to the Medicare payment model. The Hospital is reimbursed for retroactively determined items at tentative rates, with final settlement determined after submission of annual cost reports by the Hospital and audits by the State of Mississippi Medicaid Program. Skilled nursing 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.

Beginning 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 (CCO). The CCO subcontract with the hospitals throughout the state for distribution of MHAP for the purpose of protecting patient access to hospital care. 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 \$579,000 and \$709,000 in 2020 and 2019, 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 94% and 81% of net patient service revenue was from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2020 and 2019, respectively. 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.

Sharkey-Issaquena Community Hospital
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Note 3: Deposits

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

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

At September 30, 2020 and 2019, the Hospital's deposits were fully secured as follows:

	2020	2019
Amount insured by FDIC	\$ 276,021	\$ 325,456
Amount collateralized by securities held in collateral pool	<u>5,908,791</u>	<u>1,891,389</u>
Total depository balances	<u><u>\$ 6,184,812</u></u>	<u><u>\$ 2,216,845</u></u>
Carrying value	<u><u>\$ 6,232,070</u></u>	<u><u>\$ 2,203,285</u></u>
Included in the following balance sheet captions		
Cash	\$ 4,119,232	\$ 111,501
Certificate of deposit	<u>2,112,838</u>	<u>2,091,784</u>
	<u><u>\$ 6,232,070</u></u>	<u><u>\$ 2,203,285</u></u>

Sharkey-Issaquena Community Hospital
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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, 2020 and 2019, consisted of:

	2020	2019
Medicare	\$ 636,623	\$ 958,759
Medicaid	297,485	221,059
Other third-party payers	1,786,735	814,205
Patients	1,342,630	1,922,250
	<u>4,063,473</u>	<u>3,916,273</u>
Allowance for uncollectible accounts	<u>(2,836,860)</u>	<u>(2,444,747)</u>
	<u><u>\$ 1,226,613</u></u>	<u><u>\$ 1,471,526</u></u>

Note 5: Capital Assets

Capital assets activity for the years ended September 30, 2020 and 2019, was:

	2020			
	Beginning Balance	Additions	Disposals/ Transfers	Ending Balance
Land	\$ 5,750	\$ -	\$ -	\$ 5,750
Land improvements	86,180	-	-	86,180
Buildings and leasehold improvements	2,462,751	109,205	-	2,571,956
Fixed equipment	913,814	20,400	(1,600)	932,614
Fixed equipment - nursing home	15,501	4,900	-	20,401
Major moveable equipment	2,050,646	154,179	(44,310)	2,160,515
Minor equipment	303,735	16,807	(20,400)	300,142
EHR equipment	462,834	-	-	462,834
	<u>6,301,211</u>	<u>305,491</u>	<u>(66,310)</u>	<u>6,540,392</u>
Less accumulated depreciation				
Land improvements	76,730	7,692	-	84,422
Buildings and leasehold improvements	1,682,172	72,773	-	1,754,945
Fixed equipment	796,348	35,756	(1,547)	830,557
Major moveable equipment	1,710,186	70,103	17,487	1,797,776
Minor equipment	156,500	44,434	-	200,934
EHR equipment	461,503	1,331	-	462,834
	<u>4,883,439</u>	<u>232,089</u>	<u>15,940</u>	<u>5,131,468</u>
Capital assets, net	<u><u>\$ 1,417,772</u></u>	<u><u>\$ 73,402</u></u>	<u><u>\$ (82,250)</u></u>	<u><u>\$ 1,408,924</u></u>

