GREENWOOD LEFLORE HOSPITAL

Audited Financial Statements
Years Ended September 30, 2012 and 2011

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HORNE
CPAs & Business Advisors

INDEPENDENT AUDITOR'S REPORT

The Board of Hospital Commissioners
Greenwood Leflore Hospital
Greenwood, Mississippi

We have audited the accompanying balance sheets of Greenwood Leflore Hospital (the "Hospital"), a component unit of Leflore County, including the City of Greenwood, Mississippi, as of September 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

In accordance with *Government Auditing Standards,* we have also issued our report dated December 17, 2012 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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 on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the result of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 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 or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information on page 35 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements by us, and accordingly, we express no opinion on it.

Horne LLP

Ridgeland, Mississippi
December 17, 2012

The discussion and analysis of Hospital financial performance provides an overview of the Hospital's financial activities for the fiscal years ended September 30, 2012 and 2011. This discussion and analysis should be read in conjunction with the Hospital's financial statements, which begin on page 10.

Using This Annual Report

The Hospital's three main financial statements include the balance sheets; statements of revenues, expenses and changes in net assets; and statements of cash flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors or enabling legislation.

The Balance Sheets and Statements of Revenues, Expenses and Changes in Net Assets

The balance sheets include all of the Hospital'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 assets report all of the revenues and expenses during the time periods indicated.

The Statements of Cash Flows

The final required statements are the statements of cash flows. The statements report cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities.

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the balance sheet on page 10. The Hospital's net assets increased in each of the past two years by $73 thousand (less than 1 percent) in 2012 and $3.3 million (3.1 percent) in 2011, as illustrated on the following table.

Assets, Liabilities and Net Assets (in thousands)

	September 30,		
	2012	**2011**	**2010**
Assets			
Current assets	$ 57,584	$ 55,444	$ 40,332
Designated funds and funds held by trustee	20,000	20,000	20,000
Funds restricted by creditor for capital Improvements	2,737	9,794	-
Other long-term investments	-	-	12,726
Capital assets, net	54,974	50,645	53,607
Other assets	2,065	2,291	3,025
Total assets	$ 137,360	$ 138,174	$ 129,690

	September 30, 2012	2011	2010
Liabilities			
Current liabilities	$ 15,477	$ 16,101	$ 16,341
Long-term debt	9,837	10,100	4,702
Total liabilities	$ 25,314	$ 26,201	$ 21,043
Net assets			
Invested in capital assets, net of related debt	$ 44,874	$ 40,355	$ 45,871
Restricted			
Expendable for capital improvements	2,737	9,794	-
Expendable for use in self-insurance	1,648	1,649	489
Expendable for specific operating activities	42	43	51
Unrestricted	62,745	60,132	62,236
Total net assets	$ 112,046	$ 111,973	$ 108,647

The Hospital's cash and investment position decreased in 2012 by $8.8 million. This net decrease in cash is attributable to the outlays related to the central plant renovation project, the electronic medical record implementation and the use of operating cash to reduce current liabilities. In 2011 the Hospital increased its cash and investment position by $12.4 million. The net increase in cash is attributable to the addition of the restricted funding for the central plant renovation project and the accumulation of operating cash to establish reserves in investments in excess of the use of operating cash to reduce current liabilities.

The following is a summary of the Hospital's cash and investment position at September 30, (in thousands):

	2012	2011	2010
Cash and cash equivalents	$ 17,601	$ 19,354	$ 5,180
Restricted cash and cash equivalents	1,648	1,649	489
Designated by Board for capital improvements	20,000	20,000	20,000
Restricted by creditor for capital improvements	2,737	9,794	-
Other long-term investments	-	-	12,726
Total available cash and investments	$ 41,986	$ 50,797	$ 38,395

Cash and investment balances available for operations at September 30, 2012 and September 30, 2011 represent cash sufficient to cover approximately 115 and 122 days of operating expenses, respectively.

Capital Assets and Debt Administration

Net capital assets increased by $4.3 million in 2012. This increase relates to $12 million in capital expenditures offset by $7.7 million in depreciation of the Hospital's assets. Net capital assets decreased by $3 million in 2011. This decrease relates to $5.3 million in capital expenditures, including those financed by capital leases offset by $8.3 million in depreciation of the Hospital's assets.

