

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

**CONSOLIDATED FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION
SEPTEMBER 30, 2016**

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
September 30, 2016

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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 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, 2016, and 2015, 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.

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 audit. 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 audit 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, 2016, and 2015, 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, 2016, and 2015, 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 audit was 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, 2016, and 2015, and the schedule of surety bonds for officials and employees (pages 32 to 37) 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, 2016, and 2015, 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, 2016, and 2015, 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 23, 2017, 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 23, 2017

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, 2016, and 2015

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, 2016, and 2015. 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 2016 by \$190,844 or .002%, and increased in 2015 by \$2,955,081, or 3.34%.
- ◆ The hospital reported an operating loss in 2016 of \$416,064 and an operating income of \$2,828,789 in 2015.
- ◆ Nonoperating expenses decreased by \$34,281, or 7.08%, in 2016 compared to 2015. Nonoperating expenses decreased in 2015 by \$250,141, or 32.98% compared to 2014.
- ◆ Nonoperating revenues increased by \$117,887, or 19.58% in 2016 compared to 2015. Nonoperating revenues increased by \$242,462, or 32.98% in 2015 compared to 2014.

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 5. 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, 2016, and 2015

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 2016 by \$190,844 or .002%, and increased in 2015 by \$2,955,081, or 3.34% 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, 2016, and 2015

THE HOSPITAL'S NET POSITION (CONTINUED)

Table 1: Assets, Liabilities and Net Position

	2016	2015	2014
Assets:			
Current assets	\$ 28,334,779	\$ 28,889,786	\$ 25,872,503
Capital assets, net	59,021,303	61,532,582	64,593,974
Other assets	1,243,787	1,028,566	1,176,757
Other noncurrent assets	24,626,922	24,412,111	21,778,892
Total Assets	<u>113,226,791</u>	<u>115,863,045</u>	<u>113,422,126</u>
Liabilities:			
Current liabilities	9,006,243	11,045,387	9,635,328
Long-term debt outstanding	12,903,013	13,290,976	15,205,652
Minority interest in subsidiary	42,474	60,777	70,322
Total Liabilities	<u>21,951,730</u>	<u>24,397,140</u>	<u>24,911,302</u>
Net Position:			
Invested in capital assets, net of related debt	44,186,969	46,177,066	47,547,324
Restricted:			
Restricted under bond agreement	1,266,549	1,350,102	1,382,306
Restricted for liability risk	4,076,403	3,986,854	3,900,280
Unrestricted	41,745,140	39,951,883	35,680,914
Total Net Position	<u>91,275,061</u>	<u>91,465,905</u>	<u>88,510,824</u>
Total Liabilities and Net Position	<u>\$ 113,226,791</u>	<u>\$ 115,863,045</u>	<u>\$ 113,422,126</u>

The change in the hospital's assets is due to several factors. Cash decreased by \$1,434,498, or 22.49%, compared to 2015. Patient accounts receivable, net of estimated uncollectibles and allowances, increased by \$819,436, or 4.51%, compared to 2015. Board restricted funds increased by \$149,345 or 0.73% compared to 2015.

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Management's Discussion and Analysis
Years Ended September 30, 2016, and 2015

OPERATING RESULTS AND CHANGES IN THE FACILITY'S NET POSITION

Table 2: Operating Results

	2016	2015	2014
Operating Revenues:			
Net patient service revenues	\$ 68,990,480	\$ 70,989,370	\$ 64,323,000
Other revenues	2,625,937	2,241,270	2,287,446
Electronic health records incentive	133,680	503,645	785,104
Total Operating Revenues	<u>71,750,097</u>	<u>73,734,285</u>	<u>67,395,550</u>
Operating Expenses:			
Salaries and benefits	41,282,323	40,069,839	37,791,661
Supplies and drugs	13,293,016	13,599,348	11,980,237
Other operating expenses	11,832,199	11,441,792	10,127,194
Insurance	160,505	162,306	228,022
Depreciation and amortization	5,598,118	5,632,211	5,797,028
Total Operating Expenses	<u>72,166,161</u>	<u>70,905,496</u>	<u>65,924,142</u>
Operating Income (Loss)	<u>(416,064)</u>	<u>2,828,789</u>	<u>1,471,408</u>
Nonoperating Revenues (Expenses):			
Contributions	4,085	2,125	552
Ambulance contributions	271,098	271,252	292,218
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	117,864	91,979	75,960
Investment income (loss)	269,983	261,016	15,180
Interest expense	(449,734)	(484,015)	(586,943)
Gain on extinguishment of debt	11,500	-	-
Loss on bond refunding	-	-	(71,730)
Gain (Loss) on disposal of capital assets	45,321	(24,408)	(99,891)
Total Nonoperating Revenues (Expenses)	<u>270,117</u>	<u>117,949</u>	<u>(374,654)</u>
Excess of Revenues Over (Under) Expenses Before Minority Interest	<u>(145,947)</u>	<u>2,946,738</u>	<u>1,096,754</u>
Minority Interest Share of Net Income	<u>(69,897)</u>	<u>(69,834)</u>	<u>(70,026)</u>
Excess of Revenues Over (Under) Expenses After Minority Interest	<u>(215,844)</u>	<u>2,876,904</u>	<u>1,026,728</u>
Contributions for Property and Equipment	<u>25,000</u>	<u>78,177</u>	<u>101,932</u>
Increase (Decrease) in Net Position	<u>(190,844)</u>	<u>2,955,081</u>	<u>1,128,660</u>
Net Position Beginning of Year	<u>91,465,905</u>	<u>88,510,824</u>	<u>87,382,164</u>
Net Position End of Year	<u>\$ 91,275,061</u>	<u>\$ 91,465,905</u>	<u>\$ 88,510,824</u>

