



Harper, Rains, Knight & Company

The Board of Trustees
Madison County Nursing Home
P.O. Box 488
Canton, MS 39046

Attention: Mr. Robert Martin, Chairman

We are pleased to present this report related to our audit of the financial statements of Madison County Nursing Home (the "Nursing Home") for the year ended September 30, 2016. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Nursing Home's financial reporting process, as well as other matters that we believe may be of interest to you. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication with Those Charged with Governance*) require the auditors to promote effective two-way communication between the auditors and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit, as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Our Responsibilities with Regard to the Financial Statement Audit

Our responsibilities under auditing standards generally accepted in the United States of America have been described to you in our arrangement letter dated December 15, 2016. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

Overview of the Planned Scope and Timing of the Financial Statement Audit

We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement.

Certified Public Accountants · Consultants · hrkcpa.com

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Accounting Policies and Practices

Preferability of Accounting Policies and Practices

Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

Adoption of, or Change in, Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Nursing Home. The Nursing Home did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current period.

Significant or Unusual Transactions

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Management's Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the Nursing Home's September 30, 2016, financial statements:

Patient revenues are recognized monthly for which long-term health care and assisted living services are provided and accounts receivable are recorded at that time. For financial reporting purposes, the Nursing Home provides for estimated losses on accounts receivable based on prior bad debt experience and a review of existing receivables. The Nursing Home's revenues from patient care are derived primarily from provided long-term health care services. A major portion of those revenues are received under federal and state assistance programs. Revenues received from these programs are based on cost reimbursement principles which are subject to federal and state agencies. Management believes that these principles have been properly and consistently applied.

Audit Adjustments

There were two audit adjustments made to the original trial balance presented to us to begin our audit. Of the adjustments that were recorded, the following is a description of the adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the Nursing Home's financial reporting process.

The Board of Trustees
 Madison County Nursing Home - Continued

Audit Adjustments - continued

Description	Effect - Debit (Credit)				
	Assets	Liabilities	Net Assets	Revenue	Expense
To correct fund balance	\$ -	\$ -	\$ 2,875	\$ (2,875)	\$ -
To adjust cash account to reconciled balance	6,304	-	-	(6,304)	-
Total effect on change in net assets	-	-	(9,179)	\$ (9,179)	\$ -
Balance sheet effect	\$ 6,304	\$ -	\$ (6,304)		

Uncorrected Misstatements

We accumulated one uncorrected misstatement which was discussed with management and was determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Therefore, the adjustment to correct this misstatement was not made to the financial statements. This uncorrected misstatement is summarized in the accompanying schedule.

Description	Debit (Credit)			
	Assets	Liabilities	Net Assets	(Profit) and Loss
Record liability identified in search for unrecorded	\$ -	\$ (7,449)	\$ -	\$ 7,449
Impact of adjustments to net income on net assets	-	-	7,449	-
Totals by classification	\$ -	\$ (7,449)	\$ 7,449	\$ 7,449
Report totals before uncorrected misstatements	\$ 20,182,372	\$ (6,347,184)	\$ (13,835,188)	\$ (1,294,658)
Percent of uncorrected misstatements to report totals	.00%	.12%	(.05)%	(.58)%

Disagreements with Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

The Board of Trustees
Madison County Nursing Home - Continued

Consultations with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Significant Issues Discussed with Management

No significant issues arising from the audit were discussed with or the subject of correspondence with management.

Significant Difficulties Encountered in Performing the Audit

We did not encounter any significant difficulties in dealing with management during the audit.

Significant Written Communications between Management and Our Firm

Copies of significant written communications between our firm and the management of the Nursing Home, including the representation letter provided to us by management, are attached to this letter.

Closing

This report is intended solely for the information and use of the Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to Madison County Nursing Home.

Hargan, Raino, Knight & Company, P.A.

June 13, 2017

Madison County Nursing Home
P.O. Box 488
Canton, MS 39046

June 13, 2017

Harper, Rains, Knight, & Company, P.A.
1052 Highland Colony Parkway, Suite 100
Ridgeland, Mississippi 39157

This representation letter is provided in connection with your audit of the financial statements of Madison County Nursing Home (the "Nursing Home"), which comprise the balance sheet as of September 30, 2016 and the related statements of revenues, expenses, and changes in fund net assets and cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the financial statements presents fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of the date of this letter, the following representations made to you during your audits:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated December 15, 2016, for the preparation and fair presentation of the financial statements referred to above in accordance with accounting principles generally accepted in the United States of America.
2. We acknowledge our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience

about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take.

5. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
8. The following have been properly recorded and/or disclosed in the financial statement, as applicable:
 - a. Related party relationships, transactions and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements and guarantees, all of which have been recorded in accordance with the economic substance of the transactions.
 - b. Guarantees, whether written or oral, under which the Nursing Home is contingently liable.
 - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions of cash balances.
 - d. Lines of credit or similar arrangements.
 - e. All other liens or encumbrances on assets and all other pledges of assets.
 - f. Amounts of contractual obligations for construction and/or purchase of real property, equipment, other assets and intangibles.
 - g. All significant estimates and material concentrations known to management which are required to be disclosed. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year.
9. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the consolidated financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter.

Information Provided

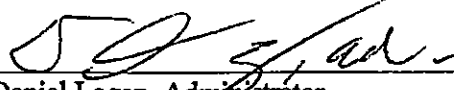
10. We have provided you with:
 - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;
 - b. Additional information that you have requested from us for the purpose of the audit;
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.


- d. Minutes of the meetings of stockholders, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
11. All transactions have been recorded in the accounting records and are reflected in the financial statements.
12. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
13. We have no knowledge of allegations of fraud or suspected fraud, affecting the entity's financial statements involving:
 - a. Management.
 - b. Employees who have significant roles in the internal control.
 - c. Others where the fraud could have a material effect on the financial statements.
14. We have no knowledge of any allegations of fraud or suspected fraud affecting the Nursing Home's financial statements received in communications from employees, former employees, analysts, regulators, short sellers, or others.
15. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements. Additionally, we specifically represent that we are not responsible for determining that we are no subject to the requirements of the Single Audit Act because we have not received, expended or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.
16. We are not aware of any pending or threatened litigation and claims whose effects were considered when preparing the financial statements.
17. We have disclosed to you the identity of the entity's related parties and all the related-party relationships and transactions of which we are aware.
18. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Hospital's ability to record, process, summarize, and report financial data.
19. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
20. We have no plans or intentions that may materially affect the carrying value or classification of assets. In that regard, the Nursing Home has no significant amounts of idle property and equipment.
21. We are responsible for making the accounting estimates included in the balance sheet. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made to reduce receivables to their estimated net collectible amounts.

22. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion that have not been appropriately accrued and/or disclosed.
23. The Nursing Home has satisfactory title to all owned assets.
24. Billings to third-party payers comply in all respects with applicable coding principles and laws and regulations (including those dealing with Medicare and Medicaid antifraud and abuse), and only reflect charges for goods and services that were medically necessary, properly approved by regulatory bodies (for example, the Food and Drug Administration), if required, and properly rendered.
25. With respect to cost reports:
 - a. We have filed all required Medicare, Medicaid, and similar reports.
 - b. We are responsible for the accuracy and propriety of all cost reports filed.
 - c. All costs reflected on such reports are appropriate, allowable under applicable reimbursement rules and regulations, patient-related, and properly allocated to the applicable payer[s].
 - d. The reimbursement methodologies and principles employed are in accordance with applicable rules and regulations.
 - e. All items required to be disclosed, including disputed costs that are being claimed to establish.
 - f. Recorded third-party settlements include differences between filed (and to be filed) cost reports and calculated settlements, which are necessary based upon historical experience or new or ambiguous regulations that may be subject to differing interpretations. While management believes the Company is entitled to all amounts claimed on the cost reports, management also believes the amounts of these differences are appropriate.
26. We are aware of no commitments, contingencies, subsequent events or other transactions occurring after the date of your inquiries and through the date of this letter which would require recording or disclosure in the financial statements.
27. During the course of your audit, you may have accumulated records containing data which should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.
28. As part of your audit, you prepared the draft financial statements, related notes, and supplementary information. We have designated a competent management-level individual to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for the final draft of the financial statements, related notes, and supplementary information.
29. We have not received funds in excess of \$500,000 from any federal award programs. This consideration includes the use of all federal funds received directly from a federal department or agency or as a secondary recipient from any other source, received either directly or indirectly as commodities or other tangible or intangible property from a federal award program, or

agency or as a secondary recipient from any other source, received either directly or indirectly as commodities or other tangible or intangible property from a federal award program, or participated in or received any benefits from any federal loan, loan guarantee or insurance program during the audit period requiring any federal program compliance auditing.

