

**DELTA REGIONAL MEDICAL CENTER**  
(A Component Unit of  
Washington County, Mississippi)

**Audited Financial Statements**  
Year Ended September 30, 2015



**H O R N E**

CPAs & Business Advisors

**DELTA REGIONAL MEDICAL CENTER**

Greenville, Mississippi

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Delta Regional Medical Center  
Greenville, Mississippi

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Delta Regional Medical Center (the "Medical Center"), a component unit of Washington County, Mississippi, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 auditor's 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 auditor considers 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, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Medical Center, as of September 30, 2015, and the respective changes in financial position and, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

During the year ended September 30, 2015, the Medical Center adopted Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As a result of implementation of these standards, the Medical Center restated its net position as of October 1, 2014 to record the net pension liability and the related deferred inflows and outflows of resources. The accompanying financial statements are presented as a single year presentation due to the information not being available to restate prior periods for the adoption of these standards (See Note 15). Our opinion is not modified with respect to these matters.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 and the pension information on pages 35 through 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

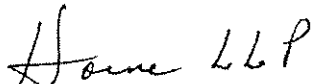
### *Other Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Surety Bonds for Officers and Employees on page 39 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

### *Other Reporting Required by Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2015 on our consideration of the Medical Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants 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 of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.



Ridgeland, Mississippi  
December 14, 2015

**DELTA REGIONAL MEDICAL CENTER**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended September 30, 2015

Our discussion and analysis of Delta Regional Medical Center's (the "Medical Center") financial performance provides an overview of the Medical Center's financial activities for the fiscal year ended September 30, 2015. Please read it in conjunction with the financial statements. Unless otherwise indicated, amounts included in management's discussion and analysis are in thousands of dollars.

Using This Annual Report

The Medical Center's main financial statements include the statement of net position, statement of revenues and expenses, changes in net position and the statement of cash flows. These financial statements provide an indication of the Medical Center's financial health.

**Financial Statement Comparison**

The statement of net position include all of the Medical Center's assets and liabilities, using the accrual basis of accounting, as well as an indication about which assets can be utilized for general purposes and which are restricted as a result of bond covenants or other purposes. The statement of revenues, expenses and changes in net position reports all of the revenues, expenses and changes in net position during the time periods indicated. The statement of cash flows reports the cash provided and used by operating activities, as well as other cash sources such as investment income and cash uses such as repayment of bonds and capital expenditures. The statement of net position reflects the current actual financial position of the Medical Center as of the audited date, September 30, 2015. The makeup, changes thereto and general comments regarding how the changes occurred will be discussed later.

The Medical Center's statement of net position indicates a strong financial position. The statement of revenue, expenses and changes in net position reflects the actual operations that occurred during the twelve months of the fiscal years presented. Revenues measure and represent the volume and types of services provided to the Medical Center's customers, which are the patients we serve. The statement also reflects the costs of providing those services, which are enumerated by the various categories and types of expenses incurred. This statement further reveals how the Medical Center was able to manage its business to either provide the services at a profit or loss. The current year statement shows a positive margin.

During the fiscal year ended September 30, 2015, the Medical Center adopted Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made After the Measurement Date*. These statements require employers providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability and to more comprehensively and comparably measure the annual costs of pension benefits. The adoption of these statements resulted in an \$8,361,569 decrease of beginning net position as of October 1, 2014 for the change in accounting principle (see Note 15).

These financial statements taken as a whole accurately and adequately present the position and financial standing of the Medical Center. Management believes these statements will reflect to the reader a consistent, stable financial position for the most recent fiscal year compared to the prior year. The 2014 financial information presented below for comparative purposes does not reflect the adoption of GASB 68. Due to certain information prior to the measurement date of September 30, 2014, not being available to the Medical Center's actuary, the Medical Center was not able to restate fiscal year 2014 financial information presented below.

**DELTA REGIONAL MEDICAL CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended September 30, 2015**

**Restatement of October 1, 2014 Statement of Net Position Balance**

As more fully described on page 35, the Medical Center adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, an Amendment of GASB Statement No. 27 ("GASB No. 68") as of October 1, 2014, and, as required, adjusted net position as of October 1, 2014 and restated the basic statement of net position as of October 1, 2014. The cumulative effect of the implementation of GASB 68 resulted in a decrease in Net Position of \$8,361,569.

**CONDENSED FINANCIAL INFORMATION**

A summary of the Medical Center's statements of net position for September 30, 2015 and 2014 is presented in the following table:

**Condensed Statements of Net Position (000s)**

	Fiscal Year 2015	Fiscal Year 2014
Current and other assets	\$ 75,517	\$ 64,530
Capital assets	39,536	41,796
Total assets	115,053	106,326
Deferred outflows of resources from pension	463	-
Net pension liability	9,005	-
Long-term debt outstanding, excluding current portion	30,929	32,041
Other liabilities	16,980	12,822
Total liabilities	56,914	44,863
Deferred inflows of resources from pension	56	-
Investment in capital assets, net of related debt	7,609	8,808
Restricted	8,392	7,903
Unrestricted	42,545	44,752
Total net position	\$ 58,546	\$ 61,463

**DELTA REGIONAL MEDICAL CENTER**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended September 30, 2015

**Total Assets**

Fiscal Year Ended September 30, 2015

Total assets consist of current assets, other assets and capital assets. Total assets increased by \$8,727 compared to prior year. Current and other assets increased by \$10,987 and capital assets decreased by \$2,260. Current and other assets consist of current assets, noncurrent assets and other noncurrent assets, while capital assets consists of capital purchases less applicable accumulated depreciation. The most significant issues impacting the total current assets were an increase in cash and a decrease in prepaid expenses of \$5,787 and \$855,800, respectively. The most significant issue impacting total noncurrent assets was a decrease in an investment in a multi-provider liability insurance company.

**Total Liabilities**

Fiscal Year Ended September 30, 2015

Total liabilities consist of long-term debt and other liabilities. Total liabilities increased by \$12,051 compared to prior year. The most significant issue impacting the increase to total liabilities was recognition of a \$9,005 net pension liability as a result of the adoption of GASB No. 68. Long-term debt decreased by \$1,112 compared to previous year and other liabilities increased by \$4,158 compared to previous year. The majority of the long-term debt is associated with the purchase of King Daughter's Hospital in 2007. The reductions in long-term debts are associated with fiscal year 2015 payments made against the debt. Other liabilities increases were associated with an increase in estimated payables to third-party payors and accrued salaries.

**Net Position**

Fiscal Year Ended September 30, 2015

Total net position decreased during this fiscal year by \$2,917. The increase in net position reflected on the statement of revenues, expenses and changes in net position accounted for \$5,444 of increase in net position. The most significant issue impacting the net position was caused by the restatement of beginning net position as a result of adoption of GASB No. 68. Recognition of GASB No. 68 resulted in a decrease in net position of \$8,361.

**GASB No. 68, Accounting and Financial Reporting for Pensions**

In June 2012, the GASB issued GASB Statement No. 68, Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27. GASB No. 68 results from comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. GASB No. 68 replaces the requirement of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB Statement No. 50, *Pension Disclosures*, as they related to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. GASB No. 68 identifies the methods and assumptions that



**DELTA REGIONAL MEDICAL CENTER**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended September 30, 2015

should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosures and required supplementary information requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined benefit plans.

GASB No. 68 was effective for fiscal years beginning after June 15, 2014, with earlier application encouraged. The Hospital adopted GASB No. 68 as of October 1, 2014 and, as required, adjusted net position and restated the statement of net position as of October 1, 2014. The impact of adopting GASB No. 68 resulted in a decrease in net position of \$8,361,569 and increase in liabilities of 9,005,450.