Current liabilities decreased by $624 thousand in 2012, due to increases in accounts payable offset by a decrease in accrued expenses. Current liabilities decreased by $240 thousand in 2011, due to decreases in accounts payable and accrued expenses as well as a decrease in current portion of long-term debt.

Long-term debt, net of current portion, decreased by $263 thousand in 2012, due changes in the current portion of long-term debt. Long-term debt, net of current of current portion increased by $5.4 million in 2011, due to the addition of financing for the central plant renovation in excess of repayments of long-term debt and changes in the current portion of long-term debt.

The table below shows the changes in capital assets:

Capital Assets (in thousands)

	September 30, 2012	September 30, 2011	September 30, 2010
Land and land improvements	$ 1,801	$ 1,882	$ 1,875
Building and leasehold improvements	36,109	36,245	36,347
Equipment	108,484	103,002	100,758
Subtotal	146,394	141,129	138,980
Less: Accumulated depreciation	(103,195)	(95,663)	(87,564)
Construction in progress	11,775	5,179	2,191
Net capital assets	$ 54,974	$ 50,645	$ 53,607

The table below shows the changes in revenues, expenses and net assets:

Revenues, Expenses and Changes in Net Assets (in thousands)

	Fiscal Year Ended September 30,		
	2012	**2011**	**2010**
Operating revenues			
Net patient service revenue	$ 122,461	$ 127,783	$ 127,733
Other revenues	4,736	1,763	1,675
Total operating revenues	127,197	129,546	129,408
Operating expenses			
Professional care of patients	86,669	81,933	82,577
General, administrative and plant services	21,146	21,626	22,191
Employee health and welfare	11,884	14,384	12,538
Depreciation and amortization	7,720	8,352	8,741
Total operating expenses	127,419	126,295	126,047
Operating income (loss)	(222)	3,251	3,361
Non-operating revenues (expenses)			
Investment income	371	606	813
Interest expense	-	(252)	(326)
Loss on impairment of capital assets	-	(269)	-
Loss on disposal of capital assets	(76)	(10)	-
Total non-operating revenues, net	295	75	487
Increase in net assets	$ 73	$ 3,326	$ 3,848
Net assets, beginning of year	$ 111,973	$ 108,647	$ 104,799
Net assets, end of year	$ 112,046	$ 111,973	$ 108,647

Net Patient Service Revenue

Fiscal Year Ended September 30, 2012

Compared to 2011, net patient service revenue decreased by $5.3 million or 4.1 percent due to decreases in patient volumes and a decrease in the UPL payment. A shift in the payor mix with a 12% increase in self pay, along with a 6% decrease in Medicare and a 4% decrease in Blue Cross, also contributed to the decreased net revenue Gross revenues decreased $2.7 million or .6 percent primarily as a result of decreased inpatient volumes. Inpatient admissions decreased 10 percent while average length of stay decreased .23 percent, resulting in total patient days decreasing 10 percent. In general, outpatient visits to the Hospital increased approximately .75 percent. Gains in patient volume were recognized in inpatient rehabilitation, radiology, operating room, physical therapy and the clinic network while decreases were recognized in routine nursing, ICU, newborn nursery, labor and delivery, cardio-pulmonary, laboratory and wound care.

Contractual adjustments, which are deductions from gross patient service revenue, increased $4.7 million (1.7 percent) from $264.8 million in 2011 to $269.5 million in 2012. Contractual adjustments expressed as a percentage of gross patient service revenues were 65.8 percent in 2012 and 64.2 percent in 2011. Since the majority of the Hospital's patients are Medicare, Medicaid and Blue Cross, price increases have little to no effect on increased reimbursement. The Hospital's net benefit from the Medicaid voluntary contribution program and the Medicare Upper Payment Limit program decreased approximately $2.7 million in fiscal year 2012. There can be no assurance that the Hospital will continue to qualify for future participation in these programs or that the programs will not ultimately be discontinued or materially modified.

Bad debt expense decreased $2 million (10.6 percent) from $19.6 million in 2011 to $17.5 million in 2012. Bad debt expense expressed as a percentage of gross patient service revenue was 4.3 percent in 2012 and 4.8 percent 2011.

