

**DELTA REGIONAL MEDICAL  
CENTER**

(A Component Unit of Washington County,  
Mississippi)

**Audited Financial Statements**  
Years Ended September 30, 2012 and 2011

**DELTA REGIONAL MEDICAL CENTER**

Greenville, Mississippi

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Delta Regional Medical Center  
Greenville, Mississippi

We have audited the accompanying balance sheets of Delta Regional Medical Center (the "Medical Center"), as of September 30, 2012 and 2011, the related statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

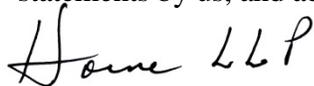
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Medical Center, as of September 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2012 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* and should be read in conjunction with this report in considering the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 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.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information on page 38 is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements by us, and accordingly, we express no opinion on it.

A handwritten signature in cursive script that reads "Home LLP".

Ridgeland, Mississippi  
December 18, 2012

**DELTA REGIONAL MEDICAL CENTER**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Years Ended September 30, 2012 and 2011

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 years ended September 30, 2012 and 2011. 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 balance sheets, statements of revenues and expenses, changes in net assets and the statements of cash flows. These financial statements provide an indication of the Medical Center's financial health.

**Financial Statement Comparison**

The balance sheets 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 statements of revenues and expenses and changes in net assets report all of the revenues, expenses and changes in net assets during the time periods indicated. The statements of cash flows report 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 balance sheets reflect the current actual financial position of the Medical Center as of the audited dates, September 30, 2012 and 2011. The makeup, changes thereto and general comments regarding how the changes occurred will be discussed later.

The Medical Center's balance sheets indicate a strong financial position. The statements of revenue and expenses and changes in net assets reflect 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 statements also reflect the costs of providing those services, which are enumerated by the various categories and types of expenses incurred. These statements further reveal 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.

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.

**DELTA REGIONAL MEDICAL CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Years Ended September 30, 2012 and 2011

**CONDENSED FINANCIAL INFORMATION**

A summary of the Medical Center's balance sheets for September 30, 2012, 2011 and 2010 is presented in the following table:

**Condensed Balance Sheets (000s)**

	<b>Fiscal Year 2012</b>	<b>Fiscal Year 2011</b>	<b>Fiscal Year 2010</b>
Current and other assets	\$ 62,404	\$ 59,195	\$ 59,394
Capital assets	45,601	45,873	45,941
Total assets	<u>\$ 108,005</u>	<u>\$ 105,068</u>	<u>\$ 105,335</u>
Long-term debt outstanding, excluding current portion	\$ 34,121	\$ 35,115	\$ 36,118
Other liabilities	12,951	11,939	11,356
Total liabilities	<u>\$ 47,072</u>	<u>\$ 47,054</u>	<u>\$ 47,474</u>
Investment in capital assets, net of related debt	\$ 10,612	\$ 9,810	\$ 8,704
Restricted	6,561	6,221	5,058
Unrestricted	43,760	41,983	44,099
Total net assets	<u>\$ 60,933</u>	<u>\$ 58,014</u>	<u>\$ 57,861</u>

**Total Assets**

Fiscal Year Ended September 30, 2012

Total assets consist of current assets, other assets and capital assets. Total assets increased by \$2,937 compared to prior year. Current and other assets increased by \$3,209 and capital assets decreased by \$272. 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. Total current assets increased by \$3,292 compared to previous year, total noncurrent cash and investments increased by \$592 compared to previous year and other noncurrent assets decreased by \$675 compared to previous year. The most significant issues impacting the total current assets were increases in cash and accounts receivable of \$1,862 and \$3,792, respectively. The most significant issues impacting total noncurrent assets were an increase in restricted cash for the Mortgage Reserve Funds associated with the HUD loan. The most significant issue impacting other noncurrent asset was the reduction in the deferred issuance cost associated with the FHA HUD Loan and other deferred cost reductions.

**DELTA REGIONAL MEDICAL CENTER**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Years Ended September 30, 2012 and 2011

Fiscal Year Ended September 30, 2011

Total assets consist of current assets, other assets and capital assets. Total assets decreased by \$267 compared to prior year. Current and other assets decreased by \$199 and capital assets decreased by \$68. Current and other assets consist of current assets, cash and investments and other noncurrent assets, while capital assets consists of capital purchases less applicable accumulated depreciation. Total current assets increased by \$28 compared to previous year, total noncurrent assets increased by \$383 and other noncurrent assets decreased by \$610. The most significant issues impacting total noncurrent assets were an increase in restricted cash for the Mortgage Reserve Funds associated with the HUD loan. The most significant issue impacting other noncurrent asset was the reduction in the deferred issuance cost associated with the FHA HUD Loan and other deferred cost reductions.

**Total Liabilities**

Fiscal Year Ended September 30, 2012

Total liabilities consist of long-term debt and other liabilities. Total liabilities increased by \$18 compared to prior year. Long-term debt decreased by \$994 compared to previous year and other liabilities increased by \$1,012 compared to previous year. The majority of the long-term debt is associated with the purchase of King Daughters Hospital in 2007. The reductions in long-term debts are associated with fiscal year 2012 payments made against the debt. Other liabilities increases were associated with an increase in accrued accounts payable and accrued salaries.

Fiscal Year Ended September 30, 2011

Total liabilities consist of long-term debt and other liabilities. Total liabilities decreased by \$420 compared to prior year. Long-term debt decreased by \$1,003 compared to previous year and other liabilities increased by \$583 compared to previous year. The majority of the long-term debt is associated with the purchase of King Daughters Hospital in 2007. The reduction in long-term debts are associated with fiscal year 2011 payments made against the debt. Other liabilities increases were associated with an increase in accrued claims liability for physician liability coverage.

**Net Assets**

Fiscal Year Ended September 30, 2012

Total net assets increased during this fiscal year by \$2,919 which is the increase in net assets reflected on the statement of revenues, expenses and changes in net assets. The most significant issue impacting the net assets was an operating profit from operations that is discussed in greater detail in the statement of revenues, expenses and changes in net assets section of this report.

**DELTA REGIONAL MEDICAL CENTER**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Years Ended September 30, 2012 and 2011

Fiscal Year Ended September 30, 2011

Total net assets increased during this fiscal year by \$153 which is the increase in net assets reflected on the statement of revenues, expenses and changes in net assets. The most significant issue impacting the net assets was an operating profit from operations that is discussed in greater detail in the statement of revenues, expenses and changes in net assets section of this report.