The following table presents a summary of the Medical Center's revenues, expenses and changes in net position for the fiscal years ended September 30, 2015 and 2014:

**Condensed Statements of Revenues, Expenses and Changes in Net Position (000s)**

	Fiscal Year 2015	Fiscal Year 2014
Net patient service revenue, net of provision for bad debts	\$ 123,446	\$ 119,854
Other operating revenue excluding interest income	2,666	3,452
Total operating revenue	126,112	123,306
Salaries, wages and employee benefits	63,280	63,871
Professional fees, supplies, maintenance and utilities	50,778	49,992
Total operating expenses before depreciation/amortization/impairment	114,058	113,863
Earnings before interest Depreciation, amortization and impairment ("EBIDA")	12,054	9,443
Depreciation and amortization	4,266	4,689
Impairment loss	1,663	1,758
Income from operations	6,125	2,996
Nonoperating revenues (expenses)		
Investment and grant income	826	740
Interest expense	(1,507)	(1,531)
Total nonoperating expenses	(681)	(791)
Increase in net position	\$ 5,444	\$ 2,205

**DELTA REGIONAL MEDICAL CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended September 30, 2015**

**Patient Service Revenue**

Fiscal Year Ended September 30, 2015

As a hospital, the gross revenues generated by the Medical Center come from the provision of services to patients both on an inpatient and outpatient basis. The two primary components are nursing revenues and other professional service revenues. Total gross revenues increased during this fiscal year by \$10,560 or 3.2 percent. This increase was associated with an increase in outpatient volume. Outpatient gross revenue increased by \$12,062 or 6.3 percent compared to previous year and inpatient gross revenue decreased by \$1,502 or 1.1 percent as compared to previous year. Charity care is recorded as a reduction in gross revenue and charity care write offs were \$3,867.

Patient service revenues are generated with various outside payors who hold insurance plans for patients of the Medical Center. The discussion of these payors is contained in Note 7 to the financial statements. Under these arrangements, the Medical Center bills the outside payors on behalf of the patient and accepts assignment of the proceeds from the patient's insurance plan.

**Revenues by Payor**

Fiscal Year Ended September 30, 2015

Note 7 addresses the types of payors with which the Medical Center is involved. Note 10 provides both a breakdown of current outstanding accounts receivable due from payors and a summary of the net patient service revenues generated during the year by each of the payors with a percentage of their total revenue.

We have seen a slight increase in Medicaid patients and decrease in self pay and commercial insurance payors from previous year.

The following table represents the relative percentage of net charges billed for patient services by payor for the fiscal years ended September 30, 2015 and 2014.

	Fiscal Year 2015	Fiscal Year 2014
Medicare	46%	45%
Medicaid	25	25
Self-pay and other	29	30
Total gross charges	100%	100%

**DELTA REGIONAL MEDICAL CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended September 30, 2015**

**Net Revenues**

Fiscal Year Ended September 30, 2015

Total operating revenue increased \$2,806 or 2.3 percent. Net patient service revenues increased by \$3,592 or 3.0 percent in the current fiscal year compared to the prior year. This increase is associated with the increase in gross patient revenue. Contractual allowances increased and bad debts decreased as a percent of gross revenue compared to previous year by 3.6 percent and 0.2 percent, respectively. Net Revenue as a percentage of gross revenue was 36.16 percent compared to 35.42 percent in the prior year. There was an increase in DSH/UPL payments received from Medicaid in the amount of \$1,513 from prior year. Also there was a reduction in other operating revenues related to meaningful use dollars associated with the implementation of electronic health records.

**Total Operating Expenses before Depreciation, Amortization and Impairment Losses**

Fiscal Year Ended September 30, 2015

As a patient-centered business, the Medical Center's two highest expense categories are in its personnel and supplies. Total operating expenses before interest, depreciation, amortization and impairment losses increased \$195 or 0.2 percent compared to previous year. Total operating expense before depreciation, amortization and impairment losses as a percent of total operating revenues decreased in the current fiscal year to 90.4 percent as compared to the prior fiscal year of 92.3 percent. Total salaries and benefits as a percentage of total operating revenues decreased in the current fiscal year to 50.2 percent compared to prior fiscal year of 51.7 percent. Salaries and benefits represent \$63,280 and \$63,871 of the Medical Center's total operating expenses for the years ended September 30, 2015 and 2014, respectively. Total supplies and other services as a percentage of total operating revenues decreased in the current fiscal year to 40.3 percent compared to prior fiscal year of 40.5 percent. Total supplies and other services represent \$50,778 and \$49,992 of the Medical Center's total operating expenses for the years ended September 30, 2015 and 2014, respectively.

**Income from Operations**

Fiscal Year Ended September 30, 2015

The Medical Center experienced a profit from operations in the current year in the amount of \$6,125 compared to prior year of \$2,996. The most significant impact was an increase in net patient service revenue.

DELTA REGIONAL MEDICAL CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended September 30, 2015

**Change in Net Position**

Fiscal Year Ended September 30, 2015

The change in net position for the fiscal year was a decrease \$2,917. This represents a decrease of 4.7 percent over the beginning balance in net position. The change in net position of \$2,917 equates to 2.3 percent of total operating revenue of \$126,112.

**Ending Net Position**

Fiscal Year Ended September 30, 2015

Total net position decreased during this fiscal year by \$2,917. The increase in net position reflected on the statement of revenues, expenses and changes in net position accounted for \$5,444 of increase in net position. The most significant issue impacting the net position was caused by the restatement of beginning net position as a result of adoption of GASB No. 68. Recognition of GASB No. 68 resulted in a decrease in net position of \$8,361.

**Operating and Financial Performance**

The fiscal year 2015 Medical Center's statement of revenue, expenses and changes in net position between 2015 and 2014 is summarized below:

- During 2015, the Medical Center had total discharges and total patient days of 7,549 and 38,847, respectively. This is a decrease in discharges of 2.2 percent and decrease in patient days of 1.8 percent, respectively, from 2014.
- During 2015, total surgeries were 5,752. This is a decrease of 1,226 or 17.6 percent from 2014.
- During 2015, total hospital outpatient visits were 145,638. This is an increase of 3,931 or 2.8 percent from 2014.
- During 2015, emergency registrations were 43,767. This is an increase of 9,351 or 27.2 percent from 2014.
- Net patient service revenue increased as stated in the financial highlights from 2015.

**DELTA REGIONAL MEDICAL CENTER**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended September 30, 2015

**ECONOMIC FACTORS AND FISCAL 2015 OPERATIONS**

The financial outlook for the Medical Center is stable. While the annual budget of the Medical Center is not presented within these financial statements, the Medical Center's Board and management considered many factors in developing the fiscal year 2016 budget. Of primary importance in developing the 2016 budget is the status of the economy and the healthcare environment, which takes into account market forces and environmental factors such as:

1. Medicare reimbursement changes.
2. Medicaid reimbursement changes, as well as the continuation at the current level of the Disproportionate Share and Upper Payment Limit programs.
3. Increased number of uninsured and working poor.
4. Ongoing competition for services.
5. Workforce shortages primarily in nursing and other skilled clinical positions. This puts upward pressure on salaries.
6. Increasing cost of supplies, including pharmaceuticals.
7. The status of the local economy and the healthcare environment.
8. Ability to recruit medical staff in the specialty areas needed by the Medical Center in an environment that many physicians see as a state with an adverse business climate.
9. Stability of existing industry and the ability of the community to attract new industry.
10. Stagnant population growth in our service area.
11. Impact of Healthcare Reform as it relates to reimbursement and employee health insurance coverage.

**THE MEDICAL CENTER'S CASH FLOWS**

Changes in the Medical Center's cash flows are consistent with changes in operating income and nonoperating revenues, expenses and changes in net position discussed earlier.

**CONTACTING THE MEDICAL CENTER CHIEF FINANCIAL OFFICER**

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Medical Center's finances. If you have any questions about this report or need additional financial information, please contact the Chief Financial Officer, Delta Regional Medical Center, 1400 East Union Street, Greenville, Mississippi 38704.

