

OKTIBBEHA COUNTY HOSPITAL
D/B/A
OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
STARKVILLE, MISSISSIPPI

CONSOLIDATED FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION
SEPTEMBER 30, 2018

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
September 30, 2018

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Independent Auditors' Report

Board of Trustees
Oktibbeha County Hospital
D/B/A OCH Regional Medical Center and Subsidiary
Starkville, Mississippi

Report on the Audited Financial Statements

We have audited the accompanying consolidated financial statements of Oktibbeha County Hospital D/B/A OCH Regional Medical Center and Subsidiary, a component unit of Oktibbeha County, Mississippi, as of and for the years ended September 30, 2018, and 2017, and the related notes to consolidated financial statements, which collectively comprise Oktibbeha County Hospital D/B/A OCH Regional Medical Center and Subsidiary'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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of OCH/SCW Mammography, LLC, a majority-owned subsidiary. Those statements were compiled by other accountants, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included in OCH/SCW Mammography, LLC, is based solely on the report of the other accountants. 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 audits 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 auditors' 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 auditors consider 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, based on our audits and the report of the other accountants, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Oktibbeha County Hospital D/B/A OCH Regional Medical Center and Subsidiary, a component unit of Oktibbeha County, Mississippi, as of September 30, 2018, and 2017, 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

As discussed in Note 1, the consolidated financial statements present only the financial information of Oktibbeha County Hospital D/B/A OCH Regional Medical Center and Subsidiary and do not purport to, and do not, present fairly the financial position of Oktibbeha County, Mississippi as of September 30, 2018, and 2017, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. 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 discussion and analysis (pages 4 to 9) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The detailed schedules of operating revenues and detailed schedules of operating expenses for the years ended September 30, 2018, and 2017, and the schedule of surety bonds for officials and employees (pages 33 to 38) are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The detailed schedules of operating revenues and detailed schedules of operating expenses for the years ended September 30, 2018, and 2017, and the schedule of surety bonds for officials and employees are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the detailed schedules of operating revenues and detailed schedules of operating expenses for the years ended September 30, 2018, and 2017, and the schedule of surety bonds for officials and employees are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2019, on our consideration of Oktibbeha County Hospital D/B/A OCH Regional Medical Center and Subsidiary'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 Oktibbeha County Hospital D/B/A OCH Regional Medical Center and Subsidiary's internal control over financial reporting and compliance.

Eupora, Mississippi
February 26, 2019

Watkins Ward and Stafford, PLLC

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Management's Discussion and Analysis
Years Ended September 30, 2018, and 2017

Our discussion and analysis of Oktibbeha County Hospital D/B/A OCH Regional Medical Center and Subsidiary's financial performance provides an overview of the hospital's financial activities for the fiscal years ended September 30, 2018, and 2017. Please read it in conjunction with the hospital's consolidated financial statements, which begin on page 10.

FINANCIAL HIGHLIGHTS

- ◆ The hospital's net position decreased in 2018 by \$6,250,405 or 7.64%, and decreased in 2017 by \$5,231,702, or 5.61%.
- ◆ The hospital reported an operating loss in 2018 of \$6,215,768 and an operating loss of \$5,369,270 in 2017.
- ◆ Nonoperating expenses decreased by \$55,650, or 3.23%, in 2018 compared to 2017. Nonoperating expenses increased in 2017 by \$93,105, or 5.70%, compared to 2016.
- ◆ Nonoperating revenues decreased by \$233,521, or 12.13%, in 2018 compared to 2017. Nonoperating revenues increased by \$22,439, or 1.18%, in 2017 compared to 2016.

USING THIS ANNUAL REPORT

The hospital's consolidated financial statements consist of three statements – the Consolidated Statements of Net Position; the Consolidated Statements of Revenues, Expenses, and Changes in Net Position; and the Consolidated Statements of Cash Flows. These consolidated financial statements and related notes provide information about the activities of the hospital, including resources held by the hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

The Consolidated Statements of Net Position and Consolidated Statements of Revenues, Expenses, and Changes in Net Position

Our analysis of the hospital finances begins on page 6. One of the most important questions asked about the hospital's finances is, "Is the hospital as a whole better or worse off as a result of the year's activities?" The Consolidated Statements of Net Position and Consolidated Statements 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. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Management's Discussion and Analysis
Years Ended September 30, 2018, and 2017

USING THIS ANNUAL REPORT (Continued)

These two statements report the hospital's net position and changes in them. You can think of the hospital's net position – the difference between assets and liabilities – as one way to measure the hospital's financial health, or financial position. Over time, increases or decreases in the hospital's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors, to assess the overall health of the hospital.

The Consolidated Statements of Cash Flows

The final required statement is the Consolidated Statements of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing 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 balance during the reporting period?"

THE HOSPITAL'S NET POSITION

The hospital's net position is the difference between its assets and liabilities reported in the Consolidated Statements of Net Position on pages 10 and 11. The hospital's net position decreased in 2018 by \$6,250,405 or 7.64%, and decreased in 2017 by \$5,231,702, or 5.61%, as shown in **Table 1**.

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Management's Discussion and Analysis
Years Ended September 30, 2018, and 2017

THE HOSPITAL'S NET POSITION (Continued)

Table 1: Assets, Liabilities and Net Position

	2018	2017	2016
Assets:			
Current assets	\$ 30,840,955	\$ 31,516,436	\$ 30,309,706
Capital assets, net	53,396,241	56,801,446	59,021,303
Other assets	1,444,903	1,381,609	1,243,787
Other noncurrent assets	16,170,667	20,889,529	24,626,922
Total Assets	<u>101,852,766</u>	<u>110,589,020</u>	<u>115,201,718</u>
Liabilities:			
Current liabilities	10,352,297	10,696,452	9,006,243
Long-term debt outstanding	9,699,676	11,836,335	12,903,013
Total Liabilities	<u>20,051,973</u>	<u>22,532,787</u>	<u>21,909,256</u>
Minority Interest in Subsidiary	<u>32,912</u>	<u>37,947</u>	<u>42,474</u>
Net Position:			
Invested in capital assets, net of related debt	41,559,073	42,965,032	44,186,969
Restricted:			
Restricted under bond agreement	1,270,453	1,266,616	1,266,549
Restricted for liability risk	4,021,990	4,068,308	4,076,403
Unrestricted	34,916,365	39,718,330	43,720,067
Total Net Position	<u>81,767,881</u>	<u>88,018,286</u>	<u>93,249,988</u>
Total Liabilities and Net Position	<u>\$ 101,852,766</u>	<u>\$ 110,589,020</u>	<u>\$ 115,201,718</u>

The change in the hospital's assets is due to several factors. Cash increased by \$285,009, or 10.59%, compared to 2017. Patient accounts receivable, net of estimated uncollectibles and allowances, decreased by \$644,485, or 2.71%, compared to 2017. Board restricted funds decreased by \$4,718,862 or 22.59% compared to 2017.