The following table presents a summary of the Medical Center's revenues, expenses and changes in net assets for the fiscal years ended September 30, 2012, 2011 and 2010:

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

	<b>Fiscal Year 2012</b>	<b>Fiscal Year 2011</b>	<b>Fiscal Year 2010</b>
Net patient service revenue, net of provision for bad debts	\$ 122,880	\$ 125,907	\$ 124,286
Other operating revenue excluding interest income	4,871	2,603	1,246
Total operating revenue	<u>127,751</u>	<u>128,510</u>	<u>125,532</u>
Salaries, wages and employee benefits	64,700	71,207	68,896
Professional fees, supplies, maintenance and utilities	54,009	50,929	47,844
Total operating expenses before depreciation/amortization	<u>118,709</u>	<u>122,136</u>	<u>116,740</u>
Earnings before interest depreciation and amortization ("EBIDA")	<u>9,042</u>	<u>6,374</u>	<u>8,792</u>
Depreciation and amortization	<u>5,352</u>	<u>5,614</u>	<u>5,685</u>
Income from operations	<u>3,690</u>	<u>760</u>	<u>3,107</u>
Nonoperating revenues (expenses)			
Investment and grant income	743	961	1,027
Interest expense	<u>(1,514)</u>	<u>(1,568)</u>	<u>(1,685)</u>
Total nonoperating expenses	<u>(771)</u>	<u>(607)</u>	<u>(658)</u>
Increase in net assets	<u>\$ 2,919</u>	<u>\$ 153</u>	<u>\$ 2,449</u>

**DELTA REGIONAL MEDICAL CENTER**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Years Ended September 30, 2012 and 2011

**Patient Service Revenue**

Fiscal Year Ended September 30, 2012

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 decreased during this fiscal year by \$4,942 or 1.44 percent. This decrease was associated with a reduction in professional service revenues related to Anesthesia and Emergency medicine, due to physicians staffing shortages, the Medical Center contracted out the Anesthesia and Emergency providers. Additionally, the Medical Center lost several specialists during the year that resulted in reduction in ancillary gross revenues. While overall volumes increased compared to prior year, the loss of these professional services resulted in an overall reduction in gross revenue. Inpatient gross revenue decreased by \$1,838 or 1.10 percent compared to previous year and outpatient gross revenue decreased by \$3,104 or 1.76 percent as compared to previous year. Charity care is recorded as a reduction in gross revenue and charity care write offs were \$6,080.

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.

Fiscal Year Ended September 30, 2011

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 \$15,624 or 4.76 percent. This increase was associated with a price increase we implemented in fiscal year 2011 and the addition of a neonatal intensive care unit ("NICU"). Inpatient gross revenue increased by \$11,436 or 7.33 percent compared to previous year and outpatient gross revenue increased by \$4,188 or 2.44 percent as compared to previous year. Volumes remained relatively flat compared to previous year. Inpatient admissions declined by 27 or .33 percent, surgeries increased by 81 or 1.14 percent and outpatient registrations decreased by 86 or .07 percent compared to previous year. Charity care is recorded as a reduction in gross revenue and charity care write offs were \$9,500.

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.

**DELTA REGIONAL MEDICAL CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Years Ended September 30, 2012 and 2011

**Revenues by Payor**

Fiscal Year Ended September 30, 2012

Note 7 discusses 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.

Fiscal Year Ended September 30, 2011

Note 7 discusses 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.

The following table represents the relative percentage of net charges billed for patient services by payor for the fiscal years ended September 30, 2012, 2011 and 2010.

	<b>Fiscal Year 2012</b>	<b>Fiscal Year 2011</b>	<b>Fiscal Year 2010</b>
Medicare	47%	44%	46%
Medicaid	22	23	20
Self-pay and other	31	33	34
Total gross charges	100%	100%	100%

**Net Revenues**

Fiscal Year Ended September 30, 2012

Total operating revenue decreased \$759 or .59 percent. Net patient service revenues decreased by \$3,027 or 2.4 percent in the current fiscal year compared to the prior year. This decrease is associated with the reduction in gross charges and increases in contractual allowances and bad debt. Contractual allowances and bad debts presented as a percent of gross revenue increased compared to previous year by .56 percent and .18 percent, respectively. Net Revenue as a percentage of gross revenue was 36.29 percent compared to 36.65 percent in the prior year. Other operating revenues increased by \$2,268 which is related primarily to meaningful use dollars associated with the implementation of electronic health records. In order to qualify for these meaningful use dollars we changed software systems.

**DELTA REGIONAL MEDICAL CENTER**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Years Ended September 30, 2012 and 2011

Fiscal Year Ended September 30, 2011

Total operating revenue increased \$2,978 or 2.37 percent. Net patient service revenues increased by \$1,621 or 1.30 percent in the current fiscal year over the prior year. This increase is associated with a price increase we implemented and the addition of the NICU. Volumes remained relatively flat compared to the previous year. Admissions decreased by 27, surgeries increased by 81 and outpatient registration decreased by 86. Contractual allowances and bad debts presented as a percent of gross revenue increased compared to previous year by .58 percent and 1.28 percent, respectively. Other operating revenue increase by \$1,357 related to Medicaid dollars associated with the implementation of electronic health records.

**Total Operating Expenses before Depreciation and Amortization**

Fiscal Year Ended September 30, 2012

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 and amortization decreased \$3,427 or 2.81 percent compared to previous year. Total operating expense before depreciation and amortization as a percent of total operating revenues decreased in the current fiscal year to 93.0 percent as compared to the prior fiscal year of 95.0 percent. Total salaries and benefits as a percentage of total operating revenues decreased in the current fiscal year to 50.6 percent compared to prior fiscal year of 55.4 percent. Salaries and benefits represent \$64,700 and \$71,207 of the Medical Center's total operating expenses for the years ended September 30, 2012 and 2011, respectively. Total supplies and other services as a percentage of total operating revenues increased in the current fiscal year to 42.2 percent compared to prior fiscal year of 39.4 percent. Total supplies and other services represent \$54,009 and \$50,929 of the Medical Center's total operating expenses for the years ended September 30, 2012 and 2011, respectively. The major issue was an increase in professional services associated with the cost to provide physician coverage in the Emergency department and Anesthesia department due to physician shortages in our area.

Fiscal Year Ended September 30, 2011

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 and amortization increased \$5,396 or 4.62 percent compared to previous year. Total operating expense before depreciation and amortization as a percent of total operating revenues increased in the current fiscal year to 95.0 percent as compared to the prior fiscal year of 93.0 percent. Total salaries and benefits as a percentage of total operating revenues increased in the current fiscal year to 55.4 percent compared to prior fiscal year of 54.9 percent. Salaries and benefits represent \$71,207 and \$68,896 of the Medical Center's total operating expenses for the years ended September 30, 2011 and 2010, respectively.

