



FINANCIAL REPORT

COVINGTON COUNTY HOSPITAL
COLLINS, MISSISSIPPI

SEPTEMBER 30, 2018

Presented by: Harper, Rains, Knight & Company, P.A.
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Harper, Rains, Knight & Company

The Board of Trustees
Covington County Hospital
Collins, Mississippi

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Covington County Hospital (the "Hospital"), a component unit of Covington County, Mississippi, as of and for the year ended September 30, 2018 and 2017, and the related notes to 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.

Auditors' 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 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.

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The Board of Trustees
Covington County Hospital (continued)

Auditors' Responsibility (continued)

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Hospital, as of September 30, 2018 and 2017, and the respective changes in financial position and cash flows thereof, 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 5-10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The Schedule of Surety Bonds for Officials and Employees is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Surety Bonds for Officials and Employees has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

The Board of Trustees
Covington County Hospital (continued)

Other Matters (continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2019, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Covington County Hospital's internal control over financial reporting and compliance.

Harper, Rainie, Knight & Company, P.A.

February 28, 2019

COVINGTON COUNTY HOSPITAL MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the financial performance of Covington County Hospital (hereafter referred to as the "Hospital") for the fiscal year ended September 30, 2018. Since the management's discussion and analysis is designed to focus on the current year's activities, resulting changes, and currently known facts, we encourage readers to consider the information presented here in conjunction with the Hospital's basic financial statements.

Financial Highlights

- Total liabilities for the Hospital at year-end were \$7,421,114, an increase of \$80,514, or approximately 1.1 percent, from the prior fiscal year. Current liabilities were \$3,076,500, an increase of \$475,030 from the prior fiscal year. The long-term liabilities were \$4,344,614, a decrease of \$394,516 from the prior fiscal year.
- Total assets for the Hospital at year-end were \$16,889,930, an increase of \$489,600, or 3 percent, from the prior fiscal year.
- Total net position for the Hospital at year-end was \$9,468,816, an increase of \$409,086 from the prior fiscal year. Unrestricted net position was \$6,994,005, an increase of \$47,599 from the prior fiscal year. Net investment in capital assets was \$2,474,811, an increase of \$361,487 from the prior fiscal year.
- Operating expenses for the fiscal year were \$24,461,473, an increase of \$2,191,883, or approximately 10 percent, from the prior fiscal year primarily due to an increase in salaries and benefits.
- Operating revenues for the fiscal year were \$24,836,753, an increase of \$1,300,805, or approximately 5.5 percent, from the prior fiscal year primarily due to an increase in swing bed revenue and other income related to 340b revenues.
- Non-operating revenues for the fiscal year were \$132,798, an increase of \$113,511, or approximately 589 percent, from the prior fiscal year primarily due to a gain on disposal of other assets for return of premiums on the Hospital's equity investment in insurance provider.
- Non-operating expense which consists of interest expense for the fiscal year was \$98,992, a decrease of \$18,793, or approximately 16 percent, from the prior fiscal year.

Overview of Financial Statements

An annual report consists of four components: (1) the Management's Discussion and Analysis (this section), (2) the Independent Auditor's Report, (3) the Financial Statements and Supplementary Information, and (4) the Notes to Financial Statements.

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.

COVINGTON COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Overview of Financial Statements (continued)

The statements of net position include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations of the Hospital's creditors (liabilities) for both the current year and the prior year. They also provide the basis for evaluating the capital structure of the Hospital and accessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenue and expenses are accounted for in the statements of revenue and expenses and changes in net position. These statements measure the performance of the Hospital's operation over the past two years and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service revenue and other revenue resources.

The primary purpose of the statements of cash flows is to provide information about the Hospital's cash from operations, capital and related financing and investment 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 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 provides additional information as required.

Financial Analysis of the Hospital

The statements of net position, the statements of revenue and expenses and changes in net position report information about the Hospital's activities. These statements report the net position of the Hospital and changes in them. Increases or improvements, as well as decreases or declines in the net position, is one indicator of the financial state of the Hospital. Other non-financial factors that should also be considered include changes in economic conditions, population growth (including uninsured and working poor) and new or changed governmental legislation.