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Management's Discussion and Analysis
Years Ended September 30, 2018, and 2017

OPERATING RESULTS AND CHANGES IN THE FACILITY'S NET POSITION

Table 2: Operating Results

	2018	2017	2016
Operating Revenues:			
Net patient service revenues	\$ 64,630,299	\$ 67,394,891	\$ 70,965,407
Other revenues	2,393,961	2,276,206	2,625,937
Electronic health records incentive	21,599	37,845	133,680
Total Operating Revenues	<u>67,045,859</u>	<u>69,708,942</u>	<u>73,725,024</u>
Operating Expenses:			
Salaries and benefits	42,162,601	42,336,338	41,282,323
Supplies and drugs	13,134,691	14,509,813	13,293,016
Other operating expenses	12,488,666	12,573,490	11,832,199
Insurance	168,279	169,543	160,505
Depreciation and amortization	5,307,390	5,489,028	5,598,118
Total Operating Expenses	<u>73,261,627</u>	<u>75,078,212</u>	<u>72,166,161</u>
Operating Income (Loss)	<u>(6,215,768)</u>	<u>(5,369,270)</u>	<u>1,558,863</u>
Nonoperating Revenues (Expenses):			
Contributions	30,075	1,080	4,085
Ambulance contributions	258,127	239,023	271,098
County contributions	1,182,864	1,182,864	1,182,864
Transfers to county	(1,182,864)	(1,182,864)	(1,182,864)
Interest income	220,567	189,187	117,864
Investment income (loss)	(139,646)	(24,408)	269,983
Interest expense	(366,397)	(407,060)	(449,734)
ROA Settlement	-	313,000	-
Gain on extinguishment of debt	-	-	11,500
Gain (Loss) on disposal of capital assets	18,854	(111,371)	45,321
Total Nonoperating Revenues (Expenses)	<u>21,580</u>	<u>199,451</u>	<u>270,117</u>
Excess of Revenues Over (Under) Expenses Before Minority Interest	<u>(6,194,188)</u>	<u>(5,169,819)</u>	<u>1,828,980</u>
Minority Interest Share of Net Income	<u>(56,217)</u>	<u>(69,953)</u>	<u>(69,897)</u>
Excess of Revenues Over (Under) Expenses After Minority Interest	<u>(6,250,405)</u>	<u>(5,239,772)</u>	<u>1,759,083</u>
Contributions for Property and Equipment	<u>-</u>	<u>8,070</u>	<u>25,000</u>
Increase (Decrease) in Net Position	<u>(6,250,405)</u>	<u>(5,231,702)</u>	<u>1,784,083</u>
Net Position Beginning of Year as Restated	<u>88,018,286</u>	<u>93,249,988</u>	<u>91,465,905</u>
Net Position End of Year as Restated	<u>\$ 81,767,881</u>	<u>\$ 88,018,286</u>	<u>\$ 93,249,988</u>

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Management's Discussion and Analysis
Years Ended September 30, 2018, and 2017

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION (Continued)

Operating Income (Loss)

The first component of the overall change in the hospital's net position is its operating income (loss) – generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services.

The primary components responsible for the fluctuations in operating income (loss) are:

- ◆ An increase in the Medicaid MHAP, Medicaid UPL, and Medicaid DSH programs of \$1,664,572, or 74.32% in 2018 compared to 2017, and a decrease of \$610,892, or 21.43% in 2017 compared to 2016.
- ◆ A decrease in net patient service revenues of \$2,764,592, or 4.10% in 2018 compared to 2017, and a decrease of \$3,570,516, or 5.03% in 2017 compared to 2016.
- ◆ A decrease in employee salary and benefits expenses of \$173,737, or 0.41% in 2018 compared to 2017, and an increase of \$1,550,353, or 3.76% in 2017 compared to 2016.
- ◆ A decrease in supplies and drugs of \$1,375,122, or 9.47%, in 2018 compared to 2017, and an increase of \$1,216,797, or 9.15%, in 2017 compared to 2016.
- ◆ A decrease in other operating expense of \$84,824, or 0.67%, in 2018 compared to 2017, and an increase of \$244,953, or 2.07%, in 2017 compared to 2016.
- ◆ A decrease in depreciation and amortization expense of \$181,638, or 3.31%, in 2018 compared to 2017, and a decrease of \$109,090, or 1.95%, in 2017 compared to 2016.
- ◆ Electronic health records incentive funds received of \$21,599, and \$37,845, in 2018, and 2017, respectively.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of contributions, interest income and ROA settlement. The hospital had interest income of \$220,567 for the year ended September 30, 2018, and \$189,187 for the year ended September 30, 2017. The hospital had contributions of \$1,471,066 for the year ended September 30, 2018, and \$1,422,967 for the year ended September 30, 2017. The hospital received a settlement from Reciprocal of America of \$313,000 in 2017.

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Management's Discussion and Analysis
Years Ended September 30, 2018, and 2017

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION (Continued)

Nonoperating Revenues and Expenses (Continued)

Nonoperating expenses for the year 2018 consist of interest expense, investment loss, loss on disposal of assets and transfers to the county. The hospital had interest expense of \$366,397 for the year ended September 30, 2018, and \$407,060 for the year ended September 30, 2017. The hospital had investment loss of \$139,646 for the year ended September 30, 2018, and \$24,408 for the year ended September 30, 2017. The hospital had a gain on disposal of assets of \$18,854 in 2018, and a loss of \$111,371 in 2017. The hospital transferred \$1,182,864 to the county during the year ended September 30, 2018, and \$1,182,864 during 2017.

THE HOSPITAL'S CASH FLOWS

Changes in the hospital's cash flows are consistent with changes in operating income (loss) and nonoperating revenues and expenses.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As detailed in Note 7 of the consolidated financial statements, the hospital had \$53,396,241 invested in capital assets, net of accumulated depreciation at September 30, 2018, and \$56,801,446 at September 30, 2017. The hospital had capital expenditures of \$1,902,758, and \$3,401,789, in 2018 and 2017, respectively.

Debt

At September 30, 2018, the hospital had \$11,837,168 in long-term debt outstanding. The hospital incurred new debt, including notes and leases, in 2018 of \$34,841 while making \$2,034,087 in principal payments. In 2017, the hospital had \$13,836,414 in long-term debt outstanding, including new debt of \$1,155,214 while making \$2,153,134 in principal payments. See Note 8 for a detailed analysis of long-term debt.

CONTACTING THE HOSPITAL'S 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. If you have questions about this report or need additional financial information, contact Oktibbeha County Hospital D/B/A OCH Regional Medical Center and Subsidiary's administrative offices at (662) 615-2550.

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Consolidated Statements of Net Position
September 30, 2018, and 2017

	2018	2017
Assets		
Current Assets:		
Cash	\$ 2,977,590	\$ 2,692,581
Cash - Restricted under bond agreement for payment of current bond principal and interest	1,270,453	1,266,616
Patient accounts receivables (Net of estimated uncollectibles and allowances of \$24,041,425 in 2018, and \$26,150,689 in 2017)	23,126,024	23,770,510
Other receivables	56,993	323,976
Estimated third-party payor settlements (Net of estimated uncollectible of \$856,956 in 2018, and \$0 in 2017)	129,402	177,481
Current portion of deferred expense	290,735	253,604
Inventories of supplies and drugs	1,875,570	1,840,009
Prepaid expenses	1,114,188	1,191,659
Total Current Assets	30,840,955	31,516,436
Noncurrent Cash and Investments:		
Cash - Designated by Board for capital improvements	4,044,571	8,623,787
MHA investment - Designated by Board for capital improvement	8,104,106	8,197,434
MHA investment - Restricted for liability risk	4,021,990	4,068,308
Total Noncurrent Cash and Investments	16,170,667	20,889,529
Capital Assets:		
Land	1,178,326	1,104,205
Depreciable capital assets (Net of accumulated depreciation and amortization of \$81,906,344 in 2018, and \$77,029,803 in 2017)	52,217,915	55,255,882
Construction in progress	-	441,359
Total Capital Assets	53,396,241	56,801,446
Other Assets:		
Bond issue cost (Net of accumulated amortization of \$234,025 in 2018, and \$191,191 in 2017)	236,513	279,346
Deferred expense	808,390	702,263
MHA investment - Mississippi Provider-Sponsored Health Plan	400,000	400,000
Total Other Assets	1,444,903	1,381,609
Total Assets	\$ 101,852,766	\$ 110,589,020

The accompanying notes to financial statements are an integral part of these financial statements.