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	2019			
	Beginning Balance	Additions	Disposals/ Transfers	Ending Balance
Land	\$ 5,750	\$ -	\$ -	\$ 5,750
Land improvements	86,180	-	-	86,180
Buildings and leasehold improvements	2,478,252	-	-	2,478,252
Fixed equipment	913,814	-	-	913,814
Major moveable equipment	1,926,659	123,987	-	2,050,646
Minor equipment	281,118	22,617	-	303,735
EHR equipment	462,834	-	-	462,834
	<u>6,154,607</u>	<u>146,604</u>	<u>-</u>	<u>6,301,211</u>
Less accumulated depreciation				
Land improvements	69,037	7,693	-	76,730
Buildings and leasehold improvements	1,632,995	49,177	-	1,682,172
Fixed equipment	753,553	42,795	-	796,348
Major moveable equipment	1,619,733	90,453	-	1,710,186
Minor equipment	112,997	43,503	-	156,500
EHR equipment	458,601	2,902	-	461,503
	<u>4,646,916</u>	<u>236,523</u>	<u>-</u>	<u>4,883,439</u>
Capital assets, net	<u>\$ 1,507,691</u>	<u>\$ (89,919)</u>	<u>\$ -</u>	<u>\$ 1,417,772</u>

Note 6: Long-term Debt

The following is a summary of long-term debt transactions for the Hospital for the years ended September 30, 2020 and 2019.

2020

Long-term Debt

Leases payable to

finance companies

\$ 136,133 \$ 84,240 \$ (65,993) \$ 154,380 \$ 46,627

PPP loan

- 1,375,000 - 1,375,000 305,556

Note payable

- 175,000 (24,040) 150,960 150,960

Total long-term debt

\$ 136,133 \$1,634,240 \$ (90,033) \$ 1,680,340 \$ 503,143

2019

Leases payable to

finance companies

\$ 245,121 \$ - \$ (108,988) \$ 136,133 \$ 62,484

Sharkey-Issaquena Community Hospital
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Hospital Paycheck Protection Program (PPP) Loan

The Hospital received a PPP loan of \$1,375,000 in April 2020, from the Small Business Administration, designed to provide a direct incentive for small businesses to keep their workers on the payroll. The loan has an interest rate of 1%, with payment of principal and interest being deferred 10 months from the end of the covered period to allow the Hospital to seek loan forgiveness from the SBA. Principal payments of \$152,778 are due monthly beginning in August 2021, with the balance due April 2022.

Hospital Note Payable

Effective November 4, 2019, the Hospital entered into a note payable with the Bank of Anguilla with a principal balance of approximately \$175,000 and an initial 6% interest rate. The note payable expires on November 4, 2024, and is due on demand at the lender's request. While the note payable is outstanding, the Hospital will pay monthly payments of \$3,419 over the five year term.

Capital Lease Obligations

Leased equipment under capital leases at September 30, 2020 and 2019, includes the following:

	2020	2019
Capital assets	\$ 820,946	\$ 736,706
Less accumulated depreciation	<u>(598,724)</u>	<u>(501,569)</u>
	<u><u>\$ 222,222</u></u>	<u><u>\$ 235,137</u></u>

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The following is a schedule by year of future minimum lease payments under the capital leases, including interest at rates of 0.00% to 12.0%, maturing between 2020 and 2025, together with the present value of the future minimum lease payments as of September 30, 2020.

	Capital Lease Obligations
2021	\$ 46,627
2022	46,095
2023	37,387
2024	19,188
2025	10,838
	<u>160,135</u>
Less amount representing interest	<u>(5,755)</u>
Present value of future minimum lease payments	<u><u>\$ 154,380</u></u>

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 \$2,096,550 and bears interest at 3.0% for the years 2020 and 2019. The line of credit matured on January 21, 2021 and was renewed with a maximum balance of \$2,000,050, bearing interest at 2.0%, maturing February 22, 2022. The line of credit continues to be collateralized by the certificate of deposit held by the financial institution. The following is a summary of line-of-credit transactions for the years ended September 30.

	2020	2019
Beginning balance	\$ 2,052,592	\$ 1,187,394
Additions	-	865,198
Deductions	<u>(122,327)</u>	<u>-</u>
Ending balance	<u><u>\$ 1,930,265</u></u>	<u><u>\$ 2,052,592</u></u>

Sharkey-Issaquena Community Hospital
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Note 8: Operating Lease

The Hospital leases a facility to operate a nursing home under a noncancelable lease. 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, 2020, were:

2021	\$	211,800
2022		211,800
2023		211,800
2024		194,150
		<hr/>
	\$	829,550
		<hr/>

Lease expense totaled approximately \$211,800 for both years ended September 30, 2020 and 2019.