COVINGTON COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Net Position

A summary of the Hospital's statements of net position as of September 30, 2018 and 2017 is presented in the following table:

Condensed Statements of Net Position
(In Thousands)

	Fiscal Year 2018	Fiscal Year 2017	Dollar Change	Total Percent Change
Current and other assets	\$ 9,454	\$ 8,908	\$ 546	6.1%
Capital assets	7,235	7,275	(40)	-0.5%
Total assets	<u>16,689</u>	<u>16,183</u>	<u>506</u>	<u>3.1%</u>
Deferred outflow of resources	<u>201</u>	<u>218</u>	<u>(17)</u>	<u>-7.8%</u>
Long-term debt outstanding	4,760	5,162	(402)	-7.8%
Other liabilities	<u>2,661</u>	<u>2,179</u>	<u>482</u>	<u>22.1%</u>
Total liabilities	<u>7,421</u>	<u>7,341</u>	<u>80</u>	<u>1.1%</u>
Investment in capital assets, net of related debt	2,475	2,113	362	17%
Unrestricted	<u>6,994</u>	<u>6,947</u>	<u>47</u>	<u>0.7%</u>
Total net position	<u>\$ 9,469</u>	<u>\$ 9,060</u>	<u>\$ 409</u>	<u>4.5%</u>

Total assets increased 3 percent primarily due to an increase in other receivables for third-party payor settlements and UPL payments of approximately \$1,124,000.

Long-term debt decreased by 8 percent due to debt payments made during the year.

COVINGTON COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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, 2018 and 2017:

	Fiscal Year 2018	Fiscal Year 2017	Dollar Change	Total Percent Change
Net patient service revenue	\$ 22,808	\$ 22,142	\$ 666	3.0%
Other operating revenue excluding interest income	<u>2,029</u>	<u>1,394</u>	<u>635</u>	<u>45.6%</u>
Total operating revenue	<u>24,837</u>	<u>23,536</u>	<u>1,301</u>	<u>5.5%</u>
Salaries and benefits	13,815	12,183	1,632	13.4%
Professional fees, supplies, maintenance, other	<u>9,983</u>	<u>9,355</u>	<u>628</u>	<u>6.7%</u>
Total operating expenses before depreciation/amortization	<u>23,798</u>	<u>21,538</u>	<u>2,260</u>	<u>10.5%</u>
Earnings before interest, depreciation/amortization ("EBITDA")	1,039	1,998	(959)	-48.0%
Depreciation/amortization expense	<u>664</u>	<u>732</u>	<u>(68)</u>	<u>-9.3%</u>
Income from operations	<u>375</u>	<u>1,266</u>	<u>(891)</u>	<u>-70.4%</u>
Interest income	6	20	(14)	-70.0%
Gain on disposal of other assets	127	-	127	100.0%
Interest expense	<u>(99)</u>	<u>(118)</u>	<u>19</u>	<u>-16.1%</u>
Total non-operating revenue (expense)	<u>34</u>	<u>(98)</u>	<u>132</u>	<u>-134.7%</u>
Transfer from Covington County	<u>-</u>	<u>-</u>	<u>-</u>	<u>0.0%</u>
Increase (decrease) in net position	<u>\$ 409</u>	<u>\$ 1,168</u>	<u>\$ (759)</u>	<u>-65.0%</u>

COVINGTON COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Operating and Financial Performance

The following summarizes the changes in the Hospital's statement of net position and statement of revenue and expenses and changes in net position for 2018.

The Hospital's assets consist primarily of cash, patient accounts receivable generated from medical services performed, investments and capital assets (property and equipment). The Hospital's liabilities consist of accrued obligations to employees and vendors for goods and services received and long-term debt obligations. Unrestricted net position represents the amount of the Hospital's assets (other than capital assets) greater than its liabilities (other than long-term debt related to capital assets). Unrestricted net position is generally used to continue the Hospital's day-to-day operations. Net investment in capital assets represents the amount of the Hospital's net capital assets, less its related long-term debt.

Operating revenues increased for the fiscal year ended September 30, 2018, primarily due to an increase in swing bed and other revenues relating to 340b income. Operating expenses increased for the fiscal year ended September 30, 2018, primarily as a result of an increase in salaries and benefits during the current fiscal year.

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 Hospital's operating budget. Although the financial outlook of the Hospital is considered positive, of primary importance in the setting of budgets and performance standards is the status of the economy and the healthcare environment, which takes into account market forces and environment factors, such as:

- Medicare reimbursement changes;
- Medicaid reimbursement changes, as well as the continuation at the current level of the Disproportionate Share and Mississippi Hospital Access Payment programs;
- Increased number of uninsured and working poor;
- Ongoing competition for services;
- Cost of supplies, primarily pharmaceuticals;
- Ability to continue recruiting medical staff physicians to maintain the high level of services offered to our service area;
- Continued growth of service levels in the ancillary departments;
- Continuation of the excellent working relationship between the Medical Staff, the Board and the Hospital administration;
- Impact of Healthcare Reform as it relates to reimbursement and employee health insurance coverage, and related political reform.

COVINGTON COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Financial Contact

The Hospital's financial statements are designed to present users with a general overview of its finances and to demonstrate its accountability. If you have any questions about the report or need additional information, contact the Chief Executive Officer, Covington County Hospital, 701 South Holly Avenue, Collins, Mississippi 39428.