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
 Consolidated Statements of Net Position
 September 30, 2018, and 2017

	2018	2017
Liabilities and Net Position		
Current Liabilities:		
Accounts payable	\$ 3,123,242	\$ 3,476,835
Patient accounts receivable, credit balances	1,043,075	1,018,726
Accrued payroll and annual leave	3,676,281	3,881,157
Accrued expenses	64,389	68,269
Deferred income	307,818	251,386
Current maturities of capital lease obligations	367,279	298,221
Current maturities of notes payable	415,213	386,858
Current maturities of bonds payable	1,355,000	1,315,000
Total Current Liabilities	10,352,297	10,696,452
Long-Term Debt:		
Capital lease obligations	96,388	437,563
Notes payable	571,463	994,598
Bonds payable, net of unamortized discount	9,031,825	10,404,174
Total Long-Term Debt, Net of Current Maturities	9,699,676	11,836,335
Total Liabilities	20,051,973	22,532,787
Minority Interest in Subsidiary	32,912	37,947
Net Position:		
Invested in capital assets, net of related debt	41,559,073	42,965,032
Restricted:		
Restricted under bond agreement	1,270,453	1,266,616
Restricted for liability risk	4,021,990	4,068,308
Unrestricted	34,916,365	39,718,330
Total Net Position	81,767,881	88,018,286
Total Liabilities and Net Position	\$ 101,852,766	\$ 110,589,020

The accompanying notes to financial statements are an integral part of these financial statements.

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Consolidated Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2018, and 2017

	2018	2017
Operating Revenue:		
Net patient service revenue (Net of provision for bad debts of \$12,340,323 in 2018, and \$10,950,247 in 2017)	\$ 64,630,299	\$ 67,394,891
Other operating revenue	2,393,961	2,276,206
Electronic health records incentive	21,599	37,845
Total Operating Revenue	67,045,859	69,708,942
Operating Expenses:		
Salaries and benefits	42,162,601	42,336,338
Supplies and drugs	13,134,691	14,509,813
Other operating expenses	12,488,666	12,573,490
Insurance	168,279	169,543
Depreciation and amortization	5,307,390	5,489,028
Total Operating Expenses	73,261,627	75,078,212
Operating Loss	(6,215,768)	(5,369,270)
Nonoperating Revenues (Expenses):		
Contributions	30,075	1,080
Ambulance contributions	258,127	239,023
County contributions	1,182,864	1,182,864
Transfers to county	(1,182,864)	(1,182,864)
Interest income	220,567	189,187
Investment income (loss)	(139,646)	(24,408)
Interest expense	(366,397)	(407,060)
ROA settlement	-	313,000
Gain (Loss) on disposal of assets	18,854	(111,371)
Total Nonoperating Revenues (Expenses)	21,580	199,451
Excess of Revenues Under Expenses Before Minority Interest	(6,194,188)	(5,169,819)
Less Minority Interest Share of Net Income	(56,217)	(69,953)
Excess of Revenues Under Expenses After Minority Interest	(6,250,405)	(5,239,772)
Contributions for Property and Equipment	-	8,070
Decrease in Net Position	(6,250,405)	(5,231,702)
Net Position Beginning of Year	88,018,286	93,249,988
Net Position End of Year	\$ 81,767,881	\$ 88,018,286

The accompanying notes to financial statements are an integral part of these financial statements.

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Consolidated Statements of Cash Flows
Years Ended September 30, 2018, and 2017

	2018	2017
Cash Flows From Operating Activities:		
Receipts from patients and other services	\$ 67,693,790	\$ 66,906,857
Payments for supplies and other expenses	(26,213,505)	(26,791,989)
Payments to and on behalf of employees	(42,083,002)	(41,643,532)
Net Cash Used by Operating Activities	(602,717)	(1,528,664)
Cash Flows From Noncapital Financing Activities:		
County contributions	1,239,296	1,250,967
Transfers to the county	(1,182,864)	(1,182,864)
Contributions	288,202	240,103
Net Cash Provided by Non Capital Financing Activities	344,634	308,206
Cash Flows From Capital and Related Financing Activities:		
Purchase of property and equipment	(1,848,491)	(2,815,894)
Change in funds restricted under bond indentures	(3,837)	(67)
Proceeds from issuance of notes payable	-	577,390
Principal paid on long-term debt	(2,034,086)	(2,131,889)
Interest paid on long-term debt	(370,277)	(411,220)
Net Cash Used by Capital and Related Financing Activities	(4,256,691)	(4,781,680)
Cash Flows From Investing Activities:		
Transfer of funds designated by Board for capital improvement	4,579,216	3,712,986
Investment in Mississippi Provider-Sponsored Health Plan	-	(150,000)
Interest income	220,567	189,187
Net Cash Provided by Investing Activities	4,799,783	3,752,173
Net Increase (Decrease) in Cash and Cash Equivalents	285,009	(2,249,965)
Cash and Cash Equivalents at Beginning of Year	2,692,581	4,942,546
Cash and Cash Equivalents at End of Year	\$ 2,977,590	\$ 2,692,581

The accompanying notes to financial statements are an integral part of these financial statements.

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
 Consolidated Statements of Cash Flows
 Years Ended September 30, 2018, and 2017

	2018	2017
Reconciliation of Operating Loss to Net Cash		
Provided (Used) by Operating Activities:		
Operating loss	\$ (6,215,768)	\$ (5,369,270)
Adjustment to Reconcile Operating Loss to Net		
Cash Flows Provided (Used) by Operating Activities:		
Minority interest	(61,252)	(74,480)
Depreciation and amortization	5,307,390	5,489,028
Provision for uncollectible accounts	12,340,323	10,950,247
Deferred expense	(143,258)	(66,757)
Bond issue cost	42,833	42,834
Changes In:		
Patient accounts receivable	(11,671,487)	(13,475,396)
Supplies and other current assets	308,893	(220,647)
Accounts payable, accrued expenses, and other		
current liabilities	(558,470)	1,396,637
Estimated third party payments	48,079	(200,860)
Net Cash Used by Operating Activities	\$ (602,717)	\$ (1,528,664)

Noncash Investing, Capital and Financing Activities:

The facility entered into capital lease obligations of \$34,841 during the year ended September 30, 2018, and \$577,824 during the year ended September 30, 2017.

The accompanying notes to financial statements are an integral part of these financial statements.

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Notes to Consolidated Financial Statements

Note 1: Description of Reporting Entity and Summary of Significant Accounting Policies

a. Reporting Entity - The hospital consists of a 96-bed acute short-term care hospital owned by Oktibbeha County, Mississippi. The hospital provides inpatient, outpatient, and emergency services for residents of Oktibbeha County, Mississippi, and surrounding areas. The hospital is governed by a Board of Trustees appointed by the Board of Supervisors of Oktibbeha County.

Under *Governmental Accounting Standards Board Statement Number 14: The Financial Reporting Entity*, the hospital is defined as a component unit of Oktibbeha County, Mississippi. These financial statements present only the financial position and results of operations and cash flows of Oktibbeha County Hospital D/B/A OCH Regional Medical Center and Subsidiary.

Oktibbeha County Hospital D/B/A OCH Regional Medical Center and Subsidiary has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the hospital.

The consolidated financial statements include information for OCH/SCW Mammography, LLC, (a Mississippi entity) of which the hospital owns fifty one percent. OCH/SCW Mammography, LLC is a legally separate entity from the hospital.

b. Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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. Significant estimates include allowance for uncollectibles and third-party settlements.

c. Proprietary Fund Accounting - The facility utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual. Based on *Governmental Accounting Standards Board (GASB) Statement No. 20: Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the facility has elected to apply the provisions and all pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict or contradict GASB pronouncements.

d. Cash and Cash Equivalents - Cash and cash equivalents include unrestricted cash used for operating purposes only.