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Management's Discussion and Analysis
Years Ended September 30, 2016, and 2015

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 \$1,091,028, or 50.76% in 2016 compared to 2015, and an increase of \$254,019, or 11.78% in 2015 compared to 2014.
- ◆ A decrease in net patient service revenues of \$1,998,891, or 2.82% in 2016 compared to 2015, and an increase of \$6,666,370, or 10.36% in 2015 compared to 2014.
- ◆ An increase in employee salary and benefits expenses of \$1,212,998, or 3.03% in 2016 compared to 2015, and an increase of \$2,277,664, or 6.03% in 2015 compared to 2014.
- ◆ A decrease in supplies and drugs of \$306,332, or 2.25% in 2016 compared to 2015, and an increase of \$1,619,111 or 13.51% in 2015 compared to 2014.
- ◆ An increase in other operating expense of \$389,893, or 3.41% in 2016 compared to 2015, and an increase of \$1,243,469, or 12.19% in 2015 compared to 2014.
- ◆ A decrease in depreciation and amortization expense of \$34,093, or 0.61% in 2016 compared to 2015, and an decrease of \$164,817, or 2.84% in 2015 compared to 2014.
- ◆ Electronic health records incentive funds received of \$133,680 and \$503,645 in 2016, and 2015, respectively.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of contributions, interest income and investment earnings. The hospital had interest income of \$117,864 for the year ended September 30, 2016, and \$91,979 for the year ended September 30, 2015. The hospital had contributions of \$1,458,047 for the year ended September 30, 2016, and \$1,456,241 for the year ended September 30, 2015. The hospital had investment income of \$269,983 for the year ended September 30, 2016, compared to income of \$261,016 in 2015.

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Management's Discussion and Analysis
Years Ended September 30, 2016, and 2015

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

Nonoperating Revenues and Expenses (Continued)

Nonoperating expenses for the year 2016 consist of interest expense, loss on bond refunding, loss on disposal of assets and transfers to the county. The hospital had interest expense of \$449,734 for the year ended September 30, 2016, and \$484,015 for the year ended September 30, 2015. The hospital had a gain on the extinguishment of debt of \$11,500 in 2016, and \$0 in 2015. The hospital had a gain on disposal of assets of \$45,321 in 2016, and a loss of \$24,408 in 2015. The hospital transferred \$1,182,864 to the county during the year ended September 30, 2016, and \$1,182,864 during 2015.

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 \$59,021,303 invested in capital assets, net of accumulated depreciation at September 30, 2016, and \$61,532,582 at September 30, 2015. The hospital had capital expenditures of \$5,257,569 and \$2,611,852 in 2016 and 2015, respectively.

Debt

At September 30, 2016, the hospital had \$14,834,334 in long-term debt outstanding. The hospital incurred new debt, including notes and leases, in 2016 of \$1,761,431 while making \$2,295,196 in principal payments in addition to having \$11,500 of the debt forgiven. In 2015, the hospital had \$15,379,599 in long-term debt outstanding, and incurred \$276,124 while making \$2,030,902 in principal payments.

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, 2016, and 2015

Assets	2016	2015
Current Assets:		
Cash	\$ 4,942,546	\$ 6,377,044
Cash - Restricted under bond agreement for payment of current bond principal and interest	1,266,549	1,326,019
Patient accounts receivables (Net of estimated uncollectibles and allowances of \$23,465,824 in 2016 and \$23,101,122 in 2015)	18,995,952	18,176,516
Other receivables	207,060	14,692
Estimated third-party payor settlements	90,232	140,655
Current portion of deferred expense	217,503	217,945
Inventories of supplies and drugs	1,827,900	1,772,546
Prepaid expenses	787,037	864,369
Total Current Assets	28,334,779	28,889,786
Noncurrent Cash and Investments:		
Cash - Designated by Board for capital improvements	12,336,773	12,367,861
Cash and accrued interest - Restricted under bond indenture agreement held by trustee	-	24,083
MHA investment - Designated by Board for capital improvement	8,213,746	8,033,313
MHA investment - Restricted for liability risk	4,076,403	3,986,854
Total Noncurrent Cash and Investments	24,626,922	24,412,111
Capital Assets:		
Land	1,104,205	1,104,205
Depreciable capital assets (Net of accumulated depreciation and amortization of \$72,845,671 in 2016 and \$68,376,279 in 2015)	57,795,806	60,316,071
Construction in progress	121,292	112,306
Total Capital Assets	59,021,303	61,532,582
Other Assets:		
Bond issue cost (Net of accumulated amortization of \$148,358 in 2016 and \$105,524 in 2015)	322,180	365,013
Deferred expense	671,607	663,553
MHA investment - Mississippi Provider-Sponsored Health Plan	250,000	-
Total Other Assets	1,243,787	1,028,566
Total Assets	\$ 113,226,791	\$ 115,863,045

