South Sunflower County Hospital

Indianola, Mississippi

Audited Financial Statements

As of and for the Years Ended

September 30, 2017 and 2016

CONTENTS

Independent Auditor's Report	1 – 2
Management's Discussion and Analysis	3 – 9
Financial Statements	
Statements of Net Position	10
Statements of Revenues, Expenses and Changes in Net Position	11
Statements of Cash Flows	12
Notes to Financial Statements	13 – 31
Required Supplementary Information	
Schedule of Employee Contributions and Proportionate Share of Net Pension Liability	32
Supplementary Information	
Schedule of Surety Bonds for Officers and Employees	33
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*	34 – 35

HORNE
CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
South Sunflower County Hospital
Indianola, Mississippi

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2017 and 2016, and the respective 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 9 and the Schedule of Employer Contributions and Proportionate Share of Net Pension Liability on page 32 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 33 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 20, 2018, 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.

Horne LLP

Ridgeland, Mississippi
February 20, 2018

This section of South Sunflower County Hospital's ("Hospital") annual financial report presents background information and our analysis of the Hospital's financial performance during the fiscal years ended on September 30, 2017 and 2016. Please read it in conjunction with the financial statements in this report.

2017

FINANCIAL HIGHLIGHTS

Fiscal Year Ended September 30, 2017

The Hospital's total net position decreased $830,741 or approximately 14.5 percent from the prior year. This decrease results from the recognition of expenses in excess of revenues (decrease in net position).

At the end of the 2017 fiscal year, the assets and deferred outflows of the Hospital exceeded liabilities and deferred inflows by $4,910,095. Of this amount, $(8,797,033) represents an unrestricted deficit net position, $10,832,017 is invested in capital assets and $2,875,111 is designated for use in the Hospital's self-insurance programs. The Hospital established a self-insurance fund in accordance with the requirements of the Mississippi Tort Claims Board.

Net patient service revenue decreased by $820,537, or 3.4 percent, from the prior year. This is due to a decrease in outpatient and inpatient utilization and clinic visits. During this same period, operating expenses also decreased by $202,690 or 0.8 percent from the prior year. This decrease is due to a decrease in employee benefits. These decreases will be further discussed in the Operating and Financial Performance section of this analysis.

Fiscal Year Ended September 30, 2016

The Hospital's total net position increased by $157,263 or approximately 2.8 percent from the prior year. This increase results from the recognition of revenues in excess of expenses (increase in net position).

At the end of the 2016 fiscal year, the assets and deferred outflows of the Hospital exceeded liabilities and deferred inflows by $5,740,836. Of this amount, $(6,404,778) represents an unrestricted deficit net position, $9,264,782 is invested in capital assets and $2,880,832 is designated for use in the Hospital's self-insurance programs. The Hospital established a self-insurance fund in accordance with the requirements of the Mississippi Tort Claims Board.

Net patient service revenue increased by $47,367, or 0.2 percent, from the prior year. This is due to an increase in outpatient and inpatient utilization and clinic visits. During this same period, operating expenses also increased by $846,891 or 3.6 percent from the prior year. This increase is due to an increase in employee benefits. These increases will be further discussed in the Operating and Financial Performance section of this analysis.

GASB No. 68, Accounting and Financial Reporting for Pensions and Related Restatement of October 1, 2013 Net Position Balances.

In June 2012, the Government Accounting Standards Board ("GASB") issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27.* GASB No. 68 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. GASB No. 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of GASB Statement No. 50, *Pension Disclosures*, as they related to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pensions, GASB No. 68 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. In addition, GASB No. 68 details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions.

GASB No. 68 was effective for fiscal years beginning after June 15, 2014, with earlier application encouraged. The Hospital adopted GASB No. 68 as of October 1, 2013 and, as required, adjusted net position and restated the statement of net position as of October 1, 2013 and as of and for the year ended September 30, 2014. The impact of adopting GASB No. 68 resulted in a decrease in net position and an increase in liabilities of approximately $15.7 million as of October 1, 2013.

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, deferred outflows, liabilities and deferred inflows 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. It also provides 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, expenses and changes in net position. These statements measure the performance of the Hospital's operations over the past year 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 operating, investing and financing 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 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 financial statements is a section containing supplementary information that further explains and supports the information reported in the financial statements. This section includes optional schedules showing gross patient service revenue and operating expenses by department.

FINANCIAL ANALYSIS OF THE HOSPITAL

The statements of net position and the statements of revenues, expenses and changes in net position report information about the Hospital's activities. Increases or improvements, as well as decreases or declines in the net position, are 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.

Net Position

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

	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015
Current and other assets	$ 18,199,749	$ 19,825,709	$ 19,443,083
Capital assets, net	11,227,182	9,668,358	8,215,964
Total assets	29,426,931	29,494,067	27,659,047
Deferred outflows of resources	1,044,485	3,339,731	2,403,826
Long-term debt outstanding	395,165	403,576	280,198
Other liabilities	4,491,989	4,476,512	4,202,550
Net pension liability	19,734,628	21,146,696	18,932,870
Total liabilities	24,621,782	26,026,784	23,415,618
Deferred inflows of resources	939,539	1,066,178	1,063,682
Net invested in capital assets	10,832,017	9,264,782	7,935,766
Restricted	2,875,111	2,880,832	2,817,548
Unrestricted	(8,797,033)	(6,404,778)	(5,169,741)
Total net position	$ 4,910,095	$ 5,740,836	$ 5,583,573

Fiscal Year Ended September 30, 2017

Total assets decreased by $67,136 in 2017. The most significant components in the change in the Hospital's assets for 2017 was a decrease in cash and cash equivalents and patient accounts receivable of $1,486,827, which was affected by an increase of $1,558,824 in capital assets.