MADISON COUNTY NURSING HOME

By 
Daniel Logan, Administrator

By 
Robert Martin, Chairman, Board of Trustees

September 30, 2016

Description	Effect – Debit (Credit)				
	Assets	Liabilities	Net Assets	Revenue	Expense
To correct fund balance	\$ -	\$ -	\$ 2,875	\$ (2,875)	\$ -
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Total effect on change in net assets	-	-	(9,179)	\$ (9,179)	\$ -
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Summary of Uncorrected Misstatements
September 30, 2016

Description	Debit (Credit)			
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Percent of uncorrected misstatements to report totals	.00%	.12%	.05%	.58%

MADISON COUNTY NURSING HOME

CANTON, MISSISSIPPI

FINANCIAL REPORT

SEPTEMBER 30, 2016

HARPER, RAINS, KNIGHT & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
RIDGELAND, MISSISSIPPI

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Harper, Rains, Knight & Company

The Board of Trustees
Madison County Nursing Home
Canton, Mississippi

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of Madison County Nursing Home (the "Nursing Home") which comprise the balance sheet as of September 30, 2016, the related statements of revenues, expenses and changes in fund net assets and cash flows for the year then ended, and the related notes to financial statements.

Management's Responsibilities for the Consolidated 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

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The Board of Trustees
Madison County Nursing Home - Continued

Auditors' Responsibility - continued

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Madison County Nursing Home as of September 30, 2016, and the results of its operations and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-6 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Nursing Home's basic financial statements. The supplementary information included in the accompanying supplemental schedule of revenues and supplemental schedule of expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedule of revenues and supplemental schedule of expenses 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. The 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

The Board of Trustees
Madison County Nursing Home - Continued

Other Matters - continued

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 accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Harpur, Raino, Knight & Company, P.A.

June 13, 2017

MADISON COUNTY NURSING HOME

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the financial performance of the Madison County Nursing Home (hereafter referred to as the "Nursing Home") for the fiscal year ended September 30, 2016. 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 Nursing Home's basic financial statements.

Highlights

- Total liabilities for the Nursing Home at year end were \$6,347,184. Of this amount, \$872,184 or 14 percent were considered current liabilities. A bond payable in the amount of \$5,825,000 related to the construction of the facility represents 92 percent of the total liabilities of the Nursing Home.
- Total assets for the Nursing Home at year end were \$20,182,372. Current assets represent approximately 21 percent of the total assets.
- Total fund net assets at year-end were \$13,835,188. Net assets invested in capital assets, net of related debt were \$9,774,762. Unrestricted net assets were \$4,060,426.
- Total expenses related to the operations of the Nursing Home for the fiscal year were \$7,016,324. Of this amount, \$4,359,708 (62 percent) was related to salaries and employee benefits and \$2,656,616 (38 percent) was related to general and administrative expenses.
- Operating revenue for the fiscal year was \$8,553,138, net of the provision for doubtful accounts of \$58,015. Of this amount, 85 percent was derived from patient revenue and approximately 80 percent of total patient revenue was received from the Medicaid /Medicare programs.
- Non-operating revenues for the fiscal year were \$20,094 for miscellaneous revenues received by the Nursing Home.
- Non-operating expenses, which primarily consists of interest expense, for the fiscal year was \$262,250.

Overview of Financial Statements

In accordance with the Governmental Accounting Standards Board Statement 34 (GASB 34), there are three components to the basic financial statements: 1) the government-wide financial statements, 2) the fund financial statements and 3) the notes to financial statements.

Government-Wide Financial Statements

The Nursing Home is classified as a proprietary fund and therefore utilizes the accrual basis of accounting. Due to the fact that the Nursing Home is a component unit of Madison County, government-wide statements are not included here, but instead will be included in Madison County's basic financial statements.

MADISON COUNTY NURSING HOME

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Fund Financial Statements

As a component unit of Madison County, the Nursing Home only presents fund financial statements. The financial statements for the Nursing Home include a balance sheet, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows. The balance sheet summarizes and describes the assets, liabilities and financial condition of the Nursing Home. The statement of revenues, expenses and changes in fund net assets provides fiscal year totals for the revenues, expenses and resulting changes in net assets experienced by the Nursing Home. The statement of cash flows summarizes the receipts, payments and transfers by category (operating, investing, financing and non-capital financing) in and out of the Nursing Home. Each of these three statements is presented to reflect the current financial status and the results of operations of the Nursing Home as of and for the year ended September 30, 2016.