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, 2016, and 2015

Liabilities and Net Position	2016	2015
Current Liabilities:		
Accounts payable	\$ 2,331,358	\$ 3,775,476
Patient accounts receivable, credit balances	744,244	639,269
Accrued payroll and annual leave	3,629,997	4,239,220
Accrued expenses	72,429	76,019
Estimated third-party payor settlements	113,611	113,611
Deferred income	183,283	113,169
Current maturities of capital lease obligations	363,831	838,623
Current maturities of notes payable	267,490	-
Current maturities of bonds payable	1,300,000	1,250,000
Total Current Liabilities	9,006,243	11,045,387
Long-Term Debt:		
Capital lease obligations	311,248	246,836
Notes payable	858,514	-
Bonds payable, net of unamortized discount	11,733,251	13,044,140
Total Long-Term Debt, Net of Current Maturities	12,903,013	13,290,976
Total Liabilities	21,909,256	24,336,363
Minority Interest in Subsidiary	42,474	60,777
Net Position:		
Invested in capital assets, net of related debt	44,186,969	46,177,066
Restricted:		
Restricted under bond agreement	1,266,549	1,350,102
Restricted for liability risk	4,076,403	3,986,854
Unrestricted	41,745,140	39,951,883
Total Net Position	91,275,061	91,465,905
Total Liabilities and Net Position	\$ 113,226,791	\$ 115,863,045

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, 2016, and 2015

	2016	2015
Operating Revenue:		
Net patient service revenue (Net of provision for bad debts of \$11,436,899 in 2016 and \$12,323,043 in 2015)	\$ 68,990,480	\$ 70,989,370
Other operating revenue	2,625,937	2,241,270
Electronic health records incentive	133,680	503,645
Total Operating Revenue	71,750,097	73,734,285
Operating Expenses:		
Salaries and benefits	41,282,323	40,069,325
Supplies and drugs	13,293,016	13,599,348
Other operating expenses	11,832,199	11,442,306
Insurance	160,505	162,306
Depreciation and amortization	5,598,118	5,632,211
Total Operating Expenses	72,166,161	70,905,496
Operating Income (Loss)	(416,064)	2,828,789
Nonoperating Revenues (Expenses):		
Contributions	4,085	2,125
Ambulance contributions	271,098	271,252
County contributions	1,182,864	1,182,864
Transfers to county	(1,182,864)	(1,182,864)
Interest income	117,864	91,979
Investment income	269,983	261,016
Interest expense	(449,734)	(484,015)
Gain on extinguishment of debt	11,500	-
Gain (Loss) on disposal of assets	45,321	(24,408)
Total Nonoperating Revenues (Expenses)	270,117	117,949
Excess of Revenues Over (Under) Expenses Before Minority Interest	(145,947)	2,946,738
Less Minority Interest Share of Net Income	(69,897)	(69,834)
Excess of Revenues Over (Under) Expenses After Minority Interest	(215,844)	2,876,904
Contributions for Property and Equipment	25,000	78,177
Increase (Decrease) in Net Position	(190,844)	2,955,081
Net Position Beginning of Year	91,465,905	88,510,824
Net Position End of Year	\$ 91,275,061	\$ 91,465,905

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, 2016, and 2015

	2016	2015
Cash Flows From Operating Activities:		
Receipts from patients and other services	\$ 70,997,556	\$ 71,982,796
Payments for supplies and other expenses	(26,489,791)	(24,465,042)
Payments to and on behalf of employees	(42,263,454)	(39,650,067)
	2,244,311	7,867,687
Cash Flows From Noncapital Financing Activities:		
County contributions	1,252,978	1,253,635
Transfers to the county	(1,182,864)	(1,182,864)
Contributions	275,183	273,377
	345,297	344,148
Cash Flows From Capital and Related Financing Activities:		
Purchase of property and equipment	(2,592,329)	(2,257,550)
Change in funds restricted under bond indentures	83,553	32,204
Proceeds from sale of capital assets	74,115	16,624
Proceeds from issuance of notes payable	1,263,128	-
Principal paid on long-term debt	(2,295,196)	(2,030,902)
Interest paid on long-term debt	(456,330)	(487,813)
	(3,923,059)	(4,727,437)
Cash Flows From Investing Activities:		
Transfer of funds designated by Board for capital improvement	31,089	(2,435,847)
Investment in Mississippi Provider-Sponsored Health Plan	(250,000)	-
Interest income	117,864	91,979
	(101,047)	(2,343,868)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,434,498)	1,140,530
Cash and Cash Equivalents at Beginning of Year	6,377,044	5,236,514
Cash and Cash Equivalents at End of Year	\$ 4,942,546	\$ 6,377,044

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, 2016, and 2015

	2016	2015
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating income (loss)	\$ (416,064)	\$ 2,828,789
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows Provided by Operating Activities:		
Minority interest	(88,200)	(79,379)
Depreciation and amortization	5,598,118	5,632,211
Provision for uncollectible accounts	11,436,899	12,323,043
Deferred expense	(7,612)	107,389
Bond issue cost	42,833	42,834
Changes In:		
Patient accounts receivable	(12,151,360)	(14,189,324)
Supplies and other current assets	(170,391)	(99,411)
Accounts payable, accrued expenses, and other current liabilities	(2,050,335)	1,106,479
Estimated third party payments	50,423	195,056
Net Cash Provided by Operating Activities	\$ 2,244,311	\$ 7,867,687

Noncash Investing, Capital and Financing Activities:

The facility entered into capital lease obligations of \$498,303 during the year ended September 30, 2016 and \$276,124 during the year ended September 30, 2015.