COVINGTON COUNTY HOSPITAL
STATEMENTS OF NET POSITION
September 30, 2018 and 2017

ASSETS		
	2018	2017
Current assets		
Cash and cash equivalents	\$ 3,276,506	\$ 3,551,529
Patient accounts receivable, net	3,160,816	3,601,813
Other receivables	1,445,070	321,072
Inventories	380,508	328,440
Prepaid and other current assets	159,194	54,912
Total current assets	8,422,094	7,857,766
Non-current investments		
Investments designated for Board for capital projects	1,031,432	1,043,308
Deferred outflows of resources		
Deferred loss on debt refunding	200,975	217,841
Capital assets		
Property and equipment, net	7,235,429	7,274,849
Other assets		
Equity investment in insurance provider	-	6,566
Total other assets	-	6,566
Total assets	\$ 16,889,930	\$ 16,400,330
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable	\$ 1,237,801	\$ 674,193
Accrued expenses and other current liabilities	1,013,346	831,885
Estimated third-party payor settlements	409,349	672,997
Current portion of note payable	-	69,949
Current portion of bonds payable	391,188	305,000
Current portion of capital lease obligations	24,816	47,446
Total current liabilities	3,076,500	2,601,470
Long-term liabilities		
Note payable, net of current portion	-	35,560
Bonds payable, net of current portion	4,233,220	4,703,570
Capital lease obligations, net of current portion	111,394	-
Total long-term liabilities	4,344,614	4,739,130
Total liabilities	7,421,114	7,340,600
Net position		
Net investment in capital assets	2,474,811	2,113,324
Unrestricted	6,994,005	6,946,406
Total net position	9,468,816	9,059,730
Total liabilities and net position	\$ 16,889,930	\$ 16,400,330

COVINGTON COUNTY HOSPITAL

STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues		
Net patient services revenue, net of provision for bad debt of \$6,061,428 for 2018 and \$4,201,013 for 2017	\$ 22,807,522	\$ 22,142,433
Other revenues	<u>2,029,231</u>	<u>1,393,515</u>
Total operating revenues	<u>24,836,753</u>	<u>23,535,948</u>
Expenses		
Salaries and benefits	13,814,669	12,182,875
Purchased services	4,578,929	5,040,710
Medical supplies and drugs	2,283,254	1,773,259
Repairs and maintenance	979,499	850,980
Insurance	224,597	179,714
Equipment rental	257,219	178,247
Utilities	586,150	571,833
Depreciation and amortization	663,786	731,769
Taxes and licenses	423,978	439,345
Other	<u>649,392</u>	<u>320,858</u>
Total expenses	<u>24,461,473</u>	<u>22,269,590</u>
Operating income	<u>375,280</u>	<u>1,266,358</u>
Non-operating revenues (expenses)		
Investment income	5,486	19,287
Gain on disposal of other assets	127,312	-
Interest expense	<u>(98,992)</u>	<u>(117,785)</u>
Total non-operating revenues (expenses)	<u>33,806</u>	<u>(98,498)</u>
Increase in net position	<u>409,086</u>	<u>1,167,860</u>
Net position, beginning of year	<u>9,059,730</u>	<u>7,891,870</u>
Net position, end of year	<u>\$ 9,468,816</u>	<u>\$ 9,059,730</u>

COVINGTON COUNTY HOSPITAL

STATEMENTS OF CASH FLOWS
Years Ended September 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 21,860,873	\$ 22,405,134
Payments to suppliers and contractors	(9,544,814)	(9,016,209)
Payments to and on behalf of employees	(13,625,400)	(11,817,230)
Other receipts	<u>2,029,231</u>	<u>1,393,515</u>
Net cash provided by operating activities	<u>719,890</u>	<u>2,965,210</u>
Cash flows from capital and related financing activities:		
Principal payments long-term obligations	(537,117)	(520,285)
Interest paid on long-term obligations	(107,299)	(109,478)
Proceeds from disposal of other assets	133,878	-
Purchase of other assets	-	(6,566)
Purchase/disposal of capital assets	<u>(471,290)</u>	<u>(269,575)</u>
Total cash flows used in capital and related financing activities	<u>(981,828)</u>	<u>(905,904)</u>
Cash flows from investing activities:		
Purchase of investments	(18,571)	(1,043,747)
Interest income	<u>5,486</u>	<u>19,287</u>
Net cash used in investing activities	<u>(13,085)</u>	<u>(1,024,460)</u>
Net increase (decrease) in cash and cash equivalents	(275,023)	1,034,846
Cash and cash equivalents at beginning of year	<u>3,551,529</u>	<u>2,516,683</u>
Cash and cash equivalents at end of year	<u>\$ 3,276,506</u>	<u>\$ 3,551,529</u>
Non cash financing activities:		
Acquisition of equipment through lease arrangements	\$ 136,210	\$ -