Overall Financial Position Analysis/Balances and Transactions Analysis

The Nursing Home's assets consist primarily of cash, accounts receivable and capital assets, net of accumulated depreciation. The Nursing Home's liabilities consist, primarily, of a bond payable related to the construction of the facility. This note is payable by the Nursing Home and Madison County, Mississippi.

Operating revenues are derived primarily from patient fees. The most significant portions of operating revenues were received from the Medicaid and Medicare programs. Operating expenses consist of those necessary expenses related to the operations of the Nursing Home.

Currently Known Facts

The Madison County Nursing Home is currently enrolled in the Federal Medicare and Medicaid Programs. Other than the continued inflationary trends of costs to provide medical services, the Nursing Home is not aware of any other known facts that might materially impact its net assets and these financial statements.

Financial Contact

The Nursing Home'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 Administrator, Madison County Nursing Home, 1421 East Peace Street, Canton, Mississippi 39046.

MADISON COUNTY NURSING HOME

BALANCE SHEET

September 30, 2016

ASSETS

Current assets

Cash and cash equivalents	\$ 987,845
Accounts receivable, net of allowance for doubtful accounts of \$573,701	3,062,471
Prepaid expenses	110,443
Total current assets	<u>4,160,759</u>

Assets whose use is limited

Funds restricted by bond agreement	<u>9,063,969</u>
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Capital assets

Property and equipment, net of accumulated depreciation	<u>6,535,793</u>
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Other assets

Bond issue costs, net of accumulated amortization	367,993
Other assets	53,858
Total other assets	<u>421,851</u>

Total assets	<u>\$ 20,182,372</u>
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LIABILITIES AND FUND NET ASSETS

Current liabilities

Bond payable - current portion	\$ 350,000
Accounts payable	140,430
Accrued expenses	381,754
Total current liabilities	<u>872,184</u>

Long-term liabilities

Bond payable - long term portion	<u>5,475,000</u>
Total liabilities	<u>6,347,184</u>

Fund net assets

Net investment in capital assets	9,774,762
Unrestricted net assets	4,060,426
Total fund net assets	<u>13,835,188</u>

Total liabilities and fund net assets	<u>\$ 20,182,372</u>
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The Notes to Financial Statements are an integral part of this statement.

MADISON COUNTY NURSING HOME

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS

Year Ended September 30, 2016

Operating revenues:	
Patient revenue, net of provision for doubtful accounts of \$58,015	\$ 7,297,860
Other income	<u>1,255,278</u>
Total operating revenue	<u>8,553,138</u>
Operating expenses:	
Salaries and employee benefits	4,359,708
Supplies and other expenses	777,161
Taxes and licenses	491,865
Contract labor and professional fees	420,017
Depreciation and amortization	381,280
Utilities and maintenance	381,027
Insurance	143,674
Other operating expenses	<u>61,592</u>
Total operating expenses	<u>7,016,324</u>
Operating income	<u>1,536,814</u>
Non-operating revenues (expenses):	
Miscellaneous income	20,094
Interest expense	(260,974)
Miscellaneous expense	<u>(1,276)</u>
Non-operating loss	<u>(242,156)</u>
Increase in fund net assets	1,294,658
Fund net assets, beginning of year	<u>12,540,530</u>
Fund net assets, end of year	<u>\$ 13,835,188</u>

The Notes to Financial Statements are an integral part of this statement.

MADISON COUNTY NURSING HOME

STATEMENT OF CASH FLOWS

Year Ended September 30, 2016

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 7,393,232
Payments to suppliers and contractors	(2,250,815)
Payments to and on behalf of employees	(4,329,640)
Net cash provided by operating activities	<u>812,777</u>
Cash flows from capital and related financing activities:	
Principal payments on bond payable	(335,000)
Acquisition of capital assets	(58,007)
Interest expense on long-term debt	(264,629)
Payment to unemployment trust fund	<u>329</u>
Total cash flows used in capital and related financing activities	<u>(657,307)</u>
Cash flows from investing activities:	
Decrease in cash restricted by bond agreement and other restricted funds	(627,370)
Interest income	<u>18,818</u>
Net cash used in investing activities	<u>(608,552)</u>
Net increase in cash and cash equivalents	(453,082)
Cash and cash equivalents at beginning of year	<u>1,440,927</u>
Cash and cash equivalents at end of year	<u>\$ 987,845</u>

The Notes to Financial Statements are an integral part of this statement.

