

**DELTA REGIONAL MEDICAL
CENTER**

(A Component Unit of Washington County,
Mississippi)

Audited Financial Statements
Years Ended September 30, 2014 and 2013

DELTA REGIONAL MEDICAL CENTER

Greenville, Mississippi

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Delta Regional Medical Center
Greenville, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Delta Regional Medical Center (the "Medical Center"), a component unit of Washington County, Mississippi, as of and for the years ended September 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Medical Center, as of September 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2014, the Medical Center adopted the provisions of Governmental Accounting Standards Boards Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Surety Bonds for Officers and Employees on page 40 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2014 on our consideration of the Medical Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.

Home LLP

Ridgeland, Mississippi
December 17, 2014

DELTA REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended September 30, 2014 and 2013

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, 2014 and 2013. 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 statements of net position, statements of revenues and expenses, changes in net position and the statements of cash flows. These financial statements provide an indication of the Medical Center's financial health.

Financial Statement Comparison

The statements of net position include all of the Medical Center's assets and liabilities, using the accrual basis of accounting, as well as an indication about which assets can be utilized for general purposes and which are restricted as a result of bond covenants or other purposes. The statements of revenues, expenses and changes in net position report all of the revenues, expenses and changes in net position 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 statements of net position reflect the current actual financial position of the Medical Center as of the audited dates, September 30, 2014 and 2013. The makeup, changes thereto and general comments regarding how the changes occurred will be discussed later.

The Medical Center's statements of net position indicate a strong financial position. The statements of revenue, expenses and changes in net position 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.

During fiscal year 2014, the Medical Center adopted Governmental Accounting Standards Board ("GASB") Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This standard requires certain transactions previously reported as assets to be expensed in the period in which incurred. As a result of adoption of this standard, the Medical Center restated 2013 net position by reducing previously reported net position and other noncurrent assets by \$2,777,357 at September 30, 2013 and by \$2,987,157 at September 30, 2012. The required restatement resulted in a reduction of interest expense of \$204,835 and \$209,800 in the years ended September 30, 2013 and 2012, respectively.

**DELTA REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS**
Years Ended September 30, 2014 and 2013

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.

CONDENSED FINANCIAL INFORMATION

A summary of the Medical Center's statements of net position for September 30, 2014, 2013 and 2012 is presented in the following table:

Condensed Statements of Net Position (000s)

	Fiscal Year 2014	(Restated) Fiscal Year 2013	(Restated) Fiscal Year 2012
Current and other assets	\$ 64,530	\$ 60,488	\$ 59,626
Capital assets	41,796	44,308	45,601
Total assets	<u>\$ 106,326</u>	<u>\$ 104,796</u>	<u>\$ 105,227</u>
Long-term debt outstanding, excluding current portion	\$ 32,041	\$ 33,103	\$ 34,121
Other liabilities	12,822	12,435	12,951
Total liabilities	<u>\$ 44,863</u>	<u>\$ 45,538</u>	<u>\$ 47,072</u>
Investment in capital assets, net of related debt	\$ 8,808	\$ 10,306	\$ 10,612
Restricted	7,903	7,107	6,561
Unrestricted	44,752	41,845	40,982
Total net position	<u>\$ 61,463</u>	<u>\$ 59,258</u>	<u>\$ 58,155</u>

Total Assets

Fiscal Year Ended September 30, 2014

Total assets consist of current assets, other assets and capital assets. Total assets increased by \$1,530 compared to prior year. Current and other assets increased by \$4,042 and capital assets decreased by \$2,512. Current and other assets consist of current assets, noncurrent assets and other noncurrent assets, while capital assets consists of capital purchases less applicable accumulated depreciation. The most significant issues impacting the total current assets were an increase in cash and a decrease in accounts receivable of \$8,084 and \$3,292, 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.

DELTA REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended September 30, 2014 and 2013

Fiscal Year Ended September 30, 2013

Total assets consist of current assets, other assets and capital assets. Total assets decreased by \$431 compared to prior year. Current and other assets increased by \$862 and capital assets decreased by \$1,293. The most significant issues impacting the total current assets were an increase in cash and decrease in accounts receivable of \$4,236 and \$2,455, 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.

Total Liabilities

Fiscal Year Ended September 30, 2014

Total liabilities consist of long-term debt and other liabilities. Total liabilities decreased by \$675 compared to prior year. Long-term debt decreased by \$1,062 compared to previous year and other liabilities increased by \$387 compared to previous year. The majority of the long-term debt is associated with the purchase of King Daughter's Hospital in 2007. The reductions in long-term debts are associated with fiscal year 2014 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, 2013

Total liabilities decreased by \$1,534 compared to prior year. Long-term debt decreased by \$1,018 compared to previous year and other liabilities decreased by \$516 compared to previous year. Other liabilities decreases were associated with a decrease in accrued accounts payable and accrued salaries.

Net Position

Fiscal Year Ended September 30, 2014

Total net position increased during this fiscal year by \$2,205, which is the increase in net position reflected on the statement of revenues, expenses and changes in net position. The most significant issue impacting the net position was an operating profit from operations that is discussed in greater detail in the statement of revenues, expenses and changes in net position section of this report.

DELTA REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended September 30, 2014 and 2013

Fiscal Year Ended September 30, 2013

Total net position increased during this fiscal year by \$1,103, which is the increase in net position reflected on the statement of revenues, expenses and changes in net position. The most significant issue impacting the net position was an operating profit from operations that is discussed in greater detail in the statement of revenues, expenses and changes in net position section of this report.