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Notes to Consolidated Financial Statements

Note 1: Description of Reporting Entity and Summary of Significant Accounting Policies
(Continued)

e. Investments in Equity Securities - Investments in equity securities are carried at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in equity securities are included in nonoperating revenues.

f. Capital Assets - The hospital's policy is to capitalize acquisition and construction cost greater than \$1,500 which will provide benefit to future periods. Capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using these asset lives:

Land improvements	5 to 20 years
Buildings and building improvements	5 to 40 years
Equipment, computers and furniture	3 to 20 years

g. Cost of Borrowing - Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The hospital capitalized \$19,265, and \$11,940, in interest for the years ended September 30, 2018, and 2017, respectively.

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

i. Restricted Resources - When the hospital has both restricted and unrestricted resources available to finance a particular program, it is the hospital's policy to use restricted resources before unrestricted resources.

j. Net Position - Net position of the hospital is classified in three components. *Net position invested in capital assets net of related debt* consists of capital assets net of accumulated depreciation and is reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted Net Position* is made up of two components: *Restricted Under Bond Agreement* consists of cash restricted under bond agreement for the payment of current bond principal and interest, and *Restricted for liability risk* consists of cash restricted for the payment of professional and general liability claims. *Unrestricted net position* is remaining net position that does not meet the definition of *Invested in capital assets net of related debt* or *Restricted Net Position*.

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Notes to Consolidated Financial Statements

Note 1: Description of Reporting Entity and Summary of Significant Accounting Policies
(Continued)

k. Net Patient Service Revenue - The facility 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. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

l. Operating Revenues and Expenses - The hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

m. Charity Care - The hospital provides care 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, they are not reported as net patient service revenue. The cost of charity care provided in 2018, and 2017, approximated \$760,000, and \$638,000, respectively.

n. Risk Management - The hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The hospital has set aside \$4,021,990 and \$4,068,308 for the years ended September 30, 2018, and 2017, respectively, which are designated for payment of potential liability resulting from professional and general liability claims. The designated amount is adjusted each year based on actuarial analysis and is approved by the State Tort Claims Board. The hospital purchases coverage of risks of loss related to theft of, damage to, and destruction of assets from various commercial insurance carriers. The hospital purchases coverage of risks of loss related to workers' compensation claims from Healthcare Providers Insurance Company.

Under *Governmental Accounting Standards Board Statement Number 10: Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, a liability for claim must 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 that the amount of the loss can be reasonably estimated. The hospital did not record a liability at September 30, 2018, for any potential loss related to liability risk.

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Notes to Consolidated Financial Statements

Note 1: Description of Reporting Entity and Summary of Significant Accounting Policies
(Continued)

o. Income Taxes - As a political subdivision of the State of Mississippi, the hospital qualifies as a tax-exempt organization under existing provisions of the Internal Revenue Code, and its income is not subject to federal or state income taxes.

p. Inventories of Supplies and Drugs - Inventories of supplies and drugs are stated at the lower of cost (first-in, first-out) or market.

q. Excess of Revenue Under Expenses Before and After Minority Interest - The statement of revenues, expenses, and changes in net position includes excess of revenues under expenses before and after minority interest. The minority interest is the minority share of income from OCH/SCW Mammography, LLC, a legally separate entity from the hospital. Changes in net position which are excluded from excess of revenues under expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

r. Electronic Health Record Incentive Program - The Centers for Medicare and Medicaid Services (CMS) have implemented provisions of the American Recovery and Reinvestment Act of 2009 that provide incentive payments for the meaningful use of certified electronic health record (EHR) technology. CMS has defined meaningful use as meeting certain objectives and clinical quality measures based on current and updated technology capabilities over predetermined reporting periods as established by CMS. The Medicare EHR incentive program provides annual incentive payments to eligible professionals, eligible hospitals, and critical access hospitals, as defined, that are meaningful users of certified EHR technology. The Medicaid EHR incentive program provides annual incentive payments to eligible professionals and hospitals for efforts to adopt, implement, and meaningfully use certified EHR technology. The EHR reporting period for hospitals is based on the federal fiscal year, which runs from October 1 through September 30. In 2018, and 2017, the Hospital received EHR incentive revenue of \$21,599, and \$37,845, respectively. EHR incentive revenues are included in operating revenues in the accompanying Statements of Revenues, Expenses and Changes in Net Position.

Note 2: Designated Net Position

Of the \$34,916,365, and \$39,718,330, of unrestricted net position reported in 2018, and 2017, respectively, \$12,148,677, and \$16,821,221, respectively, has been designated by the hospital's Board of Trustees for capital acquisitions. Designated funds remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes.

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Notes to Consolidated Financial Statements

Note 3: Cash and Other Deposits

The facility deposits funds in financial institutions selected by the Board of Trustees and invests excess funds in investment instruments that are allowed by statutes. Various restrictions on deposits and investments are imposed by statutes.

The collateral for public entities deposits in financial institutions is required to be 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 the program, an 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. All hospital funds eligible to be included in the state's collateral pool program were properly included and were fully collateralized as of September 30, 2018.

Custodial Credit Risk – Deposits – Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the facility will not be able to recover deposits or collateral securities that are in the possession of an outside party. The facility does not have a deposit policy for custodial credit risk. 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. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the facility. As of September 30, 2018, none of the facility's bank balance was exposed to custodial credit risk.

Interest Rate Risk – The facility does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – State law limits investments to those prescribed in Sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972). The facility does not have a formal investment policy that would further limit its investment choices or one that addresses credit risk.

Note 4: Fair Value Measurements

Financial Accounting Standards Board (FASB) Accounting Standards Codifications (ASC) 820, Fair Value Measurements and Disclosures, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgement used in measuring fair value. In the absence of actively quoted prices and observable inputs, the hospital estimates prices based on available historical data and near term future pricing information that reflects its market assumptions.

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Notes to Consolidated Financial Statements

Note 4: Fair Value Measurements (Continued)

The statement requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1 – Quoted market prices in active markets for identical assets and liabilities.
- Level 2 – Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3 – Unobservable inputs that are not corroborated by market data.

Fair values of assets measured on a recurring basis at September 30, 2018, and 2017, are as follows:

<u>September 30, 2018</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
MHA Investment Pool	\$ <u>12,126,096</u>	\$ <u>-</u>	\$ <u>12,126,096</u>	\$ <u>-</u>
<u>September 30, 2017</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
MHA Investment Pool	\$ <u>12,265,742</u>	\$ <u>-</u>	\$ <u>12,265,742</u>	\$ <u>-</u>

Mississippi Hospital Association Investment Pool

The facility participates in the Mississippi Hospital Association Investment Pool program. The funds are invested for the benefit of the facility by a third-party investment company, which is responsible for the management of the pool. A summary of the investments at September 30, 2018, and 2017, follows:

	<u>2018</u>	<u>2017</u>
MHA Investment Pool	\$ 8,443,239	\$ 8,297,319
MHA Liability Risk Pool	4,190,302	4,117,879
Unrealized loss on investments	<u>(507,445)</u>	<u>(149,456)</u>
	<u>\$ 12,126,096</u>	<u>\$ 12,265,742</u>

The hospital has funds invested in the Mississippi Hospital Association pool investment program, which are not required to be collateralized. However, the funds are invested in accordance with Section 27-105-365 Miss. Code Ann. (1972).