Total liabilities decreased $1,405,002 in 2017, which is primarily attributable to the decrease in the net pension liability.

Fiscal Year Ended September 30, 2016

Total assets increased by $1,835,020 in 2016. The most significant components in the change in the Hospital's assets for 2016 are an increase in capital assets, net of $1,452,394.

Total liabilities increased $2,611,166 in 2016, which is primarily attributable to the increase in net pension liability over the 2015 amount.

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, 2017, 2016 and 2015:

	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015
Net patient service revenue	$ 23,152,104	$ 23,972,641	$ 23,925,274
Other operating revenue	320,478	476,103	498,359
Total operating revenues	23,472,582	24,448,744	24,423,633
Salaries and benefits	14,093,372	15,134,441	13,657,709
Depreciation and amortization	562,721	445,544	395,166
Professional fees, supplies and maintenance	9,630,654	8,909,452	9,589,671
Total operating expenses	24,286,747	24,489,437	23,642,546
Income (loss) from operations	(814,165)	(40,693)	781,087
Nonoperating revenues (expenses)			
Investment income	(990)	213,400	216,273
Interest expense	(15,586)	(15,444)	(5,252)
Increase (decrease) in net position	$ (830,741)	$ 157,263	$ 992,108

Operating Revenues

Fiscal Year Ended September 30, 2017

The Hospital derived 98.6 percent of its total operating revenues from net patient service revenues. Such revenues include revenues from the Medicare and Medicaid programs, patients or their third-party carriers who pay for care in the Hospital's facilities.

Fiscal Year Ended September 30, 2016

The Hospital derived 98.1 percent of its total operating revenues from net patient service revenues. Such revenues include revenues from the Medicare and Medicaid programs, patients or their third-party carriers who pay for care in the Hospital's facilities.

The following table represents the relative percentage of gross charges billed for patient services by payor for the fiscal years ended September 30, 2017, 2016 and 2015:

	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015
Medicare	46%	46%	45%
Medicaid	27	26	29
Commercial	17	18	17
Other	10	10	9
Total gross charges	100%	100%	100%

OPERATING AND FINANCIAL PERFORMANCE

The following summarizes changes in the Hospital's statements of revenues, expenses and changes in net position between 2017 and 2016:

Fiscal Year Ended September 30, 2017

- Total admissions decreased from previous year, and there was a decrease in total patient days. The Hospital patient days and admissions are 4,060 and 898, respectively. This is a decrease of 18.3 percent and 16.1 percent, respectively, from 2016.
- Net patient service revenues decreased as stated in the financial highlights. Operating expenses decreased as a result of a decrease in FTEs. Gross patient service revenue decreased to $38,285,888 from $40,021,698 in the prior year.
- Professional fees, supplies and maintenance and utility expense increased $721,202 or 8.1 percent from the prior year.
- Investment income decreased $214,390 from prior year due to decrease in balances of investment accounts.

Fiscal Year Ended September 30, 2016

- Total admissions decreased from previous year, and there was a decrease in total patient days. The Hospital patient days and admissions are 4,972 and 1,070, respectively. This is a decrease of 0.06 percent and 9.0 percent, respectively, from 2015.
- Net patient service revenues increased as stated in the financial highlights. Operating expenses increased as a result of an addition in FTEs. Gross patient service revenue increased to $40,021,698 from $36,750,414 in the prior year.
- Professional fees, supplies and maintenance and utility expense decreased $248,844 or 2.7 percent from the prior year.
- Investment income decreased $2,873 from prior year due to decrease in balances of investment accounts.

CASH FLOWS

Changes in the Hospital's cash flows are consistent with changes in operating income losses and changes in net position discussed earlier.

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 2018 budget. While the financial outlook for the Hospital is stable, of primary importance in setting the 2018 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.
- Increased number of uninsured and working poor.
- Ongoing competition for services.
- Workforce shortages primarily in nursing and other clinically skilled positions.
- Cost of supplies, including pharmaceuticals.
- Impact of Healthcare Reform as it relates to reimbursement and employee health insurance coverage and potential repeals or replacements due to political changes.

CONTACTING THE HOSPITAL FINANCIAL MANAGER

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Hospital's finances. If you have any questions about this report or need additional financial information, please contact the Hospital’s Business office at South Sunflower County Hospital, 121 Baker Street, Indianola, MS 38751.