Fiscal Year Ended September 30, 2011

Compared to 2010, net patient service revenue increased by $50 thousand or .04 percent due to increases in patient volumes offset by a decrease in the UPL payment. Gross revenues increased $8.1 million or 2 percent primarily as a result of increased outpatient volumes. Inpatient admissions increased .1 percent while average length of stay increased .8 percent, resulting in total patient days increasing .9 percent. In general, outpatient visits to the Hospital increased approximately 4.9 percent. Gains in patient volume were recognized in expanding services including routine nursing, skilled nursing, geri psychiatric unit, endoscopy, emergency room, laboratory, radiology and wound care while decreases were recognized in ICU, rehabilitation unit, newborn nursery, labor and delivery, cardio pulmonary, pain clinic, sleep lab and the clinic network.

Contractual adjustments, which are deductions from gross patient service revenue, increased $14.7 million (5.8 percent) from $250.1 million in 2010 to $264.8 million in 2011. Contractual adjustments expressed as a percentage of gross patient service revenues were 64.2 percent in 2011 and 61.9 percent in 2010. Since the majority of the Hospital's patients are Medicare, Medicaid and Blue Cross, price increases have little to no effect on increased reimbursement. The Hospital's net benefit from the Medicaid voluntary contribution program and the Medicare Upper Payment Limit program decreased approximately $4.3 million in fiscal year 2011. There can be no assurance that the Hospital will continue to qualify for future participation in these programs or that the programs will not ultimately be discontinued or materially modified.

Bad debt expense decreased $6.6 million (25 percent) from $26.2 million in 2010 to $19.6 million in 2011. Bad debt expense expressed as a percentage of gross patient service revenue was 4.8 percent in 2011 and 6.5 percent 2010.

Operating Expenses

Fiscal Year Ended September 30, 2012

Total operating expenses were $127.4 million in 2012 compared to $126.3 million in 2011, an increase of $1.1 million or .8 percent.

Professional care of patients' expenses comprise 68 percent and 64.8 percent of total operating expenses for 2012 and 2011, respectively, and increased from $81.9 million in 2011 to $86.6 million in 2012, an increase of $4.7 million or 5.7 percent. Salaries and contract expenses associated with rendering patient care comprises approximately 72.3 percent of total professional care of patients' expenses. Salaries and contract expenses within this cost component increased approximately $3.8 million in 2012 primarily due to the acquisition of a physician practice and additional physician recruitment and employment. Supplies and other costs included in the professional care of patients' component increased 322 thousand from 2011 to 2012 due to patient volume increases in the operating room. The Medicaid net revenue tax expense increased $923 thousand from 2011 to 2012.

General, administrative and plant expenses comprise approximately 17 percent and 17.1 percent of total operating expenses in 2012 and 2011, respectively. These costs decreased $414 thousand from 2011 to 2012.

Employee health and welfare expenses comprise 9.3 percent and 11.3 percent of total operating expenses for 2012 and 2011, respectively. These costs decreased from $14.3 million in 2011 to $11.8 million in 2012, a decrease of $2.5 million or 17.5 percent. This decrease is due to changes made to the employee health insurance benefit in January 2012, as well as the freezing of the defined benefit pension plan in April 2012.

Depreciation and amortization was $7.7 million and $8.3 million in 2012 and 2011, respectively.

Fiscal Year Ended September 30, 2011

Total operating expenses were $126.3 million in 2011 compared to $126 million in 2010, an increase of $300 thousand or .2 percent.

Professional care of patients' expenses comprise 64.8 percent and 65.5 percent of total operating expenses for 2011 and 2010, respectively and decreased from $82.6 million in 2010 to $81.9 million in 2011, a decrease of $700 thousand or .8 percent. Salaries and contract expenses associated with rendering patient care comprises approximately 71.2 percent of total professional care of patients' expenses. Salaries and contract expenses within this cost component decreased approximately $562 thousand in 2011 primarily due to retention programs, incentives and a reduction in the utilization of contract nursing. Supplies and other costs included in the professional care of patients' component increased 400 thousand from 2010 to 2011 due to patient volume increases. The Medicaid net revenue tax expense decreased $410 thousand from 2010 to 2011.