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Notes to Consolidated Financial Statements

Note 5: Patient Receivables – Estimated Uncollectibles and Allowance

The balance in the estimated uncollectibles and allowances account at September 30, 2018, and 2017, is composed of the following:

	2018	2017
Provision for uncollectible accounts	\$ 9,773,985	\$ 10,027,276
Allowance for Medicare adjustment	5,580,318	6,311,174
Allowance for Medicaid adjustment	2,811,154	3,668,096
Allowance for other adjustments	5,875,968	6,144,143
	\$ 24,041,425	\$ 26,150,689

The facility failed to submit the required documentation to the Centers for Medicare and Medicaid Services to qualify for the low volume adjustment during the year ended September 30, 2018. The facility is currently in the process of submitting the required documentation which may or may not result in an increase in the settlement for the year ended September 30, 2018. The facility did submit the documentation and is receiving the low volume adjustment for the year ending September 30 2019.

Note 6: Bond Indenture Funds

The funds held by the trustee as of September 30, 2018, and 2017, established in accordance with the requirements of the indentures to the 2002 Oktibbeha County Mississippi Revenue Bond, 2011 MHEFA Bond and the 2013 Oktibbeha County Mississippi Revenue Bond are as follows:

	2018	2017
2011 MHEFA Bond:		
General account	51,239	52,948
2013 Revenue Bond:		
Debt service reserve fund	1,219,214	1,213,668
Total Bond Indenture Funds for Revenue and MHEFA Bonds	1,270,453	1,266,616
Less: Bond principal and interest funds classified as current	(1,270,453)	(1,266,616)
Total Bond Indenture Funds, Excluding Current Portion	\$ -	\$ -

The above funds are and have been maintained in accordance with the bond indenture agreements.

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Notes to Consolidated Financial Statements

Note 7: Capital Assets

Capital asset additions, retirements and balances for the years ended September 30, 2018, and 2017, were as follows:

	Balance September 30, 2017	Additions and Transfers	Retirements and Transfers	Balance September 30, 2018
Land	\$ 1,104,205	-	74,121	\$ 1,178,326
Land improvements	2,544,683	4,000	55,982	2,604,665
Buildings and improvements	77,439,372	30,763	224,944	77,695,079
Fixed equipment	13,805,144	309,778	347,591	14,462,513
Major movable equipment:				
Under capital lease	1,076,129	34,841	-	1,110,970
Other	36,385,588	1,162,437	(367,034)	37,180,991
Minor equipment	24,811	-	-	24,811
EMS equipment	6,514	-	-	6,514
OCH Orthopedics	98,229	-	-	98,229
OCH Pulmonology	7,361	-	-	7,361
OCH General Surgery	24,412	-	-	24,412
OCH Regional Health	2,939	-	-	2,939
OCH Medical Associates	14,144	-	-	14,144
OCH Breast Health Center	19,788	-	-	19,788
OCH Family Medicine Clinic	38,074	-	-	38,074
Automobiles	798,497	35,272	-	833,769
Construction in progress	441,359	325,667	(767,026)	-
Total Historical Cost	133,831,249	1,902,758	(431,422)	135,302,585

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Notes to Consolidated Financial Statements

Note 7: Capital Assets (Continued)

	Balance September 30, 2017	Additions and Transfers	Retirements and Transfers	Balance September 30, 2018
Less Accumulated Depreciation and Amortization for:				
Land improvements	(2,161,675)	(75,298)	-	(2,236,973)
Buildings and improvements	(34,419,038)	(2,428,361)	-	(36,847,399)
Fixed equipment	(8,919,370)	(787,467)	-	(9,706,837)
Major movable equipment	(30,803,234)	(1,916,835)	430,849	(32,289,220)
EMS equipment	(6,514)	-	-	(6,514)
OCH Orthopedics	(51,399)	(14,140)	-	(65,539)
OCH Pulmonolgy	(6,800)	(373)	-	(7,173)
OCH General Surgery	(8,098)	(1,443)	-	(9,541)
OCH Regional Health	9,917	(210)	-	9,707
OCH Medical Associates	(21,619)	(996)	-	(22,615)
OCH Breast Health Center	(18,266)	(549)	-	(18,815)
OCH Family Medicine Clinic	(33,684)	(1,888)	-	(35,572)
Automobiles	(590,023)	(79,830)	-	(669,853)
Total Accumulated Depreciation and Amortization	<u>(77,029,803)</u>	<u>(5,307,390)</u>	<u>430,849</u>	<u>(81,906,344)</u>
Capital Assets, Net	<u>\$ 56,801,446</u>	<u>(3,404,632)</u>	<u>(573)</u>	<u>\$ 53,396,241</u>

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Notes to Consolidated Financial Statements

Note 7: Capital Assets (Continued)

	Balance September 30, 2016	Additions and Transfers	Retirements and Transfers	Balance September 30, 2017
Land	\$ 1,104,205	-	-	\$ 1,104,205
Land improvements	2,471,870	67,718	5,095	2,544,683
Buildings and improvements	77,344,797	35,810	58,765	77,439,372
Fixed equipment	13,382,562	117,222	305,360	13,805,144
Major movable equipment:				
Under capital lease	2,318,230	577,824	(1,819,925)	1,076,129
Other	34,123,619	1,736,073	525,896	36,385,588
Minor equipment	24,811	-	-	24,811
EMS equipment	6,514	-	-	6,514
OCH Orthopedics	98,229	-	-	98,229
OCH Pulmonology	7,361	-	-	7,361
OCH General Surgery	24,412	-	-	24,412
OCH Regional Health	2,939	-	-	2,939
OCH Medical Associates	14,144	-	-	14,144
OCH Breast Health Center	19,788	-	-	19,788
OCH Family Medicine Clinic	38,074	-	-	38,074
Automobiles	764,127	44,862	(10,492)	798,497
Construction in progress	121,292	822,280	(502,213)	441,359
Total Historical Cost	<u>131,866,974</u>	<u>3,401,789</u>	<u>(1,437,514)</u>	<u>133,831,249</u>

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Notes to Consolidated Financial Statements

Note 7: Capital Assets (Continued)

	<u>September 30, 2016</u>	<u>and Transfers</u>	<u>and Transfers</u>	<u>September 30, 2017</u>
Less Accumulated Depreciation and Amortization for:				
Land improvements	(2,090,666)	(71,009)	-	(2,161,675)
Buildings and improvements	(31,963,036)	(2,456,002)	-	(34,419,038)
Fixed equipment	(8,188,078)	(790,001)	58,709	(8,919,370)
Major movable equipment	(29,991,161)	(2,058,260)	1,246,187	(30,803,234)
EMS equipment	(6,514)	-	-	(6,514)
OCH Orthopedics	(37,068)	(14,331)	-	(51,399)
OCH Pulmonolgy	(6,427)	(373)	-	(6,800)
OCH General Surgery	(6,464)	(1,634)	-	(8,098)
OCH Regional Health	10,337	(420)	-	9,917
OCH Medical Associates	(19,960)	(1,659)	-	(21,619)
OCH Breast Health Center	(17,431)	(835)	-	(18,266)
OCH Family Medicine Clinic	(30,908)	(2,776)	-	(33,684)
Automobiles	(498,295)	(91,728)	-	(590,023)
Total Accumulated Depreciation and Amortization	<u>(72,845,671)</u>	<u>(5,489,028)</u>	<u>1,304,896</u>	<u>(77,029,803)</u>
Capital Assets, Net	<u>\$ 59,021,303</u>	<u>(2,087,239)</u>	<u>(132,618)</u>	<u>\$ 56,801,446</u>

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Notes to Consolidated Financial Statements

Note 8: Long-Term Debt

Under the terms of the bond indenture agreements, the hospital is required to maintain certain deposits with the trustee. Such deposits are included with current assets and other assets in the financial statements. The bond indenture agreements also place limits on the incurrence of additional borrowing and require that the hospital satisfy certain measures of financial performance as long as the bonds are outstanding. The hospital has satisfied the bond requirements.