SOUTH SUNFLOWER COUNTY HOSPITAL

Statements of Net Position

September 30, 2017 and 2016

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 3,637,403	$ 4,559,479
Patient receivables, net of allowance for doubtful accounts of $3,570,992 and $3,391,949, respectively	3,170,225	3,734,976
Inventories	408,522	458,665
Prepaid expenses	114,151	80,817
Current portion of notes receivable	12,452	49,382
Other current assets	562,177	748,911
Total current assets	7,904,930	9,632,230
Noncurrent investments		
Internally designated by Board for capital improvements	6,650,595	6,662,859
Restricted for self-insurance claims	2,875,111	2,880,832
Total noncurrent cash and investments	9,525,706	9,543,691
Capital assets, net	11,227,182	9,668,358
Long-term notes receivable	769,113	649,788
Total assets	29,426,931	29,494,067
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension outflows	1,044,485	3,339,731
LIABILITIES		
Current liabilities		
Current maturities of capital lease obligations	135,238	113,990
Accounts payable	1,209,766	680,834
Accrued salaries and wages	1,372,287	1,667,387
Other accrued liabilities	215,945	262,436
Estimated third-party payor settlements	3,001	396,269
Liability for self-insurance claims	1,690,990	1,469,586
Total current liabilities	4,627,227	4,590,502
Capital lease obligations, less current maturities	259,927	289,586
Net pension liability	19,734,628	21,146,696
Total liabilities	24,621,782	26,026,784
DEFERRED INFLOWS OF RESOURCES		
Deferred pension inflows	939,539	1,066,178
NET POSITION		
Net investment in capital assets	10,832,017	9,264,782
Restricted - expendable for self-insurance	2,875,111	2,880,832
Unrestricted deficit	(8,797,033)	(6,404,778)
Total net position	$ 4,910,095	$ 5,740,836

See accompanying notes.

SOUTH SUNFLOWER COUNTY HOSPITAL

Statements of Revenues, Expenses and Changes in Net Position

Years Ended September 30, 2017 and 2016

	2017	2016
Operating revenues		
Net patient service revenue, net of provision for bad debts of $4,114,095 and $4,246,565, respectively	$ 23,152,104	$ 23,972,641
Other operating revenue	320,478	476,103
Total operating revenues	23,472,582	24,448,744
Operating expenses		
Salaries and wages	10,909,489	11,289,381
Employee benefits	3,183,883	3,845,060
Professional fees	5,271,898	4,540,293
Supplies and other	3,430,001	3,509,575
Maintenance and utilities	928,755	859,584
Depreciation and amortization	562,721	445,544
Total operating expenses	24,286,747	24,489,437
Loss from operations	(814,165)	(40,693)
Nonoperating revenues (expenses)		
Investment income (loss)	(990)	213,400
Interest expense	(15,586)	(15,444)
Total nonoperating revenues (expenses)	(16,576)	197,956
Increase (decrease) in net position	(830,741)	157,263
Net position, beginning of year	5,740,836	5,583,573
Net position, end of year	$ 4,910,095	$ 5,740,836

See accompanying notes.

SOUTH SUNFLOWER COUNTY HOSPITAL

Statements of Cash Flows

Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Receipts from and on behalf of patients	$ 23,323,587	$ 24,769,256
Payments to suppliers and contractors	(8,723,266)	(9,406,165)
Payments to employees	(13,631,933)	(13,858,978)
Other receipts and payments, net	320,478	476,103
Net cash provided by operating activities	1,288,866	1,980,216
Cash flows from capital and related financing activities		
Principal paid on long-term debt	(142,009)	(105,673)
Interest paid on long-term debt	(15,586)	(15,444)
Purchases of capital assets	(1,987,947)	(1,668,887)
Net cash used in capital and related financing activities	(2,145,542)	(1,790,004)
Cash flows from investing activities		
Purchases of investments	(221,441)	(209,278)
Interest on investments	238,436	219,748
Increase (decrease) in physician and tuition advances	(82,395)	5,543
Net cash provided by (used in) investing activities	(65,400)	16,013
Net increase (decrease) in cash and cash equivalents	(922,076)	206,225
Cash and cash equivalents, beginning of year	4,559,479	4,353,254
Cash and cash equivalents, end of year	$ 3,637,403	$ 4,559,479
Reconciliation of loss from operations to net cash provided by operating activities		
Loss from operations	$ (814,165)	$ (40,693)
Adjustments to reconcile loss from operations to net cash provided by operating activities		
Depreciation and amortization	562,721	445,544
Provision for bad debts	4,114,095	4,246,565
Changes in assets and liabilities		
Patient receivables	(3,549,344)	(3,915,939)
Inventories	50,143	38,843
Estimated third-party payor settlements	(393,268)	464,989
Other assets	153,400	(417,203)
Accounts payable	528,932	(27,411)
Accrued salaries and compensated absences	(295,100)	(4,954)
Other accrued expenses	174,913	(89,942)
Net pension liability and related deferreds	756,539	1,280,417
Net cash provided by operating activities	$ 1,288,866	$ 1,980,216
Supplemental disclosures of noncash investing and financing activities		
Purchase of equipment through increase in capital lease obligations	$ 133,598	$ 229,051

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

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

Nature of Operations and Reporting Entity

South Sunflower County Hospital (the "Hospital") is a public hospital created to serve the medical needs of Indianola, Mississippi, and the surrounding area established by Sunflower County ("the County") as a special purpose government entity under the laws of the State of Mississippi. The Hospital is owned by Sunflower 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 Sunflower County, the Hospital has been defined as a component unit of the County.