**DELTA REGIONAL MEDICAL CENTER**

Statement of Net Position

September 30, 2015

<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 34,254,832
Assets limited as to use	1,878,263
Patient accounts receivable, net of allowance for uncollectible accounts of approximately \$20,649,000	16,744,372
Inventories	2,162,422
Prepaid expenses	58,589
Other current assets	1,060,960
Total current assets	<u>56,159,438</u>
Noncurrent cash and investments	
Restricted cash for debt service	6,513,413
Internally designated by Board for capital improvements	12,357,944
Total noncurrent cash and investments	<u>18,871,357</u>
Capital assets, net	39,535,549
Other noncurrent assets	486,304
Total assets	<u>115,052,648</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources from pension	<u>462,940</u>
<b>LIABILITIES</b>	
Current liabilities	
Current maturities of long-term debt	997,475
Accounts payable, trade and other	2,632,865
Estimated payables, third-party payors	2,808,395
Accrued salaries and wages	7,622,335
Other accrued expenses	2,918,206
Total current liabilities	<u>16,979,276</u>
Net pension liability	9,005,450
Long-term debt, net of current maturities	30,928,928
Total long-term liabilities	<u>39,934,378</u>
Total liabilities	<u>56,913,654</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources from pension	<u>55,759</u>
<b>NET POSITION</b>	
Net investment in capital assets	7,609,146
Restricted	
Debt service and interest	6,513,413
Self-insurance	1,878,263
Unrestricted	42,545,353
Total net position	<u>\$ 58,546,175</u>

See accompanying notes.

**DELTA REGIONAL MEDICAL CENTER**  
**Statement of Revenue, Expenses and Changes in Net Position**  
**Year Ended September 30, 2015**

Net patient service revenue, net of provision for bad debts of \$26,498,703	\$ 123,445,506
Other operating revenue	<u>2,666,191</u>
Total operating revenue	<u>126,111,697</u>
Operating expenses	
Salaries and benefits	63,280,058
Medical supplies and drugs	11,950,535
Other supplies and services	26,337,634
Other operating expenses	14,152,533
Depreciation and amortization	<u>4,265,861</u>
Total operating expenses	<u>119,986,621</u>
Income from operations	<u>6,125,076</u>
Nonoperating revenues (expenses)	
Noncapital grants and contributions	246,750
Investment income	579,211
Interest expense	<u>(1,506,673)</u>
Total nonoperating expenses	<u>(680,712)</u>
Increase in net position	5,444,364
Net position at beginning of year, before restatement	61,463,380
Cumulative effect of change in accounting principle	<u>(8,361,569)</u>
Net position at beginning of year, as restated	<u>53,101,811</u>
Net position at end of year	<u><u>\$ 58,546,175</u></u>

See accompanying notes.

**DELTA REGIONAL MEDICAL CENTER**  
**Statement of Cash Flows**  
**Year Ended September 30, 2015**

<b>Cash flows from operating activities</b>	
Cash received from patients and on behalf of patients	\$ 127,749,533
Payments to suppliers and contractors	(48,838,204)
Cash paid to employees	(61,569,157)
Cash received from others	<u>2,666,191</u>
Net cash provided by operating activities	<u>20,008,363</u>
<b>Cash flows from noncapital financing activities</b>	
Noncapital grants and contributions	<u>246,750</u>
<b>Cash flows from capital and related financing activities</b>	
Acquisition of capital assets	(2,060,906)
Proceeds from sale of capital assets	85,000
Principal paid on long-term debt	(950,290)
Interest paid on long-term debt	<u>(1,616,529)</u>
Net cash used by capital and related financing activities	<u>(4,542,725)</u>
<b>Cash flows from investing activities</b>	
Investment income	562,479
Purchase of investments	<u>(10,471,708)</u>
Net cash used by investing activities	<u>(9,909,229)</u>
Increase in cash and cash equivalents	5,803,159
Cash and cash equivalents, beginning of year	<u>30,329,936</u>
Cash and cash equivalents, end of year	<u><u>\$ 36,133,095</u></u>

See accompanying notes.

See accompanying notes.



Cash flows from operating activities	
Income from operations	\$ 6,125,076
Adjustments to reconcile income from operations to net cash provided by operating activities	
Depreciation and amortization	4,265,861
Loss on impairment of intangibles	1,662,677
Provision for bad debts	26,498,703
Gain on sale of equipment	(5,175)
Changes in operating assets and liabilities	
Patient accounts receivable	(26,260,713)
Estimated third-party payor settlements	4,066,037
Other current and noncurrent assets	1,433,038
Inventories	(166,931)
Accounts payable	(747,079)
Accrued salaries and wages	1,474,201
Prepaid expenses	855,802
Other accrued expenses	570,166
Net pension liability and related accounts	236,700
Net cash provided by operating activities	<u>\$ 20,008,363</u>
Supplemental disclosure of noncash investing activities and financing activities	
Unrealized gain on investments	<u>\$ 16,732</u>
Reconciliation of cash and cash equivalents to the statements of net position	
Cash and cash equivalents	\$ 34,254,832
Assets limited as to use	<u>1,878,263</u>
Total	<u>\$ 36,133,095</u>

DELTA REGIONAL MEDICAL CENTER  
Year Ended September 30, 2015

**NOTES TO FINANCIAL STATEMENTS**

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**Note 1. Nature of Operations, Reporting Entity and Summary of Significant Accounting Policies**

Nature of Operations and Reporting Entity

Delta Regional Medical Center (the "Medical Center") consists of a 358-bed acute-care hospital and related rehabilitation and outpatient care facilities located in Greenville, Mississippi. The Medical Center operates in the form of a government authority governed by a Board of Trustees pursuant to Sections 41-13-15 et. Seq. of Mississippi Code of 1972, as amended, consisting of members from Washington County. Because of the relationship between the Medical Center and Washington County, the Medical Center has been defined as a component unit of the county. The Medical Center is an independent enterprise held and operated separate and apart from all other assets and activities of Washington County. It is not a taxable entity and does not file a tax return.

The Medical Center provides inpatient, outpatient and emergency care services primarily for residents of Washington County and the surrounding area.

Budgetary Information

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

Basis of Accounting

The Medical Center prepares its financial statements as a business-type activity in conformity with the applicable pronouncements of the Governmental Accounting Standards Board ("GASB"). The accompanying financial statements of the Medical Center have been prepared on the accrual basis of accounting using the economic resources measurement focus. In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 makes the GASB Accounting Standards Codification the sole source of authoritative accounting guidance for governmental entities in the United States of America.

Newly Adopted Accounting Standards

During the fiscal year ended September 30, 2015, the Medical Center adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made After the Measurement Date*. These statements require employers providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability, and to more comprehensively and comparably measure the annual costs of pension benefits. The adoption of these statements resulted in the restatement of beginning net position as of October 1, 2014 for the change in accounting principle (see Note 15).

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement provides guidance for financial accounting and reporting of government combinations and disposals of government operations. The adoption of this standard during 2015 did not have a material impact on the Medical Center's financial statements.

DELTA REGIONAL MEDICAL CENTER  
Year Ended September 30, 2015

**NOTES TO FINANCIAL STATEMENTS**

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**Note 1. Continued**

Accounting Pronouncements Issued Not Yet Adopted

*Governmental Accounting Standards Board Statement No. 72 ("GASB 72")*

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement provides guidance for determining fair value measurements for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this statement are effective for financial statements for reporting periods beginning after June 15, 2015. The Medical Center is currently assessing the impact of adopting this accounting standard.

Use of Estimates

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

Significant estimates and assumptions are used for, but not limited to, contractual allowances for revenue adjustments, allowances for revenue adjustments, allowance for doubtful accounts, depreciable lives of assets and economic lives and fair value of leased assets.