**DELTA REGIONAL MEDICAL CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Years Ended September 30, 2012 and 2011

Total supplies and other services as a percentage of total operating revenues increased in the current fiscal year to 39.4 percent compared to prior fiscal year of 38.1 percent. Total supplies and other services represent \$50,929 and \$47,844 of the Medical Center's total operating expenses for the years ended September 30, 2011 and 2010, respectively. The major issue impacting these increase cost as compared to previous year was the additional cost of opening the NICU this fiscal year and an increase in acute care services in the critical care units associated with the heart program. The additional salary cost to staff the NICU with specialty staff, such as neonatal trained nurses, nurse practitioners, ancillary staff and a neonatologist increased our salary cost and supply cost as compared to previous year. Additional staffing cost and supply cost increased this year due to increased services available in the heart center resulting in more cost than previous year.

**Income from Operations**

Fiscal Year Ended September 30, 2012

The Medical Center experienced a profit from operations in the current year in the amount of \$3,690 compared to prior year of \$760. The most significant impact was a reduction in overall operating cost in salaries and benefits.

Fiscal Year Ended September 30, 2011

The Medical Center experienced a profit from operations in the current year in the amount of \$760 compared to prior year of \$3,107. The most significant impact was an increase in cost associated with opening of the NICU, an increase in acute services in the critical care units associated with the cardiovascular heart program and volumes declines on the general acute care service lines.

**Change in Net Assets**

Fiscal Year Ended September 30, 2012

The change in net assets for the fiscal year was \$2,919. This represents an increase of 5.0 percent over the beginning balance in net assets. The change in net assets of \$2,919 equates to 2.3 percent of total operating revenue of \$127,751.

Fiscal Year Ended September 30, 2011

The change in net assets for the fiscal year was \$153. This represents an increase of .26 percent over the beginning balance in net assets. The change in net assets of \$153 equates to .12 percent of total operating revenue of \$128,510.

**DELTA REGIONAL MEDICAL CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Years Ended September 30, 2012 and 2011

**Ending Net Assets**

Fiscal Year Ended September 30, 2012

The ending net assets of the Medical Center were \$60,933. As a calculation of the Medical Center's ownership position, this ending net assets value equates to 56.4 percent of total assets of \$108,005.

Fiscal Year Ended September 30, 2011

The ending net assets of the Medical Center were \$58,014. As a calculation of the Medical Center's ownership position, this ending net assets value equates to 55.2 percent of total assets of \$105,068.

**Operating and Financial Performance**

The fiscal year 2012 Medical Center's statements of revenue, expenses and changes in net assets between 2012 and 2011 are summarized below:

- During 2012, the Medical Center had total discharges and total patient days of 8,422 and 44,085, respectively. This is an increase of 4.76 percent and 1.17 percent, respectively, from 2011.
- During 2012, total surgeries were 7,354. This is an increase of 176 or 2.45 percent from 2011.
- During 2012, total hospital outpatient visits were 137,145. This is an increase of 10,820 or 8.57 percent from 2011.
- During 2012, emergency registrations were 38,651. This is an increase of 704 or 1.86 percent from 2011.
- Net patient service revenue decreased as stated in the financial highlights from 2011.

The fiscal year 2011 Medical Center's statements of revenue, expenses and changes in net assets between 2011 and 2010 are summarized below:

- During 2011, the Medical Center had total discharges and total patient days of 8,039 and 43,575, respectively. This is an increase of .46 percent and 1.15 percent, respectively, from 2010.
- During 2011, total surgeries were 7,178. This is an increase of 81 or 1.14 percent from 2010.
- During 2011, total hospital outpatient visits were 126,325. This is a decrease of 86 or .07 percent from 2010.
- During 2011, emergency registrations were 37,947. This is an increase of 1,058 or 2.87 percent from 2010.
- Net patient service revenue increased as stated in the financial highlights from 2010.

**DELTA REGIONAL MEDICAL CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Years Ended September 30, 2012 and 2011

**ECONOMIC FACTORS AND FISCAL 2012 OPERATIONS**

The financial outlook for the Medical Center is good. 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 2013 budget. Of primary importance in developing the 2013 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 assets, 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**

Balance Sheets

September 30, 2012 and 2011

	<b>2012</b>	<b>2011</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 16,147,840	\$ 14,118,719
Assets limited as to use	1,552,011	1,718,733
Patient accounts receivable, net of allowance for uncollectible accounts of approximately \$36,038,000 and \$25,019,000, respectively	22,828,807	19,037,195
Estimated receivables, third-party payors	806,438	2,457,078
Inventories	2,422,068	3,469,396
Prepaid expenses	1,027,023	954,377
Other current assets	1,121,272	857,578
Total current assets	<u>45,905,459</u>	<u>42,613,076</u>
Noncurrent cash and investments		
Restricted cash for debt service	5,008,607	4,501,865
Internally designated by Board for capital improvements	2,183,971	2,098,742
Total noncurrent cash and investments	<u>7,192,578</u>	<u>6,600,607</u>
Capital assets, net	45,600,627	45,872,820
Other noncurrent assets	9,306,349	9,981,421
Total assets	<u>\$ 108,005,013</u>	<u>\$ 105,067,924</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Current maturities of long-term debt	\$ 868,413	\$ 948,218
Accounts payable, trade and other	4,234,124	3,964,480
Accrued salaries and wages	5,179,830	5,074,031
Other accrued expenses	2,669,267	1,952,617
Total current liabilities	<u>12,951,634</u>	<u>11,939,346</u>
Long-term debt, net of current maturities	<u>34,120,601</u>	<u>35,114,790</u>
Total liabilities	<u>47,072,235</u>	<u>47,054,136</u>
Net assets		
Invested in capital assets, net of related debt	10,611,613	9,809,812
Restricted		
Expendable for debt service and interest	5,008,607	4,501,865
Expendable for use in self-insurance	1,552,011	1,718,733
Unrestricted	43,760,547	41,983,378
Total net assets	<u>60,932,778</u>	<u>58,013,788</u>
Total liabilities and net assets	<u>\$ 108,005,013</u>	<u>\$ 105,067,924</u>

See accompanying notes.

**DELTA REGIONAL MEDICAL CENTER**  
**Statements of Revenue, Expenses and Changes in Net Assets**  
**Years Ended September 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
Net patient service revenue, net of provision for bad debts of approximately \$30,510,000 and \$30,041,000, respectively	\$ 122,880,063	\$ 125,907,358
Other operating revenue	4,870,937	2,602,830
Total operating revenue	127,751,000	128,510,188
Operating expenses		
Salaries and benefits	64,699,974	71,206,914
Medical supplies and drugs	13,932,203	15,088,965
Other supplies and services	26,477,235	22,015,411
Other operating expenses	13,599,419	13,824,627
Depreciation and amortization	5,351,580	5,614,331
Total operating expenses	124,060,411	127,750,248
Income from operations	3,690,589	759,940
Nonoperating revenues (expenses)		
Noncapital grants and contributions	355,634	663,523
Investment income	386,528	297,104
Interest expense	(1,513,761)	(1,567,688)
Total nonoperating expenses	(771,599)	(607,061)
Increase in net assets	2,918,990	152,879
Net assets, beginning of year	58,013,788	57,860,909
Net assets, end of year	\$ 60,932,778	\$ 58,013,788

See accompanying notes.