Note 9: Significant Commitments

During the year ended December 31, 2015, the Hospital entered into a contract with TruBridge to manage its general ledger software and other business and IT services under a noncancelable commitment. The contract term is for seven years expiring May 2022. The monthly rental is 8.5% of certain cash collections as defined by the contract. The contract expense for 2020 and 2019 was \$348,000 and \$378,000, respectively.

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. 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. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible this estimate could change materially in the near term.

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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. The Hospital matches 100% of the first 3% of employee contributions to the Plan. Contributions actually made by plan members and the Hospital aggregated approximately \$89,000 and \$69,000 during 2020 and \$98,000 and \$78,000 during 2019, respectively.

Note 12: Related Party Transactions

The Hospital maintains the majority of its bank accounts and certificate 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
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Note 13: Condensed Combining Information

The following tables include condensed combining balance sheet information for the Hospital and its blended component unit as of September 30, 2020 and 2019.

	2020			
	Sharkey-Issaquena Community Hospital	Sharkey-Issaquena Medical Foundation	Eliminations	Total
Assets				
Current assets	\$ 6,371,437	\$ 41,051	\$ -	\$ 6,412,488
Capital assets, net	1,408,924	-	-	1,408,924
Other assets	2,191,594	-	-	2,191,594
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 9,971,955</u>	<u>\$ 41,051</u>	<u>\$ -</u>	<u>\$ 10,013,006</u>
Liabilities				
Current liabilities	\$ 7,644,947	\$ -	\$ -	\$ 7,644,947
Estimated amounts due to third party payors	878,550	-	-	878,550
Long-term liabilities	1,177,197	-	-	1,177,197
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>9,700,694</u>	<u>-</u>	<u>-</u>	<u>9,700,694</u>
Net Position (Deficit)				
Net investment in capital assets	1,103,584	-	-	1,103,584
Restricted - expendable	97,310	-	-	97,310
Unrestricted	(929,633)	41,051	-	(888,582)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total net position	<u>271,261</u>	<u>41,051</u>	<u>-</u>	<u>312,312</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and net position	<u>\$ 9,971,955</u>	<u>\$ 41,051</u>	<u>\$ -</u>	<u>\$ 10,013,006</u>

Sharkey-Issaquena Community Hospital
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	2019			
	Sharkey-Issaquena Community Hospital	Sharkey-Issaquena Medical Foundation	Eliminations	Total
Assets				
Current assets	\$ 1,930,470	\$ 104,684	\$ -	\$ 2,035,154
Capital assets, net	1,417,772	-	-	1,417,772
Other assets	2,170,540	-	-	2,170,540
Total assets	<u>\$ 5,518,782</u>	<u>\$ 104,684</u>	<u>\$ -</u>	<u>\$ 5,623,466</u>
Liabilities				
Current liabilities	\$ 4,192,678	\$ -	\$ -	\$ 4,192,678
Long-term liabilities	73,649	-	-	73,649
Total liabilities	<u>4,266,327</u>	<u>-</u>	<u>-</u>	<u>4,266,327</u>
Net Position				
Net investment in capital assets	1,281,639	-	-	1,281,639
Restricted - expendable	1,511	-	-	1,511
Unrestricted	(30,695)	104,684	-	73,989
Total net position	<u>1,252,455</u>	<u>104,684</u>	<u>-</u>	<u>1,357,139</u>
Total liabilities and net position	<u>\$ 5,518,782</u>	<u>\$ 104,684</u>	<u>\$ -</u>	<u>\$ 5,623,466</u>

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Notes to Financial Statements
September 30, 2020 and 2019

The following tables include condensed combining statements of revenues, expenses and changes in net position information for the Hospital and its blended component unit for the years ended September 30, 2020 and 2019.