The following table presents a summary of the Medical Center's revenues, expenses and changes in net position for the fiscal years ended September 30, 2014, 2013 and 2012:

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

	Fiscal Year 2014	(Restated) Fiscal Year 2013	(Restated) Fiscal Year 2012
Net patient service revenue, net of provision for bad debts	\$ 119,854	\$ 121,338	\$ 122,880
Other operating revenue excluding interest income	3,452	1,880	4,871
Total operating revenue	123,306	123,218	127,751
Salaries, wages and employee benefits	63,871	63,687	64,700
Professional fees, supplies, maintenance and utilities	49,992	52,750	54,009
Total operating expenses before depreciation/amortization/impairment	113,863	116,437	118,709
Earnings before interest			
Depreciation, amortization and impairment ("EBIDA")	9,443	6,781	9,042
Depreciation and amortization	4,689	5,089	5,352
Impairment loss	1,758	-	-
Income from operations	2,996	1,692	3,690
Nonoperating revenues (expenses)			
Investment and grant income	740	801	743
Interest expense	(1,531)	(1,390)	(1,304)
Total nonoperating expenses	(791)	(589)	(561)
Increase in net position	\$ 2,205	\$ 1,103	\$ 3,129

DELTA REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended September 30, 2014 and 2013

Patient Service Revenue

Fiscal Year Ended September 30, 2014

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 \$10,506 or 3.01 percent. This decrease was associated with a decrease in inpatient volume. Inpatient gross revenue decreased by \$14,242 or 8.77 percent compared to previous year and outpatient gross revenue increased by \$3,736 or 2.0 percent as compared to previous year. Charity care is recorded as a reduction in gross revenue and charity care write offs were \$7,570.

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, 2013

Total gross revenues increased during this fiscal year by \$10,254 or 1.97 percent. This increase was associated with an increase in outpatient volume. Inpatient gross revenue decreased by \$3,218 or 1.95 percent compared to previous year and outpatient gross revenue increased by \$13,472 or 7.82 percent as compared to previous year. Charity care is recorded as a reduction in gross revenue and charity care write offs were \$9,780.

Revenues by Payor

Fiscal Year Ended September 30, 2014

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

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

Fiscal Year Ended September 30, 2013

The charges by payor have remained steady from the previous year.

**DELTA REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS**
Years Ended September 30, 2014 and 2013

The following table represents the relative percentage of net charges billed for patient services by payor for the fiscal years ended September 30, 2014, 2013 and 2012.

	Fiscal Year 2014	Fiscal Year 2013	Fiscal Year 2012
Medicare	45%	46%	47%
Medicaid	25	23	22
Self-pay and other	30	31	31
 Total gross charges	 100%	 100%	 100%

Net Revenues

Fiscal Year Ended September 30, 2014

Total operating revenue increased \$88 or 0.07 percent. Net patient service revenues decreased by \$1,484 or 1.22 percent in the current fiscal year compared to the prior year. This decrease is associated with the decrease in gross patient revenue. Contractual allowances increased and bad debts decreased as a percent of gross revenue compared to previous year by 0.01 percent and 0.08 percent, respectively. Net Revenue as a percentage of gross revenue was 35.42 percent compared to 34.8 percent in the prior year. There was a reduction in DSH/UPL payments received from Medicaid in the amount of \$877 from prior year. Also there was a reduction in other operating revenues related to meaningful use dollars associated with the implementation of electronic health records.

Fiscal Year Ended September 30, 2013

Total operating revenue decreased \$4,533 or 3.7 percent. Net patient service revenues decreased by \$1,542 or 1.25 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 increased and bad debts decreased as a percent of gross revenue compared to previous year by 1.6 percent and 1.2 percent, respectively. Net revenue as a percentage of gross revenue was 34.8 percent compared to 36.3 percent in the prior year. Other operating revenues decreased by \$2,991, which is related primarily to meaningful use dollars associated with the implementation of electronic health records.

**DELTA REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS**
Years Ended September 30, 2014 and 2013

Total Operating Expenses before Depreciation, Amortization and Impairment Losses

Fiscal Year Ended September 30, 2014

As a patient-centered business, the Medical Center's two highest expense categories are in its personnel and supplies. Total operating expenses before interest, depreciation, amortization and impairment losses decreased \$2,574 or 2.2 percent compared to previous year. Total operating expense before depreciation, amortization and impairment losses as a percent of total operating revenues decreased in the current fiscal year to 92.3 percent as compared to the prior fiscal year of 94.5 percent. Total salaries and benefits as a percentage of total operating revenues increased in the current fiscal year to 51.8 percent compared to prior fiscal year of 51.7 percent. Salaries and benefits represent \$63,871 and \$63,687 of the Medical Center's total operating expenses for the years ended September 30, 2014 and 2013, respectively. Total supplies and other services as a percentage of total operating revenues decreased in the current fiscal year to 43.9 percent compared to prior fiscal year of 42.8 percent. Total supplies and other services represent \$49,992 and \$52,750 of the Medical Center's total operating expenses for the years ended September 30, 2014 and 2013, respectively.

Fiscal Year Ended September 30, 2013

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 \$2,272 or 1.91 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 94.5 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 51.7 percent compared to prior fiscal year of 50.6 percent. Salaries and benefits represent \$63,687 and \$64,700 of the Medical Center's total operating expenses for the years ended September 30, 2013 and 2012, respectively. Total supplies and other services as a percentage of total operating revenues increased in the current fiscal year to 42.8 percent compared to prior fiscal year of 42.3 percent. Total supplies and other services represent \$52,750 and \$54,009 of the Medical Center's total operating expenses for the years ended September 30, 2013 and 2012, 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.

Income from Operations

Fiscal Year Ended September 30, 2014

The Medical Center experienced a profit from operations in the current year in the amount of \$2,996 compared to prior year of \$1,692. The most significant impact was a reduction in overall operating cost related to contract services. This decrease in operating costs was offset by an impairment loss of approximately \$1,758,000.