General, administrative and plant expenses comprise approximately 17.1 percent and 17.6 percent of total operating expenses in 2011 and 2010, respectively. These costs decreased $564 thousand from 2010 to 2011.

Employee health and welfare expenses comprise 11.3 percent and 10 percent of total operating expenses for 2011 and 2010, respectively. These costs increased from $12.5 million in 2010 to $14.3 million in 2011, an increase of $1.8 million or 14.4 percent. This increase is due to the increased utilization and corresponding cost of health coverage for the hospital's employees. Another factor in the increase is the addition of employed nurses to the hospital's payroll and benefits system as we eliminated contract nursing.

Depreciation and amortization was $8.3 million and $8.7 million in 2011 and 2010, respectively.

Economic Factors and Next Year's Budget

The Board of Hospital Commissioners approved the 2013 operating budget. The budget was developed after a review of key volume indicators and trends, a review of the Hospital's strategic business plan, a review of the funding changes to Medicaid and a review of local economic conditions in Leflore County. The budget provides for net income of $3.1 million and a 2.4 percent margin.

Contacting the Hospital Financial Manager

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Hospital's finances. If you have any questions about this report or need additional financial information, please contact the Chief Financial Officer, Greenwood Leflore Hospital, P.O. Box 1410, Greenwood, Mississippi 38935.

GREENWOOD LEFLORE HOSPITAL
Balance Sheets
September 30, 2012 and 2011

	2012	2011
ASSETS		
Current assets		
Cash and cash equivalents	$ 17,601,489	$ 19,353,970
Assets limited as to use	1,648,480	1,648,507
Patient accounts receivable, net of allowance for doubtful accounts of $19,626,617 and $17,575,340, respectively	27,486,044	25,444,199
Estimated third-party payor settlements	3,860,279	3,602,435
Other receivables	1,738,214	233,750
Inventories	2,363,357	2,425,894
Prepaid expenses and other current assets	2,887,051	2,735,442
Total current assets	57,584,914	55,444,197
Noncurrent cash and investments		
Funds internally designated for capital improvements	20,000,000	20,000,000
Funds restricted by creditor for capital improvements	2,736,766	9,794,229
Total noncurrent cash and investments	22,736,766	29,794,229
Capital assets, net	54,973,701	50,645,331
Other assets		
Other receivables	1,399,740	1,623,697
Other assets	664,946	666,896
Total other assets	2,064,686	2,290,593
Total assets	$ 137,360,067	$ 138,174,350
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion of capital lease obligations	$ -	$ 190,186
Current portion of long-term debt	263,431	-
Accounts payable	7,348,334	5,835,394
Accrued expenses, including payroll taxes withheld	7,865,786	10,075,707
Total current liabilities	15,477,551	16,101,287
Long-term debt, less current portion	9,836,569	10,100,000
Total liabilities	25,314,120	26,201,287
Net assets		
Invested in capital assets, net of related debt	44,873,701	40,355,145
Restricted		
Expendable for capital improvements	2,736,766	9,794,229
Expendable for use in self-insurance	1,648,480	1,648,507
Expendable for specific operating activities	42,319	42,682
Unrestricted	62,744,681	60,132,500
Total net assets	112,045,947	111,973,063
Total liabilities and net assets	$ 137,360,067	$ 138,174,350

See notes to financial statements.

GREENWOOD LEFLORE HOSPITAL

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended September 30, 2012 and 2011

	2012	2011
Operating revenues		
Net patient service revenue, net of provision for bad debts of $17,538,405 and $19,626,975, respectively	$ 122,461,237	$ 127,783,285
Other revenues	4,736,333	1,763,530
Total operating revenues	127,197,570	129,546,815
Operating expenses		
Professional care of patients	86,668,820	81,932,767
General and administrative services	13,633,139	14,200,173
Dietary services	1,647,022	1,600,484
Household and plant operations	5,865,788	5,826,409
Employee health and welfare	11,884,248	14,383,815
Depreciation and amortization	7,720,087	8,351,794
Total operating expenses	127,419,104	126,295,442
Income (loss) from operations	(221,534)	3,251,373
Nonoperating revenues (expenses)		
Investment income	371,260	606,244
Interest expense	-	(252,124)
Loss on impairment of capital assets	-	(269,257)
Loss on disposal of capital assets	(76,842)	(10,270)
Total nonoperating income	294,418	74,593
Increase in net assets	72,884	3,325,966
Net assets, beginning of year	111,973,063	108,647,097
Net assets, end of year	$ 112,045,947	$ 111,973,063

See notes to financial statements.