The Hospital provides inpatient, outpatient and emergency care services primarily for residents of the County and the surrounding area. Admitting physicians are primarily practitioners in the same area. The Hospital is currently licensed to operate 49 inpatient beds.

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 appropriation and is therefore not required to be presented as supplementary information.

The significant accounting policies used by the Hospital in preparing and presenting its financial statements are as follows:

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.

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.

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. Changes in estimates by material amounts are reasonably possible in the near term.

Inventories

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

Prepaid Expenses

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

Noncurrent Investments

Noncurrent investments include assets set aside by the Board of Trustees for future capital improvements as well as assets externally restricted for use in its self-insurance program. The Board retains control of the funds set aside for future capital improvements and may, at its discretion, subsequently use them for other purposes.

The Hospital's investments consist of external investment pools and are carried at fair value. Interest, dividends and gains and losses on investments, both realized and unrealized, are included in non-operating income when earned.

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.

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Long-term notes receivable

The Hospital has entered into various agreements with physicians and nurses, specifically to benefit the Hospital's community service area. These agreements include income guarantees and other advances, all of which are generally conditioned upon a service commitment to the community. Advances under these agreements are forgiven upon fulfillment of the professional's contractual service commitment, but are due in full if such commitment is not fulfilled. Advances under these arrangements are amortized to expense using the straight-line method over the related commitment period. Amounts expected to be amortized in the ensuing fiscal year are classified as a current asset in the accompanying statements of net position.

Impairment of Long-Lived Assets

Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount of fair value less costs to sell.

Pensions

The Hospital follows the provisions of GASB Statement No. 68*, Accounting and Financial Reporting for Pensions* ("GASB 68") on the statements to recognize the net pension liability, deferred outflows and deferred inflows of resources, pension expense, and information about and changes in the fiduciary net position on the same basis as reported by the respective defined benefit pension plans. The Hospital recognizes benefit payments when due and payable in accordance with benefit terms. Invested assets are reported at fair value. More information on pension activity for the Hospital is included in Note 5.

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.

Estimated Malpractice Costs

The Medical Center considers the need for recording a liability for malpractice claims. The provision for estimated malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

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 balance of any related debt that is attributable to the acquisitions of the capital assets. Restricted are those resources that are externally restricted by creditors, grantors, contributors or laws and regulations or those restricted by constitutional provisions and enabling legislation. Unrestricted net position consists of resources that do not meet the definition of invested in capital assets, net of related debt or restricted. When both restricted and unrestricted resources are available to finance particular programs, it is the Hospital's policy to use the restricted resources before using the unrestricted resources.

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.

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. Such reviews may result in adjustments to program reimbursement previously received and subject the Hospital to fines and penalties. 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 revenue.

Operating Revenue and Expenses

The Hospital's statements of revenues, expenses and changes in net position distinguish between operating and nonoperating revenues 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 and interest income are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Income Taxes

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

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 been 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 206,975 of revenues related to the Medicare incentive program for the years ended September 30, 2017 and 2016, respectively. These revenues are reflected in other operating revenues on the accompanying statements of revenues, expenses and changes in net position. The Hospital had $-0- and $206,975 of receivables related to the Medicare and Medicaid incentive programs at September 30, 2017 and 2016, respectively. These receivables are reflected in other current assets on the accompanying statements of 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 revenues 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.

New Accounting Standards Adopted

During the fiscal year ended September 30, 2017, the Hospital adopted GASB 82, *Pension Issues-An Amendment of GASB Statements No. 67, No. 68, and No. 73*, in fiscal year 2017. This statement addresses issues regarding: (1) the presentation of payroll-related measures in required supplementary information; (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes; and, (3) the

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements for this standard are effective for the first reporting period in which the measurement date of the pension liability is after June 15, 2017.

The adoption of these standards did not have a significant impact on the financial statements.

New Accounting Standards to be Adopted

The Hospital will adopt GASB 85, *Omnibus 2017*, in fiscal year 2018. This statement addresses practice issues that have been identified during implementation and application of certain GASB statements. Statement No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The Hospital is currently assessing the impact of adopting this accounting standard.

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Hospital's deposits might not be recovered. The collateral for public entities' deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the Hospital's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation ("FDIC"). All deposits with financial institutions must be collateralized in an amount equal to 105 percent of uninsured deposits and are therefore fully insured. At September 30, 2017, the carrying amount of the Hospital's deposits was $3,637,403 and the bank balances totaled $3,705,357.

Note 2. Cash Deposits and Investments

Investments

The statutes of the State of Mississippi restrict the authorized investments of the Hospital to obligations of the U. S. Treasury, agencies and instrumentalities of the United States and certain other types of investments. The Mississippi Hospital Association ("MHA") investment pool is the result of an amendment to the Mississippi Code of 1972 passed in the 1999 and 2000 sessions of the Mississippi Legislature. This law expanded the investment options and permits the pooling of hospital funds. All Mississippi hospitals are allowed to participate in these funds. Pooled funds are invested in authorized investments and are managed by approved investment advisors. The Hospital's investments consist of the following external investment pool funds at September 30:

	2017	2016
MHA Duration Trust		
Fixed Income		
Intermediate duration trust	$ 8,648,060	$ 8,666,163
Short duration trust	876,646	877,528
Total MHA Duration Trust	$ 9,525,706	$ 9,543,691

NOTES TO FINANCIAL STATEMENTS

Note 2. Continued

The external investment pools do not have a credit rating on the overall pool and they are not insured.