MADISON COUNTY NURSING HOME

STATEMENT OF CASH FLOWS - Continued
Year Ended September 30, 2016

Reconciliation of operating income to
net cash provided by operating activities:

Operating income	\$ 1,536,814
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	381,280
Provision for bad debt	158,015
Net effect of changes in assets and liabilities:	
Accounts receivable	(1,317,921)
Prepaid expenses	(5,207)
Accounts payable	15,818
Accrued expenses	<u>43,978</u>
Net cash provided by operating activities	<u>\$ 812,777</u>

The Notes to Financial Statements are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies followed by Madison County Nursing Home (hereafter referred to as the "Nursing Home") in preparing the accompanying financial statements are set forth below.

Basis of Presentation

Financial reporting standards for state and local governments require that financial reports include management's discussion and analysis, basic financial statements and required supplementary information. Basic financial statements include government-wide financial statements, fund financial statements and notes to financial statements.

As a component unit of Madison County, Mississippi, the Nursing Home only presents fund financial statements. The Nursing Home classifies fund net assets into the following components: Net investment in capital assets which consist of capital assets net of accumulated depreciation which are reduced by year-end balances of any borrowings used to finance the purchase of construction of those assets, plus funds restricted for capital purposes and unrestricted net assets which consist of the remaining net assets that do not meet the definition of net investment in capital assets.

Organization and Operations

Madison County Nursing Home is a non-profit agency of Madison County, Mississippi, and was formerly known as the Madison County Medical Center, which was formed under Section 41-13-1 of the Mississippi Code. The Nursing Home is owned and operated by Madison County, Mississippi, and governed by a Board of Trustees appointed by the Board of Supervisors of Madison County.

The Nursing Home is engaged in the operation of a long-term care facility with 95 Medicaid licensed beds. In 2002, the Nursing Home obtained a certificate of need (CON NH-CB-0600-027) from the Mississippi State Department of Health to establish a 20-bed Alzheimer's/Dementia unit serving those needing specialized dementia care and memory care services. The Nursing Home also operates an assisted living center designed to provide housing, health care and personal services to seniors in need of assistance with activities of daily living in a more independent environment. The Nursing Home is located in Canton, Mississippi.

Accounting Method and Measurement Focus

The Nursing Home uses the flow of economic resources measurement focus and maintains its accounting records under the accrual basis of accounting as required by accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (hereafter referred to as "GASB"). The Nursing Home also applies all applicable accounting and financial reporting standards of the Financial Accounting Standards Board.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and cash equivalents

All cash accounts and all highly liquid debt instruments purchased with a maturity of three (3) months or less are considered to be cash equivalents.

Credit Risk

At times, cash balances in financial institutions may exceed the FDIC insured limits. The Nursing Home has cash balances on deposit with one bank at September 30, 2016 that exceeded the balance insured by the FDIC in the amount of \$9,801,814.

Accounts Receivable

Patient revenues are recognized monthly for which long-term health care and assisted living services are provided and accounts receivable are recorded at that time. For financial reporting purposes, the Nursing Home provides for estimated losses on accounts receivable based on prior bad debt experience and a review of existing receivables. The Nursing Home's revenues from patient care are derived primarily from providing long-term health care services. A major portion of those revenues are received under federal and state assistance programs. Revenues received from these programs are based on cost reimbursement principles which are subject to federal and state agencies. Management believes that these principles have been properly and consistently applied.

Capital Assets

Property and equipment are stated at cost, less accumulated depreciation. Provision for depreciation is made by the straight-line method over the estimated useful lives of the property and equipment ranging from 5 to 40 years.

Intangible Assets

Intangible assets consist of deferred financing costs and a certificate of need issued by the Mississippi State Department of Health. Deferred financing costs are stated at cost, less accumulated amortization. Provision for amortization is made by the interest method over the term of the loan. The certificate of need is recorded at its capital expenditure amount and is included on the balance sheet within other assets. Management estimates no impairment in the value of the asset.

Statements of Revenues, Expenses and Changes in Fund Net Assets

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.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 disclosures 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.

Assets Whose Use is Limited

Assets, limited as to use, primarily include funds placed in trust accounts for capital expenditures and repayment of bond payable.