The accounting estimates used in the preparation of the financial statements will change as new events occur, as more experience is acquired and as additional information is obtained. Future events and their effects cannot be predicted with certainty; accordingly, the Medical Center's accounting estimates require the exercise of judgment. In particular, laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term.

Cash and Cash Equivalents

Cash and cash equivalents include all cash accounts and highly liquid debt instruments purchased with an original maturity of three months or less. For the statement of cash flows presentation, cash and cash equivalents includes assets limited as to use.

Investments

The Medical Center's investments consist of external investment pools and are carried at fair value. Interest, dividends and gains and losses on investments, both realized and unrealized, are included in nonoperating income when earned.

Patient Receivables

Patient receivables are reported at net realizable value, after deduction of allowances for estimated uncollectible accounts and third-party contractual discounts. The allowance for uncollectible accounts is based on historical losses and an analysis of currently outstanding amounts. This account is generally increased by charges to a provision for uncollectible accounts and decreased by write-offs of accounts determined by management to be uncollectible. The allowances for third-party

DELTA REGIONAL MEDICAL CENTER  
Year Ended September 30, 2015

**NOTES TO FINANCIAL STATEMENTS**

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**Note 1. Continued**

discounts are based on the estimated differences between the Medical Center's established rates and the actual amounts to be received under each contract.

Inventories

Inventories, which consist primarily of medical supplies and drugs, are valued at the lower of cost or market. Cost is determined using the first-in, first-out and average cost methods.

Prepaid Expenses

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

Designated and Restricted Funds

Funds designated by the Board include assets set aside by the Board of Trustees for plant replacement and expansion, over which the Board retains control and may, at its discretion, use for other purposes. Restricted assets include assets held by trustees under indenture agreements and assets set aside for the Medical Center's self-insurance plan.

Capital Assets

Capital asset acquisitions are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation.

All assets, other than land, are depreciated on the straight-line method over the estimated useful life of each class of the depreciable asset. Equipment under capital leases is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

Useful lives for the major asset classes follows:

	Years
Land improvements	5 - 20
Buildings and improvements	5 - 40
Fixed equipment	5 - 25
Major moveable equipment	5 - 20

Management evaluates assets for potential impairment when a significant, unexpected decline in the service utility of a capital asset occurs.

DELTA REGIONAL MEDICAL CENTER  
Year Ended September 30, 2015

**NOTES TO FINANCIAL STATEMENTS**

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**Note 1. Continued**

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until the future period. At September 30, 2015, the Medical Center recognized the net difference between projected and actual earnings pertaining to the Medical Center's defined benefit pension plan (Note 9) that are being amortized over a five-year period, totaling \$462,940 as deferred outflows of resources. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. At September 30, 2015, the Medical Center recognized the difference between expected and actual experience pertaining to the Medical Center's defined benefit pension plan (Note 9) that is being amortized over a 2.44 years, totaling \$55,759 as deferred outflows of resources.

Other Assets

The Medical Center has entered into various agreements with physicians, specifically to benefit the Medical Center's community service area. These agreements include income guarantees and other advances, all of which are generally conditioned upon a service commitment to the community. Amounts paid under income guarantee arrangements are generally expensed as incurred, unless repayment is expected under the terms of the related agreements. Advances under some agreements are forgiven upon fulfillment of the professional's contractual service commitment, but are due in full if such commitment is not fulfilled. Advances under those arrangements are amortized to expense using the straight-line method over the related commitment period. Amounts expected to be amortized in the ensuing fiscal year are classified as a current asset in the accompanying statement of net position.

Cost of Borrowing

Except for capital assets acquired through gifts, contributions or capital grants, interest costs on borrowed funds during the period of construction of capital assets are capitalized as a component of the costs of acquiring assets. There were no interest costs capitalized in 2015.

Compensated Absences

Medical Center employees can accumulate earned time off which is vested with the employee and upon termination is payable under certain circumstances. All vested compensated absences are included in accrued salaries and wages in the accompanying statement of net position.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments

**DELTA REGIONAL MEDICAL CENTER**  
Year Ended September 30, 2015

**NOTES TO FINANCIAL STATEMENTS**

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**Note 1. Continued**

are recognized when due and payable in accordance with the benefit terms. Investments are recorded at fair value.

**Restricted Resources**

When the Medical Center has both restricted and unrestricted resources available to finance a particular program, it is the Medical Center's policy to use restricted resources before unrestricted resources.

**Grants and Contributions**

From time-to-time, the Medical Center receives grants from Washington County and the State of Mississippi 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 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, expenses and changes in net position.

**Net Position**

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

**Patient Service Revenue**

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Patient service revenue is reported at estimated net realizable amounts from patients, third-party payors and others for services rendered, and includes estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are considered in the recognition and accrual of revenue on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The primary third-party programs include Medicare and Medicaid, which account for a significant amount of the Medical Center's revenue. The laws and regulations under which Medicare and Medicaid programs operate are complex and subject to interpretation and frequent changes. As part of operating under these programs, there is a possibility that government authorities may review the Medical Center's compliance with these laws and regulations. Such reviews may result in adjustments to program reimbursement previously received and subject the Medical Center to fines

DELTA REGIONAL MEDICAL CENTER  
Year Ended September 30, 2015

**NOTES TO FINANCIAL STATEMENTS**

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**Note 1. Continued**

and penalties. Although no assurance can be given, management believes it has substantially complied with the requirements of these programs.

Charity Care

The Medical Center provides medical care without charge or at a reduced charge to patients who meet certain criteria under its charity care policy. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, these charges are not reported as patient service revenue.

Operating Revenue and Expenses

The Medical Center's statement of revenue, expenses and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services, which is the Medical Center's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, as well as investment income are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments beginning in 2011 for eligible hospitals and professionals that adopt and meaningfully use certified electronic health record ("EHR") technology. The Medical Center must also attest to certain criteria in order to qualify to receive the incentive payments. The amount of the incentive payments are calculated using predetermined formulas based on available information, primarily related to discharges and patient days. The Medical Center recognizes revenues related to Medicare incentive payments ratably over each EHR reporting period (October 1 to September 30) when it has demonstrated meaningful use requirements of certified EHR technology for the EHR reporting period. The Medical Center recognizes Medicaid incentive payments in the period that it qualifies for the funds based on the provisions of the State of Mississippi Division of Medicaid.

The Medical Center recognized \$967,321 and \$-0- of revenues related to the Medicare and Medicaid incentive programs, respectively, for the year ended September 30, 2015. These revenues are reflected in other operating revenues on the accompanying statement of revenue, expenses and changes in net position. Future incentive payments could vary due to certain factors such as availability of federal funding for both Medicare and Medicaid incentive payments and the Medical Center's ability to implement and demonstrate meaningful use of certified EHR technology.

The Medical Center has and will continue to incur both capital costs and operating expenses in order to implement certified EHR technology and meet meaningful use requirements in the future. These expenses are ongoing and are projected to continue over all stages of implementation of meaningful use. The timing of recognizing the expenses may not correlate with the receipt of the incentive payments and the recognition of revenues. There can be no assurance that the Medical Center will continue to be able to demonstrate meaningful use of certified EHR technology in the future, and the failure to do so could have a material, adverse effect on the results of operations. As a part of operating this program, there is a possibility that government authorities may make adjustments to amounts previously recorded by the Medical Center. The Medical Center's attestation of

**DELTA REGIONAL MEDICAL CENTER**  
Year Ended September 30, 2015

**NOTES TO FINANCIAL STATEMENTS**

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**Note 1. Continued**

demonstrating meaningful use is also subject to review by the appropriate government authorities. The amount of revenue recognized is based on management's best estimate, which is subject to change. Such changes will be reflected in the period in which the changes occur.