The Hospital does not have a formal policy that limits investment maturities as a means of managing the exposure to fair value losses arising from increasing interest rates.

Note 3. Capital Assets

A summary of capital assets at September 30, 2017 is set forth below:

	2017	2016
Land and improvements	$ 674,383	$ 674,383
Buildings and improvements	16,613,759	14,304,775
Fixed equipment	280,384	280,384
Major moveable equipment	14,235,678	13,424,581
Vehicles	33,611	33,611
Total capital assets	31,837,815	28,717,734
Less accumulated depreciation	(20,610,633)	(20,047,912)
Construction in progress	-	998,536
Capital assets, net	$ 11,227,182	$ 9,668,358

Depreciation expense for the years ended September 30, 2017 and 2016 totaled $562,721 and $445,544, respectively. Capitalized lease equipment and related accumulated amortization was $663,223 and $258,658, respectively at September 30, 2017. Capitalized lease equipment and related accumulated amortization was $529,625 and $118,487, respectively at September 30, 2016.

NOTES TO FINANCIAL STATEMENTS

Note 3. Continued

Capital asset additions, retirements and balances for the year ended September 30, 2017 were as follows:

	Balance September 30, 2016	Increases	Decreases	Balance September 30, 2017
Capital assets not being depreciated				
Land	$ 155,336	$ -	$ -	$ 155,336
Construction in progress	998,536	1,065,372	(2,063,908)	-
Total capital assets not being depreciated	1,153,872	1,065,372	(2,063,908)	155,336
Capital assets being depreciated				
Land improvements	519,047	-	-	519,047
Buildings and improvements	14,304,775	2,308,984	-	16,613,759
Fixed equipment	280,384	-	-	280,384
Vehicles	33,611	-	-	33,611
Major moveable equipment	13,424,581	811,097	-	14,235,678
Total capital assets being depreciated	28,562,398	3,120,081	-	31,682,479
Less accumulated depreciation for				
Land improvements	(190,737)	(25,479)	-	(216,216)
Buildings and improvements	(7,431,016)	(305,595)	-	(7,736,611)
Fixed equipment	(196,140)	(180)	-	(196,320)
Vehicles	(33,611)	-	-	(33,611)
Major moveable equipment	(12,196,408)	(231,467)	-	(12,427,875)
Total accumulated depreciation	(20,047,912)	(562,721)	-	(20,610,633)
Capital assets being depreciated, net	8,514,486	2,557,360	-	11,071,846
Capital assets, net	$ 9,668,358	$ 3,622,732	$(2,063,908)	$ 11,227,182

NOTES TO FINANCIAL STATEMENTS

Note 3. Continued

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	$ 155,336	$ -	$ -	$ 155,336
Construction in progress	298,741	1,570,155	(870,360)	998,536
Total capital assets not being depreciated	454,077	1,570,155	(870,360)	1,153,872
Capital assets being depreciated				
Land improvements	519,047	-	-	519,047
Buildings and improvements	13,477,481	827,294	-	14,304,775
Fixed equipment	280,384	-	-	280,384
Vehicles	33,611	-	-	33,611
Major moveable equipment	13,053,732	370,849	-	13,424,581
Total capital assets being depreciated	27,364,255	1,198,143	-	28,562,398
Less accumulated depreciation for				
Land improvements	(165,259)	(25,478)	-	(190,737)
Buildings and improvements	(7,174,208)	(256,808)	-	(7,431,016)
Fixed equipment	(195,960)	(180)	-	(196,140)
Vehicles	(33,611)	-	-	(33,611)
Major moveable equipment	(12,033,330)	(163,078)	-	(12,196,408)
Total accumulated Depreciation	(19,602,368)	(445,544)	-	(20,047,912)
Capital assets being depreciated, net	7,761,887	752,599	-	8,514,486
Capital assets, net	$ 8,215,964	$ 2,322,754	$ (870,360)	$ 9,668,358

NOTES TO FINANCIAL STATEMENTS

Note 4. Leases

The Hospital was obligated under several capital leases at September 30, 2017 at varying interest rates ranging from 2.99 percent to 10.66 percent. Scheduled payments on capital lease obligations are as follows:

Year Ending September 30,	Principal	Interest
2018	$ 135,238	$ 10,546
2019	123,025	6,759
2020	100,096	2,586
2021	34,762	521
2022	2,044	7
	$ 395,165	$ 20,419

A schedule of changes in the Hospital's capital lease obligation balances for the years ended September 30, 2017 and 2016 follows:

	Balance September 30, 2016	Additions	Retirements	Balance September 30, 2017	Due Within One Year
Capital lease obligations	$ 403,576	$ 133,598	$ 142,009	$ 395,165	$ 135,238

	Balance September 30, 2015	Additions	Retirements	Balance September 30, 2016	Due Within One Year
Capital lease obligations	$ 280,198	$ 229,051	$ 105,673	$ 403,576	$ 113,990

The Hospital leases a physician clinic under an operating lease expiring September 30, 2017. Total rental expense for each of the years ended September 30, 2017 and 2016 was $312,192.