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

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.

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.

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.

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)

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.

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

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 \$6,943 and \$16,067 in interest for the years ended September 30, 2016, and 2015, respectively.

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.

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.

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)

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.

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.

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 2016 and 2015 approximated \$672,000 and \$719,000, respectively.

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 \$4,076,403 and \$3,986,854 for the years ended September 30, 2016, and 2015, 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, 2016, 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)

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.

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

Excess of Revenue Over (Under) Expenses Before and After Minority Interest - The statement of revenues, expenses, and changes in net position includes excess of revenues over (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 over (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).

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 2016 and 2015, the Hospital received EHR incentive revenue of \$133,680 and \$503,645, 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 \$41,745,140 and \$39,951,883 of unrestricted net position reported in 2016 and 2015, respectively, \$20,550,519 and \$20,401,174, 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 hospital 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 27-105-1 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, 2016.

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. 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.

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

Note 4: Fair Value Measurements (continued)

Fair values of assets measured on a recurring basis at September 30, 2016, and 2015, are as follows:

<u>September 30, 2016</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
MHA Investment Pool	\$ <u>12,290,149</u>	\$ <u>-</u>	\$ <u>12,290,149</u>	\$ <u>-</u>
<u>September 30, 2015</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
MHA Investment Pool	\$ <u>12,020,167</u>	\$ <u>-</u>	\$ <u>12,020,167</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, 2016, and 2015, follows:

	<u>2016</u>	<u>2015</u>
MHA Investment Pool	\$ 8,143,759	\$ 7,995,301
MHA Liability Risk Pool	4,041,670	3,967,989
Unrealized gain (loss) on investments	<u>104,720</u>	<u>56,877</u>
	<u>\$ 12,290,149</u>	<u>\$ 12,020,167</u>

The hospital has funds invested in the Mississippi Hospital Association pool investment program, which are not 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, 2016, and 2015, is composed of the following:

	2016	2015
Provision for uncollectible accounts	\$ 10,977,081	\$ 12,043,680
Allowance for Medicare adjustment	4,340,507	3,894,009
Allowance for Medicaid adjustment	2,819,205	976,033
Allowance for other adjustments	5,329,031	6,187,400
	\$ 23,465,824	\$ 23,101,122

Note 6: Bond Indenture Funds

The funds held by the trustee as of September 30, 2016, and 2015, 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:

	2016	2015
2011 MHEFA Bond:		
Construction fund	-	87,107
General account	54,659	51,242
Total	54,659	138,349
2013 Revenue Bond:		
Debt service reserve fund	1,211,890	1,211,753
Total	1,211,890	1,211,753
Total Bond Indenture Funds for Revenue and MHEFA Bonds	1,266,549	1,350,102
Less: Bond principal and interest funds classified as current	(1,266,549)	(1,326,019)
Total Bond Indenture Funds, Excluding Current Portion	\$ -	\$ 24,083

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, 2016, and 2015, were as follows:

	Balance September 30, 2015	Additions and Transfers	Retirements and Transfers	Balance September 30, 2016
Land	\$ 1,104,205	-	-	\$ 1,104,205
Land improvements	2,466,970	4,900	-	2,471,870
Buildings and improvements	76,237,987	1,117,236	(10,426)	77,344,797
Fixed equipment	13,275,915	126,318	(19,671)	13,382,562
Major movable equipment:				
Under capital lease	3,181,362	498,303	(1,361,435)	2,318,230
Other	32,552,956	2,489,827	(919,164)	34,123,619
Minor equipment	24,811	-	-	24,811
EMS equipment	6,514	-	-	6,514
OCH Orthopedics	96,319	1,910	-	98,229
OCH Pulmonology	25,361	-	(18,000)	7,361
OCH General Surgery	22,768	3,389	(1,745)	24,412
OCH Regional Health	4,849	(1,910)	-	2,939
OCH Medical Associates	14,144	-	-	14,144
OCH Urology Associates	64,021	(27,677)	(36,344)	-
OCH Breast Health Center	19,788	-	-	19,788
OCH Family Medicine Clinic	38,074	-	-	38,074
Automobiles	660,511	255,784	(152,168)	764,127
Construction in progress	112,306	789,489	(780,503)	121,292
Total Historical Cost	129,908,861	5,257,569	(3,299,456)	131,866,974