GREENWOOD LEFLORE HOSPITAL

Statements of Cash Flows

Years Ended September 30, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Receipts from and on behalf of patients	$ 118,657,084	$ 127,628,605
Payments to employees	(72,097,126)	(67,306,140)
Payments to suppliers and contractors	(48,162,037)	(46,923,629)
Other receipts and payments, net	4,736,333	1,763,530
Net cash provided by operating activities	3,134,254	15,162,366
Cash flows from capital and related financing activities		
Principal paid on capital lease obligations	(190,186)	(8,232,872)
Interest paid on capital lease obligations	-	(252,124)
Proceeds from long-term debt	-	10,100,000
Proceeds from sale of capital assets	436,111	7,212
Purchase of capital assets	(12,561,410)	(4,989,232)
Net cash used for capital and related financing activities	(12,315,485)	(3,367,016)
Cash flows from investing activities		
Sale of investments	4,287,354	23,320,609
Interest and dividends on investments	371,260	606,244
Net cash provided by investing activities	4,658,614	23,926,853
Increase (decrease) in cash and cash equivalents	(4,522,617)	35,722,203
Cash and cash equivalents, beginning of year	41,391,084	5,668,881
Cash and cash equivalents, end of year	$ 36,868,467	$ 41,391,084
Reconciliation of cash and cash equivalents to balance sheet		
Cash and cash equivalents	$ 17,601,489	$ 19,353,970
Assets limited as to use	1,648,480	1,648,507
Cash internally designated for capital improvements	14,881,732	10,594,378
Cash restricted by creditor for capital improvements	2,736,766	9,794,229
Total cash and cash equivalents	$ 36,868,467	$ 41,391,084

	2012	2011
Reconciliation of income (loss) from operations to net cash provided by operating activities		
Income (loss) from operations	$ (221,534)	$ 3,251,373
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities		
Depreciation and amortization	7,720,087	8,351,794
Provision for bad debts	17,538,405	19,626,975
Changes in assets and liabilities		
Receivables	(21,084,714)	(18,971,921)
Inventories	62,537	123,322
Prepaid and other assets	74,298	986,831
Accounts payable	1,512,940	991,009
Estimated third-party payor settlements	(257,844)	(809,734)
Accrued expenses, including payroll taxes withheld	(2,209,921)	1,612,717
Net cash provided by operating activities	$ 3,134,254	$ 15,162,366
Noncash investing capital and financing activities		
Capital lease obligations	$ -	$ 687,207
Loss on disposal of capital assets	$ (76,842)	$ (10,270)
Loss on impairment of capital assets	$ -	$ (269,257)

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

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

Reporting Entity

The Hospital is a governmental entity consisting of a 248-bed acute-care hospital and related psychiatric, rehabilitation and outpatient care facilities and physician clinics principally located in Greenwood, Mississippi. The Hospital is a governmental component unit of Leflore County, Mississippi (including the City of Greenwood), principally due to the Hospital's financial accountability as defined in Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, as amended. The Hospital is governed by a five-member Board of Hospital Commissioners, three of whom are appointed by the Board of Supervisors of Leflore County and two of whom are appointed by the Mayor and Board of Commissioners of the City of Greenwood.

The Hospital is an independent enterprise held and operated separate and apart from all other assets and activities of the city or the county. The Hospital is not a taxable entity and does not file income tax returns. Budgets are prepared on a basis consistent with accounting principles generally accepted in the United States of America with concurrence by the Hospital's owners on an annual basis. The Hospital, however, is not required by statute to adopt a legally binding budget. Accordingly, budgetary information is not a required part of these financial statements.