Compensated Absences

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

Income Taxes

Madison County Nursing Home is a non-profit, governmental healthcare facility created as a charitable organization under Section 501(c)(3) of the Internal Revenue Code and, as such, is exempt from federal and state income taxes.

The Nursing Home has no uncertain tax provisions and no tax returns under examination as of September 30, 2016.

Subsequent events

Subsequent events were evaluated by the Company through June 13, 2017, which is the date the financial statements were available to be issued.

(2) ACCOUNTS RECEIVABLE

Accounts receivable are carried at the original invoice amount, less an estimate made for doubtful receivables. Management reviews accounts receivable to determine if any receivables will potentially be uncollectible by identifying past-due amounts determined by an aging of the accounts. Accounts receivable relate primarily to fees for patient services. Of the accounts receivable balance at September 30, 2016, approximately 57 percent relates to receivables under the Medicaid Program. Management maintains that these amounts are 100 percent collectible. Management established an allowance of 26 percent of the receivable balance due from patients.

(3) CAPITAL ASSETS

Details of property and equipment are as follows:

<u>Property and equipment</u>	<u>October 1, 2015</u>	<u>Additions and Other</u>	<u>Retirements and Other</u>	<u>September 30, 2016</u>
Automobiles	\$ 102,002	\$ -	\$ -	\$ 102,002
Buildings	9,925,513	35,892	-	9,961,405
Land improvements	20,499	-	-	20,499
Equipment	<u>1,076,785</u>	<u>22,115</u>	<u>-</u>	<u>1,098,900</u>
Total property and equipment	<u>11,124,799</u>	<u>58,007</u>	<u>-</u>	<u>11,182,806</u>
Less: accumulated depreciation				
Automobiles	91,974	5,231	-	97,205
Buildings	3,321,853	273,386	-	3,595,239
Land improvements	20,499	-	-	20,499
Equipment	<u>884,114</u>	<u>49,956</u>	<u>-</u>	<u>934,070</u>
Total accumulated depreciation	<u>\$ 4,318,440</u>	<u>\$ 328,573</u>	<u>\$ -</u>	<u>\$ 4,647,013</u>
Property and equipment, net	<u>\$ 6,806,359</u>	<u>\$(270,566)</u>	<u>\$ -</u>	<u>\$ 6,535,793</u>

Substantially all items of property and equipment are pledged as collateral on indebtedness.

Depreciation of capital assets for the fiscal year was \$328,573.

(4) INTANGIBLE ASSETS

The details of intangible assets are as follows:

Deferred financing costs	\$ 1,083,903
Less accumulated amortization	<u>(715,910)</u>
	<u>\$ 367,993</u>

Amortization of intangible assets amounted to \$52,707 for the fiscal year.

(5) LONG-TERM DEBT

Long-term debt consists of a bond payable to the Mississippi Development Authority in the amount of \$8,000,000 dated June 24, 2009, related to the construction of the building housing the Madison County Nursing Home. This bond is payable by Madison County, Mississippi, and is secured by a pledge of up to 5 mills on all taxable property of Madison County and a letter of credit. The obligation of the Nursing Home to make payments is a

(5) LONG-TERM DEBT - Continued

limited obligation whereby revenues of the Madison County Nursing Home may be applied to pay debt service on any amount under the 2009 Note and/or for other purposes as determined by the Board of Trustees.

Payments are remitted to the Bond Issue Trustee and are held on deposit in the servicing account of the Bond Fund. Interest under the Bond is payable semi-annually on the first day of June and December, beginning in 2009. Principal amounts are payable annually on the first day of June, beginning in 2010. Pursuant to the loan agreement, sufficient funds must be available in the servicing account, maintained by the Trustee, in May and November of each year to make the required payments under the Bond Issue. In addition, a monthly payment amount is deposited by the Trustee into the servicing account to provide for on-going Trustee fees, remarketing fees and any other on-going fees. The variable interest rate for the bond is currently at 3 percent and increases to 4.75 percent at the bond maturity date of June 1, 2029.