Estimated Malpractice Costs

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The provision is included in other accrued expenses on the accompanying statement of net position.

**Note 2. Deposits and Investments**

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Medical Center's deposits might not be recovered. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the Medical Center'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 Depository Insurance Corporation ("FDIC"). All deposits with financial institutions must be collateralized in an amount equal to 105 percent of uninsured deposits and are therefore fully insured. The collateralized and insured bank balance was \$46,390,705 at September 30, 2015.

The Medical Center also has cash deposits held by a trustee. The use of these funds is restricted for debt service and capital improvements. The carrying value of these deposits was \$6,513,413 at September 30, 2015. As of September 30, 2015, \$6,263,413 of the Medical Center's debt service fund balances were exposed to custodial credit risk.

Investments

The statutes of the State of Mississippi restrict the authorized investments of the Medical Center to obligations of the U. S. Treasury, agencies and instrumentalities of the United States and certain other types of investments. The Medical Center does not have a formal investment policy that further limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. The Medical Center's noncurrent investments consisted of the following external investment pool fund and certificate of deposit at September 30, 2015:

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Mississippi Hospital Association – Intermediate Duration Trust	<u>\$ 2,357,944</u>
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The external investment pool does not have a credit rating on the overall pool and it is not insured.



**DELTA REGIONAL MEDICAL CENTER**  
Year Ended September 30, 2015

**NOTES TO FINANCIAL STATEMENTS**

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**Note 2. Continued**

The carrying amounts of deposits and investments shown above are included in the Medical Center's statement of financial position as follows at September 30, 2015:

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Cash and cash equivalents	\$ 34,254,832
Assets limited as to use	1,878,263
Noncurrent cash and investments, internally designated	12,357,944
Noncurrent cash and investments restricted for debt service	<u>6,513,413</u>
 Total	 <u><u>\$ 55,004,452</u></u>

**Note 3. Capital Assets**

Major classes of capital assets at September 30, 2015 are summarized as follows:

---

Land	\$ 3,531,832
Land under capital lease obligation	1,145,500
Land improvements	860,754
Building	42,457,743
Fixed equipment	19,355,266
Equipment	<u>55,221,004</u>
 Capital assets, at cost	 122,572,099
 Less accumulated depreciation and amortization	 83,244,907
Construction in progress	<u>208,357</u>
 Capital assets, net	 <u><u>\$ 39,535,549</u></u>

Depreciation and amortization of capital assets for the year ended September 30, 2015 totaled \$4,241,620.

Construction in progress as of September 30, 2015 consists primarily of expenditures associated with various renovation projects throughout the Medical Center.

**DELTA REGIONAL MEDICAL CENTER**  
Year Ended September 30, 2015

**NOTES TO FINANCIAL STATEMENTS**

**Note 3. Continued**

Capital asset additions, retirements and balances for the year ended September 30, 2015 were as follows:

	Balance September 30, 2014	Increases	Decreases	Balance September 30, 2015
Capital assets not being depreciated				
Land	\$ 3,531,832	\$ -	\$ -	\$ 3,531,832
Land under capital lease obligation	1,145,500	-	-	1,145,500
Construction in progress	8,847,825	138,361	(8,777,829)	208,357
Total capital assets not being depreciated	13,525,157	138,361	(8,777,829)	4,885,689
Capital assets being depreciated				
Land improvements	860,754	-	-	860,754
Buildings	42,568,555	43,688	(154,500)	42,457,743
Fixed equipment	12,077,437	7,277,829	-	19,355,266
Equipment	51,842,147	3,378,857	-	55,221,004
Total capital assets being depreciated	107,348,893	10,700,374	(154,500)	117,894,767
Less accumulated depreciation for				
Land improvements	(666,201)	(25,412)	-	(691,613)
Buildings	(23,259,551)	(1,629,977)	74,675	(24,814,853)
Fixed equipment	(10,398,364)	(293,473)	-	(10,691,837)
Equipment	(44,753,846)	(2,292,758)	-	(47,046,604)
Total accumulated depreciation	(79,077,962)	(4,241,620)	74,675	(83,244,907)
Capital assets being depreciated net	28,270,931	6,458,754	(79,825)	34,649,860
Capital assets, net	\$ 41,796,088	\$ 6,597,115	\$(8,857,654)	\$ 39,535,549

**Note 4. Other Assets**

The composition of other assets at September 30, 2015 consisted of the following:

Prepaid mortgage insurance premiums	\$ 268,226
Advances under agreements with healthcare professionals, net	218,078
Total noncurrent other assets	<u>\$ 486,304</u>

**DELTA REGIONAL MEDICAL CENTER**  
Year Ended September 30, 2015

**NOTES TO FINANCIAL STATEMENTS**

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**Note 4. Continued**

During 2015, conditions arose that caused the Medical Center to evaluate the carrying value of the intangibles associated with the purchase of King's Daughter's Hospital. The Medical Center determined carrying value exceeded the fair value. Management recognized an impairment loss of \$1,662,677 during fiscal year 2015. The loss is reflected in other operating expenses on the accompanying statement of revenue, expenses and changes in net position.

The Medical Center has an investment in a multi-provider liability insurance company. The Medical Center's ownership in the company is not significant; however, the Medical Center has the ability to exercise influence over the company through the Medical Center's membership on the company's Board Nomination Committee and other key committees. Consequently, this investment is accounted for under the equity method. The carrying value of this investment for 2015 approximates \$886,000. During 2010, the Medical Center elected to not participate in the multi-provider liability insurance company. The Medical Center's interest will be returned in installments over future periods in accordance with the operating agreement beginning fiscal year 2014 through fiscal year 2016. The Medical Center is expected to receive \$886,297 during fiscal year 2016 related to its interest. This amount is included in other current assets on the accompanying statement of net position.

**Note 5. Long-Term Debt**

A summary of long-term debt, including capital lease obligations at September 30, 2015 follows:

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Mississippi Hospital Equipment and Facilities Authority, FHA-Insured Mortgage Revenue Bonds, Series 2007, principal maturing in varying annual amounts through 2033, with semi-annual interest payments based on variable rates ranging from 4.7 percent to 6.25 percent	\$ 29,660,000
Capital lease obligation, at imputed interest of 7 percent, with payments due through July 30, 2030, collateralized by leased land	<u>1,031,402</u>
	30,691,402
Less current maturities of long-term debt	(997,475)
Plus unamortized bond premium	<u>1,235,001</u>
Long-term debt, excluding current maturities	<u>\$ 30,928,928</u>

**DELTA REGIONAL MEDICAL CENTER**  
Year Ended September 30, 2015

**NOTES TO FINANCIAL STATEMENTS**

**Note 5. Continued**

In February 2007, Mississippi Hospital Equipment and Facilities Authority issued \$35,725,000 of tax-exempt Series 2007 FHA-Insured Mortgage Revenue Bonds. The bonds mature in various amounts through 2033 and bear interest based on a variable interest rate. A portion of the bond proceeds were used to refinance a \$21,000,000 short-term, commercial bank loan and to make certain capital improvements to the Medical Center, including renovating, upgrading and equipping the Medical Center's existing facility.

The 2007 bond agreement placed limits on the incurrence of additional borrowings and required that certain measures of financial performance be met as long as the borrowings are outstanding. The Medical Center was in compliance with these covenants for the year ended September 30, 2015.

Upon maturity of the capital lease obligation for leased land, the ownership of the land is transferred to the Medical Center.