The significant accounting policies used by the Hospital in preparing and presenting its financial statements follows:

Blended Component Unit

The accompanying financial statements include the accounts of the Hospital and its controlling interest in the Cleveland Medical Alliance, presented as a blended component unit at September 30, 2012 and 2011 into the Hospital's financial statements in accordance with GASB Statement No. 39, which defines the reporting entity. The Cleveland Medical Alliance ceased its operations during 2005. All material inter-company accounts and transactions have been eliminated.

Basis of Accounting

The Hospital utilizes the enterprise fund accounting. Revenues and expenses are recognized on an annual basis using the economic resources measurement focus.

Pursuant to and as permitted by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board ("FASB"), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities at the date of the financial statements. Significant estimates and assumptions are used for, but are not limited to, contractual 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, accounting estimates require the exercise of judgment. In particular, laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates related to these programs will change by a material amount in the near term.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less. This includes amounts internally designated, amounts restricted for self-insurance programs and amounts restricted by creditors.

Patient Accounts Receivable

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

Inventories

Inventories, which consist primarily of medical supplies and drugs, are valued at the lower of average cost or market.

Investments

Investments in debt and equity securities are carried at fair value except for investments in money market investments and participating interest-earning investment contracts with a remaining maturity of less than one year at the time of purchase. These investments are reported at amortized cost, which approximates fair value. Investment income on investments in debt and

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

equity securities, including realized and unrealized gains and losses, are included in nonoperating revenues when earned or incurred.

Designated Funds

Funds designated by the Board include assets set aside by the Board of Hospital Commissioners for plant replacement and expansion, over which the Board retains control and may at its discretion use for other purposes.

Capital Assets

Capital asset acquisitions are recorded at cost if purchased or at fair value at date of receipt if donated. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term of the estimated useful life of the equipment. Such amortization is included with depreciation in the accompanying financial statements. Depreciation of property and equipment is provided over the estimated useful life of each class of depreciable asset using the straight-line method.

Useful lives for the major asset classes follows:

	Years
Land improvements	5 – 20
Buildings and improvements	5 – 40
Fixed equipment	5 – 25
Major moveable equipment	5 – 20
Assets under capital lease	3 – 5

Major improvements and betterments to capital assets are capitalized. Expenses for maintenance and repairs which do not extend the lives of the related assets, are charged to expense as incurred. When retired or otherwise disposed of, the asset and its related accumulated depreciation or amortization is adjusted accordingly, and any resulting gain or loss is included in the statements of revenues, expenses and changes in net assets.

Impairment of Long-lived Assets

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Income Taxes

The Hospital qualifies as a tax-exempt organization under existing provisions of the Internal Revenue Code and its income is generally not subject to federal and state income taxes.

Net Assets

Net assets consist of those net assets invested in capital assets (property and equipment), net of related debt, restricted net assets and unrestricted net assets. Net assets invested in capital assets, net of related debt, consists of capital assets net of accumulated depreciation and the outstanding balance of any related debt that is attributable to the acquisitions of the capital assets. Restricted net assets are those assets that are externally restricted by creditors, grants or contributors or laws and regulations or those restricted by constitutional provisions and enabling legislation. Expendable restricted net assets are those that may be expended for the restricted purpose. Nonexpendable restricted net assets are those that must be held in perpetuity. Unrestricted net assets consist of all other assets.

When both restricted and unrestricted resources are available to finance particular programs, it is the Hospital's policy to use the restricted resources before using the unrestricted resources.

Operating Revenue and Expenses

The Hospital's statements of revenues, expenses and changes in net assets distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services which is the Hospital's principal activity. Non-exchange revenues, including gifts and bequests, and revenues and expenses associated with investment income and financing, are reported as nonoperating revenues and expenses. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital 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 Hospital's revenue. The laws and regulations under which Medicare

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

and Medicaid programs operate are complex and subject to interpretation and frequent changes. As part of operating under these programs, there is a possibility that government authorities may review the Hospital's compliance with these laws and regulations. Such review may result in adjustments to program reimbursement previously received and subject the Hospital to fines and penalties. Although no assurance can be given, management believes it has complied with the requirements of these programs.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