Changes in long-term debt (bond payable) for the year are as follows:

Balance, October 1, 2015	\$ 6,160,000
Principal payments on bond payable	<u>(335,000)</u>
Balance, September 30, 2016	<u>\$ 5,825,000</u>

Long-term debt consists of both the current portion, defined as those amounts due within one (1) year from the year-end date, and the non-current portion. The current maturity of the long-term debt payable is as follows:

Total long-term debt payable	\$ 5,825,000
Less current portion	<u>(350,000)</u>
Long-term portion	<u>\$ 5,475,000</u>

The following is a schedule of the approximate annual maturities on long-term debt as of September 30, 2016:

<u>Fiscal year ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 350,000	\$ 253,574	\$ 603,574
2018	360,000	241,324	601,324
2019	375,000	228,004	603,004
2020	390,000	213,004	603,004
2021	405,000	197,404	602,404
Thereafter	<u>3,945,000</u>	<u>870,808</u>	<u>4,815,808</u>
	<u>\$ 5,825,000</u>	<u>\$ 2,004,118</u>	<u>\$ 7,829,118</u>

(6) PENSION PLAN

The Nursing Home participates in the Public Employees' Retirement System of Mississippi ("PERS"), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the Mississippi State Legislature. PERS issues a publicly-available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to the Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, Mississippi 39201-1005 or by calling their office at: (601) 359-3589 or 1-800-444-PERS.

PERS members are required to contribute 9.00 percent of their annual covered salary and the Institution is required to contribute at an actuarially determined rate. The current rate is 15.75 percent of the annual covered payroll. The contribution requirement of PERS members is established and may be amended only by the Mississippi State Legislature. The Nursing Home's contribution to PERS for the year was \$309,315.

(7) CONCENTRATION OF CREDIT RISK

The Nursing Home grants credit without collateral to their residents, most of whom are local area residents covered by third-party payor agreements. The mix of receivables for residents and third-party payors were as follows:

Medicaid	55%
Medicare	33%
Commercial	4%
Private resident	8%
	<u>100%</u>

(8) ECONOMIC DEPENDENCY

The Madison County Nursing Home receives approximately 78 percent of its total revenues from the Medicaid program for nursing home beds. Significant changes in future reimbursement rates could cause significant changes in the financial position and results of operations in future years.

(9) RISKS AND UNCERTAINTIES

As a health-care facility operator, the Nursing Home is subject to the usual business impact of factors generally affecting this industry such as possible future wage and price controls, interest rates, federal and state funding of the Medicare and Medicaid programs and future legislation and regulations affecting nursing homes.

(9) RISKS AND UNCERTAINTIES - Continued

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 then incurred at the date of the financial statements and that the amount of the loss can be reasonably estimated. The facility has not been exposed to any risk of loss as of September 30, 2016 and therefore, no liability has been accrued at this time

(10) CONTINGENT LIABILITIES

From time to time, the Nursing Home is a party to various legal actions arising in the ordinary course of its business. The Nursing Home carries liability insurance in an attempt to minimize the facility's exposure to these risks. Management believes that none of these potential legal actions will have a material adverse effect upon its financial condition, results of operations or cash flows.

MADISON COUNTY NURSING HOME

SUPPLEMENTAL SCHEDULE OF REVENUES

Year Ended September 30, 2016

Income earned

Operating revenues

Patient services - private pay	\$ 408,975
Patient services - Medicaid	5,823,825
Patient services - Medicare	1,290,325
Patient services - Hospice	378,330
Patient services - assisted living	319,738
Patient services - insurance	14,817
Healthplex membership income	57,234
Rental income	28,594
Medicaid UPL LTC income	1,168,500
Miscellaneous income	950
Adjustments to patient revenue	(880,135)
Provision for doubtful accounts	(58,015)
Total operating revenue	<u>\$ 8,553,138</u>

Non-operating revenue

Miscellaneous income	<u>\$ 20,094</u>
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See Independent Auditors' Report.

MADISON COUNTY NURSING HOME

SUPPLEMENTAL SCHEDULE OF EXPENSES

Year Ended September 30, 2016

Operating expenses	
Nurse administration	
Salaries	\$ 88,327
Medical Director	18,000
Transportation	8,244
Ambulance service	<u>2,298</u>
	<u>116,869</u>
Nursing service	
Salaries	2,029,420
Accrued/unpaid vacation	3,107
Contract services	47,796
Medical supplies	181,860
Drugs and supplies	<u>13,154</u>
	<u>2,275,337</u>
Healthplex	
Salaries	87,356
Supplies	6,166
Depreciation	18,089
Repairs and maintenance	<u>914</u>
	<u>112,525</u>
Medical records	
Salaries	41,853
Supplies	<u>2,977</u>
	<u>44,830</u>
Dietary	
Salaries	261,281
Consultant	6,825
Supplies	28,071
Equipment expense	10,030
Nutritionals	26,148
Food purchases	<u>325,638</u>
	<u>657,993</u>