**DELTA REGIONAL MEDICAL CENTER**

## Statements of Cash Flows

Years Ended September 30, 2012 and 2011

	<b>2012</b>	<b>2011</b>
Cash flows from operating activities		
Cash received from patients and on behalf of patients	\$ 120,739,091	\$ 125,963,538
Payments to suppliers and contractors	(52,248,633)	(51,101,586)
Cash paid to employees	(64,594,175)	(70,736,022)
Cash received from others	4,870,937	2,602,830
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Net cash provided by operating activities	8,767,220	6,728,760
	<hr/>	<hr/>
Cash flows from noncapital financing activities		
Noncapital grants and contributions	355,634	663,523
	<hr/>	<hr/>
Cash flows from capital and related financing activities		
Acquisition of capital assets	(4,492,984)	(4,798,061)
Proceeds from sale of capital assets	31,600	15,605
Principal paid on long-term debt	(953,255)	(1,180,433)
Interest paid on long-term debt	(1,640,373)	(1,696,497)
	<hr/>	<hr/>
Net cash used by capital and related financing activities	(7,055,012)	(7,659,386)
	<hr/>	<hr/>
Cash flows from investing activities		
Investment income	332,239	334,889
Purchase of investments	(537,682)	(420,940)
	<hr/>	<hr/>
Net cash used by investing activities	(205,443)	(86,051)
	<hr/>	<hr/>
Increase (decrease) in cash and cash equivalents	1,862,399	(353,154)
	<hr/>	<hr/>
Cash and cash equivalents, beginning of year	15,837,452	16,190,606
	<hr/>	<hr/>
Cash and cash equivalents, end of year	\$ 17,699,851	\$ 15,837,452
	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes.

	2012	2011
Cash flows from operating activities		
Income from operations	\$ 3,690,589	\$ 759,940
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation and amortization	5,351,580	5,614,331
Provision for bad debts	30,510,224	30,040,549
Gain on sale of equipment	(24,400)	(32,034)
Changes in operating assets and liabilities		
Patient accounts receivable	(34,301,836)	(30,138,263)
Estimated third-party payor settlements	1,650,640	153,894
Other current and noncurrent assets	(182,225)	(195,730)
Inventories	1,047,328	(147,578)
Accounts payable	269,644	249,291
Accrued salaries and wages	105,799	470,892
Prepaid expenses	(72,646)	(84,995)
Other accrued expenses	722,523	38,463
Net cash provided by operating activities	<u>\$ 8,767,220</u>	<u>\$ 6,728,760</u>
Supplemental disclosure of noncash investing activities and financing activities		
Assets purchased with capital lease obligations	<u>\$ -</u>	<u>\$ 130,331</u>
Unrealized gain (loss) on investments	<u>\$ 54,289</u>	<u>\$ (37,785)</u>
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents	\$ 16,147,840	\$ 14,118,719
Assets limited as to use	1,552,011	1,718,733
Total	<u>\$ 17,699,851</u>	<u>\$ 15,837,452</u>

## DELTA REGIONAL MEDICAL CENTER

Years Ended September 30, 2012 and 2011

### 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 utilizes proprietary fund accounting whereby its financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, which is in accordance with accounting principles generally accepted in the United States of America for proprietary fund types, substantially all revenues, expenses and changes in net assets are subject to accrual.

Pursuant to Governmental Accounting Standards Board ("GASB") Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities That Use Proprietary Fund Accounting*, the Medical Center applies the provisions of all relevant pronouncements of the Financial Accounting Standard Board ("FASB") issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements. FASB Statements issued subsequent to November 30, 1989 are not applicable.

##### 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

**DELTA REGIONAL MEDICAL CENTER**  
Years Ended September 30, 2012 and 2011

**NOTES TO FINANCIAL STATEMENTS**

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**Note 1. Continued**

assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and changes in net assets 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 related to these programs 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.

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 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.

**DELTA REGIONAL MEDICAL CENTER**  
Years Ended September 30, 2012 and 2011

**NOTES TO FINANCIAL STATEMENTS**

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**Note 1. Continued**

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 assets 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:

	<b>Years</b>
Land improvements	5 – 20
Buildings and improvements	5 – 40
Fixed equipment	5 – 25
Major moveable equipment	5 – 20

In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Reserves* ("GASB No. 42"), management evaluates assets for potential impairment when a significant, unexpected decline in the service utility of a capital asset occurs.

Other Assets

Certificates of need, licenses, trade names and value of workforce associated with the purchase of King's Daughter's Hospital and related facilities are included in other assets and have remaining useful lives ranging from 4 to 29 years at September 30, 2012 and 2011. Amortization expense is calculated using the straight-line method, over the related estimated useful life.

**DELTA REGIONAL MEDICAL CENTER**  
Years Ended September 30, 2012 and 2011

**NOTES TO FINANCIAL STATEMENTS**

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**Note 1. Continued**

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 balance sheets.

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 is capitalized as a component of the costs of acquiring assets. Interest costs capitalized in 2012 and 2011 were approximately \$94,000 and \$69,000, respectively.

Deferred financing costs and bond premiums have been deferred and are being amortized over the terms of the related bonds using the effective interest method. Deferred financing costs are presented in other noncurrent assets and bond premiums are presented as an increase to long-term debt.

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 recorded as of the balance sheet date.

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

**DELTA REGIONAL MEDICAL CENTER**  
Years Ended September 30, 2012 and 2011

**NOTES TO FINANCIAL STATEMENTS**

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**Note 1. Continued**

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 assets.

Net Assets

Net assets consist of those net assets invested in capital assets, net of related debt, restricted net assets and unrestricted net assets. Net assets 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 assets are those assets that are externally restricted by creditors, grantors, contributors or laws and regulations or those restricted by constitutional provisions and enabling legislation. Expendable restricted net assets are those that may be expended for the restricted purpose. Nonexpendable restricted net assets are those that must be held in perpetuity. Unrestricted net assets consist 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 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.