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 Hospital 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 Hospital recognizes revenues related to Medicare incentive payments ratably over each EHR reporting period (October 1 to September 30) when it has been demonstrated meaningful use requirements of certified EHR technology for the EHR reporting period. The Hospital 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 Hospital recognized $3,151,810 and $233,750 of revenues related to the Medicare and Medicaid incentive programs for the years ended September 30, 2012 and 2011, respectively. These revenues are reflected in other operating revenues on the accompanying statements of revenues, expenses and changes in net assets. The Hospital recorded $1,738,214 and $233,750 of receivables related to the Medicare and Medicaid incentive programs for the years ended September 30, 2012 and 2011, respectively. These receivables are reflected in other current receivables on the accompanying balance sheets. Future incentive payments could vary due to certain factors such as availability of federal funding for both Medicare and Medicaid incentive payments and the Hospital's ability to implement and demonstrate meaningful use of certified EHR technology. The Hospital has and will continue to incur both capital costs and operating expenses in order to implement its certified EHR technology and meet meaningful use requirements in the future. These expenses are ongoing and are projected to continue overall 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 Hospital will be able to continue to demonstrate meaningful use of certified EHR technology in the future, and the failure to do so could have a material, adverse

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

effect on the results of operations. As a part of operating this program, there is a possibility that government authorities may make adjustments to amounts previously recorded by the Hospital. The Hospital'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 is subject to change. Such changes will be reflected in the period in which the changes occur.

Grants and Contributions

Revenues from grants and contributions either from governmental units or private organizations are recognized when all eligibility requirements, including time requirements are met. Gifts and bequests may be restricted for either specific operating purposes or the capital purposes. Amounts that are unrestricted or that are restricted to specific operating purposes are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Compensated Absences

The Hospital's employees earn vacation days at varying rates depending on years of service. Vacation time does not accumulate. Generally, any days not used at year-end expire. Employees also earn sick leave benefits based on varying rates depending on years of service. Employees may accumulate sick leave up to a specified maximum. Employees are not paid for accumulated sick leave if they leave before retirement. However, employees who retire from the Hospital may convert accumulated sick leave to termination payments at varying rates, depending on the employee's contract. Due to the contingent nature of these payments, no amounts have been accrued in the accompanying financial statements.

Estimated Health Insurance

The Hospital periodically considers the need for recording a liability for health insurance claims. When determined to be necessary, the provision for estimated health insurance claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Estimated Malpractice Costs

The Hospital considers the need for recording a liability for malpractice claims. The provision for estimated malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Reclassifications

Certain reclassifications have been made to the financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operation or net assets.

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

New Accounting Pronouncements

In August 2010, the FASB issued Accounting Standards Update No. 2010-23 ("ASU 2010-23"), which requires health care entities to use cost as the measurement basis for charity care disclosures and defines cost as the direct and indirect costs of providing charity care. The amended disclosure requirements are effective for fiscal years beginning after December 15, 2010 and must be applied retrospectively. The new guidance became effective for the Hospital during 2012. Note 11 reflects the amended disclosure requirements, and the costs of caring for charity care patients in prior periods disclosed in Note 11 have been restated. Since the new guidance amends disclosure requirements only, its adoption did not impact the Hospital's balance sheets, statements of revenues, expenses and changes in net assets, or cash flow statements.

Note 2. Deposits and Investments

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Hospital's deposits might not be recovered. The collateral for public entities' deposits in financial institutions are 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 Hospital'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 bank balance of the collateralized and insured balances were $40,517,442 and $51,892,379 at September 30, 2012 and 2011, respectively, including certificates of deposit and money market accounts listed below.

Investments

The statutes of the State of Mississippi restrict the authorized investments of the Hospital to obligations of the U. S. Treasury, agencies and instrumentalities of the United States and certain other types of investments. The Hospital 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.

NOTES TO FINANCIAL STATEMENTS

Note 2. Continued

The Hospital's investments generally are reported at fair value, as discussed in Note 1. At September 30, 2012 and 2011, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by a custodial bank that is an agent of the Hospital.