Scheduled interest and principal payments of long-term debt and payments on capital lease obligations at September 30, 2015 are as follows:

Year Ending September 30,	Long-Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2016	\$ 965,000	\$ 1,485,788	\$ 32,475	\$ 71,342
2017	1,015,000	1,436,913	34,823	68,995
2018	1,065,000	1,385,537	37,339	66,478
2019	1,125,000	1,331,537	40,038	63,779
2020	1,180,000	1,274,538	44,668	60,881
2021 - 2025	6,915,000	5,390,531	330,513	242,385
2026 - 2030	8,965,000	3,387,731	511,546	93,414
2031 - 2033	8,430,000	865,500	-	-
	<u>\$ 29,660,000</u>	<u>\$ 16,558,075</u>	<u>\$ 1,031,402</u>	<u>\$ 667,274</u>

A schedule of changes in the Medical Center's noncurrent liabilities for 2015 follows:

	Balance September 30, 2014	Additions	Retirements	Balance September 30, 2015	Due Within One Year
Bonds payable					
FHA-insured Revenue					
Bond, Series 2007	\$ 30,585,000	\$ -	\$ (925,000)	\$ 29,660,000	\$ 965,000
Capital lease obligations	1,056,692	-	(25,290)	1,031,402	32,475
Total noncurrent liabilities	<u>\$ 31,641,692</u>	<u>\$ -</u>	<u>\$ (950,290)</u>	<u>\$ 30,691,402</u>	<u>\$ 997,475</u>

DELTA REGIONAL MEDICAL CENTER  
Year Ended September 30, 2015

**NOTES TO FINANCIAL STATEMENTS**

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**Note 6. Net Position**

Net investment in capital assets was as follows at September 30, 2015:

Capital assets	\$ 122,780,456
Less accumulated depreciation	(83,244,907)
Less debt outstanding related to capital assets, net	<u>(31,926,403)</u>
Net position invested in capital assets, net of related debt	<u>\$ 7,609,146</u>

**Note 7. Net Patient Service Revenue**

The Medical Center has agreements with governmental and other third-party payors that provide for payments to the Medical Center for services rendered at amounts different from its established rates. Patient revenue is reported net of contractual adjustments arising from these third-party arrangements, as well as net of provisions for uncollectible accounts. A summary of the payment arrangements with major third-party payors follows:

Medicare

Inpatient acute, rehabilitation and outpatient services rendered to Medicare beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, outcome and other factors.

Medicare bad debts and disproportionate share payments are paid at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare fiscal intermediary.

Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a prospective reimbursement methodology. The Medical Center is reimbursed at a prospective rate which is adjusted annually based on published market basket update (inpatient) or adjusted cost to charge ratios per annual cost reports (outpatient) as submitted by the Medical Center and settled by the Medicaid fiscal intermediary. Beginning September 1, 2012, the Medicaid program changed to an APC system for outpatient payments and beginning October 1, 2012, an APR-DRG system for inpatient payments.

The Medical Center participates in the Mississippi Intergovernmental Transfer Program as a Medicaid Disproportionate Share Hospital ("DSH") and in the Medicare Upper Payment Limit Program ("UPL"). Under these programs, the Medical Center receives enhanced reimbursement through a matching mechanism. For the fiscal year ended September 30, 2015, the Medical Center received approximately \$11,484,000 from the UPL program. DSH and UPL amounts are shown as a reduction of contractual adjustments with the related tax assessment of \$5,724,000 recorded in operating expenses for the year ended September 30, 2015.

**DELTA REGIONAL MEDICAL CENTER**  
Year Ended September 30, 2015

**NOTES TO FINANCIAL STATEMENTS**

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**Note 7. Continued**

Beginning with the state fiscal year 2016, July 1, 2015, UPL payments were phased out and the DOM implemented the Mississippi Hospital Access Payment ("MHAP") program (the "MHAP Program") in its place. The MHAP Program will be administered by the DOM through the Mississippi CAN coordinated care organizations ("CCO"). The CCO's will subcontract with the hospitals throughout the state for distribution of the MHAP for the purpose of protecting patient access to hospital care. The MHAP Program is scheduled to begin December 1, 2015 and the MHAP payments and associated tax will be distributed and collected in seven equal installments during the months of December 2015 through June 2016. The MHAP Program, however, is currently pending CMS approval and therefore subject to significant modifications. The Medical Center has not accrued any amounts related to the MHAP payments, net of tax, at September 30, 2015, based on information most readily and reasonably available to management.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2015 revenue increased approximately \$1,450,000 due to retroactive adjustments in excess of amounts previously estimated. As of September 30, 2015, cost reports for fiscal years 2012 and prior have been settled.

Other

The Medical Center has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates and discounts from established charges and prospectively determined per diem rates.

The following is a summary of gross and net patient service revenue for the year ended September 30, 2015:

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Gross patient service revenue	\$ 341,348,281
Less provisions for	
Contractual adjustments under third-party	
reimbursement programs and other deductions	191,404,072
Provision for bad debts	<u>26,498,703</u>
Net patient service revenue	<u><u>\$ 123,445,506</u></u>

**Note 8. Charity Care**

The amount of charges foregone for services and supplies furnished under the Medical Center's charity care policy aggregated approximately \$3,867,000 for the year ended September 30, 2015.

DELTA REGIONAL MEDICAL CENTER  
Year Ended September 30, 2015

NOTES TO FINANCIAL STATEMENTS

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**Note 9. Defined Benefit Pension Plan**

The Medical Center pension plan (the "Plan") has a single-employer noncontributory defined benefit pension plan covering all covered employees as defined by the Plan. The Medical Center elected to freeze the Plan to new entrants as of June 30, 2009. Information about the Plan follows:

Plan Description

The Plan is a single-employer noncontributory defined benefit retirement pension plan, administered by the Director of the Medical Center's Department of Human Resources. The Plan provides retirement, disability and death benefits to Plan members and beneficiaries. Benefit provisions are established by the Hospital's Board of Trustees. The Plan issues a financial report, available for all participants, that includes financial statements and required supplementary information. That information may be obtained by writing to Chief Financial Officer, Delta Regional Medical Center, 1400 East Union Street, Greenville, Mississippi 38704.

Benefits Provided

For the Plan participating members who are vested and retire at or after age 65 or those who retire at age 55 with at least 5 years of creditable service are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 1.10 percent of their average monthly earnings. Average compensation is the average of the employee's earnings for the highest 60 consecutive calendar months preceding retirement or termination, limited as required by internal revenue code section 401(a)(17). A member may elect a reduced retirement benefit at age 55 with at least 5 years of consecutive service. Benefits vest upon completion of 5 years of continuous service. The Plan also provides certain death and disability benefits.

Prior to the adoption of the Provisions of GASB Statement No. 68 in 2015, contributions to the pension plans were actuarially determined and approximated annual pension expense.

Summary of Participant Data

Data as of July 1, 2014:

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Inactive employees or beneficiaries currently receiving benefits	223
Inactive employees entitled to but not yet receiving benefits	489
Active Employees	434
Total	<u>1,146</u>

**DELTA REGIONAL MEDICAL CENTER**  
Year Ended September 30, 2015

**NOTES TO FINANCIAL STATEMENTS**

**Note 9. Continued**

Funding Policy

Although a formal funding policy has not been established, the Medical Center contributes amounts necessary to fund the Plan at an actuarially determined rate. The current actuarially required minimum rate is 3.5 percent of annual covered payroll.