**DELTA REGIONAL MEDICAL CENTER**  
Years Ended September 30, 2012 and 2011

**NOTES TO FINANCIAL STATEMENTS**

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**Note 1. Continued**

Operating Revenue and Expenses

The Medical Center's statements of revenues, expenses and changes in net assets 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 \$1,836,252 and \$-0- of revenues related to the Medicare incentive program for the years ended September 30, 2012 and 2011, respectively. The Medical Center recognized \$1,049,911 and \$1,232,542 of revenues related to the Medicaid incentive program for the years ended September 30, 2012 and 2011, respectively. These revenues are reflected in other operating revenues on the accompanying statements of revenues and expenses and changes in net assets. The Medical Center recorded \$-0- and \$1,232,542 of receivables related to the Medicare and Medicaid incentive programs for the year ended September 30, 2012 and 2011, respectively. These receivables are reflected in estimated receivables, third-party payors on the accompanying balance sheets. 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 our 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

**DELTA REGIONAL MEDICAL CENTER**  
Years Ended September 30, 2012 and 2011

**NOTES TO FINANCIAL STATEMENTS**

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**Note 1. Continued**

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 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 are 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.

**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 balances were \$18,443,055 and \$16,324,165 at September 30, 2012 and 2011, respectively.

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 were \$5,008,607 and \$4,501,865 at September 30, 2012 and 2011, respectively. As of September 30, 2012 and 2011, \$4,758,607 and \$4,251,865, respectively, of the Medical Center's debt service fund balances was 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:

**DELTA REGIONAL MEDICAL CENTER**  
Years Ended September 30, 2012 and 2011

**NOTES TO FINANCIAL STATEMENTS**

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**Note 2. Continued**

	<b>2012</b>	<b>2011</b>
Mississippi Hospital Association – Pool B	\$ 2,183,971	\$ 2,098,742

The external investment pool does not have a credit rating on the overall pool and it is not insured.

The carrying amounts of deposits and investments shown above are included in the Medical Center's balance sheets as follows at September 30:

	<b>2012</b>	<b>2011</b>
Cash and cash equivalents	\$ 16,147,840	\$ 14,118,719
Assets limited as to use	1,552,011	1,718,733
Noncurrent cash and investments, internally designated	2,183,971	2,098,742
Noncurrent cash and investments restricted for debt service	5,008,607	4,501,865
Total	\$ 24,892,429	\$ 22,438,059

**Note 3. Capital Assets**

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

	<b>2012</b>	<b>2011</b>
Land	\$ 3,531,832	\$ 3,531,832
Land under capital lease obligation	1,145,500	1,145,500
Land improvements	860,754	854,663
Building	42,393,475	42,028,054
Fixed equipment	12,152,526	12,152,526
Equipment	49,024,594	48,107,412
Capital assets, at cost	109,108,681	107,819,987
Less accumulated depreciation and amortization	71,230,383	66,917,845
Construction in progress	7,722,329	4,970,678
Capital assets, net	\$ 45,600,627	\$ 45,872,820

Depreciation expense for the years ended September 30, 2012 and 2011 totaled \$4,757,977 and \$5,012,554, respectively.

**DELTA REGIONAL MEDICAL CENTER**  
Years Ended September 30, 2012 and 2011

**NOTES TO FINANCIAL STATEMENTS**

**Note 3. Continued**

Capital assets totaling approximately \$1,275,831 and \$3,565,000 at September 30, 2012 and 2011, respectively, were related to capital lease obligations for equipment. Related accumulated amortization was approximately \$65,165 and \$1,780,000 at September 30, 2012 and 2011, respectively.

Construction in progress as of September 30, 2012 consists primarily of expenditures associated with the future implementation of stages related to Electronic Health Records ("EHR"). The Medical Center has associated purchase commitments totaling approximately \$3,314,000 at September 30, 2012. The completion date for EHR is expected to be fiscal year 2014.

Capital asset additions, retirements and balances for the year ended September 30, 2011 were as follows:

	Balance September 30, 2011	Increases	Decreases	Balance September 30, 2012
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	4,970,678	2,940,522	(188,871)	7,722,329
Total capital assets not being depreciated	9,648,010	2,940,522	(188,871)	12,399,661
Capital assets being depreciated				
Land improvements	854,663	6,091	-	860,754
Buildings	42,028,054	365,421	-	42,393,475
Fixed equipment	12,152,526	-	-	12,152,526
Equipment	48,107,412	1,369,821	(452,639)	49,024,594
Total capital assets being depreciated	103,142,655	1,741,333	(452,639)	104,431,349
Less accumulated depreciation for				
Land improvements	(566,141)	(43,279)	-	(609,420)
Buildings	(18,334,314)	(1,641,281)	-	(19,975,595)
Fixed equipment	(9,396,783)	(430,791)	-	(9,827,574)
Equipment	(38,620,607)	(2,642,626)	445,439	(40,817,794)
Total accumulated depreciation	(66,917,845)	(4,757,977)	445,439	(71,230,383)
Capital assets being depreciated, net	36,224,810	(3,016,644)	(7,200)	33,200,966
Capital assets, net	\$ 45,872,820	\$ (76,122)	\$ (196,071)	\$ 45,600,627

**DELTA REGIONAL MEDICAL CENTER**  
Years Ended September 30, 2012 and 2011

**NOTES TO FINANCIAL STATEMENTS**

**Note 3. Continued**

Capital asset additions, retirements and balances for the year ended September 30, 2010 were as follows:

	Balance September 30, 2010	Increases	Decreases	Balance September 30, 2011
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	2,703,736	2,609,784	(342,842)	4,970,678
Total capital assets not being depreciated	7,381,068	2,609,784	(342,842)	9,648,010
Capital assets being depreciated				
Land improvements	854,663	-	-	854,663
Buildings	41,921,387	106,667	-	42,028,054
Fixed equipment	12,136,015	23,273	(6,762)	12,152,526
Equipment	58,326,386	2,531,510	(12,750,484)	48,107,412
Total capital assets being depreciated	113,238,451	2,661,450	(12,757,246)	103,142,655
Less accumulated depreciation for				
Land improvements	(528,645)	(37,496)	-	(566,141)
Buildings	(16,702,521)	(1,631,793)	-	(18,334,314)
Fixed equipment	(8,921,088)	(482,457)	6,762	(9,396,783)
Equipment	(48,526,712)	(2,860,808)	12,766,913	(38,620,607)
Total accumulated depreciation	(74,678,966)	(5,012,554)	12,773,675	(66,917,845)
Capital assets being depreciated, net	38,559,485	(2,351,104)	16,429	36,224,810
Capital assets, net	\$ 45,940,553	\$ 258,680	\$ (326,413)	\$ 45,872,820

**Note 4. Other Assets**

The composition of other assets at September 30, 2012 and 2011 consisted of the following:

	2012	2011
Certificates of need, licenses, trade names and value of workforce, net of accumulated amortization of \$2,681,851 and \$2,324,271, respectively	\$ 2,782,449	\$ 3,140,029
Deferred financing costs, net of accumulated amortization of \$1,348,974 and \$1,112,951, respectively	3,120,348	3,356,371
Interest in multi-provider liability insurance company	3,119,366	3,173,549
Advances under agreements with healthcare professionals, net	284,186	311,472
Total noncurrent other assets	\$ 9,306,349	\$ 9,981,421

**DELTA REGIONAL MEDICAL CENTER**  
Years Ended September 30, 2012 and 2011

**NOTES TO FINANCIAL STATEMENTS**

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**Note 4. Continued**

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 2012 and 2011 approximates \$3,119,000 and \$3,174,000, respectively. 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 2014 through 2016.