MADISON COUNTY NURSING HOME

SUPPLEMENTAL SCHEDULE OF EXPENSES - Continued
Year Ended September 30, 2016

Housekeeping	
Salaries	\$ 230,138
Laundry	66,482
Linen	12,711
Accrued/unpaid vacation	358
Uniform rental	49
	<u>309,738</u>
Plant operations	
Salaries	38,440
Accrued/unpaid vacation	1,783
Repairs	53,252
Pest control	2,705
Utilities	172,018
Waste disposal	26,459
Ground maintenance	370
Utilities/cable	16,221
Automobile expense	12,475
Insurance - vehicles	2,675
Insurance - building	19,842
Depreciation - building	224,215
Depreciation - equipment	31,824
Depreciation - vehicles	5,232
Amortization - loan costs	52,708
	<u>660,219</u>
Activities	
Salaries	30,340
Consultant - activities	6,000
Supplies	5,447
Accrued/unpaid vacation	334
	<u>42,121</u>
Social services	
Salaries	26,923
Accrued/unpaid vacation	1,708
	<u>28,631</u>

MADISON COUNTY NURSING HOME

SUPPLEMENTAL SCHEDULE OF EXPENSES - Continued
Year Ended September 30, 2016

Purchased maintenance	
Software	\$ 20,445
Pharmacy consultant	4,200
Medical records consultant	300
Destruction of medical records	1,187
Physical Therapist	98,141
Speech Therapist	74,650
Occupational Therapist	92,859
Lab fees	3,417
X-ray	64
Floor stock drugs and supplies	24,069
Medicare floor stock drugs	<u>31,018</u>
	<u>350,350</u>
General and administrative	
Salaries	180,620
Accrued/unpaid vacation	144
Payroll taxes	221,603
Unemployment claims	1,897
Employer contributions - PERS	309,315
Insurance	588,391
Licenses	198
Professional fees	66,894
Data processing	54,966
Office supplies	13,367
Small equipment	3,199
Equipment rental	9,525
Postage	4,125
Employee physicals	430
Telephone	27,066
Training	10,249
Dues and subscriptions	6,694
Board of Trustees fees	3,056
Advertising	4,513
Barber and beauty shop	11,555
Medicaid bed tax	491,667
Vendor late charges	696

MADISON COUNTY NURSING HOME
SUPPLEMENTAL SCHEDULE OF EXPENSES - Continued
Year Ended September 30, 2016

General and administrative - continued	
Bond Trustee fees	\$ 11,483
Background checks	2,000
Flowers/gifts	<u>51</u>
	<u>2,023,704</u>
Season expenses	
Billing and administrative	10,141
Depreciation	49,213
Employee benefits	50,181
Food	35,309
Insurance	13,761
Laundry and housekeeping supplies	4,172
Maintenance and repairs	2,050
Payroll taxes	13,680
Professional fees	1,090
Salaries	191,709
Accrued/unpaid vacation	1,297
Activity Director	1,416
Social Services	2,308
Dietary Manager	1,103
Supplies	523
Utilities	14,962
Pest control	<u>1,092</u>
	<u>394,007</u>
Total operating expenses	<u>\$ 7,016,324</u>
Non-operating expenses	
Interest - bond	260,974
Miscellaneous expense	<u>1,276</u>
Total non-operating expenses	<u>\$ 262,250</u>

See Independent Auditors' Report.



Harper, Rains, Knight & Company

The Board of Trustees
Madison County Nursing Home
Canton, Mississippi

Report on Compliance with State Laws and Regulations

We have audited the accompanying financial statements of Madison County Nursing Home (the "Nursing Home"), a component unit of Madison County, Mississippi, which comprise the balance sheet as of September 30, 2016, the related statements of revenues, expenses and changes in net assets and cash flow for the year then ended, and the related notes to financial statements and have issued our report thereon dated June 13, 2017.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with state laws and regulations applicable to the Nursing Home is the responsibility of the facility's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Nursing Home's compliance with certain provisions of state laws and regulations. However, the objective of our audit of the financial statements 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, with respect to the items tested, the Nursing Home 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 the facility had not complied with state laws and regulations.

This report is intended solely for the information and use of management, the Board of Trustees, others within the Nursing Home and the Board of Supervisors of Madison County 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.

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

June 13, 2017

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