

**NCGH Improvement Corporation
Philadelphia, Mississippi**

**Audited Financial Statements
September 30, 2018**

NCGH IMPROVEMENT CORPORATION

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Independent Auditors' Report

Board of Directors
NCGH Improvement Corporation
Philadelphia, Mississippi

Report on Financial Statements

We have audited the accompanying financial statements of NCGH Improvement Corporation (a nonprofit corporation), which comprise the statements of financial position as of September 30, 2018, and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our 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 NCGH Improvement Corporation'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 NCGH Improvement Corporation'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, the financial statements referred to above present fairly, in all material respects, the financial position of NCGH Improvement Corporation as of September 30, 2018, and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Eupora, Mississippi
April 19, 2019

Watkins Ward and Stafford, P.C.

NCGH IMPROVEMENT CORPORATION
 Statements of Financial Position
 September 30, 2018, and 2017

Assets	<u>2018</u>	<u>2017</u>
Current Assets:		
Cash	\$ 1,071,876	\$ 1,022,011
Prepaid expenses	<u>18,250</u>	<u>18,250</u>
Total Current Assets	<u>1,090,126</u>	<u>1,040,261</u>
Capital Assets:		
Property and equipment (Net of accumulated depreciation of \$3,851,449 in 2018, and \$3,135,096 in 2017)	<u>15,285,515</u>	<u>16,001,868</u>
Total Assets	<u>\$ 16,375,641</u>	<u>\$ 17,042,129</u>
Liabilities and Unrestricted Net Deficit		
Current Liabilities:		
Accounts payable	\$ <u>432</u>	\$ <u>432</u>
Long-Term Debt:		
Notes payable (Net of loan origination fee of \$181,524 in 2018 and \$337,116 in 2017)	<u>20,547,476</u>	<u>20,391,884</u>
Total Liabilities	20,547,908	20,392,316
Unrestricted Net Deficit	<u>(4,172,267)</u>	<u>(3,350,187)</u>
Total Liabilities and Unrestricted Net Deficit	<u>\$ 16,375,641</u>	<u>\$ 17,042,129</u>

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

NCGH IMPROVEMENT CORPORATION
 Statements of Activities
 Years Ended September 30, 2018, and 2017

	2018	2017
Revenues and Gains:		
Rental income	\$ 1,200,000	\$ 1,200,000
Interest income	951	1,001
Total Revenues and Gains	1,200,951	1,201,001
Expenses:		
Professional fees	181,480	181,912
Bank charges	576	1,082
Office expense	190	188
Other general and administrative expense	1,050	1,200
Donations	10,500	13,500
Grant to sponsor	750,000	1,100,000
Interest/Amortization expense	362,882	362,882
Depreciation expense	716,353	740,191
Total Expenses	2,023,031	2,400,955
Increase in Unrestricted Net Deficit	(822,080)	(1,199,954)
Unrestricted Net Deficit, Beginning of Year	(3,350,187)	(2,150,233)
Unrestricted Net Deficit, End of Year	\$ (4,172,267)	\$ (3,350,187)

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

NCGH IMPROVEMENT CORPORATION
 Statements of Cash Flows
 Years Ended September 30, 2018, and 2017

	2018	2017
Cash Flows from Operating Activities:		
Increase in Unrestricted Net Deficit	\$ (822,080)	\$ (1,199,954)
Adjustment to Reconcile Changes in Unrestricted Net Deficit to Net Cash Provided (Used) by Operating Activities:		
Depreciation	716,353	740,190
Amortization	155,592	155,592
Changes in Operating Assets and Liabilities:		
Increase in accounts payable	-	221
Net Cash Provided (Used) by Operating Activities	49,865	(303,951)
Increase (Decrease) in Cash	49,865	(303,951)
Cash at Beginning of Year	1,022,011	1,325,962
Cash at End of Year	\$ 1,071,876	\$ 1,022,011
 Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 207,290	\$ 207,290

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

NCGH IMPROVEMENT CORPORATION
Notes to Financial Statements

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

a. Organization – NCGH Improvement Corporation is a not-for-profit corporation organized to promote and assist Neshoba County General Hospital and Neshoba County Nursing Home (a component unit of Neshoba County, Mississippi) with the development of the hospital facility and the securing of capital for the operation of health care related services to benefit the health and wellness of the citizens of Neshoba County, Mississippi and surrounding areas.

NCGH Improvement Corporation was formed under the laws of Mississippi on May 15, 2012 to meet the necessary structuring requirements to enter into a transaction intended to qualify for the New Markets Tax Credit, as outlined in Internal Revenue Code (IRC) Section 45D.