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, 2015	Additions and Transfers	Retirements and Transfers	Balance September 30, 2016
Less Accumulated Depreciation and Amortization for:				
Land improvements	(2,019,535)	(71,131)	-	(2,090,666)
Buildings and improvements	(29,508,905)	(2,464,557)	10,426	(31,963,036)
Fixed equipment	(7,409,314)	(797,224)	18,460	(8,188,078)
Major movable equipment	(28,705,047)	(2,165,258)	879,144	(29,991,161)
EMS equipment	(6,514)	-	-	(6,514)
OCH Orthopedics	(21,210)	(14,522)	(1,336)	(37,068)
OCH Pulmonolgy	(23,916)	(511)	18,000	(6,427)
OCH General Surgery	(6,109)	(1,630)	1,275	(6,464)
OCH Regional Health	(3,225)	(420)	1,336	(2,309)
OCH Medical Associates	(5,655)	(1,659)	-	(7,314)
OCH Urology Associates	(45,009)	(4,244)	49,253	-
OCH Breast Health Center	(16,596)	(835)	-	(17,431)
OCH Family Medicine Clinic	(28,019)	(2,889)	-	(30,908)
Automobiles	(577,225)	(73,238)	152,168	(498,295)
Total Accumulated Depreciation and Amortization	<u>(68,376,279)</u>	<u>(5,598,118)</u>	<u>1,128,726</u>	<u>(72,845,671)</u>
Capital Assets, Net	<u>\$ 61,532,582</u>	<u>(340,549)</u>	<u>(2,170,730)</u>	<u>\$ 59,021,303</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, 2014	Additions and Transfers	Retirements and Transfers	Balance September 30, 2015
Land	\$ 1,104,205	-	-	\$ 1,104,205
Land improvements	2,417,779	-	49,191	2,466,970
Buildings and improvements	75,902,568	-	335,419	76,237,987
Fixed equipment	13,256,397	19,518	-	13,275,915
Major movable equipment:				
Under capital lease	3,199,292	276,124	(294,054)	3,181,362
Other	30,966,623	1,861,319	(274,986)	32,552,956
Minor equipment	24,811	-	-	24,811
EMS equipment	6,514	-	-	6,514
OCH Orthopedics	96,319	-	-	96,319
OCH Pulmonology	25,361	-	-	25,361
OCH General Surgery	22,768	-	-	22,768
OCH Regional Health	37,349	-	(32,500)	4,849
OCH Medical Associates	14,144	-	-	14,144
OCH Urology Associates	64,021	-	-	64,021
OCH Breast Health Center	19,788	-	-	19,788
OCH Family Medicine Clinic	47,874	-	(9,800)	38,074
Automobiles	689,396	-	(28,885)	660,511
Construction in progress	76,222	454,891	(418,807)	112,306
Total Historical Cost	127,971,431	2,611,852	(674,422)	129,908,861

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, 2014	Additions and Transfers	Retirements and Transfers	Balance September 30, 2015
Less Accumulated Depreciation and Amortization for:				
Land improvements	(1,945,690)	(73,845)	-	(2,019,535)
Buildings and improvements	(27,086,789)	(2,422,116)	-	(29,508,905)
Fixed equipment	(6,590,855)	(818,459)	-	(7,409,314)
Major movable equipment	(27,079,476)	(2,205,425)	579,854	(28,705,047)
EMS equipment	(6,514)	-	-	(6,514)
OCH Orthopedics	(7,070)	(14,140)	-	(21,210)
OCH Pulmonolgy	(23,268)	(648)	-	(23,916)
OCH General Surgery	(4,420)	(1,689)	-	(6,109)
OCH Regional Health	(16,642)	(2,833)	16,250	(3,225)
OCH Medical Associates	(3,996)	(1,659)	-	(5,655)
OCH Urology Associates	(33,766)	(11,243)	-	(45,009)
OCH Breast Health Center	(15,761)	(835)	-	(16,596)
OCH Family Medicine Clinic	(32,127)	(4,292)	8,400	(28,019)
Automobiles	(531,083)	(75,027)	28,885	(577,225)
Total Accumulated Depreciation and Amortization	<u>(63,377,457)</u>	<u>(5,632,211)</u>	<u>633,389</u>	<u>(68,376,279)</u>
Capital Assets, Net	<u>\$ 64,593,974</u>	<u>(3,020,359)</u>	<u>(41,033)</u>	<u>\$ 61,532,582</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 requires 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 2016 and 2015 follows:

	Balance 9/30/2015	Additions	Reductions	Balance 9/30/2016	Due Within One Year
Bonds and Notes Payable:					
Bonds payable	\$ 14,294,140	-	(1,260,889)	\$ 13,033,251	\$ 1,300,000
Notes payable	-	1,263,128	(137,124)	1,126,004	267,490
Total Bonds and Notes Payable	<u>14,294,140</u>	<u>1,263,128</u>	<u>(1,398,013)</u>	<u>14,159,255</u>	<u>1,567,490</u>
Capital lease obligations	<u>1,085,459</u>	<u>498,303</u>	<u>(908,683)</u>	<u>675,079</u>	<u>363,831</u>
Total Long-Term Debt	<u>\$ 15,379,599</u>	<u>1,761,431</u>	<u>(2,306,696)</u>	<u>\$ 14,834,334</u>	<u>\$ 1,931,321</u>
	Balance 9/30/2014	Additions	Reductions	Balance 9/30/2015	Amounts Due Within One Year
Bonds payable	15,516,845	-	(1,222,705)	14,294,140	1,250,000
Capital lease obligations	<u>1,617,532</u>	<u>276,124</u>	<u>(808,197)</u>	<u>1,085,459</u>	<u>838,623</u>
Total Long-Term Debt	<u>\$ 17,134,377</u>	<u>276,124</u>	<u>(2,030,902)</u>	<u>\$ 15,379,599</u>	<u>\$ 2,088,623</u>