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, 2017 that have initial or remaining lease terms in excess of one year:

Year Ending September 30,	Amount
2018	$ 312,192
2019	312,192
2020	312,192
2021	312,192
2022	312,192
	$ 1,560,960

NOTES TO FINANCIAL STATEMENTS

Note 5. Pension Plan

Plan Description

The Hospital contributes to the Public Employees' Retirement System of Mississippi ("PERS"), a cost-sharing multiple-employer defined benefit pension plan.

PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS administers a cost-sharing, multiple employer defined benefit pension plan as defined in GASB 67, *Financial Reporting for Pensions*.

Benefits Provided

For the cost-sharing plan, participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.00 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.50 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. A member may elect a reduced retirement allowance payable for life with the provision that, after death, a beneficiary receives benefits for life or for a specified number of years. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. In the event of death prior to retirement of any member whose spouse and/or children are not entitled to a retirement allowance, the deceased member's accumulated contributions and interest are paid to the designated beneficiary.

Contributions

Hospital employees, as members of PERS, are required to contribute 9 percent of their annual covered salary, and the Hospital is required to contribute at an actuarially determined rate. The current rate contributed by the Hospital is 15.75 percent of annual covered payroll. Combined contributions are expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Hospital's contributions to PERS for each of the years ended September 30, 2017 and 2016 were approximately $1,217,000, and were equal to the required contributions for each year.

Vesting Period

In 2007, the Mississippi Legislature amended PERS to change the vesting period from four to eight years for members who entered the system after July 1, 2007. Members who entered PERS prior to July 1, 2007 are still subject to the four year vesting period provided that those members do not subsequently withdraw their account balance.

NOTES TO FINANCIAL STATEMENTS

Note 5. Continued

Net Pension Liability

At September 30, 2017 and 2016, the Hospital reported a liability of $19,734,628 and $21,146,696, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016 for fiscal years ended September 30, 2017 and 2016, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. The Hospital's proportion of the net pension liability was based on a projection of the Hospital's long-term share of contributions to the pension plan relative to the projected contributions of all participating PERS members, actuarially determined. At September 30, 2017 and 2016, the Hospital's proportion was 0.118716 percent and 0.118386 percent, respectively.

For the years ended September 30, 2017 and 2016, the Hospital recognized pension expense of $1,973,790 and $2,498,244, respectively, which is included in salaries, wages and benefits in the accompanying financial statements. Certain changes in actuarial assumptions impacted 2017 pension expense and the related deferred outflows and inflows including the following: In 2017, the expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant. Blue Collar Table projected to 2022 using Scale BB. Small adjustments were also made to the Mortality Table for disabled lives. In 2017, the wage inflation assumption was reduced from 3.75 to 3.25 percent. Withdrawal rates, pre-retirement mortality rates, disability rates, and service retirement rates were also adjusted to more closely reflect an actual experience. Finally, the percentage of active member disabilities assumed to be in the line of duty was increased from 6.0 to 7.0 percent. In 2016, a change in actuarial assumption impacted pension expense and the related deferred outflows and inflows due to a change in the assumed rate of interest credited to employee contributions from 3.50 percent to 2.00 percent. The differences between expected and actual pension expense and the changes in proportionate share of net pension liability are being amortized over a closed period of 3.37 and 3.48 for the years ended September 30, 2017 and 2016, respectively. The change of assumptions is being amortized over a closed period of 3.37 for the year ended September 30, 2017. Differences between projected and actual earnings on pension plan investments are amortized over a closed period of five years.

At September 30, 2017 and 2016, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017	2016
Deferred outflows of resources		
Pension contributions subsequent to measurement date	$ 322,337	$ 320,410
Difference between expected and actual experience	283,522	589,837
Changes of assumptions	438,626	996,900
Difference between expected and actual investment earnings	-	1,432,584
Total deferred outflows of resources	$ 1,044,485	$ 3,339,731
Deferred inflows of resources		
Net difference between projected and actual earnings on pension plan investments	$ 253,378	$ -
Difference between expected and actual experience	143,998	-
Changes in proportionate share of net pension liability	508,536	1,009,985
Changes of assumptions	33,627	56,193
Total deferred inflows of resources	$ 939,539	$ 1,066,178

NOTES TO FINANCIAL STATEMENTS

Note 5. Continued

In the years ended September 30, 2017 and 2016, respectively, $322,337 and $320,410 reported as deferred outflows of resources related to pensions resulting from the Hospital's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as an expense in pension expense/(benefit) as follows:

2018	$ (48,852)
2019	188,710
2020	23,953
2021	(381,202)
	$ (217,391)

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary Increase	3.75 – 19.00 percent, average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2022, with males rates set forward one year.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2016.