	Year Ended September 30, 2020			
	Sharkey-Issaquena Community Hospital	Sharkey-Issaquena Medical Foundation	Eliminations	Total
Operating Revenues				
Net patient service revenue	\$ 9,678,612	\$ -	\$ -	\$ 9,678,612
Other	37,342	-	-	37,342
Total operating revenues	9,715,954	-	-	9,715,954
Operating Expenses				
Salaries, wages and employee benefits	7,022,133	-	-	7,022,133
Supplies and other	4,453,599	92,519	(15,500)	4,530,618
Depreciation	232,089	-	-	232,089
Total operating expenses	11,707,821	92,519	(15,500)	11,784,840
Operating Loss	(1,991,867)	(92,519)	15,500	(2,068,886)
Nonoperating Revenues (Expenses)				
County subsidies	598,500	-	-	598,500
Interest income	24,567	167	-	24,734
CARES Act funding	229,330	-	-	229,330
Noncapital grants and gifts	167,821	28,719	(15,500)	181,040
Interest expense	(76,855)	-	-	(76,855)
Net nonoperating revenues (expenses)	943,363	28,886	(15,500)	956,749
Deficiency of Revenues Over Expenses Before Capital Contributions	(1,048,504)	(63,633)	-	(1,112,137)
Capital Grants and Gifts	67,310	-	-	67,310
Decrease in Net Position	(981,194)	(63,633)	-	(1,044,827)
Net Position, Beginning of Year	1,252,455	104,684	-	1,357,139
Net Position, End of Year	\$ 271,261	\$ 41,051	\$ -	\$ 312,312

Sharkey-Issaquena Community Hospital
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	Year Ended September 30, 2019			
	Sharkey-Issaquena Community Hospital	Sharkey-Issaquena Medical Foundation	Eliminations	Total
Operating Revenues				
Net patient service revenue	\$ 11,048,572	\$ -	\$ -	\$ 11,048,572
Other	7,650	-	-	7,650
Total operating revenues	11,056,222	-	-	11,056,222
Operating Expenses				
Salaries, wages and employee benefits	6,990,342	-	-	6,990,342
Supplies and other	6,005,676	32,624	(3,954)	6,034,346
Depreciation	236,523	-	-	236,523
Total operating expenses	13,232,541	32,624	(3,954)	13,261,211
Operating (Loss)	(2,176,319)	(32,624)	3,954	(2,204,989)
Nonoperating Revenues (Expenses)				
County subsidies	539,927	-	-	539,927
Interest income	15,654	168	-	15,822
Noncapital grants and gifts	45,258	61,684	(3,954)	102,988
Interest expense	(64,357)	-	-	(64,357)
Net nonoperating revenues (expenses)	536,482	61,852	(3,954)	594,380
Deficiency of Revenues Over Expenses Before Capital Contributions	(1,639,837)	29,228	-	(1,610,609)
Capital Grants and Gifts	50,720	-	-	50,720
Increase (Decrease) in Net Position	(1,589,117)	29,228	-	(1,559,889)
Net Position, Beginning of Year	2,841,572	75,456	-	2,917,028
Net Position, End of Year	\$ 1,252,455	\$ 104,684	\$ -	\$ 1,357,139

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Notes to Financial Statements
September 30, 2020 and 2019

The following tables include condensed combining statements of cash flows information for the Hospital and its blended component unit for the years ended September 30, 2020 and 2019.

	Year Ended September 30, 2020			
	Sharkey-Issaquena Community Hospital	Sharkey-Issaquena Medical Foundation	Eliminations	Total
Net Cash Used In Operating Activities	\$ (1,745,684)	\$ (92,519)	\$ 15,500	\$ (1,822,703)
Net Cash Provided by Noncapital Financing Activities	5,866,704	28,719	(15,500)	5,879,923
Net Cash Used In Capital and Related Financing Activities	(53,169)	-	-	(53,169)
Net Cash Provided by Investing Financing Activities	<u>3,513</u>	<u>167</u>	<u>-</u>	<u>3,680</u>
Increase (Decrease) in Cash	4,071,364	(63,633)	-	4,007,731
Cash, Beginning of Year	<u>6,817</u>	<u>104,684</u>	<u>-</u>	<u>111,501</u>
Cash, End of Year	<u><u>\$ 4,078,181</u></u>	<u><u>\$ 41,051</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,119,232</u></u>