**Note 5. Long-Term Debt**

A summary of long-term debt, including capital lease obligations at September 30, 2012 and 2011, follows:

	<b>2012</b>	<b>2011</b>
Mississippi Hospital Equipment and Facilities Authority, FHA-Insured Mortgage Revenue Bonds, Series 2007, principal maturing in varying annual amounts between August 2009 and 2033 with semi-annual interest payments based on variable rates ranging from 4.7 percent to 6.25 percent	\$ 32,310,000	\$ 33,115,000
Capital lease obligation, at imputed interest of 7 percent, with payments due through July 30, 2030, collateralized by leased land	1,094,703	1,111,809
Capital lease obligations, at interest rates ranging from 7.74 percent to 8.95 percent, with payments due through November 2012, collateralized by equipment	5,070	136,219
	33,409,773	34,363,028
Less current portion of long-term debt	(868,413)	(948,218)
Plus unamortized bond premium	1,579,241	1,699,980
	\$ 34,120,601	\$ 35,114,790

**DELTA REGIONAL MEDICAL CENTER**  
Years Ended September 30, 2012 and 2011

**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 was 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, 2012 and 2011.

Scheduled interest and principal payments of long-term debt and payments on capital lease obligations at September 30, 2012 are as follows:

Year Ending September 30,	Long-Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2013	\$ 845,000	\$ 1,604,338	\$ 23,413	\$ 81,107
2014	880,000	1,566,963	19,669	74,711
2015	925,000	1,527,963	22,668	73,285
2016	965,000	1,485,788	32,475	71,342
2017	1,015,000	1,436,913	34,823	68,995
2018 – 2022	5,920,000	6,357,994	239,921	301,661
2023 – 2027	7,680,000	4,642,756	404,443	191,280
2028 – 2032	9,920,000	2,455,125	322,361	33,996
2033	4,160,000	179,500	-	-
	<u>\$ 32,310,000</u>	<u>\$ 21,257,340</u>	<u>\$ 1,099,773</u>	<u>\$ 896,377</u>

A schedule of changes in the Medical Center's noncurrent liabilities for 2012 and 2011 follows:

	Balance September 30, 2011	Additions	Retirements	Balance September 30, 2012	Due Within One Year
Bonds payable					
FHA-insured Revenue Bond, Series 2007	\$ 33,115,000	\$ -	\$ (805,000)	\$ 32,310,000	\$ 845,000
Total long-term debt	33,115,000	-	(805,000)	32,310,000	845,000
Capital lease obligations	1,248,028	-	(148,255)	1,099,773	23,413
Total noncurrent liabilities	<u>\$ 34,363,028</u>	<u>\$ -</u>	<u>\$ (953,255)</u>	<u>\$ 33,409,773</u>	<u>\$ 868,413</u>

**DELTA REGIONAL MEDICAL CENTER**  
Years Ended September 30, 2012 and 2011

**NOTES TO FINANCIAL STATEMENTS**

**Note 5. Continued**

A schedule of changes in the Medical Center's noncurrent liabilities for 2011 and 2010 follows:

	<b>Balance September 30, 2010</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance September 30, 2011</b>	<b>Due Within One Year</b>
Bonds payable					
FHA-insured Revenue					
Bond, Series 2007	\$ 33,885,000	\$ -	\$ (770,000)	\$ 33,115,000	\$ 805,000
Total long-term debt	33,885,000	-	(770,000)	33,115,000	805,000
Capital lease obligations	1,528,130	130,331	(410,433)	1,248,028	143,218
Total noncurrent liabilities	<u>\$ 35,413,130</u>	<u>\$ 130,331</u>	<u>\$ (1,180,433)</u>	<u>\$ 34,363,028</u>	<u>\$ 948,218</u>

**Note 6. Net Assets**

Net assets invested in capital assets, net of related debt, was as follows at September 30:

	<b>2012</b>	<b>2011</b>
Capital assets	\$ 116,831,010	\$ 112,790,665
Less accumulated depreciation	(71,230,383)	(66,917,845)
Less debt outstanding related to capital assets, net	<u>(34,989,014)</u>	<u>(36,063,008)</u>
Net assets invested in capital assets, net of related debt	<u>\$ 10,611,613</u>	<u>\$ 9,809,812</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.

**DELTA REGIONAL MEDICAL CENTER**  
Years Ended September 30, 2012 and 2011

**NOTES TO FINANCIAL STATEMENTS**

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**Note 7. Continued**

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 October 1, 2012, the Medicaid program changed to an APR-DRG system for inpatient payments and an APC system for outpatient payments. Management is still evaluating the impact of this change.

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 years ended September 30, 2012 and 2011, the Medical Center received approximately \$546,000 and \$-0-, respectively, in enhanced reimbursement through the DSH program and approximately \$8,770,000 and \$9,419,000, respectively, from the UPL program. DSH and UPL amounts are shown as a reduction of contractual adjustments with the related tax assessments of \$4,645,000 and \$3,760,000 recorded in operating expenses for the years ended September 30, 2012 and 2011, respectively.

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 2012 and 2011 revenue increased approximately \$235,000 and \$239,000, respectively, due to retroactive adjustments in excess of amounts previously estimated. As of September 30, 2012, cost reports for fiscal years 2006 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.

**DELTA REGIONAL MEDICAL CENTER**  
Years Ended September 30, 2012 and 2011

**NOTES TO FINANCIAL STATEMENTS**

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**Note 7. Continued**

The following is a summary of gross and net patient service revenue for the years ended September 30, 2012 and 2011:

	<b>2012</b>	<b>2011</b>
Gross patient service revenue	\$ 332,531,478	\$ 334,053,351
Less provisions for		
Contractual adjustments under third-party reimbursement programs and other deductions	179,141,191	178,105,444
Provision for bad debts	30,510,224	30,040,549
Net patient service revenue	<u>\$ 122,880,063</u>	<u>\$ 125,907,358</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 \$6,080,000 and \$9,500,000 for the years ended September 30, 2012 and 2011, respectively.