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary Increase	3.75 – 19.00 percent, average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2016, with males rates set forward one year.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2014.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

NOTES TO FINANCIAL STATEMENTS

Note 5. Continued

These ranges are combined to produce the long-term expected rate of return weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Broad	27%	4.60%
International equity	18%	4.50%
Emerging markets equity	4%	4.75%
Global	12%	4.75%
Fixed income	18%	0.75%
Real estate	10%	3.50%
Private equity	8%	5.10%
Emerging debt	2%	2.25%
Cash	1%	0.00%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability at September 30, 2017 and 2016 was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate (9.00 percent) and that contributions from the Hospital will be made at contractually required rates (15.75 percent). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Hospital's proportionate share of the net pension liability as of September 30, 2017 and 2016, calculated using the discount rate of 7.75 percent, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
2017			
Hospital's proportionate share of the net pension liability	$ 25,883,283	$ 19,734,628	$ 14,629,909

NOTES TO FINANCIAL STATEMENTS

Note 5. Continued

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
2016			
Hospital's proportionate share of the net pension liability	$ 27,146,696	$ 21,146,696	$ 16,195,099

Plan Fiduciary Net Position

PERS issues a publicly available financial report that includes financial statements and required supplementary information. This information may be obtained by contacting PERS by mail at 429 Mississippi Street, Jackson, MS 39201, by phone at 1-800-444-7377 or by website at www.pers.ms.gov. Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

Note 6. 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

Inpatient acute, swingbed, outpatient and home health services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

Medicare bad debts and disproportionate share payments are paid at a tentative rate with final settlement determined after submission of annual costs and audits thereof by the fiscal intermediary.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a prospective reimbursement methodology known as an APR-DRG system. Outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a prospective reimbursement methodology known as an APC system.

Revenue from the Medicare and Medicaid programs accounted for approximately 46 percent and 27 percent, respectively, of the Hospital's gross patient service revenue for the year ended 2017. During 2016, revenue from Medicare and Medicaid programs accounted for 46 percent and 26 percent, respectively, of the Hospital's gross patient service revenue. 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 Hospital's cost reports have been settled through 2014.

NOTES TO FINANCIAL STATEMENTS

Note 6. Continued

The Hospital participates in the Mississippi Intergovernmental Transfer Program as a Medicaid Disproportionate Share Hospital ("DSH") and in the Medicaid Upper Payment Limit Program ("UPL"). Under these programs, the Hospital receives enhanced reimbursement through a matching mechanism.

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 are distributed and collected in equal monthly installments. For the fiscal years ended September 30 2017 and 2016, the Hospital received approximately $4,185,371 and $4,184,847, respectively, from the MHAP program. MHAP amounts are shown as a reduction of contractual adjustments with related tax assessment of $583,988 and $585,820, respectively, for the years ended September 30, 2017 and 2016, recorded in an addition to contractual adjustments.

Managed Care

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

A summary of gross and net patient service revenue for the years ended September 30, 2017 and 2016 follows:

	2017	2016
Gross patient service revenue	$ 38,285,888	$ 40,021,698
Less provisions for		
Contractual adjustments under third-party reimbursement programs and other deductions	11,019,689	11,802,492
Provision for bad debts	4,114,095	4,246,565
Net patient service revenue	$ 23,152,104	$ 23,972,641

Note 7. Insurance Programs

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 and employee health, dental and accident benefits. Commercial liability insurance is

NOTES TO FINANCIAL STATEMENTS

Note 7. Continued

purchased for most of these risks. However, employee health insurance and certain general and professional liability risks are self-funded as further explained below. The Hospital has accrued for the estimate of self-funded claims.

Self-Funded Health Insurance

The Hospital provides health insurance coverage to its employees under a self-funded plan. Health claims are paid by the Hospital as they are incurred and filed by the employee. An estimated liability for claims incurred but not reported or paid is included in other accrued expenses and operating expenses in the financial statements.

The claims liability at September 30, 2017 and 2016, is based on the requirements of GASB, which requires that liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the Hospital's claims liability amount in fiscal years 2017 and 2016 were:

Fiscal Year	October 1, Claims Liability	Current Year Claims and Changes in Estimates	Current Year Payments	September 30, Claims Liability
2017	$ 359,889	$ 880,536	$ (1,144,888)	$ 95,537
2016	$ 143,394	$ 1,723,390	$ (1,506,895)	$ 359,889

Medical Malpractice Program

The Hospital maintains a professional and general liability insurance program under a self-funded plan. At year-end, the Hospital accrues for the estimate of losses for malpractice claims outstanding. As of September 30, 2017 and 2016, this accrual totaled $1,690,990 and $1,469,586, respectively. The future assertion of claims for occurrences prior to year-end is reasonably possible and may occur, although is not anticipated.

Changes in the Hospital's claims liability amount, including related legal fees, for the years 2017 and 2016 were as follows:

Fiscal Year	October 1, Claims Liability	Current Year Claims and Changes in Estimates	Current Year Payments	September 30, Claims Liability
2017	$ 1,469,586	$ 321,404	$ (100,000)	$ 1,690,990
2016	$ 1,518,825	$ (21,255)	$ (27,984)	$ 1,469,586

NOTES TO FINANCIAL STATEMENTS

Note 7. Continued

The Mississippi Tort Claims Act provides a cap on the amount of damages recoverable against government entities, including governmental medical centers. For claims filed, the amount recoverable is the greater of $500,000 or the amount of liability insurance coverage that has been retained.