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, 2016, and 2015, follows:

Bonds Payable	<u>2016</u>	<u>2015</u>
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.	3,050,000	3,550,000
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 \$97,987 at September 30, 2016 and \$116,174 at September 30, 2015.	8,397,987	8,477,080
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 \$10,538 and premium of \$30,802 at September 30, 2016 and unamortized discount of \$20,293 and premium of \$42,353 at September 30, 2015.	<u>1,585,264</u>	<u>2,267,060</u>
Total Bonds Payable	<u>\$ 13,033,251</u>	<u>\$ 14,294,140</u>
Notes Payable	<u>2016</u>	<u>2015</u>
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.	691,088	-
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.	<u>434,916</u>	<u>-</u>
Total Notes Payable	<u>\$ 1,126,004</u>	<u>\$ -</u>

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

Note 8: Long-Term Debt (Continued)

	2016	2015
Capital Lease Obligations , at varying rates of imputed interest from 1.92% to 7.68% collateralized by leased assets with a cost of \$2,318,230 at September 30, 2016 and \$3,181,362 at September 30, 2015.	\$ 675,079	\$ 1,085,459

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

Year Ended September 30:	Long-Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2017	\$ 1,567,490	\$ 412,939	\$ 363,831	\$ 10,816
2018	1,601,701	373,480	124,692	6,840
2019	1,666,504	332,937	128,087	3,445
2020	1,735,574	283,950	58,469	520
2021	1,480,000	233,096	-	-
Thereafter	6,107,986	682,378	-	-
Total	\$ 14,159,255	\$ 2,318,780	\$ 675,079	\$ 21,621

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:

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, 2012.

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.

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

Note 9: Net Patient Service Revenue (Continued)

Medicaid Disproportionate Share Payment - The hospital received Medicaid disproportionate share payments of \$0 and \$260,501, for the years ended September 30, 2016, and 2015, 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 and Upper Payment Limit Payment – During fiscal year ending September 30, 2016, the Mississippi Division of Medicaid phased out the upper payment limit program as it relates to hospitals and replaced it with the Medicaid Mississippi hospital access program. The hospital received Medicaid Mississippi hospital access payments of \$3,240,313 for the year ended September 30, 2016. 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 MississippiCAN coordinated care organizations, and the continuation of the program rests with the federal government.

The hospital received Medicaid upper payment limit payments of \$2,149,285 for the year ended September 30, 2015. The Medicaid upper payment limit program was a program whereby the hospital qualified for upper payment limit funds in addition to regular funds.

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, 2016, and 2015, amounted to \$714,729 and \$692,828 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 \$1,884,869 in 2016 and \$1,652,296 in 2015.

Note 11: Profit-Sharing Plan

The hospital has a profit-sharing plan that covers substantially all of its employees. The plan requires a percentage contribution of current and/or accumulated net profits each year, with a base of 7.5% of the qualifying employees' total effective earnings for that year. In addition, the hospital matches, at 50%, the employees elective contributions up to 5%. A qualifying employee is fully vested after five years of credited service. The hospital's total contribution on to the plan for 2016, and 2015 was \$2,106,586, and \$2,312,008, respectively. The total employee contribution to the plan for 2016, and 2015 was \$1,468,443, and \$1,319,034, respectively.

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

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, 2016, and 2015, was as follows:

	2016	2015
Medicare	16%	15%
Medicaid	11%	6%
Patients and other third-party payors	73%	79%
	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, 2016, and 2015, has not been estimated. Management does not expect any significant liability to result from these legal proceedings.

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, 2016, and 2015, 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:

Year Ended September 30:		
2017	\$	1,182,864
2018	\$	1,182,864
2019	\$	1,182,864
2020	\$	1,182,864
2021	\$	1,182,864

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

Note 15: Other Assets

Included in Other Assets on the Statements of Net Position is an investment in the Mississippi HealthCare Providers. 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 was \$250,000 for 2016 and \$0 for 2015. The hospital has elected to report this investment at cost since there is not a market for the ownership interest in the company.

Note 16: Contingent Liability

During the year ended September 30, 2016, the hospital was notified by the Internal Revenue Service of the requirements to prepare a Community Needs Assessment for the years ending September 30, 2013, 2014, and 2015. Per the regulations of the Affordable Care Act, not-for-profit hospitals are required to prepare an annual Community Needs Assessment and governmental hospitals are exempt from this requirement. OCH Regional Medical Center is a governmental hospital that also has not-for-profit status; therefore, the hospital meets the requirements set by the Affordable Care Act to complete an annual Community Needs Assessment. OCH Regional Medical Center has completed the Community Needs Assessment in accordance with the requirements of the Affordable Care Act; however, the late preparation and submission of the Community Needs Assessments may result in a penalty. As of the date of the audit report, the likelihood of a penalty is not determinable nor can a potential amount be reasonably estimated.