A schedule of changes in the hospital's long-term debt for 2018, and 2017, follows:

	Balance 9/30/2017	Additions	Reductions	Balance 9/30/2018	Amounts Due Within One Year
Bonds and Notes Payable:					
Bonds payable	\$ 11,719,174	-	(1,332,349)	\$ 10,386,825	\$ 1,355,000
Notes payable	1,381,456	-	(394,780)	986,676	415,213
Total Bonds and Notes Payable	13,100,630	-	(1,727,129)	11,373,501	1,770,213
Capital lease obligations	735,784	34,841	(306,958)	463,667	367,279
Total Long-Term Debt	\$ 13,836,414	34,841	(2,034,087)	\$ 11,837,168	\$ 2,137,492
	Balance 9/30/2016	Additions	Reductions	Balance 9/30/2017	Amounts Due Within One Year
Bonds and Notes Payable:					
Bonds payable	\$ 13,033,251	-	(1,314,077)	\$ 11,719,174	\$ 1,315,000
Notes payable	1,126,004	577,390	(321,938)	1,381,456	386,858
Total Bonds and Notes Payable	14,159,255	577,390	(1,636,015)	13,100,630	1,701,858
Capital lease obligations	675,079	577,824	(517,119)	735,784	298,221
Total Long-Term Debt	\$ 14,834,334	1,155,214	(2,153,134)	\$ 13,836,414	\$ 2,000,079

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Notes to Consolidated Financial Statements

Note 8: Long-Term Debt (Continued)

A detail of long-term debt, including capital lease obligations, at September 30, 2018, and 2017, follows:

Bonds Payable	2018	2017
Series 2011 MHEFA Bonds, 3.80% due in monthly installments with varying principal and interest amounts with final installment due in the year 2021, secured by building.	\$ 1,970,000	\$ 2,510,000
Series 2013 Revenue Bonds with varying interest rates, interest due semiannually and principal due in varying annual installments with final installment due in the year 2027, secured by hospital revenue. Balance net of unamortized premium of \$79,801 at September 30, 2018 and \$88,894 at September 30, 2017.	8,239,801	8,318,894
Series 2014 Revenue Bonds with varying interest rates, interest due semiannually and principal due in varying annual installments with final installment due in the year 2019, secured by hospital revenue. Balance net of unamortized discount of \$676 and premium of \$7,701 at September 30, 2018 and unamortized discount of \$3,971 and premium of \$19,251 at September 30, 2017.	177,024	890,280
Total Bonds Payable	\$ 10,386,825	\$ 11,719,174
 Notes Payable	 2018	 2017
The Citizens Bank of Philadelphia, 0.91% due in monthly installments with varying principal and interest amounts with final installment due in the year 2020, secured by Stryker 2016 1588 Video Platform.	\$ 333,568	\$ 513,152
Morrison Management Specialists, Inc. 2.65 % due in monthly installments with varying principal and interest amounts with final installment due in the year 2020, secured by title to the improvements.	224,969	327,907

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Notes to Consolidated Financial Statements

Note 8: Long-Term Debt (Continued)

Notes Payable (Continued)	2018	2017
The Citizens Bank of Philadelphia, 1.66% due in monthly installments with varying principal and interest amounts with final installment due in the year 2022, secured by Ultrasound equipment.	\$ 428,139	\$ 540,397
Total Notes Payable	<u>\$ 986,676</u>	<u>\$ 1,381,456</u>

Capital Lease Obligations , at varying rates of imputed interest from 1.92% to 7.68% collateralized by leased assets with a cost of \$1,110,970 at September 30, 2018 and \$1,076,129 at September 30, 2017.	2018	2017
	<u>\$ 463,667</u>	<u>\$ 735,784</u>

Scheduled principal and interest repayments on long-term debt and payments on capital lease obligations are as follows:

<u>Year Ended September 30:</u>	Long-Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2019	1,770,213	339,013	367,279	11,177
2020	1,843,853	311,440	96,388	1,113
2021	1,598,068	235,519	-	-
2022	1,194,822	188,707	-	-
2023	944,093	159,256	-	-
Thereafter	4,022,452	334,917	-	-
Total	<u>\$ 11,373,501</u>	<u>\$ 1,568,852</u>	<u>\$ 463,667</u>	<u>\$ 12,290</u>

Note 9: Net 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:

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Notes to Consolidated Financial Statements

Note 9: Net Patient Service Revenue (Continued)

Medicare - Inpatient acute care services, outpatient services, and nonacute inpatient 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. The facility is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the hospital and audits thereof by the Medicare fiscal intermediary. The facility's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2015.

Medicaid - Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the hospital and audits thereof by the Medicaid fiscal intermediary. The hospital is reimbursed for outpatient services under a cost based reimbursement methodology that is updated annually.

Medicaid Disproportionate Share Payment - The hospital received Medicaid disproportionate share payments of \$1,166,707, and \$0, for the years ended September 30, 2018, and 2017, respectively.

The Medicaid disproportionate share program is a program whereby the hospital qualifies for disproportionate share funds in addition to regular funds as a result of providing care to a disproportionate share of low-income patients as well as providing certain required services. The Mississippi Division of Medicaid controls the disproportionate share program and the continuation of the program rests with the agency.

Medicaid Mississippi Hospital Access Payment – The hospital received Medicaid Mississippi hospital access payments of \$2,737,436 for the year ended September 30, 2018, and \$2,625,047 for the year ended September 30, 2017. The Medicaid Mississippi hospital access program is a program whereby the hospital qualifies for Mississippi hospital access program funds in addition to regular funds. The Mississippi Division of Medicaid administers the program through the Mississippi CAN coordinated care organizations, and the continuation of the program rests with the federal government.

Note 10: Medical Benefit Plan

The hospital adopted a self-funded medical benefit plan on May 1, 1980, covering substantially all of its employees and certain dependents of the employees. The total medical benefit expense for the years ended September 30, 2018, and 2017, amounted to \$916,669, and \$1,216,059, respectively. The hospital's policy is to fund the estimated medical benefit claims that will be filed against the plan less the contributions made by employees covered by the plan. In addition, an allowance, representing the write-off of charges applicable to in-house claims of the employees and their dependents was provided in the amounts of \$2,039,618 in 2018, and \$2,197,506 in 2017.

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Notes to Consolidated Financial Statements

Note 11: Employee Retirement Plan

The hospital has a retirement plan with discretionary employer contributions by the hospital for IRS approved section 401(a) and 403(b) accounts and non-employer contributions to 457(b) accounts. The 401(a) has employer discretionary percentage contribution of current and/or accumulated net profits each year, with a base of 7.5% of the qualifying employee' total effective earnings for that year. The 403(b) has employer discretionary contributions with a 50% match of employees' elective contributions up to 5%. A qualifying employee is fully vested after five years of credited services. The hospital's total discretionary contributions to the 401(a) and 403(b) accounts on the plans for 2018, and 2017 was \$2,435,109, and \$1,557,981 respectively. The total employees' elective contributions to the 403(b) account on the plan for 2017, and 2016 were \$1,456,564 and \$1,448,215, respectively. The 457(b) is a deferred compensation plan with employees' elective contributions. The total employees' elective contributions to the 457(b) account on the plan for 2018, and 2017 was \$203,312 and \$169,227, respectively.