COVINGTON COUNTY HOSPITAL
 STATEMENTS OF CASH FLOWS (continued)
 Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 375,280	\$ 1,266,358
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	663,786	731,767
Provision for bad debt	6,061,428	4,201,013
Other	30,447	439
Net effect of changes in assets and liabilities:		
Patient accounts receivable	(5,620,431)	(4,764,723)
Estimated third-party payor settlements	(263,648)	1,723,868
Other receivables	(1,123,998)	(224,460)
Inventories	(52,068)	(8,913)
Prepaid and other current assets	(104,282)	65,987
Accounts payable	563,608	(77,784)
Accrued expenses and other current liabilities	<u>189,768</u>	<u>51,658</u>
Net cash provided by operating activities	<u>\$ 719,890</u>	<u>\$ 2,965,210</u>

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS Years Ended September 30, 2018 and 2017

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies which have been followed by Covington County Hospital (hereafter referred to as the "Hospital") in preparing the accompanying financial statements are set forth below.

Organization and Operations

The Hospital is a regional healthcare provider established by Covington County ("the County") as a special purpose government entity under the laws of the State of Mississippi. The Hospital is owned by Covington County and is governed by a Board of Trustees pursuant to Sections 41-13-15 e.t. Seq. of Mississippi Code of 1972, as amended. Because of the relationship between the Hospital and Covington County, the Hospital has been defined as a component unit of the County.

The Hospital, located in Collins, Mississippi, is a critical access hospital ("CAH"). The Hospital provides inpatient, outpatient, geriatric psychiatric, rural health clinic and emergency care services for residents of Covington County, Mississippi and surrounding areas. The Hospital is currently licensed to provide 25 acute care inpatient beds and 10 geriatric psychiatric beds for patient care. Additionally, the Hospital operates a 60-bed long-term care facility. The Hospital is governed by a Board of Trustees, all of whom are appointed by the Board of Supervisors of the County.

Basis of Presentation

The Hospital prepares its financial statements as a business-type activity in conformity with the applicable pronouncements of the Governmental Accounting Standards Board ("GASB"). The accompanying financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. GASB Accounting Standards Codification is the sole source of authoritative accounting guidance for governmental entities in the United States of America.

Cash and Cash Equivalents

All cash accounts and all highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash equivalents, including amounts limited as to use by the Board or under trust agreements.

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2018 and 2017

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Patient Accounts Receivable and the Provision for Doubtful Accounts

Patient accounts receivable are carried at the unpaid amount of patient service revenue charged to patients, net of allowances for contractual adjustments related to agreements with third-party payors and allowances for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes past results and identifies trends for each major payor source of revenue for the purpose of estimating the appropriate amounts of the allowance for doubtful accounts and the provision for bad debts. Data in each major payor source is regularly reviewed to evaluate the adequacy of the allowance for doubtful accounts. For receivables relating to services provided to patients having third-party coverage and self-pay patients, an allowance for doubtful accounts and a corresponding provision for bad debts are established based on an aging of receivables and historical collection percentages; additionally, for receivables relating to self-pay patients, the Hospital considers experience indicating the inability or unwillingness of patients to pay amounts for which they are financially responsible. Actual write-offs are charged against the allowance for doubtful accounts.

Inventories

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

Prepaid Expenses and Deferred Charges

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

Capital Assets, Net

Property and equipment acquisitions are recorded at cost, or if donated, at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Estimated useful lives for each class of depreciable assets are as follows:

Land improvements	10 to 20 years
Buildings	20 to 30 years
Fixed equipment	15 to 20 years
Major movable equipment (including automobiles)	3 to 15 years
Leasehold improvements	10 years

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS Years Ended September 30, 2018 and 2017

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current Investments

Non-current investments include assets set aside by the Board of Trustees for future capital improvements. 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 an external investment pool and is reported at fair value. Interest, dividends and gains and losses on investments, both realized and unrealized, are included in non-operating income in investment income when earned.

Cost of Borrowing

Costs incurred in connection with the obtaining of financing are expensed as incurred. Premium or discount incurred in connection with the issuance of bonds and indentures is amortized over the life of the obligations on the straight-line method, which approximates the interest method, and the unamortized amount is included in the balance of the outstanding debt.

Compensated Absences

Employees' vacation benefits are recognized in the period earned. An accrued expense is recorded for vested compensated absences not used.

Net Position

Net position consists of net investment of capital assets, restricted and unrestricted. The net investment in capital assets consists of capital assets net of accumulated depreciation and the outstanding balances of any related debt that is attributable to the acquisition of the capital assets. Restricted net position is those resources that are externally restricted by creditors, grantors, contributors or laws and regulations or those restricted by constitutional provision and enabling legislation. Unrestricted net position consists of all other resources.

Statements of Revenues, Expenses, and Changes in Net Position

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services, other than financing costs, are reported as operating revenues and operating expenses. Peripheral or incidental transactions, county support, and financing costs are reported as non-operating revenues and expenses.