Note 8. Concentrations of Credit Risk

Patient Receivables

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 net patient receivables from patients and major third-party payors at September 30, 2017 and 2016 was as follows:

	2017	2016
Medicare	29%	34%
Medicaid	18	16
Commercial insurance	20	27
Other	33	23
Total	100%	100%

Note 9. Fair Value

The Hospital's investments are recorded at fair value as of September 30, 2017 and 2016. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumption about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1	Investments whose values are based on quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
Level 2	Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly.
Level 3	Investments classified as Level 3 have unobservable inputs for an asset or liability and may require a degree of professional judgment.

NOTES TO FINANCIAL STATEMENTS

Note 9. Continued

The following table represents the Hospital's investments within the fair value hierarchy at September 30, 2017:

	Fair Value Measurements at September 30, 2017			
	(Level 1)	(Level 2)	(Level 3)	Total
Investments				
MHA duration trust				
Intermediate duration trust	$ -	$ 8,649,060	$ -	$ 8,649,060
Short duration trust	-	876,646	-	876,646
Total	$ -	$ 9,525,706	$ -	$ 9,525,706

The following table represents the Hospital's investments within the fair value hierarchy at September 30, 2016:

	Fair Value Measurements at September 30, 2016			
	(Level 1)	(Level 2)	(Level 3)	Total
Investments				
MHA Duration Trust				
Intermediate duration trust	$ -	$ 8,666,163	$ -	$ 8,666,163
Short duration trust	-	877,528	-	877,528
Total	$ -	$ 9,543,691	$ -	$ 9,543,691

The fair value of the MHA investment pools are based on the closing price reported on the active market on which the individual funds are traded, and the fair value is allocated to the Hospital based on unit ownership. Therefore, investments are considered a Level 2 category.

Note 10. Risks and Uncertainties

The Patient Protection and Affordable Care Act ("PPACA") is the comprehensive healthcare reform bill passed by Congress in March 2010. The law reshapes the way healthcare is delivered and financed by transitioning providers from a volume-based fee-for-service system toward value-based care. Through a series of new programs, regulations, fees and subsides, the ACA seeks to achieve a triple aim of better population health, lower per capita costs and elevated patient experience. 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 ACA, allowing the historic overhaul of the healthcare system to continue. Potential impacts of healthcare reform include political uncertainty and volatility in Medicare and Medicaid reimbursement, fundamental changes in payment systems, increased regulation and significant required investments in healthcare information technology.

Required Supplementary Information

SOUTH SUNFLOWER COUNTY HOSPITAL
Schedule of Employer Contributions and Proportionate Share of Net Pension Liability
PERS Pension Plan
September 30, 2017

SCHEDULE OF EMPLOYER CONTRIBUTIONS

	2017	2016	2015	2014
Statutorily required employer contribution	$ 1,217,251	$ 1,217,827	$ 1,219,397	$ 1,316,252
Contributions in relation to the statutorily required contributions	(1,217,251)	(1,217,827)	(1,219,397)	(1,316,252)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 7,728,578	$ 7,732,235	$ 7,742,204	$ 8,357,158
Contributions as a percentage of covered-employee payroll	15.75%	15.75%	15.75%	15.75%

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

This schedule reflects the information provided by PERS. No other years were available.

	2017	2016	2015	2014
Proportion of the net pension liability	0.118716%	0.118386%	0.125391%	0.129754%
Proportionate share of the net pension liability*	$ 19,734,628	$ 21,146,696	$ 18,932,870	$ 15,694,809
Covered-employee payroll	$ 7,728,578	$ 7,732,235	$ 7,742,204	$ 8,357,158
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	255%	273%	245%	188%
Plan fiduciary net position as a percentage of the total pension liability	61%	57%	62%	67%

* The amounts presented for each fiscal year were determined as of June 30.

See independent auditor's report.

Supplementary Information

SOUTH SUNFLOWER COUNTY HOSPITAL
Schedule of Surety Bonds for Officers and Employees
September 30, 2017

Name	Position	Company	Amount of Bond
Adelaide W. Fletcher	Trustee	Fidelity and Deposit Company of Maryland	$ 100,000
Wheeler T. Timbs	Trustee	Fidelity and Deposit Company of Maryland	100,000
Sterling Smith	Trustee	Fidelity and Deposit Company of Maryland	100,000
Ike Donald	Trustee	Fidelity and Deposit Company of Maryland	100,000
Hulbert Lipe	Trustee	EMC Insurance	100,000
Debbie Woodruff	Trustee	Fidelity and Deposit Company of Maryland	100,000
Glenda Shedd	Trustee	Fidelity and Deposit Company of Maryland	100,000
Courtney Phillips	Administrator	EMC Insurance	100,000

HORNE
CPAs & BUSINESS ADVISORS

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
South Sunflower County Hospital
Indianola, 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 South Sunflower County Hospital (the "Hospital"), as of September 30, 2017, 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 20, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. 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 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*.

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 and compliance. Accordingly, this communication is not suitable for any other purpose.

Ridgeland, Mississippi
February 20, 2018