Note 12: Concentrations of Credit Risk

The hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, 2018, and 2017, was as follows:

	2018	2017
Medicare	19%	16%
Medicaid	10%	11%
Patients and other third-party payors	71%	73%
	100%	100%

Note 13: Contingencies

The hospital is party to various legal proceedings, which normally occur in the operation of a hospital. The range of potential loss at September 30, 2018, and 2017, has not been estimated. Management does not expect any significant liability to result from these legal proceedings.

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Notes to Consolidated Financial Statements

Note 14: Agreement with County

The hospital receives funds from Oktibbeha County, Mississippi. These funds are deposited into the hospital's general account established under the bond indenture agreement for the 2002 Revenue Bonds. The hospital pledged the payment of \$98,572 per month to the County for the payment of the principal and interest on the 2009 General Obligation Bonds until the final maturity of the 2002 Revenue Bonds. The hospital made payments to the County of \$1,182,864, and \$1,182,864, for the years ended September 30, 2018, and 2017, respectively, for the payment of the principal and interest on the 2009 General Obligations Bond. The 2002 Revenue Bonds were refunded by the hospital's issuance of the 2013 Revenue Bonds on May 30, 2013 and the 2014 Revenue Bonds on January 22, 2014. The maturity of the 2013 bonds remained the same as the 2002 debt with a maturity of 2027. The 2014 bonds mature in 2019.

Future payments to county per the agreement for the following five years are as follows:

<u>Year Ended</u> <u>September 30:</u>		
2019	\$	1,182,864
2020	\$	1,182,864
2021	\$	1,182,864
2022	\$	1,182,864
2023	\$	1,182,864

Note 15: Other Assets

Included in Other Assets on the Statements of Net Position is an investment in Mississippi TRUE. The hospital is a subscriber in the nonprofit corporation, which seeks to establish a Mississippi provider-sponsored health plan intended to provide provider-sponsored coordinated care and improved access and quality, as compared with for-profit plans. The amount of the hospital's investment as of September 30, 2018, and 2017 was \$400,000 and \$400,000 respectively. The hospital has elected to report this investment at cost since there is not a market for the ownership interest in the company.

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Notes to Consolidated Financial Statements

Note 16: Subsequent Events

Events that occur after the Consolidated Statement of Net Position date but before the consolidated financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Consolidated Statement of Net Position date are recognized in the accompanying consolidated financial statements. Subsequent events which provide evidence about conditions that existed after the Consolidated Statement of Net Position date require disclosure in the accompanying notes. Management of Oktibbeha County Hospital D/B/A OCH Regional Medical Center and Subsidiary evaluated the activity of the hospital through February 26, 2019, (the date the consolidated financial statements were available to be issued), and determined that there were no subsequent events requiring disclosures in the notes to the consolidated financial statements, except for the following:

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Detailed Schedules of Operating Revenues
Years Ended September 30, 2018, and 2017

	2018	2017
Patient Service Revenue:		
Inpatient:		
Nursing Service:		
Routine service	\$ 6,259,116	\$ 6,531,170
Swingbeds	467,162	587,962
Intensive care	1,277,634	1,115,563
Nursery	2,012,143	1,859,511
Other Nursing Service:		
Operating and recovery room	7,108,452	8,158,531
Ambulatory surgery	61,338	77,936
Heart monitor	102,737	111,207
Delivery room	3,599,108	3,602,140
Central service and supply	2,293,355	2,523,393
Intravenous therapy	2,556,175	2,728,947
Emergency service	1,136,862	1,208,128
Pathology	24,809	25,176
Hospitalist	882,843	839,584
Total Nursing Service Revenue	27,781,734	29,369,248
Other Professional Service:		
Laboratory	2,855,188	3,000,316
Blood bank	693,199	785,167
Electrocardiology	171,725	163,129
Radiology	606,953	679,519
Pharmacy	6,630,166	7,217,003
Anesthesiology	360,222	410,604
Respiratory therapy	6,236,742	5,646,408
Physical therapy	220,728	277,350
Nuclear medicine	13,193	12,759
CT scan	1,262,508	1,463,451
Ambulance	338,587	325,786
Speech pathology	103,324	162,571
Ultrasound	268,551	275,636
MRI	133,757	183,991
Occupational therapy	112,076	95,575
Total Other Professional Service Revenue	20,006,919	20,699,265
 Total Inpatient Revenue	 47,788,653	 50,068,513

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Detailed Schedules of Operating Revenues
Years Ended September 30, 2018, and 2017

	2018	2017
Outpatient:		
Other Nursing Service:		
Operating and recovery room	37,273,180	39,098,400
Ambulatory surgery	2,990,321	3,910,899
Heart monitor	247,235	252,869
Central service and supply	2,542,200	2,744,637
Intravenous therapy	2,461,282	2,643,492
Emergency service	18,851,014	19,570,557
Pathology	274,930	331,345
Total Nursing Service Revenue	64,640,162	68,552,199
Other Professional Service:		
Laboratory	9,764,432	9,568,196
Blood	693,903	516,361
Electrocardiology	1,299,919	1,188,789
Ambulance	2,100,853	2,210,774
Radiology	5,292,962	5,303,249
Pharmacy	11,283,227	11,594,829
Anesthesiology	8,981,159	9,175,637
Respiratory therapy	6,849,638	6,022,966
Physical therapy	1,032,154	1,135,012
Nuclear medicine	1,172,236	1,331,870
CT scan	15,654,066	16,001,616
Cardiac rehabilitation	681,890	455,014
Speech pathology	119,184	138,492
Ultrasound	1,326,178	1,241,271
MRI	3,586,715	3,643,868
Occupational therapy	279,465	344,030
OCH Orthopedics Clinic	1,975,916	1,826,287
Center for Breast Health	1,577,402	1,460,076
OCH Pulmonology	531,594	539,835
OCH Rural Health Clinic	-	54
OCH Family Medicine Clinic	969,714	796,693
OCH General Surgery	-	2,289
OCH Medical Associates	11,959	647,400
OCH Urology Associates	-	(9,777)
OCH Center for Pain	7,288,203	7,245,693
OCH Hyperbaric Center	584,237	662,811
OCH Wound Care Center	3,345,720	1,890,602
Total Other Professional Service Revenue	86,402,726	84,933,937
Total Outpatient Revenue	151,042,888	153,486,136
Total Patient Service Revenue	198,831,540	203,554,649

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Detailed Schedules of Operating Revenues
Years Ended September 30, 2018, and 2017

	2018	2017
Contractual Adjustments and Allowances:		
Medicare	47,406,766	47,908,976
Medicaid	20,191,764	22,416,221
Blue Cross	1,858,805	2,058,709
Charity care	2,368,076	1,963,282
Medicaid MHAP and UPL payment	(2,737,456)	(2,625,047)
Medicaid DSH payment	(1,166,707)	385,456
Administrative and other adjustments	53,939,670	53,101,914
Total Contractual Adjustments and Allowances	121,860,918	125,209,511
Provision for Uncollectable Accounts	12,340,323	10,950,247
Net Patient Service Revenue	64,630,299	67,394,891
Other Operating Revenue:		
Employee pharmacy sales	428,598	406,169
Medical records transcript	20,647	19,549
Employee and guest meals	402,045	395,872
Commissions - Vending machines	58,973	55,740
Medical and surgical supplies	1,044	1,347
Purchase discounts	88,928	22,016
Nursery pictures	68	288
Wellness Connection fees	696,985	746,177
Physician office buildings - rent	473,057	473,272
Miscellaneous revenue	223,616	155,776
Total Other Operating Revenue	2,393,961	2,276,206
Electronic Health Records Incentive	21,599	37,845
Total Operating Revenue	\$ 67,045,859	\$ 69,708,942

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Detailed Schedules of Operating Expenses
Years Ended September 30, 2018, and 2017