**DELTA REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS**
Years Ended September 30, 2014 and 2013

Fiscal Year Ended September 30, 2013

The Medical Center experienced a profit from operations during fiscal year 2013 in the amount of \$1,692 compared to \$3,690 during fiscal year 2012. The most significant impact was a reduction in overall operating cost in salaries and benefits and the effect of the adoption of GASB 65, which is discussed in greater detail in Note 1 of the financial report.

Change in Net Position

Fiscal Year Ended September 30, 2014

The change in net position for the fiscal year was \$2,205. This represents an increase of 3.7 percent over the beginning balance in net position. The change in net position of \$2,205 equates to 1.8 percent of total operating revenue of \$123,306.

Fiscal Year Ended September 30, 2013

The change in net position for the fiscal year was \$1,103. This represents an increase of 1.9 percent over the beginning balance in net position. The change in net position of \$1,103 equates to 0.9 percent of total operating revenue of \$123,218.

Ending Net Position

Fiscal Year Ended September 30, 2014

The ending net position of the Medical Center was \$61,463. As a calculation of the Medical Center's ownership position, this ending net position value equates to 57.8 percent of total assets of \$106,326.

Fiscal Year Ended September 30, 2013

The ending net position of the Medical Center was \$59,258. As a calculation of the Medical Center's ownership position, this ending net position value equates to 56.6 percent of total assets of \$104,796.

DELTA REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended September 30, 2014 and 2013

Operating and Financial Performance

The fiscal year 2014 Medical Center's statements of revenue, expenses and changes in net position between 2014 and 2013 are summarized below:

- During 2014, the Medical Center had total discharges and total patient days of 7,720 and 39,194, respectively. This is a decrease in discharges of 8.78 percent and decrease in patient days of 6.00 percent, respectively, from 2013.
- During 2014, total surgeries were 6,978. This is a decrease of 427 or 5.8 percent from 2013.
- During 2014, total hospital outpatient visits were 141,707. This is a decrease of 5,825 or 4.0 percent from 2013.
- During 2014, emergency registrations were 34,416. This is a decrease of 6,618 or 16.1 percent from 2013.
- Net patient service revenue decreased as stated in the financial highlights from 2014.

The fiscal year 2013 Medical Center's statements of revenue, expenses and changes in net position between 2013 and 2012 are summarized below:

- During 2013, the Medical Center had total discharges and total patient days of 8,463 and 41,690, respectively. This is an increase in discharges of 0.49 percent and decrease in patient days of 5.43 percent, respectively, from 2012.
- During 2013, total surgeries were 7,405. This is an increase of 51 or 0.69 percent from 2012.
- During 2013, total hospital outpatient visits were 147,532. This is an increase of 10,387 or 7.57 percent from 2012.
- During 2013, emergency registrations were 41,034. This is an increase of 2,383 or 6.17 percent from 2012.
- Net patient service revenue decreased as stated in the financial highlights from 2012.

**DELTA REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS**
Years Ended September 30, 2014 and 2013

ECONOMIC FACTORS AND FISCAL 2014 OPERATIONS

The financial outlook for the Medical Center is stable. While the annual budget of the Medical Center is not presented within these financial statements, the Medical Center's Board and management considered many factors in developing the fiscal year 2014 budget. Of primary importance in developing the 2014 budget is the status of the economy and the healthcare environment, which takes into account market forces and environmental factors such as:

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

THE MEDICAL CENTER'S CASH FLOWS

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

CONTACTING THE MEDICAL CENTER CHIEF FINANCIAL OFFICER

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

DELTA REGIONAL MEDICAL CENTER

Statements of Net Position
September 30, 2014 and 2013

	2014	(Restated) 2013
ASSETS		
Current assets		
Cash and cash equivalents	\$ 28,467,565	\$ 20,383,870
Assets limited as to use	1,862,371	1,627,664
Patient accounts receivable, net of allowance for uncollectible accounts of approximately \$18,434,000 and \$21,042,000, respectively	16,982,362	20,273,932
Estimated receivables, third-party payors	1,257,642	627,105
Inventories	1,995,491	2,322,319
Prepaid expenses	914,391	613,212
Other current assets	1,437,635	1,883,988
Total current assets	52,917,457	47,732,090
Noncurrent cash and investments		
Restricted cash for debt service	6,041,706	5,478,942
Internally designated by Board for capital improvements	2,341,211	2,270,533
Total noncurrent cash and investments	8,382,917	7,749,475
Capital assets, net	41,796,088	44,308,385
Other noncurrent assets	3,229,585	5,006,363
Total assets	\$ 106,326,047	\$ 104,796,313
LIABILITIES		
Current liabilities		
Current maturities of long-term debt	\$ 947,669	\$ 899,669
Accounts payable, trade and other	3,379,944	2,975,436
Accrued salaries and wages	6,148,134	6,233,224
Other accrued expenses	2,346,281	2,326,570
Total current liabilities	12,822,028	12,434,899
Long-term debt, net of current maturities	32,040,639	33,103,109
Total liabilities	44,862,667	45,538,008
NET POSITION		
Invested in capital assets, net of related debt	8,807,780	10,305,607
Restricted		
Debt service and interest	6,041,706	5,478,942
Self-insurance	1,862,371	1,627,664
Unrestricted	44,751,523	41,846,092
Total net position	\$ 61,463,380	\$ 59,258,305

See accompanying notes.