Full control and management over the activities and affairs of NCGH Improvement Corporation is vested in the Board of Directors. The Board of Directors is composed of five directors. Individuals presently holding the office of Chief Executive Officer and Chief Financial Officer of Neshoba County General Hospital and Neshoba County Nursing Home (the Hospital); the County Administrator of Neshoba County (the County); and two other individuals that are unrelated to the Hospital and the County.

b. Basis of Accounting – The accompanying financial statements have been prepared on the accrual basis of accounting.

c. Basis for Presentation – Net deficit and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net deficit of the Corporation and changes therein are classified in three categories of net deficit, as applicable, and reported as follows:

Unrestricted net deficit – Net deficit that is not subject to donor restrictions. Unrestricted net deficit may also include discretionary designations made by the board of directors.

Temporarily restricted net deficit – net deficit subject to donor imposed restrictions that may or will be met, either by actions of the board of directors and/or the passage of time. When a restriction expires, temporarily restricted net deficit is reclassified to unrestricted net deficit and reported in the statement of activities as net deficit released from restrictions.

Permanently restricted net deficit – Net deficit subject to donor restrictions that require the principal contribution be maintained by the Corporation with the income earned on any related investments being distributed in accordance with donor imposed restrictions.

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

e. Property and Equipment – NCGH Improvement Corporation's policy is to capitalize acquisition and construction costs greater than \$5,000, which will provide benefit to future periods. Lesser amounts are expensed. Property and equipment acquisitions are recorded at cost. Donations of property and equipment are recorded as contributions at their estimated value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, NCGH Improvement Corporation reports expirations of donor restrictions when the donated or acquired assets are placed in service. NCGH Improvement Corporation reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over estimated useful lives ranging from five to forty years.

NCGH IMPROVEMENT CORPORATION
Notes to Financial Statements

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

f. Risk Management – As per the Ground Lease Agreement between Neshoba County, Mississippi, Neshoba County General Hospital and Neshoba County Nursing Home and NCGH Improvement Corporation, dated October 31, 2012, Neshoba County General Hospital and Neshoba County Nursing Home purchases coverage of risk related to theft of, damage to, and destruction of assets from various commercial insurance carriers for the building, and its assets, leased from NCGH Improvement Corporation.

g. Income Taxes - NCGH Improvement Corporation is a not-for-profit corporation and has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code.

h. Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2: Property and Equipment

A summary of property and equipment at September 30, 2018, and 2017, follows:

	2018	2017
Buildings	\$ 14,587,336	\$ 14,587,336
Building components	4,549,628	4,549,628
	19,136,964	19,136,964
Less: Accumulated depreciation	(3,851,449)	(3,135,096)
Property and Equipment, Net	\$ 15,285,515	\$ 16,001,868

The facility provides for depreciation of property and equipment by the straight-line method. Depreciation of property and equipment is \$716,353, and \$740,191 for the years ended September 30, 2018, and 2017, respectively.

Note 3: Long-Term Debt

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

	2018	2017
Qualified Low Income Community Investment promissory note to DVCI CDE VIII, LLC - Loan A at an interest rate of 1.00% dated October 31, 2012. Interest only payable quarterly in arrears December 15, 2012 - October 30, 2019. Beginning on December 15, 2019 - October 30, 2042 payments in arrears of all accrued and unpaid interest plus an amount of principal sufficient to amortize the outstanding principal amount over the remaining term of the note on a level payment basis.	\$ 5,628,800	\$ 5,628,800

NCGH IMPROVEMENT CORPORATION
Notes to Financial Statements

Note 3: Long-Term Debt (Continued)

	2018	2017
Qualified Low Income Community Investment promissory note to DVCI CDE VIII, LLC - Loan B at an interest rate of 1.00% dated October 31, 2012. Interest only payable quarterly in arrears December 15, 2012 - October 30, 2019. Beginning on December 15, 2019 - October 30, 2042 payments in arrears of all accrued and unpaid interest plus an amount of principal sufficient to amortize the outstanding principal amount over the remaining term of the note on a level payment basis.	2,131,200	2,131,200
Qualified Low Income Community Investment promissory note to SECDE Sub-IV, LLC - Loan A at an interest rate of 1.00% dated October 31, 2012. Interest only payable quarterly in arrears December 15, 2012 - October 30, 2019. Beginning on December 15, 2019 - October 30, 2042 payments in arrears of all accrued and unpaid interest plus an amount of principal sufficient to amortize the outstanding principal amount over the remaining term of the note on a level payment basis.	9,675,035	9,675,035
Qualified Low Income Community Investment promissory note to SECDE Sub-IV, LLC - Loan B at an interest rate of 1.00% dated October 31, 2012. Interest only payable quarterly in arrears December 15, 2012 - October 30, 2019. Beginning on December 15, 2019 - October 30, 2042 payments in arrears of all accrued and unpaid interest plus an amount of principal sufficient to amortize the outstanding principal amount over the remaining term of the note on a level payment basis.	3,293,965	3,293,965
Less- Loan Origination Fees	<u>(181,524)</u>	<u>(337,116)</u>
	<u>\$ 20,547,476</u>	<u>\$ 20,391,884</u>

Included in long term debt on the Statements of Financial Position is the unamortized portion of loan origination fees, which is being amortized over seven years. The amortization expense associated with the loan origination fees for the years ended September 30, 2018, and 2017, was \$155,592, and \$155,592, respectively.