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2018 and 2017

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Grants and Contributions

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

Net Patient Service Revenue

The Hospital recognizes patient service revenue related to services rendered to patients having third-party coverage based on contractual rates pursuant to agreements with such payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare – The Hospital is certified as a CAH. As a CAH, the Hospital is reimbursed for substantially all inpatient and outpatient services to Medicare beneficiaries based on reasonable costs. Additionally, as a CAH, the Hospital's licensed beds are limited to 25, and the Hospital's acute average length of stay may not exceed 96 hours. The Hospital is reimbursed for substantially all services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid – Beginning October 1, 2012, the Medicaid program changed to an APR-DRG system for inpatient payments and an Ambulatory Payment Classification ("APC") for outpatient payments. Under APR-DRG for inpatient payment, DRG payment is used for all inpatient acute care stays and includes those beneficiaries enrolled in Managed Care. For outpatient, the APC system groups are made up of CPT/HCPCS codes that share common types of service or common types of delivery of service.

The Hospital participates in the Mississippi Intergovernmental Transfer Program as a Medicaid Disproportionate Share Hospital ("DSH") and in the Mississippi Hospital Access Payment ("MHAP") program. Under these programs, the Hospital receives enhanced reimbursement through a matching mechanism. DSH and MHAP amounts are shown as a reduction of contractual adjustments and are recorded net of related taxes paid. The MHAP Program is administered by the Division of Medicaid ("DOM") through the Mississippi Coordinated Access Network ("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.

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2018 and 2017

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Patient Service Revenue (continued)

The Hospital participates in the Mississippi Nursing Home UPL Program. This program is funded by Intergovernmental Transfers ("IGTs") from participating providers to the DOM. Under this program, the Hospital receives enhanced reimbursement for nursing home services offered to the community. Unlike the Hospital UPL program, the Nursing Home UPL Program does not prescribe specific payment timeliness, therefore creating uncertainties about both the timing and estimation of such UPL payments. Due to these uncertainties, Nursing Home UPL payments are recorded only when notified by the DOM of the imminence of such payments. UPL amounts are shown as a reduction of contractual adjustments and are recorded net of IGTs paid.

Under the Hospital and Nursing Home DSH, MHAP and UPL Programs, the Hospital received enhanced reimbursement for 2018 and 2017 as follows:

	2018	2017
MHAP and DSH revenue, gross	\$ 594,256	\$ 594,762
UPL revenue, gross	880,825	877,822
DSH, MHAP and UPL assessments	(207,963)	(222,706)
DSH, MHAP and UPL revenue, net of assessment	\$ 1,267,118	\$ 1,249,878

Other – The Hospital has entered into payment arrangements 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 daily rates.

Charity Care

The Hospital provides care to patients who meet certain criteria (such as family income, net worth, extent of healthcare financial obligations for healthcare services, etc.) under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The hospital implemented a policy to maintain records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. Charges foregone, based on established rates, totaled approximately \$70,040 and \$180,598 for 2018 and 2017, respectively.

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2018 and 2017

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The net cost of charity care provided was approximately \$29,000 and \$78,000 for 2018 and 2017, respectively. The net cost of charity care is determined by multiplying the ratio of cost to gross charges to the gross uncompensated charges associated in providing care to charity patients.

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. Significant estimates used in preparing these financial statements include those assumed in determining the allowance for doubtful accounts and contractual adjustments and third-party payor settlements related to Medicare and Medicaid programs, which are extremely complex and subject to interpretation. It is at least reasonably possible that the significant estimates used will change within the next year.

Income taxes

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

Budgetary Information

The Hospital is required by the State of Mississippi to prepare a non-appropriated annual budget. The budget is not subject to the appropriation and is, therefore, not required to be presented as supplementary information.

Concentration 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:

	<u>2018</u>	<u>2017</u>
Medicare	25%	29%
Medicaid	4%	3%
Private Pay	44%	43%
Commercial	27%	25%
	<u>100%</u>	<u>100%</u>

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2018 and 2017

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Electronic Health Record Incentive Program

The Centers for Medicare & 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 Hospital utilizes a grant accounting model to recognize EHR incentive revenues. The Hospital recognized \$-0- and \$267,196 of EHR revenues during the years ended September 30, 2018 and 2017, respectively. EHR incentive revenues are included in other operating revenues in the accompanying statements of revenues, expenses, and changes in net position.

The Hospital's attestation of compliance with the meaningful use criteria is subject to audit by the federal government or its designee. Additionally, Medicare EHR incentive payments received are subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated.

Reclassifications of Certain Financial Statement Items

Certain items on the financial statements for fiscal year 2017 have been reclassified, with no effect on net position or change in net position, to be consistent with the classifications adopted for fiscal year 2018.

Subsequent Events

Subsequent events were evaluated by the Hospital through February 28, 2019, which is the date the financial statements were available to be issued.