DELTA REGIONAL MEDICAL CENTER
Statements of Revenue, Expenses and Changes in Net Position
Years Ended September 30, 2014 and 2013

	2014	(Restated) 2013
Net patient service revenue, net of provision for bad debts of \$26,246,313 and \$27,354,373, respectively	\$ 119,854,175	\$ 121,338,245
Other operating revenue	3,451,615	1,880,034
Total operating revenue	123,305,790	123,218,279
Operating expenses		
Salaries and benefits	63,871,352	63,686,579
Medical supplies and drugs	13,243,705	13,457,590
Other supplies and services	24,554,749	25,597,869
Other operating expenses	13,950,930	13,694,858
Depreciation and amortization	4,688,666	5,089,249
Total operating expenses	120,309,402	121,526,145
Income from operations	2,996,388	1,692,134
Nonoperating revenues (expenses)		
Noncapital grants and contributions	193,289	394,193
Investment income	546,427	406,891
Interest expense	(1,531,029)	(1,390,334)
Total nonoperating expenses	(791,313)	(589,250)
Increase in net position	2,205,075	1,102,884
Net position, beginning of year (as previously reported)	59,258,305	60,932,778
Effect of adoption of GASB 65 (Note 1)	-	(2,777,357)
Net position, end of year	\$ 61,463,380	\$ 59,258,305

See accompanying notes.

DELTA REGIONAL MEDICAL CENTER

Statements of Cash Flows

Years Ended September 30, 2014 and 2013

	2014	(Restated) 2013
Cash flows from operating activities		
Cash received from patients and on behalf of patients	\$ 122,515,208	\$ 124,072,453
Payments to suppliers and contractors	(48,102,433)	(53,529,497)
Cash paid to employees	(63,956,442)	(62,633,185)
Cash received from others	3,451,615	1,880,034
	<hr/>	<hr/>
Net cash provided by operating activities	13,907,948	9,789,805
	<hr/>	<hr/>
Cash flows from noncapital financing activities		
Noncapital grants and contributions	193,289	394,193
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Cash flows from capital and related financing activities		
Acquisition of capital assets	(3,152,146)	(3,286,818)
Proceeds from sale of capital assets	13,250	152,089
Principal paid on long-term debt	(899,669)	(868,412)
Interest paid on long-term debt	(1,657,255)	(1,719,168)
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Net cash used by capital and related financing activities	(5,695,820)	(5,722,309)
	<hr/>	<hr/>
Cash flows from investing activities		
Investment income	475,749	355,819
Purchase of investments	(562,764)	(505,825)
	<hr/>	<hr/>
Net cash used by investing activities	(87,015)	(150,006)
	<hr/>	<hr/>
Increase in cash and cash equivalents	8,318,402	4,311,683
	<hr/>	<hr/>
Cash and cash equivalents, beginning of year	22,011,534	17,699,851
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Cash and cash equivalents, end of year	\$ 30,329,936	\$ 22,011,534
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See accompanying notes.

	2014	(Restated) 2013
Cash flows from operating activities		
Income from operations	\$ 2,996,388	\$ 1,692,134
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation and amortization	4,688,666	5,089,249
Loss on impairment of intangibles	404,611	-
Loss on impairment of capital assets	1,353,553	-
Provision for bad debts	26,246,313	27,354,373
Gain on sale of equipment	(8,513)	(74,272)
Changes in operating assets and liabilities		
Patient accounts receivable	(22,954,743)	(24,799,498)
Estimated third-party payor settlements	(630,537)	179,333
Other current and noncurrent assets	1,436,007	376,742
Inventories	326,828	99,749
Accounts payable	404,508	(1,258,688)
Accrued salaries and wages	(85,090)	1,053,394
Prepaid expenses	(301,179)	413,811
Other accrued expenses	31,136	(336,522)
Net cash provided by operating activities	<u>\$ 13,907,948</u>	<u>\$ 9,789,805</u>
Supplemental disclosure of noncash investing activities and financing activities		
Unrealized gain on investments	<u>\$ 70,678</u>	<u>\$ 51,072</u>
Reconciliation of cash and cash equivalents to the statements of net position		
Cash and cash equivalents	\$ 28,467,565	\$ 20,383,870
Assets limited as to use	1,862,371	1,627,664
Total	<u>\$ 30,329,936</u>	<u>\$ 22,011,534</u>

DELTA REGIONAL MEDICAL CENTER

Years Ended September 30, 2014 and 2013

NOTES TO FINANCIAL STATEMENTS

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

Nature of Operations and Reporting Entity

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

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

Budgetary Information

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

Basis of Accounting

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

Newly Adopted Accounting Standards

During 2014, the Medical Center adopted the following new accounting standards:

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, 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. The implementation caused the Medical Center

DELTA REGIONAL MEDICAL CENTER
Years Ended September 30, 2014 and 2013

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

to retroactively recognize bond issuance costs as outflows of resources (expense) and restate its 2013 financial statements to decrease other assets by the previous carrying value of \$2,572,522 as well as increase in excess of revenue over expenses of \$204,835 to remove the previous amortization of the bond issue costs. The net position at October 1, 2012 was decreased by \$2,777,357 over the amount that was previously reported.

GASB No. 66, *Technical Corrections – 2012 – an amendment of GASB Statement No.10 and No. 62*, in fiscal year 2014. This Statement amended 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. The adoption of this standard did not have a material impact on the Medical Center's financial statements.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, in fiscal year 2014. This statement relates to accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The adoption of this standard did not have a material impact on the Medical Center's financial statements.

Accounting Pronouncements Issued Not Yet Adopted

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 required supplementary information. In the past, as long as a government paid its Annual Required Contribution, there would be no recorded liability.

This adoption will provide for the liability (net pension obligation) of underfunding of defined benefit pension plans to be recorded on the statements of net position. 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. Management is currently evaluating the impact of adopting this standard.

DELTA REGIONAL MEDICAL CENTER
Years Ended September 30, 2014 and 2013

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Governmental Accounting Standards Board Statement No. 69 ("GASB 69")

The Medical Center will adopt GASB No. 69, *Government Combinations and Disposals of Government Operations*, in fiscal year 2015. This statement provides guidance for financial accounting and reporting of government combinations and disposals of government operations. Management is currently evaluating the impact of adopting this standard.