Scheduled principal and interest repayments on long-term debt are as follows:

	Principal	Interest
Year Ending September 30:		
2019	-	207,463
2020	805,645	204,445
2021	813,739	196,352
2022	821,913	188,177
2023	830,170	179,920
Thereafter	17,457,533	1,734,187
Less Loan Origination Fees	(181,524)	-
Total	\$ 20,547,476	\$ 2,710,544

NCGH IMPROVEMENT CORPORATION
Notes to Financial Statements

Note 4: Leasing Arrangement

NCGH Improvement Corporation "Lessor" entered into a lease agreement with Neshoba County General Hospital and Neshoba County Nursing Home "Lessee" on October 31, 2012 "the Commencement Date". The intent of the Lessor and Lessee is that the Lessor shall provide and lease to the Lessee the land and hospital facility which consist of a two-story building of approximately 52,000 square feet. The term of this agreement began on the Commencement Date and shall continue for a period of twenty years. The Lessee may renew the lease for two renewal terms with each renewal term being five years.

Future minimum pending rental payments to be received are as follows:

Year Ending September 30:	
2019	\$ 1,200,000
2020	1,200,000
2021	1,200,000
2022	1,200,000
2023	1,200,000

Note 5: Cash and Other Deposits

a. Custodial Credit Risk – Deposits – NCGH Improvement Corporation maintains cash accounts with two financial institutions. These balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 at each financial institution; therefore at September 30, 2018, and 2017, NCGH Improvement Corporation had \$610,754 and \$522,011, respectively, in cash balances which were uninsured. Management does not consider this to be a significant risk.

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

c. Credit Risk – The facility does not have a formal investment policy that would further limit its investment choices or one that addresses credit risk.

Note 6: New Markets Tax Credit

In 2012, NCGH Improvement Corporation obtained financing through the New Markets Tax Credit (NMTC) program. The proceeds of \$20,729,000 were used for the development and construction of a new hospital building at Neshoba County General Hospital and Neshoba County Nursing Home.

The Ground Lease Agreement dated October 31, 2012, states that Neshoba County, Mississippi and Neshoba County General Hospital and Neshoba County Nursing Home (collectively referred to as the Lessor) leased the land and the hospital facility to NCGH Improvement Corporation (the Lessee). The Ground Lease provided that NCGH Improvement Corporation complete the construction of the hospital facility under terms and conditions agreed to by the Lessor and Lessee. Neshoba County General Hospital and Neshoba County Nursing Home has leased-back the completed facility under the terms of an Operating Lease Agreement dated October 31, 2012.

NCGH Improvement Corporation and Neshoba County General Hospital and Neshoba County Nursing Home agreed that no action shall be taken by any party without the written consent of all parties that would in any way jeopardize or threaten the validity of the NMTC during the seven year compliance period, which ends October 2019.

NCGH IMPROVEMENT CORPORATION
Notes to Financial Statements

Note 7: Income Taxes

Income taxes are not provided for in the financial statements since the facility is exempt from federal and state income taxes under 501(c)(3) of the Internal Revenue Code and similar state provisions. The facility is not classified as a private foundation. The facility files its Form 990 annually with the Internal Revenue Service. The facility believes it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The facility's Form 990's are subject to examination by the Internal Revenue Service generally for three years after they were filed.

Note 8: Subsequent Events Review

Events that occur after the Statement of Financial Position date but before the 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 Statement of Financial Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Financial Position date require disclosure in the accompanying notes. Management evaluated the activity of NCGH Improvement Corporation through, April 19, 2019 (the date the financial statements were available to be issued), and determined that there were no subsequent events with the exception of the subsequent event disclosed in the following paragraph requiring disclosure in the notes to the financial statements.

The New Market Tax Credit transaction was economically structured so that the tax equity investors could exit the tax equity transaction after the end of the compliance period (approximately 7 years after the signed agreement, the "Compliance Period"). While the exit was structured through various potential assignment, call, and put option features, it is Neshoba County General Hospital and Neshoba County Nursing Home's (NCGH & NCNH) intent to eventually become the ultimate long term owner of the notes to NCGH Improvement Corporation after the end of the Compliance Period. Following the exit of the investors and Community Development Entities, NCGH & NCNH intends to cancel the debt in exchange for an assignment of the Ground Lease and any remaining senior debt to NCGH & NCNH. This will leave NCGH Improvement Corporation without any assets or liabilities and the ability for board members to timely dissolve the entity. The anticipated date of this transaction is October 2019.