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2018 and 2017

NOTE 2 • CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss Code Ann. (1972). Under this program, the 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 Deposit Insurance Corporation.

Investments

The statutes of the State of Mississippi restrict the unauthorized 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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
MHA Duration Trust		
Fixed income		
Intermediate duration trust	<u>\$ 1,031,432</u>	<u>\$ 1,043,308</u>

NOTE 3 • NET PATIENT SERVICE REVENUE

A summary of amounts comprising net patient service revenue at September 30, 2018 and 2017 is composed of the following:

	<u>2018</u>	<u>2017</u>
Gross patient revenue	\$ 51,378,311	\$ 46,946,697
Less: Provision for contractual adjustments		
under third-party reimbursement programs and other		
deductions	(22,509,361)	(20,603,251)
Provision for bad debts	<u>(6,061,428)</u>	<u>(4,201,013)</u>
	<u>\$ 22,807,522</u>	<u>\$ 22,142,433</u>

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2018 and 2017

NOTE 3 • NET PATIENT SERVICE REVENUE (continued)

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

	September 30, 2018		September 30, 2017	
	Amount	Percent of Total Gross Patient Revenue	Amount	Percent of Total Gross Patient Revenue
Medicare	\$ 25,162,160	49%	\$ 24,412,282	52%
Medicaid	6,596,246	13%	5,633,605	12%
Other	19,619,905	38%	16,900,810	36%
Total	\$ 51,378,311	100%	\$ 46,946,697	100%

NOTE 4 • PATIENT ACCOUNTS RECEIVABLE, NET

Details of patient accounts receivable, net at September 30, 2018 and 2017 are as follows:

	2018	2017
Patient accounts	\$ 7,068,754	\$ 8,635,998
Allowance for contractual adjustments	(1,453,215)	(1,834,379)
Allowance for doubtful accounts	(2,454,723)	(3,199,806)
Patient accounts receivable, net	\$ 3,160,816	\$ 3,601,813

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2018 and 2017

NOTE 5 • CAPITAL ASSETS

Details of property and equipment for the year ended September 30, 2018 are as follows:

	October 1, 2017	Additions and Other	Retirements and Other	September 30, 2018
<u>Property and equipment</u>				
Land (non-depreciable)	\$ 290,366	\$ -	\$ -	\$ 290,366
Construction in progress	9,459	263,288	-	272,747
Land improvements	305,645	-	-	305,645
Leasehold improvements	101,410	-	-	101,410
Buildings	10,483,569	-	-	10,483,569
Fixed equipment	2,742,603	155,880	-	2,898,483
Major moveable equipment	<u>8,729,668</u>	<u>188,438</u>	<u>(45,708)</u>	<u>8,872,398</u>
Total property and equipment	<u>22,662,720</u>	<u>607,606</u>	<u>(45,708)</u>	<u>23,224,618</u>
Less accumulated depreciation and amortization				
<u>Land improvements</u>	(221,124)	(10,953)	-	(232,077)
Leasehold improvements	(101,410)	-	-	(101,410)
Buildings	(5,180,338)	(236,467)	-	(5,416,805)
Fixed equipment	(2,153,646)	(128,416)	-	(2,282,062)
Major moveable equipment	<u>(7,731,353)</u>	<u>(271,190)</u>	<u>45,708</u>	<u>(7,956,835)</u>
Total accumulated depreciation and amortization	<u>(15,387,871)</u>	<u>(647,026)</u>	<u>45,708</u>	<u>(15,989,189)</u>
Property and equipment, net	<u>\$ 7,274,849</u>	<u>\$ (39,420)</u>	<u>\$ -</u>	<u>\$ 7,235,429</u>

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2018 and 2017

NOTE 5 • CAPITAL ASSETS (continued)

Details of property and equipment for the year ended September 30, 2017 are as follows:

	October 1, 2016	Additions and Other	Retirements and Other	September 30, 2017
Property and equipment				
Land (non-depreciable)	\$ 290,366	\$ -	\$ -	\$ 290,366
Construction in progress	41,668	9,459	(41,668)	9,459
Land improvements	305,645	-	-	305,645
Leasehold improvements	101,410	-	-	101,410
Buildings	10,443,114	40,455	-	10,483,569
Fixed equipment	2,621,727	120,876	-	2,742,603
Major moveable equipment	<u>8,797,548</u>	<u>140,453</u>	<u>(208,333)</u>	<u>8,729,668</u>
Total property and equipment	<u>22,601,478</u>	<u>311,243</u>	<u>(250,001)</u>	<u>22,662,720</u>
Less accumulated depreciation and amortization				
Land improvements	(210,171)	(10,953)	-	(221,124)
Leasehold improvements	(101,410)	-	-	(101,410)
Buildings	(4,936,739)	(243,599)	-	(5,180,338)
Fixed equipment	(2,036,783)	(116,863)	-	(2,153,646)
Major moveable equipment	<u>(7,596,199)</u>	<u>(343,487)</u>	<u>208,333</u>	<u>(7,731,353)</u>
Total accumulated depreciation and amortization	<u>(14,881,302)</u>	<u>(714,902)</u>	<u>208,333</u>	<u>(15,387,871)</u>
Property and equipment, net	<u>\$ 7,720,176</u>	<u>\$ (403,659)</u>	<u>\$ (41,668)</u>	<u>\$ 7,274,849</u>