Use of Estimates

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

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

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

Cash and Cash Equivalents

Cash and cash equivalents include all cash accounts and highly liquid debt instruments purchased with an original maturity of three months or less.

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.

DELTA REGIONAL MEDICAL CENTER
Years Ended September 30, 2014 and 2013

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

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.

Prepaid Expenses

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

Designated and Restricted Funds

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

Capital Assets

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

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

DELTA REGIONAL MEDICAL CENTER
Years Ended September 30, 2014 and 2013

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Useful lives for the major asset classes follows:

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

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

Other Assets

Certificates of need, licenses, trade names and value of workforce associated with the purchase of King's Daughters Hospital and related facilities are included in other assets and have remaining useful lives ranging from 3 to 28 years at September 30, 2014 and 2013. Amortization expense is calculated using the straight-line method, over the related estimated useful life.

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 statements of net position.

Cost of Borrowing

Except for capital assets acquired through gifts, contributions or capital grants, interest costs on borrowed funds during the period of construction of capital assets are capitalized as a component of the costs of acquiring assets. There were no interest costs capitalized in 2014 and 2013.

Compensated Absences

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

DELTA REGIONAL MEDICAL CENTER
Years Ended September 30, 2014 and 2013

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Restricted Resources

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

Grants and Contributions

From time-to-time the Medical Center receives grants from Washington County and the State of Mississippi as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues, expenses and changes in net position.

Net Position

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

Patient Service Revenue

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

DELTA REGIONAL MEDICAL CENTER
Years Ended September 30, 2014 and 2013

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

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.

Operating Revenue and Expenses

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

Electronic Health Record Incentive Payments

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

The Medical Center recognized \$1,380,253 and \$-0- of revenues related to the Medicare incentive program for the years ended September 30, 2014 and 2013, respectively. The Medical Center recognized \$202,617 and \$-0- of revenues related to the Medicaid incentive program for

DELTA REGIONAL MEDICAL CENTER
Years Ended September 30, 2014 and 2013

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

the years ended September 30, 2014 and 2013, respectively. These revenues are reflected in other operating revenues on the accompanying statements of revenue, expenses and changes in net position. Future incentive payments could vary due to certain factors such as availability of federal funding for both Medicare and Medicaid incentive payments and the Medical Center's ability to implement and demonstrate meaningful use of certified EHR technology.

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

Note 2. Deposits and Investments

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Medical Center's deposits might not be recovered. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the Medical Center's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation ("FDIC"). All deposits with financial institutions must be collateralized in an amount equal to 105 percent of uninsured deposits and are therefore fully insured. The collateralized and insured bank balances were \$30,598,584 and \$22,390,305 at September 30, 2014 and 2013, respectively.

DELTA REGIONAL MEDICAL CENTER
Years Ended September 30, 2014 and 2013

NOTES TO FINANCIAL STATEMENTS

Note 2. Continued

The Medical Center also has cash deposits held by a trustee. The use of these funds is restricted for debt service and capital improvements. The carrying value of these deposits was \$6,041,706 and \$5,478,942 at September 30, 2014 and 2013, respectively. As of September 30, 2014 and 2013, \$5,791,706 and \$5,228,942, 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:

	2014	2013
Mississippi Hospital Association – Intermediate Duration Trust	\$ 2,341,211	\$ 2,270,533

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 statements of financial position as follows at September 30:

	2014	2013
Cash and cash equivalents	\$ 28,467,565	\$ 20,383,870
Assets limited as to use	1,862,371	1,627,664
Noncurrent cash and investments, internally designated	2,341,211	2,270,533
Noncurrent cash and investments restricted for debt service	6,041,706	5,478,942
Total	\$ 38,712,853	\$ 29,761,009

DELTA REGIONAL MEDICAL CENTER
Years Ended September 30, 2014 and 2013

NOTES TO FINANCIAL STATEMENTS

Note 3. Capital Assets

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

	2014	2013
Land	\$ 3,531,832	\$ 3,531,832
Land under capital lease obligation	1,145,500	1,145,500
Land improvements	860,754	860,754
Building	42,568,555	42,516,977
Fixed equipment	12,077,437	12,077,437
Equipment	51,842,147	50,755,227
Capital assets, at cost	112,026,225	110,887,727
Less accumulated depreciation and amortization	79,077,962	74,905,748
Construction in progress	8,847,825	8,326,406
Capital assets, net	\$ 41,796,088	\$ 44,308,385

Depreciation and amortization of capital assets for the years ended September 30, 2014 and 2013 totaled \$4,306,153 and \$4,501,243, respectively.

Construction in progress as of September 30, 2014 consists primarily of expenditures associated with the future implementation of stages related to EHR. The Medical Center has associated purchase commitments totaling approximately \$486,000 at September 30, 2014. The completion date for EHR is expected to be fiscal year 2015.

During 2014, management elected to abandon certain expansion projects, which resulted in the Medical Center recognizing an impairment loss of \$1,353,553. The loss is reflected in other operating expenses on the accompanying statements of revenue, expenses and changes in net position.