Note 17: 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 23, 2017, (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:

The Oktibbeha County Board of Supervisors have taken formal action to follow the statutory process in accordance with Mississippi Code Section 41-13-15(8) for assessing OCH Regional Medical Center and considering a potential sell/lease. The assessment process has not been completed, and no decision has been made for selling/leasing.

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Detailed Schedules of Operating Revenues
Years Ended September 30, 2016, and 2015

	2016	2015
Patient Service Revenue:		
Inpatient:		
Nursing Service:		
Routine service	\$ 6,456,934	\$ 7,495,771
Swingbeds	491,810	226,245
Intensive care	1,225,827	1,771,063
Nursery	1,570,904	1,668,102
Other Nursing Service:		
Operating and recovery room	8,123,427	7,568,858
Ambulatory surgery	79,273	135,962
Heart monitor	113,972	112,107
Delivery room	3,370,614	3,261,180
Central service and supply	2,581,624	2,515,232
Intravenous therapy	2,920,788	3,337,492
Emergency service	1,220,292	1,395,948
Pathology	28,721	40,213
Hospitalist	821,819	755,814
Total Nursing Service Revenue	29,006,005	30,283,987
Other Professional Service:		
Laboratory	3,273,561	3,385,174
Blood bank	762,370	1,001,803
Electrocardiology	198,999	180,778
Radiology	609,006	788,589
Pharmacy	7,106,578	7,583,116
Anesthesiology	398,059	413,447
Respiratory therapy	4,646,135	5,253,209
Physical therapy	262,976	253,952
Nuclear medicine	9,938	23,009
CT scan	1,374,702	1,585,576
Ambulance	363,689	398,758
Speech pathology	138,177	168,602
Cardiac rehabilitation	-	-
Ultrasound	350,531	430,702
MRI	161,039	193,115
Occupational therapy	113,614	59,604
Total Other Professional Service Revenue	19,769,374	21,719,434
 Total Inpatient Revenue	 48,775,379	 52,003,421

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Detailed Schedules of Operating Revenues
Years Ended September 30, 2016, and 2015

	2016	2015
Outpatient:		
Other Nursing Service:		
Operating and recovery room	35,077,378	36,119,142
Ambulatory surgery	3,268,199	3,371,346
Heart monitor	273,917	267,535
Central service and supply	2,867,078	2,778,400
Intravenous therapy	2,891,982	2,880,856
Emergency service	19,832,458	20,138,578
Pathology	341,258	315,909
Total Nursing Service Revenue	64,552,270	65,871,766
Other Professional Service:		
Laboratory	9,024,859	8,597,979
Blood	579,482	539,851
Electrocardiology	1,017,014	928,587
Ambulance	2,135,782	2,140,204
Radiology	4,997,196	5,079,495
Pharmacy	11,683,664	11,894,018
Anesthesiology	9,524,946	9,869,035
Respiratory therapy	5,578,785	5,516,747
Physical therapy	974,740	970,235
Nuclear medicine	976,404	872,942
CT scan	15,493,784	16,133,320
Cardiac rehabilitation	255,806	183,272
Speech pathology	150,843	143,650
Ultrasound	1,196,065	1,227,483
MRI	3,694,716	3,631,895
Occupational therapy	307,059	330,529
OCH Orthopedics Clinic	1,151,500	853,050
Center for Breast Health	1,428,026	1,362,216
OCH Pulmonology	550,330	528,635
OCH Rural Health Clinic	(14)	5,415
OCH Family Medicine Clinic	665,075	714,587
OCH General Surgery	2,321.00	-
OCH Medical Associates	1,301,567	1,382,995
OCH Urology Associates	474,267	2,107,022
OCH Center for Pain	5,569,072	3,663,890
OCH Hyperbaric Center	633,633	-
OCH Wound Care Center	1,760,641	-
Total Other Professional Service Revenue	81,127,563	78,677,052
Total Outpatient Revenue	145,679,833	144,548,818
Total Patient Service Revenue	194,455,212	196,552,239

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Detailed Schedules of Operating Revenues
Years Ended September 30, 2016, and 2015

	2016	2015
Contractual Adjustments and Allowances:		
Medicare	41,415,698	42,864,374
Medicaid	24,178,969	20,968,314
Blue Cross	4,054,063	1,880,319
Charity care	2,044,393	2,269,239
Medicaid MHAP and UPL payment	(3,240,313)	(2,149,285)
Medicaid DSH payment	-	(260,501)
Administrative and other adjustments	45,575,023	47,667,366
Total Contractual Adjustments and Allowances	114,027,833	113,239,826
Provision for Uncollectable Accounts	11,436,899	12,323,043
Net Patient Service Revenue	68,990,480	70,989,370
Other Operating Revenue:		
Employee pharmacy sales	403,869	328,460
Medical records transcript	24,129	22,371
Employee and guest meals	351,429	365,370
Commissions - Vending machines	82,122	70,069
Medical and surgical supplies	968	2,981
Purchase discounts	49,830	51,480
Nursery pictures	873	575
Wellness Connection fees	771,935	730,962
Physician office buildings - rent	546,936	530,193
Miscellaneous revenue	393,846	138,809
Total Other Operating Revenue	2,625,937	2,241,270
Electronic Health Records Incentive	133,680	503,645
Total Operating Revenue	\$ 71,750,097	\$ 73,734,285