Depreciation expense for the years ended September 30, 2018 and 2017 amounted to \$647,026 and \$714,902, respectively. Capitalized lease equipment and related accumulated depreciation was \$136,210 and \$17,026, respectively, at September 30, 2018, and \$147,285 and \$58,914, respectively, at September 30, 2017.

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2018 and 2017

NOTE 6 • LONG-TERM LIABILITIES

Details of long-term liabilities at September 30, 2018 and 2017 are as follows:

	2018	2017
Promissory note with Covington County at varying rates of interest of 2.0 percent to 3.4 percent; principal maturing in varying amounts through 2031, with semi-annual interest payments	\$ 4,624,408	\$ 5,008,570
Note payable to local bank, interest rate of 2.38 percent, monthly payments of \$5,977 maturing March 2019, collateralized by equipment	-	105,509
Capital lease obligations at varying rates of imputed interest from 2.0 percent to 5.1 percent, monthly payments between \$4,401 and \$5,675 maturing September 2018 through March 2023, collateralized by equipment	136,210	47,446
	4,760,618	5,161,525
Less current maturities	(416,004)	(422,395)
	\$ 4,344,614	\$ 4,739,130

The maturities on long-term debt and capital lease obligations are as follows:

Year Ending September 30,	Long-Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2019	\$ 391,188	\$ 94,205	\$ 24,816	\$ -
2020	399,526	86,418	34,374	-
2021	407,590	78,473	34,374	-
2022	415,817	70,369	34,374	-
2023	420,000	62,101	8,272	-
2024-2028	1,855,000	439,308	-	-
2029-2031	735,287	130,758	-	-
	\$ 4,624,408	\$ 961,632	\$ 136,210	\$ -

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2018 and 2017

NOTE 6 • LONG-TERM LIABILITIES (continued)

A schedule of changes in the Hospital's non-current liabilities for 2018 follows:

	September 30, 2017	Additions	Retirements	September 30, 2018	Due Within One Year
Notes payable	\$ 5,114,079	\$ -	\$ 489,671	\$ 4,624,408	\$ 391,188
Capital lease obligations	<u>47,446</u>	<u>136,210</u>	<u>47,446</u>	<u>136,210</u>	<u>24,816</u>
	<u>\$ 5,161,525</u>	<u>\$ 136,210</u>	<u>\$ 537,117</u>	<u>\$ 4,760,618</u>	<u>\$ 416,004</u>

Below is a schedule of changes in the Hospital's non-current liabilities for 2017:

	September 30, 2016	Additions	Retirements	September 30, 2017	Due Within One Year
Notes payable	\$ 5,522,758	\$ -	\$ 408,679	\$ 5,114,079	\$ 374,949
Capital lease obligations	<u>159,052</u>	<u>-</u>	<u>111,606</u>	<u>47,446</u>	<u>47,446</u>
	<u>\$ 5,681,810</u>	<u>\$ -</u>	<u>\$ 520,285</u>	<u>\$ 5,161,525</u>	<u>\$ 422,395</u>

NOTE 7 • FAIR VALUE MEASUREMENTS

The Hospital's investments are recorded at fair value as of September 30, 2018. GASB 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:

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2018 and 2017

NOTE 7 • FAIR VALUE MEASUREMENTS (continued)

- 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 judgement.

The following table represents the Hospital's investments within the fair value hierarchy at September 30, 2018 and 2017.

Assets at Fair Value as of September 30, 2018				
	Level 1	Level 2	Level 3	Total
MHA Duration Trust				
Intermediate duration trust	\$ -	\$ 1,031,432	\$ -	\$ 1,031,432
Assets at Fair Value as of September 30, 2017				
	Level 1	Level 2	Level 3	Total
MHA Duration Trust				
Intermediate duration trust	\$ -	\$ 1,043,308	\$ -	\$ 1,043,308

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 8 • RETIREMENT PLAN

The Hospital has established the Covington County Hospital Retirement Plan, a defined contribution plan, for the benefit of its employees. Under provisions of the Plan, all employees with ninety (90) days of service are eligible to participate and become eligible for employer matching after one year of service (1/2 percent for each 1 percent of voluntary contributions up to a maximum of 2 percent). Additionally, after ten (10) years of service, the employee becomes eligible for a discretionary match if they contribute 5 percent or greater. Previously, all employees with one year of service were eligible to participate with the Hospital contributing up to 2 percent plus 1/10 percent for each year of service of each participating employee's eligible compensation as determined by the Board of Trustees on an annual basis. The Hospital's contributions for the years ended September 30, 2018 and 2017 totaled \$138,880 and \$96,448, respectively.