DELTA REGIONAL MEDICAL CENTER
Years Ended September 30, 2014 and 2013

NOTES TO FINANCIAL STATEMENTS

Note 3. Continued

Capital asset additions, retirements and balances for the year ended September 30, 2014 were as follows:

	Balance September 30, 2013	Increases	Decreases	Balance September 30, 2014
Capital assets not being depreciated				
Land	\$ 3,531,832	\$ -	\$ -	\$ 3,531,832
Land under capital lease obligation	1,145,500	-	-	1,145,500
Construction in progress	8,326,406	1,874,972	(1,353,553)	8,847,825
Total capital assets not being depreciated	13,003,738	1,874,972	(1,353,553)	13,525,157
Capital assets being depreciated				
Land improvements	860,754	-	-	860,754
Buildings	42,516,977	51,578	-	42,568,555
Fixed equipment	12,077,437	-	-	12,077,437
Equipment	50,755,227	1,225,596	(138,676)	51,842,147
Total capital assets being depreciated	106,210,395	1,277,174	(138,676)	107,348,893
Less accumulated depreciation for				
Land improvements	(638,671)	(27,530)	-	(666,201)
Buildings	(21,618,916)	(1,640,635)	-	(23,259,551)
Fixed equipment	(10,095,973)	(302,391)	-	(10,398,364)
Equipment	(42,552,188)	(2,335,597)	133,939	(44,753,846)
Total accumulated depreciation	(74,905,748)	(4,306,153)	133,939	(79,077,962)
Capital assets being depreciated, net	31,304,647	(3,028,979)	(4,737)	28,270,931
Capital assets, net	\$ 44,308,385	\$ (1,154,007)	\$ (1,358,290)	\$ 41,796,088

DELTA REGIONAL MEDICAL CENTER
Years Ended September 30, 2014 and 2013

NOTES TO FINANCIAL STATEMENTS

Note 3. Continued

Capital asset additions, retirements and balances for the year ended September 30, 2013 were as follows:

	Balance September 30, 2012	Increases	Decreases	Balance September 30, 2013
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	7,722,329	667,314	(63,237)	8,326,406
Total capital assets not being depreciated	12,399,661	667,314	(63,237)	13,003,738
Capital assets being depreciated				
Land improvements	860,754	-	-	860,754
Buildings	42,393,475	123,502	-	42,516,977
Fixed equipment	12,152,526	-	(75,089)	12,077,437
Equipment	49,024,594	2,559,239	(828,606)	50,755,227
Total capital assets being depreciated	104,431,349	2,682,741	(903,695)	106,210,395
Less accumulated depreciation for				
Land improvements	(609,420)	(29,251)	-	(638,671)
Buildings	(19,975,595)	(1,643,321)	-	(21,618,916)
Fixed equipment	(9,827,574)	(343,488)	75,089	(10,095,973)
Equipment	(40,817,794)	(2,485,183)	750,789	(42,552,188)
Total accumulated depreciation	(71,230,383)	(4,501,243)	825,878	(74,905,748)
Capital assets being depreciated, net	33,200,966	(1,818,502)	(77,817)	31,304,647
Capital assets, net	\$ 45,600,627	\$ (1,151,188)	\$ (141,054)	\$ 44,308,385

DELTA REGIONAL MEDICAL CENTER
Years Ended September 30, 2014 and 2013

NOTES TO FINANCIAL STATEMENTS

Note 4. Other Assets

The composition of other assets at September 30, 2014 and 2013 consisted of the following:

	2014	2013
Certificates of need, licenses, trade names and value of workforce, net of accumulated amortization of \$1,507,327 and \$3,039,431, respectively	\$ 1,662,677	\$ 2,424,869
Prepaid mortgage insurance premiums	292,467	317,400
Interest in multi-provider liability insurance company	874,256	1,770,081
Advances under agreements with healthcare professionals, net	400,185	494,013
Total noncurrent other assets	\$ 3,229,585	\$ 5,006,363

During 2014, conditions arose that caused the Medical Center to evaluate the carrying value of the intangibles associated with the purchase of King's Daughter's Hospital. The Medical Center determined carrying value exceeded the fair value. Management recognized an impairment loss of \$404,611. The loss is reflected in other operating expenses on the accompanying statements of revenue, expenses and changes in net position.

The Medical Center has an investment in a multi-provider liability insurance company. The Medical Center's ownership in the company is not significant, however the Medical Center has the ability to exercise influence over the company through the Medical Center's membership on the company's Board Nomination Committee and other key committees. Consequently, this investment is accounted for under the equity method. The carrying value of this investment for 2014 and 2013 approximates \$1,748,500 and \$3,119,000, 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 fiscal year 2014 through fiscal year 2016. The Medical Center is expected to receive \$874,256 during fiscal year 2015 related to its interest. This amount is included in other current assets on the accompanying statements of net position.

DELTA REGIONAL MEDICAL CENTER
Years Ended September 30, 2014 and 2013

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt

A summary of long-term debt, including capital lease obligations at September 30, 2014 and 2013, follows:

	2014	2013
Mississippi Hospital Equipment and Facilities Authority, FHA-Insured Mortgage Revenue Bonds, Series 2007, principal maturing in varying annual amounts through 2033 with semi-annual interest payments based on variable rates ranging from 4.7 percent to 6.25 percent	\$ 30,585,000	\$ 31,465,000
Capital lease obligation, at imputed interest of 7 percent, with payments due through July 30, 2030, collateralized by leased land	1,056,692	1,076,361
	31,641,692	32,541,361
Less current maturities of long-term debt	(947,669)	(899,669)
Plus unamortized bond premium	1,346,616	1,461,417
	\$ 32,040,639	\$ 33,103,109

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

The 2007 bond agreement placed limits on the incurrence of additional borrowings and required that certain measures of financial performance be met as long as the borrowings are outstanding. The Medical Center was in compliance with these covenants for the years ended September 30, 2014 and 2013.