	2018			2017		
	Salaries and Benefits	Supplies and Drugs	Other	Salaries and Benefits	Supplies and Drugs	Other
Nursing Services:						
Nursing administration	\$ 871,637	3,003	6,142	877,147	9,447	14,450
Routine services	3,052,915	132,851	31,053	3,096,866	99,874	74,506
Intensive care	663,098	31,449	28,829	587,469	25,920	16,769
Nursery	723,256	30,598	13,691	710,662	29,439	12,952
Other Nursing Services:						
Operating and recovery rooms	2,268,013	6,429,686	1,221,601	2,163,088	7,688,367	1,180,051
Ambulatory surgery	1,101,293	494,353	75,124	1,136,711	577,866	61,742
Delivery room	1,166,222	104,918	26,228	1,194,433	101,709	74,018
Central service and supply	295,999	790,188	96,755	308,048	854,886	82,638
Emergency service	5,694,869	79,630	521,366	6,152,681	84,406	559,856
Trauma	81,280	120	810	52,143	39	586
Hospitalist	790,733	1,739	905,593	367,479	3,663	1,200,447
Other Professional Services:						
Laboratory	1,011,916	711,316	712,407	1,052,095	698,603	700,774
Blood bank	-	-	306,499	-	-	267,542
Electrocardiology	87	2,539	116,742	182	2,179	61,680
Radiology	855,708	56,929	299,830	846,246	67,602	293,705
Pharmacy	766,869	1,980,400	77,108	734,367	2,165,137	93,046
Anesthesiology	3,311,920	101,549	138,590	3,327,411	106,939	120,631
Respiratory therapy	1,311,801	155,310	71,315	1,267,898	161,210	83,818
Ambulance	1,224,806	109,127	232,807	1,145,506	91,440	214,945
Physical therapy	920,421	14,058	40,615	915,555	16,292	38,995
Ultrasound	175,497	3,575	12,552	183,217	3,589	31,700
CT scan	138,461	61,971	3,599	121,138	84,255	7,652
Nuclear medicine	87,586	160,429	29,474	85,746	174,408	35,474
Medical records	875,453	8,796	141,000	940,833	10,400	129,867
Social service	74,962	235	3,025	71,309	696	4,324
Cardiac rehabilitation	133,885	5,534	11,252	140,511	8,079	12,309
Speech pathology	85,797	365	193	122,620	1,203	286
Wellness Center	547,919	7,650	138,738	519,820	9,711	142,689
Sports medicine	283,083	8,290	33,551	276,168	6,140	36,596
Physician's office	1,037,176	146,037	134,099	1,120,583	128,872	130,552

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Detailed Schedules of Operating Expenses
Years Ended September 30, 2018, and 2017

	2018			2017		
	Salaries and Benefits	Supplies and Drugs	Other	Salaries and Benefits	Supplies and Drugs	Other
Other Professional Services (Continued):						
Occupational therapy	304,951	4,403	3,738	292,704	4,266	5,296
Breast Health Center	1,107,165	84,057	178,050	949,060	25,428	158,194
OCH General Surgery	235	88	3,553	617	-	928
OCH Rural Health Clinic	-	-	1,011	-	-	1,654
OCH Medical Associates	19,557	1,383	25,458	617,153	11,510	71,487
OCH Urology Associates	155	810	8,421	116	316	10,705
OCH Pulmonology	505,399	6,577	35,461	445,026	8,151	32,643
OCH Center for Pain	1,089,385	16,284	48,243	896,992	14,087	63,950
OCH Hyperbaric Center	-	-	102,347	-	5,540	124,648
OCH Wound Care Center	-	251,244	565,073	-	103,349	460,042
OCH Family Health Clinic	268,860	11,147	22,323	271,138	28,484	42,635
OCH Medical Associates	46,528	12,047	12,645	-	-	151
General Services:						
Dietary	1,241,802	658,676	150,309	1,223,691	653,368	119,103
Maintenance	526,030	98,845	1,619,727	550,374	85,787	1,650,709
Housekeeping	804,325	84,662	102,838	796,055	91,405	108,417
Laundry and linen	4,538	-	343,546	-	-	326,318
Security	312,073	8,326	2,563	297,132	8,596	5,189
Administration and Fiscal Services:						
Administrative	1,072,130	52,921	1,393,971	975,174	65,139	1,328,439
Fiscal	5,306,806	210,576	2,438,801	5,503,174	192,016	2,378,382
Total	\$ 42,162,601	13,134,691	12,488,666	42,336,338	14,509,813	12,573,490

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Schedule of Surety Bonds for Officials and Employees
September 30, 2018

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Amount of Bond</u>
Jimmy Linley	Trustee	Travelers	\$ 100,000
Kimberly Brooks	Trustee	Western Surety	\$ 100,000
Walter Williams	Trustee	Western Surety	\$ 100,000
Linda Breazeale	Trustee	Western Surety	\$ 100,000
Don Posey	Trustee	Western Surety	\$ 100,000
Neil Amos	Trustee	Western Surety	\$ 100,000
James Jackson	Administrator	Travelers	\$ 100,000



WATKINS, WARD and STAFFORD
Professional Limited Liability Company
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**Independent Auditors’ 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
Oktibbeha County Hospital
D/B/A OCH Regional Medical Center and Subsidiary
Starkville, Mississippi

We have audited, in accordance with the 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 Oktibbeha County Hospital D/B/A OCH Regional Medical Center and Subsidiary, a component unit of Oktibbeha County, Mississippi, as of and for the years ended September 30, 2018, and 2017, and the related notes to consolidated financial statements, which collectively comprise Oktibbeha County Hospital D/B/A OCH Regional Medical Center and Subsidiary’s basic financial statements as listed in the contents, and have issued our report thereon dated February 26, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Oktibbeha County Hospital D/B/A OCH Regional Medical Center and Subsidiary’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Oktibbeha County Hospital D/B/A OCH Regional Medical Center and Subsidiary’s internal control. Accordingly, we do not express an opinion of the effectiveness of Oktibbeha County Hospital D/B/A OCH Regional Medical Center and Subsidiary’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 Oktibbeha County Hospital D/B/A OCH Regional Medical Center and Subsidiary's consolidated 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 consolidated 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.

Eupora, Mississippi
February 26, 2019

Watkins Ward and Stafford, PLLC



WATKINS, WARD and STAFFORD
 Professional Limited Liability Company
 Certified Public Accountants

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Susan M. Lummus, CPA	

Independent Auditors' Report on Compliance with State Laws and Regulations

Board of Trustees
 Oktibbeha County Hospital
 D/B/A OCH Regional Medical Center and Subsidiary
 Starkville, Mississippi

We have audited the consolidated financial statements of Oktibbeha County Hospital D/B/A OCH Regional Medical Center and Subsidiary, a component unit of Oktibbeha County, Mississippi, as of and for the years ended September 30, 2018, and 2017, and have issued our report thereon dated February 26, 2019.

We conducted our audit in accordance with generally accepted auditing standards and *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 consolidated financial statements are free of material misstatement.

Compliance with state laws applicable to Oktibbeha County Hospital D/B/A OCH Regional Medical Center and Subsidiary is the responsibility of the hospital's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Oktibbeha County Hospital D/B/A OCH Regional Medical Center and Subsidiary's compliance with certain provisions of state laws. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, Oktibbeha County Hospital D/B/A OCH Regional Medical Center and Subsidiary complied with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that Oktibbeha County Hospital D/B/A OCH Regional Medical Center and Subsidiary had not complied with those provisions.

This report is intended solely for the information and use of the Board of Trustees, management, others within the organization, and the Board of Supervisors of Oktibbeha County, Mississippi, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Eupora, Mississippi
 February 26, 2019

Watkins Ward and Stafford, PLLC