Long-term Expected Rate of Return

Asset Class	Index	Target Allocation	Long-term Expected Arithmetic Real Rate of Return
Cash	Citigroup 90-Day T-Bills	5.00%	0.50%
Core Fixed Income	Barclays Aggregate	50.00%	2.20%
Core Bonds	Barclays Gov/Cred	0.00%	1.87%
Short-term Bonds	Citigroup 1-3 Year Gov/Cred	0.00%	1.05%
Intermediate-Term Bonds	Barclays Intermediate Gov/Cred	0.00%	1.62%
Long-term Bonds	Barclays Long Gov/Cred	0.00%	2.99%
Mortgages	Barclays Mortgage	0.00%	2.85%
High Yield Bonds	Barclays High Yield	0.00%	4.49%
Non-US Fixed Income	JPM GBI Global ex-US	0.00%	1.32%
Inflation-Indexed Bonds	ML Index	0.00%	0.96%
Broad US Equities	Wilshire 5000 / Russell 3000	38.00%	6.12%
Large Cap US Equities	S&P 500	0.00%	5.86%
Mid Cap US Equities	Russell Mid Caps	0.00%	6.63%
Small Cap US Equities	Russell 2000	0.00%	7.64%
Developed Foreign Equities	MSCI EAFE	7.00%	6.29%
Emerging Market Funds	MSCI Emerging Markets	0.00%	8.94%
Private Equity	Cambridge Associates	0.00%	9.15%
Hedge Funds / Absolute Return	HFRI Fund of Funds	0.00%	3.37%
Real Estate (Property)	NCREIF/TBI Porperty	0.00%	3.00%
Real Estate (REITS)	FTSE NAREIT Equity REIT	0.00%	5.59%
Commodities	DJ UBS	0.00%	4.57%
Long Credit Bonds	Barclays Long Credit	0.00%	3.74%
Long-term Expected Rate of Return			6.50%



DELTA REGIONAL MEDICAL CENTER  
Year Ended September 30, 2015

**NOTES TO FINANCIAL STATEMENTS**

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**Note 9. Continued**

Discount Rate

The discount rate used to measure the total pension liability was 6.5 percent. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at the current contribution rate and that contributions from the Medical Center will be made at contractually required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to always be sufficient to cover benefit payments and administrative expense. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Actuarial Assumptions

The total pension liability in the September 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Net investment yield	6.50 percent
Inflation	3.0 percent
Salary increases including inflation	5.00 percent

Mortality rates were based on the RP-2000 Mortality Table projected with Scale AA to 2015.

The Plan has not had a formal actuarial experience study performed.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future rate of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Net Pension Liability

The total net pension liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below, and was then projected forward to the measurement date. There have been no significant changes between the valuation date and the fiscal year end. Any significant changes during this period must be reflected as prescribed by GASB 67 and GASB 68.

**DELTA REGIONAL MEDICAL CENTER**  
Year Ended September 30, 2015

**NOTES TO FINANCIAL STATEMENTS**

**Note 9. Continued**

Changes in Net Pension Liability

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
<b>Balance as of June 30, 2014</b>	\$ 23,900,615	\$ 15,598,834	\$ 8,301,781
Changes for the year:			
Service cost	490,706	-	490,706
Interest on total pension liability	1,547,795	-	1,547,795
Effect on plan changes	-	-	-
Effect on economic/demographic gains or losses	(95,165)	-	(95,165)
Effect on assumptions, changes or inputs	-	-	-
Benefit payments	(983,322)	(983,322)	-
Employer contributions	-	838,590	(838,590)
Member contributions	-	-	-
Net investment income	-	429,704	(429,704)
Administrative expenses	-	(28,627)	28,627
<b>Balance as of June 30, 2015</b>	<u>\$ 24,860,629</u>	<u>\$ 15,855,179</u>	<u>\$ 9,005,450</u>

Sensitivity Analysis

The following presents the net pension liability of the Medical Center, calculated using the discount rate of 6.50 percent, as well as what the Medical Center's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.50 percent) or 1 percentage point higher (7.50%) than the current rate.

	1% Decrease 5.50%	Current Discount Rate 6.50%	1% Increase 7.50%
Net pension liability	\$ 11,881,133	\$ 9,005,450	\$ 6,577,051

Pension Expense and Deferred Outflows/Inflows of Resources

For the year ended September 30, 2015, the Medical Center recognized pension expense of \$1,135,078. At September 30, 2015, the Medical Center reported deferred outflows of resources and deferred inflows of resources related to the Plan from the following sources:

	Deferred Pension Outflows of Resources	Deferred Pension Inflows of Resources
Difference between expected and actual experience	\$ (55,759)	\$ -
Net difference between projected and actual earnings on pension plan investments	-	462,940
<b>Total</b>	<u>\$ (55,759)</u>	<u>\$ 462,940</u>

**DELTA REGIONAL MEDICAL CENTER**  
Year Ended September 30, 2015

**NOTES TO FINANCIAL STATEMENTS**

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**Note 9. Continued**

Amounts currently as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2016	\$ 76,329
2017	99,382
2018	115,735
2019	115,735
Total	<u>\$ 407,181</u>

Amortization Period

Investment gains or losses are amortized over 5 years.

Changes in actuarial assumptions and experience gains or losses are amortized over the average working lifetime of all participants, which for the current period is 2.4 years.

**Note 10. Concentration of Credit Risks and Patient Service Revenue**

Accounts Receivable

The Medical Center grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The percentage mix of net accounts receivable from patients and major third-party payors at September 30, 2015 is as follows:

Medicare	32%
Medicaid	18
Commercial	25
Self-pay	25
	<u>100%</u>

Patient Service Revenue

The percentage mix of net patient service revenue for the year ended September 30, 2015 for patient services rendered under contract with major third-party cost reimburses follows:

Medicare	46%
Medicaid	25
Commercial	28
Self-pay	1
	<u>100%</u>

**DELTA REGIONAL MEDICAL CENTER**  
Year Ended September 30, 2015

**NOTES TO FINANCIAL STATEMENTS**

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**Note 11. Operating Leases**

The Medical Center leases various equipment and facilities under operating leases expiring at various dates through 2020. Total rental expense for the year ended September 30, 2015 for all operating leases was approximately \$1,001,000.

The following is a schedule by year of approximate future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year:

Year Ending September 30,	Amount
2016	\$ 968,301
2017	920,228
2018	920,228
2019	920,228
2020	920,228
Total	<u>\$ 4,649,213</u>

**Note 12. Commitments and Contingencies**

The Medical Center is involved in various litigation and potential claims which management believes, based in part upon discussion with counsel, will not have a material adverse effect on the results of operations or the financial position of the Medical Center.

**Note 13. Insurance Programs**

Risk Management

The Medical Center is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial liability insurance coverage is purchased for most of these risks. Settled claims have not exceeded this commercial coverage in any of the 3 preceding years. The Medical Center also carries insurance for medical malpractice claims and judgments, as discussed below.

Self-Funded Health Insurance

The Medical Center provides health insurance coverage to its employees under a self-funded plan. Health claims are paid by the Medical Center as they are incurred and filed by the employee. An estimated liability for claims incurred but not reported or paid is included in other current liabilities and operating expenses in the accompanying financial statements. Commercial insurance is purchased for claims in excess of coverage provided by the Medical Center to limit the Medical Center's liability or losses under its self-insurance program. Settled claims have not exceeded this commercial insurance in either of the past two years.

**DELTA REGIONAL MEDICAL CENTER**  
Year Ended September 30, 2015

**NOTES TO FINANCIAL STATEMENTS**

**Note 13. Continued**

The claims liability at September 30, 2015 is based on the requirements of GASB, which provides that a liability for claims 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 the amount of loss can be reasonably estimated. Changes in the Medical Center's claims liability amount during the past year is reflected below:

Balance, at beginning of year	\$ 509,377
Claims reported and claims incurred but not reported	4,343,118
Claims paid	<u>(4,379,175)</u>
Balance, at end of year	<u>\$ 473,320</u>

Medical Malpractice Program

Effective October 1, 2009, the Medical Center began a self-funded plan for professional and general liability insurance. At year-end, the Medical Center accrues for the estimate of probable losses for malpractice claims outstanding based on the Medical Center's past experience and advice from consulting actuaries. The future assertion of claims for occurrences prior to year-end is reasonably possible and may occur, although not anticipated. In any event, management believes that any such claims would be substantially covered under its insurance program.