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

DELTA REGIONAL MEDICAL CENTER
Years Ended September 30, 2014 and 2013

NOTES TO FINANCIAL STATEMENTS

Note 5. Continued

Scheduled interest and principal payments of long-term debt and payments on capital lease obligations at September 30, 2014 are as follows:

Year Ending September 30,	Long-Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2015	\$ 925,000	\$ 1,527,963	\$ 22,669	\$ 73,285
2016	965,000	1,485,788	32,474	71,342
2017	1,015,000	1,436,913	34,823	68,995
2018	1,065,000	1,385,537	37,339	66,478
2019	1,125,000	1,331,537	40,038	63,779
2020 - 2024	6,565,000	5,733,100	298,075	264,271
2025 - 2029	8,515,000	3,823,700	489,446	129,103
2030 - 2033	10,410,000	1,361,500	101,828	3,306
	<u>\$ 30,585,000</u>	<u>\$ 18,086,038</u>	<u>\$ 1,056,692</u>	<u>\$ 740,559</u>

A schedule of changes in the Medical Center's noncurrent liabilities for 2014 follows:

	Balance September 30, 2013	Additions	Retirements	Balance September 30, 2014	Due Within One Year
Bonds payable					
FHA-insured Revenue Bond, Series 2007	\$ 31,465,000	\$ -	\$ (880,000)	\$ 30,585,000	\$ 925,000
Capital lease obligations	1,076,361	-	(19,669)	1,056,692	22,669
Total noncurrent liabilities	<u>\$ 32,541,361</u>	<u>\$ -</u>	<u>\$ (899,669)</u>	<u>\$ 31,641,692</u>	<u>\$ 947,669</u>

A schedule of changes in the Medical Center's noncurrent liabilities for 2013 follows:

	Balance September 30, 2012	Additions	Retirements	Balance September 30, 2013	Due Within One Year
Bonds payable					
FHA-insured Revenue Bond, Series 2007	\$ 32,310,000	\$ -	\$ (845,000)	\$ 31,465,000	\$ 880,000
Capital lease obligations	1,099,773	-	(23,412)	1,076,361	19,669
Total noncurrent liabilities	<u>\$ 33,409,773</u>	<u>\$ -</u>	<u>\$ (868,412)</u>	<u>\$ 32,541,361</u>	<u>\$ 899,669</u>

DELTA REGIONAL MEDICAL CENTER
Years Ended September 30, 2014 and 2013

NOTES TO FINANCIAL STATEMENTS

Note 6. Net Position

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

	2014	2013
Capital assets	\$ 120,874,050	\$ 119,214,133
Less accumulated depreciation	(79,077,962)	(74,905,748)
Less debt outstanding related to capital assets, net	(32,988,308)	(34,002,778)
 Net position invested in capital assets, net of related debt	 \$ 8,807,780	 \$ 10,305,607

Note 7. Net Patient Service Revenue

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

Medicare

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

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

Medicaid

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

DELTA REGIONAL MEDICAL CENTER
Years Ended September 30, 2014 and 2013

NOTES TO FINANCIAL STATEMENTS

Note 7. Continued

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, 2014 and 2013, the Medical Center received approximately \$9,971,000 and \$11,895,000, respectively, from the UPL program. DSH and UPL amounts are shown as a reduction of contractual adjustments with the related tax assessments of \$5,442,000 and \$5,889,000 recorded in operating expenses for the years ended September 30, 2014 and 2013, 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 2014 revenue decreased approximately \$431,000 due to retroactive adjustments in excess of amounts previously estimated. The 2013 revenue increased approximately \$75,000 due to retroactive adjustments in excess of amounts previously estimated. As of September 30, 2014, cost reports for fiscal years 2011 and prior have been settled.

Other

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

The following is a summary of gross and net patient service revenue for the years ended September 30, 2014 and 2013:

	2014	2013
Gross patient service revenue	\$ 330,788,814	\$ 339,085,929
Less provisions for		
Contractual adjustments under third-party reimbursement programs and other deductions	184,688,326	190,393,311
Provision for bad debts	26,246,313	27,354,373
Net patient service revenue	\$ 119,854,175	\$ 121,338,245

DELTA REGIONAL MEDICAL CENTER
Years Ended September 30, 2014 and 2013

NOTES TO FINANCIAL STATEMENTS

Note 8. Charity Care

The amount of charges foregone for services and supplies furnished under the Medical Center's charity care policy aggregated approximately \$7,570,000 and \$9,780,000 for the years ended September 30, 2014 and 2013, respectively.

Note 9. Pension Plan

The Medical Center pension plan (the "Plan") has a single-employer noncontributory defined benefit pension plan covering all covered employees as defined by the Plan. The Plan provides retirement, disability and death benefits. The Medical Center elected to freeze the 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:

	2014	2013
Annual required contribution	\$ 944,920	\$ 1,071,487
Interest on net pension asset	(7,095)	(7,164)
Adjustment to annual required contribution	8,036	8,088
Annual pension cost	945,861	1,072,411
Contributions made	944,920	1,071,487
Decrease in net pension asset	(941)	(924)
Net pension asset at beginning of year	94,600	95,524
Net pension asset at end of year	\$ 93,659	\$ 94,600

DELTA REGIONAL MEDICAL CENTER
Years Ended September 30, 2014 and 2013

NOTES TO FINANCIAL STATEMENTS

Note 9. Continued

The annual required contribution for fiscal 2014 was determined as part of the July 1, 2013 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:

Fiscal Year Ended September 30,	Annual Pension Cost ("APC")	Percentage of APC Contributed	Net Pension Asset
2014	\$ 945,861	100%	\$ 93,659
2013	1,072,411	100	94,600
2012	1,083,342	100	95,524

Analysis of the Plan's funding progress follows:

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a Percent of Covered Payroll
7/1/13	\$ 13,967,702	\$ 14,679,065	\$ 711,363	95.2%	\$ 23,831,513	3.0%
7/1/12	12,440,527	13,114,078	673,551	94.9	24,432,211	2.8
7/1/11	11,617,275	12,248,081	630,806	94.8	27,546,026	2.3

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 is as follows:

	2014	2013
Medicare	30%	28%
Medicaid	13	13
Commercial	29	30
Self-pay	28	29
	100%	100%

DELTA REGIONAL MEDICAL CENTER
Years Ended September 30, 2014 and 2013

NOTES TO FINANCIAL STATEMENTS

Note 10. Continued

Patient Service Revenue

The percentage mix of net patient service revenue for the years ended September 30, 2014 and 2013 for patient services rendered under contract with major third-party cost reimburses follows:

	2014	2013
Medicare	45%	46%
Medicaid	25	23
Commercial	29	29
Self-pay	1	2
	100%	100%

Note 11. Operating Leases

The Medical Center leases various equipment and facilities under operating leases expiring at various dates through 2019. Total rental expense for the years ended September 30, 2014 and 2013, for all operating leases was approximately \$1,357,000 and \$1,633,000, 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:

Year Ending September 30,	Amount
2015	\$ 1,065,294
2016	968,301
2017	920,228
2018	920,228
2019	920,228
	920,228
Total	\$ 4,794,279

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.