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Notes to Financial Statements
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	Year Ended September 30, 2019			
	Sharkey-Issaquena Community Hospital	Sharkey-Issaquena Medical Foundation	Eliminations	Total
Net Cash Used In Operating Activities	\$ (1,080,410)	\$ (32,625)	\$ 3,954	\$ (1,109,081)
Net Cash Provided by Noncapital Financing Activities	1,299,359	61,684	(3,954)	1,357,089
Net Cash Used In Capital and Related Financing Activities	(243,934)	-	-	(243,934)
Net Cash Provided by Investing Activities	29	169	-	198
Increase (Decrease) in Cash	(24,956)	29,228	-	4,272
Cash, Beginning of Year	31,773	75,456	-	107,229
Cash, End of Year	\$ 6,817	\$ 104,684	\$ -	\$ 111,501

Note 14: Contingencies

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Note 1* and *10*.

Admitting Physicians

The Hospital is served by three physicians whose patients comprised approximately 98% and 99% of the Hospital's admissions for the years ended September 30, 2020 and 2019.

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

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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.

Note 15: Going Concern

The Hospital has incurred recurring losses and negative cash flows from operations. Effective August 1, 2019, the Hospital converted to CAH status. The transition to CAH coupled with managing the pandemic impact on the community and receipt of CARES Act funding have sustained operating cash flows. Retention of the CARES Act funding will be based on meeting the conditions of the Department of Health and Human Services (HHS). The accompanying financial statements have been prepared assuming the Hospital will continue as a going concern; however, the financial condition of the Hospital raises substantial doubt about the Hospital's ability to do so. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should the Hospital be unable to continue as a going concern.

Note 16: COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 (COVID-19) as a global pandemic. Patient volumes and the related revenues for most of the Hospital's services were significantly impacted by COVID-19, as various policies were implemented by federal, state and local governments in response to the pandemic that have caused many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective surgical procedures by health care facilities.

While some of these restrictions have been eased, some restrictions remain in place, and some state and local governments are adjusting certain restrictions based on the trend on the COVID-19 cases. While resident volumes and revenues experienced gradual improvement, the Hospital is unable to predict the future impact of the pandemic on the Hospital's operations.

The Hospital's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. The Hospital has taken precautionary steps to enhance its operational and financial flexibility and react to the risks the COVID-19 pandemic presents to the Hospital's business, including the following:

- Implemented certain cost reduction initiatives

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September 30, 2020 and 2019

- Execution of Paycheck Protection Act loan
- Provider Relief Funds distributions

In addition, the Hospital received approximately \$1,182,000 of accelerated Medicare payments and approximately \$3,901,000 in general and targeted Provider Relief Fund distributions, both as provided for under the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act. The Hospital also received approximately \$112,000 in grants from the Coronavirus Relief Fund through the State of Mississippi.

The extent of the COVID-19 pandemic’s adverse impact on the Hospital’s operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the Hospital’s control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, continued declines in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure.

Because of these and other uncertainties, the Hospital cannot estimate the length or severity of the impact of the pandemic on the Hospital’s business. Decreases in cash flows and results of operations may have an impact on the inputs and assumptions used in significant accounting estimates, including contractual allowances related to uninsured patient accounts.

Provider Relief Funds

During the year ended September 30, 2020, the Hospital received approximately \$3,901,000 of distributions from the CARES Act Provider Relief Funds. These distributions from the Provider Relief Funds are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the HHS.

The Hospital is accounting for such payments as conditional contributions. These payments are recognized as nonoperating revenue once the applicable terms and conditions required to retain the funds have been met and completion of the measurement period. Based on an analysis of the compliance and reporting requirements of the Provider Relief Funds and the effect of the pandemic on the Hospital’s operating revenues and expenses through September 30, 2020, the Hospital recognized approximately \$229,000 of Provider Relief Funds. The unrecognized amount of Provider Relief Funds are recorded as revenues received in advance in the accompanying balance sheets.