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2018 and 2017

NOTE 9 • NET POSITION

Net investment in capital assets was as follows at September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Capital assets	\$ 23,224,618	\$ 22,662,720
Less accumulated depreciation	(15,989,189)	(15,387,871)
Less debt outstanding related to capital assets	<u>(4,760,618)</u>	<u>(5,161,525)</u>
Net investment in capital assets	<u>\$ 2,474,811</u>	<u>\$ 2,113,324</u>

NOTE 10 • RISK MANAGEMENT

The Hospital is involved in litigation and regulatory investigations arising in the normal course of business. Based on consultations with legal counsel, management is of the opinion that these matters will be resolved without material adverse effect on the Hospital's future financial position or on the result of its future operations.

NOTE 11 • HEALTH CARE REFORM ACTS

In March 2010, the Patient Protection and Affordable Care Act and the related Health Care and Education Reconciliation Act were signed into law. The Act impacts multiple aspects of the healthcare system, including many provisions that change payments from Medicare, Medicaid and insurance companies, expanding Medicaid eligibility, subsidizing insurance premiums, providing incentives for businesses to provide healthcare benefits, prohibiting denial of coverage/claims based on pre-existing conditions, establishing health insurance exchanges and support of medical research. The Reconciliation Act adds some new provisions that were not included originally. Several legal challenges have been made against the legislation since it was enacted, and uncertainty exists as to the ultimate impact of the legislation on the healthcare delivery system. On June 28, 2012, The United States Supreme Court upheld the constitutionality of components of the Affordable Care Act, allowing the historic overhaul of the healthcare system to continue. Potential impacts of healthcare reform include uncertainty and volatility in Medicare and Medicaid reimbursement, fundamental changes in payment systems, increased regulation and significant required investments in healthcare information technology, as well as significant changes in the political landscape.

COVINGTON COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2018 and 2017

NOTE 12 • COMPLIANCE MATTER

In January 2013, the Hospital identified a potential noncompliance violation of the Stark Law related to Federal Physicians' Self-Referral Statute (Section 1877 of the Social Security Act). In April 2013, the Hospital voluntarily self-reported this matter with a submission to the Division of Technical Payment Policy, Provider and Supplier Self-Disclosure of the Centers for Medicare & Medicaid Services (CMS). The voluntary disclosure was made pursuant to the Affordable Care Act and under the Medicare Voluntary Self-Referral Disclosure Protocol issued by CMS. The matter is currently under review by CMS and it is not possible at this time to evaluate the likelihood of an unfavorable outcome or to estimate the amount or range of any potential loss or penalties.

NOTE 13 • SUBSEQUENT EVENT

On October 1, 2018, upon a resolution from the Board of Trustees, the Hospital entered into a loan and note repurchase agreement ("Series 2018 Loan") with a local financial institution for the purpose of Phase 1 of the Hospital's Facility Master Plan. The principal amount of the Series 2018 Loan is \$1,640,000 bearing a fixed interest rate of 3.55 percent per annum, collateralized by all of the Hospital's goods constituting furniture, fixtures and equipment. Repayment terms of the Series 2018 Loan agreement requires the Hospital to make 120 monthly payments beginning November 1, 2018 in the amount of \$16,254 with a final maturity date of October 2, 2028.

COVINGTON COUNTY HOSPITAL
 SCHEDULE OF SURETY BONDS FOR OFFICIALS AND EMPLOYEES
 September 30, 2018

Name	Position	Company	Amount of Bond
Robert Johnson	Board Member	Brierfield Insurance Company	\$ 100,000
James McPhail	Board Member	Brierfield Insurance Company	100,000
Everlean Booth	Board Member	Brierfield Insurance Company	100,000
Jeff Hall	Board Member	Brierfield Insurance Company	100,000
Greg Sullivan	Board Member	Brierfield Insurance Company	100,000
Public Employees	Employees	Brierfield Insurance Company	100,000
Public Employees	Retirement Plan	Travelers Insurance Company	350,000
Arrington Living Center	Resident Trust Bond	Western Surety Company	65,000

See Independent Auditors' Report.



The Board of Trustees
Covington County Hospital
Collins, Mississippi

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*

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 business-type activities of Covington County Hospital (the "Hospital"), as of September 30, 2018, and the related notes to financial statements, which collectively comprise the Hospital's basic financial statements and have issued our report thereon dated February 28, 2019.

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 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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The Board of Trustees
Covington County Hospital (continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatements, we performed testing of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the determination of financial statements 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 Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harper, Rainis, Knight & Company, P.A.

February 29, 2019