DELTA REGIONAL MEDICAL CENTER
Years Ended September 30, 2014 and 2013

NOTES TO FINANCIAL STATEMENTS

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.

The claims liability at September 30, 2014 and 2013 is based on the requirements of GASB, which provides that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. Changes in the Medical Center's claims liability amount during the past two years is reflected below:

	2014	2013
Balance, at beginning of year	\$ 570,488	\$ 572,835
Claims reported and claims incurred but not reported	4,432,727	4,568,015
Claims paid	<u>(4,493,838)</u>	<u>(4,570,362)</u>
Balance, at end of year	<u>\$ 509,377</u>	<u>\$ 570,488</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.

DELTA REGIONAL MEDICAL CENTER
Years Ended September 30, 2014 and 2013

NOTES TO FINANCIAL STATEMENTS

Note 13. Continued

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:

	Medical Malpractice			
	(Beginning) October 1,	Current Year Changes & Estimates	Current Year Claim Payments	(Ended) September 30, Liability
2014	\$ 1,179,762	\$ 162,787	\$ (118,832)	\$ 1,223,717
2013	1,042,913	602,776	(465,927)	1,179,762

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, 2014 or 2013.

Note 14. Risks and Uncertainties

Current Economic Conditions

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

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

DELTA REGIONAL MEDICAL CENTER
Years Ended September 30, 2014 and 2013

NOTES TO FINANCIAL STATEMENTS

Note 14. Continued

Patient Protection and Affordable Care Reconciliation Act

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

CMS Recovery Audit Contractor Program

The Centers for Medicare and Medicaid Services ("CMS") have implemented a Recovery Audit Contractors ("RAC") program. The purpose of the program is to reduce improper Medicare payments through the detection and recovery of overpayments. CMS has engaged subcontractors to perform these audits and they are being compensated on a contingency basis based on the amount of overpayments that are recovered. While management believes that all Medicare billings are proper and adequate support is maintained, certain aspects of Medicare billing, coding and support are subject to interpretation and may be viewed differently by the RAC auditors.

DELTA REGIONAL MEDICAL CENTER
 Schedule of Surety Bonds for Officers and Employees
 September 30, 2014

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



CPAs & Business Advisors

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees
Delta Regional Medical Center
Greenville, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Delta Regional Medical Center (the "Medical Center"), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements, and have issued our report thereon dated December 17, 2014.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Medical Center's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Governmental Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Ridgeland, Mississippi
December 17, 2014

**DELTA REGIONAL MEDICAL
CENTER**

Greenville, Mississippi

**Report on Compliance in
Accordance with OMB Circular A-133
For the Year Ended September 30, 2014**

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON
INTERNAL CONTROL OVER COMPLIANCE; AND
REPORT ON SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY OMB
CIRCULAR A-133**

Board of Trustees
Delta Regional Medical Center
Greenville, Mississippi

Report on Compliance for Each Major Federal Program

We have audited Delta Regional Medical Center's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal program for the year ended September 30, 2014. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Delta Regional Medical Center's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination on Delta Regional Medical Center's compliance.

Opinion on Each Major Federal Program

In our opinion, Delta Regional Medical Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

Report on Internal Control Over Compliance

Management of Delta Regional Medical Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Delta Regional Medical Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an 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 over compliance 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of Delta Regional Medical Center as of and for the year ended September 30, 2014, and have issued our report thereon dated December 17, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Ridgeland, Mississippi
December 17, 2014

DELTA REGIONAL MEDICAL CENTER
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2014

Federal Grantor/Pass Through Grantor Program or Cluster Title	Federal CFDA Number	Grant/Contract Period	Grant/Contract Award as of September 30, 2014	Federal Expenditures
Direct Programs				
U. S. Department of Housing and Urban Development Loan program Mortgage Insurance – Hospitals	14.128	02/22/07 – 08/01/33	\$ 35,625,000	\$ 30,585,000
Department of Health and Human Services Ryan White Part C Outpatient EIS Program	93.918	07/01/2013 – 04/30/2014	231,563	99,677
	93.918	05/01/2014 – 04/30/2015	277,875	64,229
Pass-Through Program				
From:				
Mississippi State Department of Health Ryan White Care Act Title II	93.917	07/01/2013 – 03/31/2014	250,000	46,162
	93.917	07/01/2014 – 03/31/2015	117,000	25,052
Total Expenditures of Federal Awards			\$	<u>30,820,120</u>

See notes to this schedule.

DELTA REGIONAL MEDICAL CENTER
Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2014

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, 2014. 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>\$ 30,585,000</u>

DELTA REGIONAL MEDICAL CENTER
Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

Section I - Summary of Auditor's Results

Financial Statements:

- | | |
|--|------------|
| 1. Type of auditor's report issued | Unmodified |
| 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 | Unmodified |
| 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:
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, 2014

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

DELTA REGIONAL MEDICAL CENTER

Corrective Action Plan

Year Ended September 30, 2014

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.