**Note 9. Pension Plan**

The Medical Center pension plan has a single-employer noncontributory pension plan covering all covered employees as defined by the pension plan. The pension plan provides retirement, disability and death benefits. The Medical Center elected to freeze the defined benefit pension plan as of June 30, 2009.

Funding Policy

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.

Pension Cost and Net Pension Asset

A reconciliation of the Medical Center's annual pension cost and related net pension asset at September 30 follows:

**DELTA REGIONAL MEDICAL CENTER**  
Years Ended September 30, 2012 and 2011

**NOTES TO FINANCIAL STATEMENTS**

**Note 9. Continued**

	<b>2012</b>	<b>2011</b>
Annual required contribution	\$ 1,082,409	\$ 931,812
Interest on net pension asset	(7,234)	(7,305)
Adjustment to annual required contribution	8,167	8,247
Annual pension cost	1,083,342	932,754
Contributions made	1,082,409	931,812
Decrease in net pension asset	(933)	(942)
Net pension asset at beginning of year	96,457	97,399
Net pension asset at end of year	<u>\$ 95,524</u>	<u>\$ 96,457</u>

The annual required contribution for fiscal 2012 was determined as part of the September 30, 2011 actuarial valuations using the frozen initial liability method. The actuarial assumptions included a 7.5 percent investment rate of return and projected salary increases of 5 percent per year to age 65. The actuarial value of assets was determined using the fair value of related investments. The unfunded actuarial accrued liability is being amortized over a period not to exceed 30 years.

The plan's three-year trend information is as follows:

<b>Fiscal Year Ended September 30,</b>	<b>Annual Pension Cost ("APC")</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Asset</b>
2012	\$ 1,083,342	100%	\$ 95,524
2011	932,754	100	96,457
2010	747,140	100	97,399

Analysis of the plan's funding progress follows:

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Plan Assets</b>	<b>Actuarial Accrued Liability ("AAL")</b>	<b>Unfunded AAL</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>Unfunded AAL as a Percent of Covered Payroll</b>
7/1/11	\$ 11,617,275	\$ 12,248,081	\$ 630,806	94.8%	\$ 27,546,026	2.3%
7/1/10	11,300,958	11,897,003	596,045	95.0	26,593,764	2.2
7/1/09	10,320,311	10,888,074	567,763	94.8	26,505,651	2.1

**DELTA REGIONAL MEDICAL CENTER**  
Years Ended September 30, 2012 and 2011

**NOTES TO FINANCIAL STATEMENTS**

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**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 are as follows:

	<b>2012</b>	<b>2011</b>
Medicare	30%	27%
Medicaid	17	18
Commercial	32	36
Self-pay	21	19
	100%	100%

Patient Service Revenue

The percentage mix of net patient service revenue for the years ended September 30, 2012 and 2011 for patient services rendered under contract with major third-party cost reimburses follows:

	<b>2012</b>	<b>2011</b>
Medicare	47%	44%
Medicaid	22	23
Commercial	29	30
Self-pay	2	3
	100%	100%

**Note 11. Operating Leases**

The Medical Center leases various equipment and facilities under operating leases expiring at various dates through 2016. Total rental expense for the years ended September 30, 2012 and 2011, for all operating leases was approximately \$2,039,000 and \$2,145,000, respectively.

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:

**DELTA REGIONAL MEDICAL CENTER**  
Years Ended September 30, 2012 and 2011

**NOTES TO FINANCIAL STATEMENTS**

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**Note 11. Continued**

<b>Year Ending September 30,</b>	<b>Amount</b>
2013	\$ 1,258,849
2014	1,234,124
2015	1,234,124
2016	1,234,124
2017	<u>1,234,124</u>
Total	<u>\$ 6,195,345</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 three 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**  
Years Ended September 30, 2012 and 2011

**NOTES TO FINANCIAL STATEMENTS**

**Note 13. Continued**

The claims liability at September 30, 2012 and 2011 is based on the requirements of GASB Statement No. 10. This statement 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 two years is reflected below:

	<b>2012</b>	<b>2011</b>
Balance, at beginning of year	\$ 689,817	\$ 509,897
Claims reported and claims incurred but not reported	3,839,612	3,573,992
Claims paid	(3,956,594)	(3,394,072)
Balance, at end of year	<u>\$ 572,835</u>	<u>\$ 689,817</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 Hospital's medical malpractice liability are as follows:

	<b>Medical Malpractice</b>			
	<b>(Beginning) October 1,</b>	<b>Current Year Changes &amp; Estimates</b>	<b>Current Year Claim Payments</b>	<b>(Ended) September 30, Liability</b>
2012	\$ 1,145,833	\$ 54,456	\$ (157,376)	\$ 1,042,913
2011	578,384	1,010,348	(442,899)	1,145,833

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 years ended June 30, 2012 or 2011.

**DELTA REGIONAL MEDICAL CENTER**  
Years Ended September 30, 2012 and 2011

**NOTES TO FINANCIAL STATEMENTS**

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**Note 14. Recent Reporting and Disclosure Developments**

Accounting Pronouncements Issued Not Yet Adopted

*Governmental Accounting Standards Board Statement No. 62 ("GASB 62")*

The Medical Center will adopt GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, in fiscal year 2013. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

*Governmental Accounting Standards Board Statement No. 61 ("GASB 61")*

The Medical Center will adopt GASB No. 61, *The Financial Reporting Entity: Omnibus*, in fiscal year 2013. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of GASB No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of GASB No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

*Governmental Accounting Standards Board Statement No. 63 ("GASB 63")*

The Medical Center will adopt GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in fiscal year 2013. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively, which are distinct from assets and liabilities. The balance sheet will become "Statement of Net Position" and net position will replace net assets in the equity section. Management has not yet evaluated the impact of adopting this standard.

*Governmental Accounting Standards Board Statement No. 65 ("GASB 65")*

The Medical Center will adopt GASB No. 65, *Items Previously Reported as Assets and Liabilities*, in fiscal year 2014. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain line items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Some of the major changes will be showing any gain or loss on debt refunding as a deferred inflow / outflow on the balance sheet instead of an addition or subtraction from the related debt (similar to a discount or premium).

**DELTA REGIONAL MEDICAL CENTER**  
Years Ended September 30, 2012 and 2011

**NOTES TO FINANCIAL STATEMENTS**

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**Note 14. Continued**

Also, debt issue costs will no longer be able to be capitalized and would be expensed when incurred. Management has not yet evaluated the impact of adopting this standard.

*Governmental Accounting Standards Board Statement No. 66 ("GASB 66")*

The Medical Center will adopt GASB No. 66, *Technical Corrections – 2012 – an amendment of GASB Statement No.10 and No. 62*, in fiscal year 2014. This Statement amends GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, by modifying the specific guidance on accounting for operating lease payments that vary from a straight-line basis. Management has not yet evaluated the impact of adopting this standard.