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September 30, 2020 and 2019

Subsequent to year-end, HHS issued guidance on the use of payments from the Provider Relief Funds. The Hospital considers the guidance issued subsequent to year-end to be substantive changes in guidance rather than clarifications of guidance existing at September 30, 2020. As a result, the amounts recorded in the financial statements compared to the Hospital's Provider Relief Funds reporting could differ. This difference cannot be currently estimated but could be material.

The Hospital will continue to monitor compliance with the terms and conditions of the Provider Relief Funds and the effect of the pandemic on the Hospital's revenues and expenses. The terms and conditions governing the Provider Relief Funds are complex and subject to interpretation and change. If the Hospital is unable to attest to or comply with current or future terms and conditions, the Hospital's ability to retain some or all of the distributions received may be affected. Provider Relief Funds payments are subject to government oversight, including potential audits.

Paycheck Protection Program (PPP) Loan

The CARES Act and other subsequent legislation also provides an SBA loan designed to provide a direct incentive for small businesses to keep their workers on the payroll. The PPP loans will be forgiven if all employee retention criteria are met and the funds are used for eligible expenses. The Hospital received a PPP loan of approximately \$1,375,000 in May 2020. The loan has an interest rate of 1%.

The Hospital has accounted for the PPP loan in accordance with GASB Statement No. 62. Interest is accrued in accordance with the loan agreement. Any forgiveness of the loan will be recognized as a gain in the financial statements in the period the debt is legally released. The PPP loan is included on the accompanying balance sheets as long-term debt in accordance with the term of the PPP loan agreement. See *Note 6* for additional information.

Medicare Accelerated and Advanced Payment Program

During the year ended September 30, 2020, the Hospital requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. These amounts are expected to be recaptured by Centers for Medicare and Medicaid Services (CMS) according to the payback provisions.

On September 30, 2020, the payback provisions were revised and extended the payback period to begin one year after the issuance of the advance payment through a phased payback period approach. The first 11 months of the payback period will be at 25% of the remittance advice payment followed by a six-month payback period at 50% of the remittance advice payment. After 29 months, CMS expects any amount not paid back through the withhold amounts to be paid back in a lump sum or interest will begin to accrue subsequent to the 29 month at a rate of 4%.

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September 30, 2020 and 2019

The Hospital received approximately \$1,182,000 from these accelerated Medicare payment requests during 2020, and these amounts are recorded in estimated amounts due to third party payers in the accompanying balance sheets. These are not current income but rather are advanced payments that cannot be recognized as revenue until services in the future are provided.

State Grants Agreement

During the year ended September 30, 2020, the Hospital received approximately \$112,000 from the State of Mississippi as part of the response to the COVID-19 pandemic. These distributions from the State are not subject to repayment, provided the Hospital is able to use the funds for health care related expenses attributable to COVID-19. The Hospital met these requirements and recorded as revenue in the fiscal year 2020.

Note 17: Subsequent Events

Letter of Intent

Subsequent to September 30, 2019, the Hospital signed a letter of intent to explore entering into a lease agreement with Delta Regional Medical Center to lease the Hospital for a term of 15 years, with an option to review for an additional 5 years. The Hospitals have completed due diligence and continue to work through terms of the lease agreement.

PPP Loan

The Hospital received a second PPP loan on March 18, 2021 in the amount of \$1,271,217. The loan has an interest rate of 1%, with principal and interest due over the next five years.

**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 financial statements of Sharkey-Issaquena Community Hospital (the Hospital) which comprise the balance sheet as of September 30, 2020, 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 financial statements, and have issued our report thereon dated July 29, 2021.