The Mississippi Tort Claims Act ("MTCA") provides a cap on the amount of damages recoverable against government entities, including governmental hospitals. The amount recoverable for claims is the greater of \$500,000 or the amount of liability insurance coverage that has been retained. Changes in the Medical Center's medical malpractice liability are as follows:

Medical Malpractice					
	Beginning October 1,	Current Year Changes & Estimates	Current Year Claim Payments	Ended September 30, Liability	
2015	\$ 1,223,717	\$ 540,638	\$ (29,507)	\$ 1,734,848	

Worker's Compensation Coverage

The Medical Center is insured for the risk of loss related to workers' compensation for injuries to its employees. Premiums are based upon payroll and adjusted by an experience modification factor. The Medical Center is audited for workers' compensation assessments based upon a June 30 fiscal year. No additional assessments were made for the year ended June 30, 2015.

DELTA REGIONAL MEDICAL CENTER  
Year Ended September 30, 2015

**NOTES TO FINANCIAL STATEMENTS**

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**Note 14. Risks and Uncertainties**

Current Economic Conditions

The current economic environment continues to present hospitals with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair values of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing.

Additionally, current economic conditions, including the rising unemployment rate, have made it difficult for certain of the Medical Center's patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Medical Center's future operating results. Further, the effect of economic conditions on the state could have an adverse effect on cash flows related to the Medicaid program. The accompanying financial statements have been prepared using values and information currently available to the Medical Center.

**Patient Protection and Affordable Care Reconciliation Act**

On March 23, 2010, the most sweeping health care legislation since the advent of Medicare was signed into law. The law promises to expand insurance coverage to an additional 32 million Americans, reduce the growth of Medicare expenditures, dramatically reform insurance markets, and continue the trend toward value-based payment. The Reconciliation Act adds some new provisions that were not included originally. Several legal challenges have been made against the legislation since it was enacted, and uncertainty exists as to the ultimate impact of the legislation on the healthcare delivery system. On June 28, 2012, The United States Supreme Court upheld the constitutionality of components of the Affordable Care Act, allowing the historic overhaul of the healthcare system to continue. Potential impacts of healthcare reform include uncertainty and volatility in Medicare and Medicaid reimbursement, fundamental changes in payment systems, increased regulation and significant required investments in healthcare information technology.

**Note 15. Change in Accounting Principle**

During the year ended September 30, 2015, the Medical Center adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pension* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Due to certain information prior to the measurement date of September 30, 2014 not being available to the Medical Center's actuary, the Medical Center was not able to restate prior period presented. The following table summarizes the effect of the implementation of GASB Statement No. 68 on the statement of changes in net position as of October 1, 2014:

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Net position October 1, 2014, as previously stated	\$ 61,463,380
Cumulative effect of application of GASB 68	<u>(8,361,569)</u>
Net position October 1, 2014, as restated	<u>\$ 53,101,811</u>

## REQUIRED SUPPLEMENTARY INFORMATION

**DELTA REGIONAL MEDICAL CENTER**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**Year Ended September 30, 2015**

<b>Total Pension Liability</b>	
Service cost	\$ 490,706
Interest on total pension liability	1,547,795
Effect of plan changes	-
Effect of economic/demographic gains or (losses)	(95,165)
Effect of assumption changes or inputs	-
Benefit payments	(983,322)
Net change in total pension liability	960,014
Total pension liability, beginning	23,900,615
Total pension liability, ending (a)	24,860,629
<b>Plan Fiduciary Net Position</b>	
Employer contributions	838,590
Member contributions	-
Investment income net of investment expenses	429,704
Benefit payments	(983,322)
Administrative expenses	(28,627)
Net change in fiduciary net position	256,345
Fiduciary net position, beginning	15,598,834
Fiduciary net position, ending (b)	15,855,179
Net pension liability, ending (a) - (b)	\$ 9,005,450
Fiduciary net position as a percentage of the total pension liability	63.78%
Covered payroll	\$ 22,586,180
Net pension liability as a percentage of covered payroll	39.87%



**DELTA REGIONAL MEDICAL CENTER**  
Schedule of Changes in Net Pension Liability and Related Ratios (Continued)  
Year Ended September 30, 2015

**Summary of Assumptions and Methods**

The following actuarial methods and assumptions were used in the July 1, 2014 funding valuation:

<b>Valuation timing</b>	Actuarially determined contribution rates are calculated as of June 30
<b>Actuarial cost method</b>	Entry age normal
<b>Amortization method</b>	
Level percent or dollar	Level dollar
Closed, open, or layered periods	Closed
Amortization period at July 1, 2014	20 years
Amortization growth rate	5.00%
<b>Asset valuation method</b>	
Smoothing period	3 years
Recognition method	Non-asymptotic
Corridor	80% - 120%
<b>Inflation</b>	3.00%
<b>Salary increases</b>	5.00%
<b>Investment rate of return</b>	7.50%
<b>Cost of living adjustments</b>	None
<b>Retirement age</b>	65
<b>Turnover</b>	Table of rates
<b>Mortality</b>	RP-2000 Mortality for Employees, Health Annuitants, and Disables Annuitants with Generational Projection per Scale AA

**DELTA REGIONAL MEDICAL CENTER**  
Schedule of Employer Contributions (Unaudited)  
September 30, 2015

Fiscal Year Ended June 30,	Actuarially Determine Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a % of Covered Payroll
2006	\$ N/A	\$ N/A	\$ N/A	\$ N/A	N/A
2007	\$ 986,923	\$ 986,923	\$ -	\$ 20,938,044	4.71%
2008	\$ 1,077,494	\$ 1,077,494	\$ -	\$ 23,228,344	4.64%
2009	\$ 1,403,396	\$ 1,403,396	\$ -	\$ 26,112,402	5.37%
2010	\$ 746,189	\$ 746,189	\$ -	\$ 25,730,054	2.90%
2011	\$ 931,812	\$ 931,812	\$ -	\$ 26,593,764	3.50%
2012	\$ 1,082,409	\$ 1,082,409	\$ -	\$ 27,546,026	3.93%
2013	\$ 1,071,487	\$ 1,071,487	\$ -	\$ 25,120,081	4.27%
2014	\$ 944,920	\$ 944,920	\$ -	\$ 23,831,513	3.97%
2015	\$ 939,446	\$ 939,446	\$ -	\$ 22,586,180	4.16%

## SUPPLEMENTARY INFORMATION

**DELTA REGIONAL MEDICAL CENTER**  
**Schedule of Surety Bonds for Officers and Employees**  
**September 30, 2015**

<b>Name</b>	<b>Position</b>	<b>Company</b>	<b>Amount of Bond</b>
Sylvia Jackson	Trustee	The Ohio Casualty Insurance Company	\$ 100,000
Mildred Crockett	Trustee	The Ohio Casualty Insurance Company	100,000
James Hollowell	Trustee	The Ohio Casualty Insurance Company	100,000
Howard Sanders	Trustee	The Ohio Casualty Insurance Company	100,000
Sam Newsom	Trustee	The Ohio Casualty Insurance Company	100,000
Henry Rucker	Trustee	The Ohio Casualty Insurance Company	100,000
Billy Schultz	Trustee	The Ohio Casualty Insurance Company	100,000
Scott Christensen	Chief Executive Officer	The Ohio Casualty Insurance Company	100,000

**INDEPENDENT AUDITOR'S 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  
Delta Regional Medical Center  
Greenville, 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 the business-type activities of Delta Regional Medical Center (the "Medical Center"), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements, and have issued our report thereon dated December 14, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Medical Center's internal control over financial reporting to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center'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 Medical Center'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.

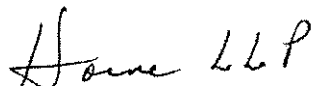
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 the Medical Center's financial statements are free of 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 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 Governmental Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script, appearing to read "Hane LLP", is written in dark ink.

Ridgeland, Mississippi  
December 14, 2015