*Governmental Accounting Standards Board Statement No. 68 ("GASB 68")*

The Medical Center will adopt GASB No. 68, *Accounting and Financial Reporting for Pension*, in fiscal year 2015. This statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and RSI. In the past as long as a government paid its Annual Required Contribution, there would be no recorded liability.

This will provide for the liability (net pension obligation) of underfunding of defined benefit pension plans to be recorded on the balance sheet. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries.

The Statement calls for immediate recognition of more pension expense than is currently required and to initially expect that significant liabilities will be recorded on the balance sheet that previously were not and also requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan.

GASB No. 68 also requires employers to present more extensive note disclosures and RSI, including presenting RSI schedules covering the past 10 years regarding sources of changes in the components of the net pension liability, ratios that assist in assessing the magnitude of the net pension liability and comparisons of actual employer contributions to the pension plan with actuarially determined contribution requirements, if an employer has actuarially determined contributions.

**DELTA REGIONAL MEDICAL CENTER**  
Years Ended September 30, 2012 and 2011

**NOTES TO FINANCIAL STATEMENTS**

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**Note 14. Continued**

Cost-sharing employers also will present the RSI schedule of net pension liability, information about contractually required contributions, and related ratios.

The existing standards for governments that provide defined contribution pensions are largely carried forward in the new Statement. These governments will recognize pension expenses equal to the amount of contributions or credits to employees' accounts, absent forfeited amounts. A pension liability will be recognized for the difference between amounts recognized as expense and actual contributions made to a defined contribution pension plan. Management has not yet evaluated the impact of adopting this standard.

**DELTA REGIONAL MEDICAL CENTER**  
 Schedule of Surety Bonds for Officers and Employees  
 September 30, 2012

<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
Stansel Harvey	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 the financial statements of Delta Regional Medical Center (the "Medical Center"), a component unit of Washington County, Mississippi, as of and for the year ended September 30, 2012, and have issued our report thereon dated December 18, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Medical Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Medical Center's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the internal control over financial reporting.

*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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### 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*.

This report is intended solely for the information and use of the Board of Trustees, management and the State Auditor's Office and is not intended to be, and should not be, used by anyone other than those specified parties.

A handwritten signature in black ink that reads "Home LLP". The signature is written in a cursive, flowing style.

Ridgeland, Mississippi  
December 18, 2012

**DELTA REGIONAL MEDICAL CENTER**

Greenville, Mississippi

**Report on Compliance in  
Accordance with OMB Circular A-133**  
For the Year Ended September 30, 2012

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND  
MATERIAL EFFECT ON EACH MAJOR PROGRAM AND  
INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Trustees  
Delta Regional Medical Center  
Greenville, Mississippi

Compliance

We have audited the compliance of Delta Regional Medical Center with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133, *Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended September 30, 2012. Delta Regional Medical Center's major federal program is identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Delta Regional Medical Center's management. Our responsibility is to express an opinion on Delta Regional Medical Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Delta Regional Medical Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Delta Regional Medical Center's compliance with those requirements.

In our opinion, Delta Regional Medical Center complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2012.

## Internal Control Over Compliance

The management of Delta Regional Medical Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Delta Regional Medical Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Delta Regional Medical Center's internal control over compliance.

*A deficiency in internal control over compliance* 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, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses.

We have audited the basic financial statements of Delta Regional Medical Center as of and for the year ended September 30, 2012, and have issued our report thereon dated December 18, 2012. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Trustees, and the department of Housing and Urban Development and is not intended to be, and should not be, used by anyone other than those specified parties.



Ridgeland, Mississippi  
December 18, 2012

**DELTA REGIONAL MEDICAL CENTER**  
Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2012

Federal Grantor/Pass Through Grantor Program or Cluster Title	Federal CFDA Number	Grant/Contract Period	Grant/Contract Award as of September 30, 2012	Federal Expenditures
<b>Direct Programs</b>				
U. S. Department of Housing and Urban Development Loan program Mortgage Insurance – Hospitals	14.128	02/22/07 – 08/01/33	\$ 35,625,000	\$ 32,310,000
Department of Health and Human Services Ryan White Part C Outpatient EIS Program	93.918	07/01/2009 – 06/30/2012	292,500	195,582
<b>Pass-Through Program</b>				
<b>From:</b>				
Mississippi State Department of Health Ryan White Care Act Title II	93.917	04/01/2011 – 03/31/2012	150,828	97,600
	93.917	07/01/2012 – 03/31/2013	102,794	18,617
Total Expenditures of Federal Awards				<u>\$ 32,621,799</u>

See notes to this schedule.

**DELTA REGIONAL MEDICAL CENTER**  
Notes to the Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2012

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Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Delta Regional Medical Center and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133 *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Loans Outstanding

Delta Regional Medical Center had the following loan balances outstanding at September 30, 2011. This loan program is also included in the federal expenditures presented in the Schedule of Federal Awards.

<u>Cluster/Program Title Outstanding</u>	<u>Federal CFDA Number</u>	<u>Amount</u>
Mortgage Insurance – Hospitals	14.128	<u>\$ 32,310,000</u>

**DELTA REGIONAL MEDICAL CENTER**  
Schedule of Findings and Questioned Costs  
Year Ended September 30, 2012

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Section I - Summary of Auditor's Results

**Financial Statements:**

- |    |   |             |
|----|---|-------------|
| 1. | Type of auditor's report issued   | Unqualified |
| 2. | Internal control over financial reporting:  |             |
| a. | Material weaknesses identified  | None        |
| b. | Significant deficiencies identified that are not considered to be material weaknesses | None        |
| 3. | Noncompliance material to financial statements noted                                  | None        |

**Federal Awards:**

- |    |   |               |
|----|---|---------------|
| 4. | Type of auditor's report issued on compliance for major program   | Unqualified   |
|    | Internal control over major programs:   |               |
| a. | Material weaknesses identified  | None          |
| b. | Significant deficiencies identified that are not considered to be material weaknesses                           | None          |
| 5. | Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 501(a) | No            |
| 6. | Identification of major program:<br>Mortgage Insurance – Hospitals  | CFDA # 14.128 |
| 7. | Dollar threshold used to distinguish between Type A and Type B programs   | \$300,000     |
| 8. | Auditee qualified as low risk?  | Yes           |

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

**DELTA REGIONAL MEDICAL CENTER**  
Summary Schedule of Prior Year Audit Findings  
September 30, 2012

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Delta Regional Medical Center had no findings in the prior year.

**DELTA REGIONAL MEDICAL CENTER**

Corrective Action Plan

Year Ended September 30, 2012

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The current year audit disclosed no significant findings, and no significant findings exist from prior year organization-wide audits. Accordingly, no corrective action plan is required.