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Detailed Schedules of Operating Expenses
Years Ended September 30, 2016, and 2015

	2016			2015		
	Salaries and Benefits	Supplies and Drugs	Other	Salaries and Benefits	Supplies and Drugs	Other
Nursing Services:						
Nursing administration	\$ 824,492	5,657	7,327	779,103	4,574	6,921
Routine services	3,175,021	107,151	41,580	3,006,558	146,757	44,775
Intensive care	602,878	15,459	13,192	612,792	28,252	14,771
Nursery	767,560	26,731	15,502	775,026	26,134	6,827
Other Nursing Services:						
Operating and recovery rooms	2,741,644	7,025,359	699,870	2,721,396	7,328,859	737,325
Ambulatory surgery	1,142,772	437,457	53,898	1,079,282	361,143	49,636
Delivery room	1,196,268	85,685	75,010	1,219,209	89,350	68,919
Central service and supply	300,442	767,696	74,752	271,152	785,192	78,049
Emergency service	5,390,398	78,404	636,114	5,211,166	88,488	458,298
Trauma	65,340	215	686	69,079	867	5,533
Hospitalist	436,519	21,778	1,281,990	206,472	202	1,290,614
Other Professional Services:						
Laboratory	980,778	667,900	711,754	919,353	641,303	563,966
Blood bank	-	-	258,855	-	-	328,575
Electrocardiology	145	2,620	107,458	88	2,102	197,359
Radiology	837,186	49,540	260,347	808,534	51,666	273,218
Pharmacy	725,105	2,092,636	91,292	721,324	1,880,157	79,408
Anesthesiology	3,364,964	109,193	58,874	3,315,605	100,708	100,227
Respiratory therapy	1,306,089	144,480	72,907	1,224,611	144,376	67,568
Ambulance	1,177,130	82,656	229,499	1,116,761	91,203	218,590
Physical therapy	861,334	22,027	34,153	777,437	18,716	33,242
Ultrasound	191,974	3,006	15,540	154,537	3,072	10,445
CT scan	105,805	76,595	20,073	106,716	81,500	7,632
Nuclear medicine	84,588	130,711	26,991	85,299	96,305	27,841
Medical records	950,600	9,505	150,356	951,673	12,520	227,465
Social service	122,811	273	3,839	94,828	489	355
Cardiac rehabilitation	128,305	6,804	11,491	123,758	4,596	12,385
Speech pathology	141,001	1,461	228	151,769	1,147	1,259
Wellness Center	529,856	14,759	128,322	499,535	14,766	139,101
Sports medicine	268,816	6,607	35,939	244,387	5,949	35,666
Physician's office	874,994	72,725	320,477	892,472	67,589	171,021

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
Detailed Schedules of Operating Expenses
Years Ended September 30, 2016, and 2015

	2016			2015		
	Salaries and Benefits	Supplies and Drugs	Other	Salaries and Benefits	Supplies and Drugs	Other
Other Professional Services (Continued):						
Occupational therapy	280,428	3,951	5,468	267,060	5,391	4,169
Breast Health Center	795,787	20,185	121,745	786,808	23,351	184,647
OCH General Surgery	5	344	835	154	3	2,009
OCH Rural Health Clinic	856	-	1,074	1,794	277	3,493
OCH Medical Associates	1,036,991	28,019	73,753	1,041,726	24,692	49,736
OCH Urology Associates	169,938	47,670	21,424	639,207	230,821	51,382
OCH Pulmonology	460,024	6,476	28,920	467,955	6,798	25,330
OCH Center for Pain	794,575	7,785	64,430	549,145	6,479	49,634
OCH Hyperbaric Center	-	5,406	103,946	-	522	-
OCH Wound Care Center	-	72,096	454,837	-	48,154	22,820
OCH Family Health Clinic	429	5,750	298	-	-	-
General Services:						
Dietary	1,119,113	671,169	95,772	1,116,219	678,049	95,520
Maintenance	521,556	53,950	1,537,216	536,711	96,777	1,435,294
Housekeeping	755,832	93,158	92,501	789,773	90,964	96,235
Laundry and linen	18,803	-	306,834	31,428	-	357,497
Security	291,313	6,870	6,954	277,980	10,503	4,026
Administration and Fiscal Services:						
Administrative	969,368	44,649	1,208,016	934,278	46,519	1,678,915
Fiscal	4,772,490	160,448	2,269,860	4,489,165	252,066	2,124,608
Total	\$ 41,282,323	13,293,016	11,832,199	40,069,325	13,599,348	11,442,306

OKTIBBEHA COUNTY HOSPITAL D/B/A OCH REGIONAL MEDICAL CENTER AND SUBSIDIARY
 Schedule of Surety Bonds for Officials and Employees
 September 30, 2016

<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
Richard Hilton	Administrator	Travelers	\$ 100,000



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

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J. Randy Scrivner, CPA	Perry C. Rackley, Jr., CPA

**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, 2016, and 2015, 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 23, 2017.

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 23, 2017

Watkins Ward and Stafford, PLLC



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

James L. Stafford, CPA	Kimberly S. Caskey, CPA
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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, 2016, and 2015, and have issued our report thereon dated February 23, 2017.

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 23, 2017

Watkins Ward and Stafford, PLLC