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 2020-001 and 2020-002 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
July 29, 2021

Sharkey-Issaquena Community Hospital

A Component Unit of Sharkey County

Schedule of Findings and Responses Year Ended September 30, 2020

Reference Number	Finding
2020-001	<p>Criteria or Specific Requirement - Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition - Management does not have detailed, consistent month-end or year-end close processes to ensure the general ledger accounts are reconciled and financial statements are fairly stated.</p> <p>Effect</p> <ul style="list-style-type: none"> • The financial statements lack consistency from month to month and may not reflect the actual 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>Cause - The Hospital does not have a detailed, consistent month-end or year-end close process to:</p> <ul style="list-style-type: none"> • Review, analyze and value the collectability of patient accounts receivable • Ensure timely posting of charges and cash receipts • Reconciliation of general ledger accounts • Journal entries are not reviewed and approved by supervisor with adequate supporting information <p>Recommendation - We recommend the following:</p> <ul style="list-style-type: none"> • Management develop a valuation model that can be consistently applied that reflects and appropriately estimates cash collections of accounts receivable • Management establish procedures to ensure all revenues are recorded in the proper period • Management reconcile all general ledger accounts on a monthly basis • Management develop and review detail monthly and year-end close processes and checklist <p>Views of Responsible Officials and Planned Corrective Actions - Management is aware of this situation and will consider and add processes to analyze the valuation of accounts receivable and to reconcile account balances monthly.</p>

Sharkey-Issaquena Community Hospital
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Schedule of Findings and Responses (Continued)
Year Ended September 30, 2020

Reference Number	Finding
2020-002	<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 auditors to prepare the external financial statements and related notes to the financial statements. Under auditing standards generally accepted in the United States of America, auditors cannot be considered part of the Hospital's internal control structure and, because of limitations of the Hospital's small accounting staff, the design of the Hospital's internal control structure does not otherwise include procedures for the preparation of external financial statements.</p> <p><i>Effect</i> - Potentially material misstatements in the financial statements and related notes to the financial statements could occur and not be prevented or detected by the Hospital's internal control structure.</p> <p><i>Cause</i> - The Hospital has not designed internal control procedures for preparing external financial statements.</p> <p><i>Recommendation</i> - Management should continue to assess the cost versus the benefits of improving internal controls over financial reporting.</p> <p><i>Views of Responsible Officials and Planned Corrective Actions</i> - Management will continue to consider the costs versus benefits of improving controls over financial statement preparation.</p>

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Summary Schedule of Prior Audit Findings
Year Ended September 30, 2020

Reference Number	Finding	Status
2019-001	<p>Criteria or Specific Requirement - Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition - Management does not have detailed, consistent month-end or year-end close processes to ensure the general ledger accounts are reconciled and financial statements are fairly stated.</p> <p>Effect</p> <ul style="list-style-type: none"> • The financial statements lack consistency from month to month and may not reflect the actual 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>Cause - The Hospital does not have a detailed, consistent month-end or year-end close process to:</p> <ul style="list-style-type: none"> • Review, analyze and value the collectability of patient accounts receivable • Ensure timely posting of charges and cash receipts • Reconciliation of general ledger accounts • Journal entries are not reviewed and approved by supervisor with adequate supporting information. 	Unresolved. See Finding 2020-001.

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Summary Schedule of Prior Audit Findings (Continued)
Year Ended September 30, 2020

Reference Number	Finding	Status
2019-002	<p data-bbox="418 583 1154 682">Criteria or Specific Requirement - Management is responsible for establishing and maintaining effective internal control over financial report.</p> <p data-bbox="418 720 1154 1014">Condition - The Hospital relies on its auditors to prepare the external financial statements and related notes to the financial statements. Under auditing standards generally accepted in the United States of America, 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 data-bbox="418 1052 1154 1182">Effect - 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 data-bbox="418 1220 1154 1285">Cause - The Hospital has not designed internal control procedures for preparing external financial statements.</p>	Unresolved. See Finding 2020-002.

Other Information

Sharkey-Issaquena Community Hospital
A Component Unit of Sharkey County
Schedule of Surety Bonds for Officials and Employees
Year Ended September 30, 2020

Name	Position	Company	Amount
Steven Kever	Hospital Staff/Administration	Western Surety	\$ 100,000
Lynne Moses	Medical Foundation	Western Surety	100,000
Charles Darden, Jr.	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
Gene Boykin	Trustee	Western Surety	100,000