September 30, 2012	**Carrying**	**Investment Maturities (in Years)**	
Investment Type	**Amount**	**Less Than 1**	**1 – 5**
Certificates of Deposit	$ 5,118,268	$ 3,108,888	$ 2,009,380
Total	$ 5,118,268	$ 3,108,888	$ 2,009,380

September 30, 2011	**Carrying**	**Investment Maturities (in Years)**	
Investment Type	**Amount**	**Less Than 1**	**1 – 5**
Certificates of Deposit	$ 9,405,622	$ 6,345,622	$ 3,060,000
Total	$ 9,405,622	$ 6,345,622	$ 3,060,000

Deposits and investments are presented on the balance sheets as of September 30, 2012 and 2011, as follows:

	2012	**2011**
Cash and cash equivalents	$ 36,868,467	$ 41,391,084
Investments	5,118,268	9,405,622
Total	$ 41,986,735	$ 50,796,706
Cash and cash equivalents	$ 17,601,489	$ 19,353,970
Assets limited as to use	1,648,480	1,648,507
Internally designated for capital improvements	20,000,000	20,000,000
Restricted by creditor for capital improvements	2,736,766	9,794,229
Total	$ 41,986,735	$ 50,796,706

Of the $62,744,681 and $60,132,500 of unrestricted net assets reported in 2012 and 2011, respectively, $20,000,000 has been internally designated by the Hospital's Board of Commissioners for capital acquisitions. Designated funds remain under the control of the Board of Commissioners, which may at its discretion, later use the funds for other purposes.

NOTES TO FINANCIAL STATEMENTS

Note 3. Capital Assets

Major classes of capital assets at September 30, 2012 and 2011 are summarized as follows:

	2012	2011
Land and improvements	$ 1,801,201	$ 1,881,751
Buildings	36,108,491	36,245,441
Assets under capital lease	2,028,269	2,028,269
Fixed equipment	6,028,035	6,006,961
Moveable equipment	100,427,611	94,967,122
Total capital assets	146,393,607	141,129,544
Less accumulated depreciation	103,195,050	95,663,293
Add construction in progress	11,775,144	5,179,080
Capital assets, net	$ 54,973,701	$ 50,645,331

Depreciation expense for the years ended September 30, 2012 and 2011 totaled $7,720,087 and $8,351,794, respectively.

A summary of capital assets for the years ended September 30, 2012 and 2011 follows:

	Balance September 30, 2011	Increases	Decreases	Balance September 30, 2012
Capital assets not being depreciated				
Land	$ 643,475	$ -	$ (80,550)	$ 562,925
Construction in progress	5,179,080	11,033,680	(4,437,616)	11,775,144
Total	5,822,555	11,033,680	(4,518,166)	12,338,069
Capital assets being depreciated				
Land improvements	1,238,276	-	-	1,238,276
Buildings	36,245,441	276,036	(412,986)	36,108,491
Assets under capital lease	2,028,269	-	-	2,028,269
Fixed equipment	6,006,961	21,074	-	6,028,035
Movable equipment	94,967,122	5,671,944	(211,455)	100,427,611
Total	140,486,069	5,969,054	(624,441)	145,830,682
Less accumulated depreciation for				
Land improvements	$ (250,914)	$ (25,763)	$ -	$ (276,677)
Buildings	(9,334,916)	(912,918)	15,466	(10,232,368)
Assets under capital lease	(1,623,752)	(36,033)	-	(1,659,785)
Fixed equipment	(3,500,999)	(46,113)	-	(3,547,112)
Movable equipment	(80,952,712)	(6,699,260)	172,864	(87,479,108)
Total accumulated depreciation	(95,663,293)	(7,720,087)	188,330	(103,195,050)
Depreciable capital assets, net	44,822,776	(1,751,033)	(436,111)	42,635,632
Total capital assets, net	$ 50,645,331	$ 9,282,647	$ (4,954,277)	$ 54,973,701

NOTES TO FINANCIAL STATEMENTS

Note 3. Continued

A summary of capital assets for the years ended September 30, 2011 and 2010 follows:

	Balance September 30, 2010	Increases	Decreases	Balance September 30, 2011
Capital assets not being depreciated				
Land	$ 643,475	$ -	$ -	$ 643,475
Construction in progress	2,190,846	4,009,906	(1,021,672)	5,179,080
Total	2,834,321	4,009,906	(1,021,672)	5,822,555
Capital assets being depreciated				
Land improvements	1,232,076	6,200	-	1,238,276
Buildings	36,346,824	167,874	(269,257)	36,245,441
Assets under capital lease	2,028,269	-	-	2,028,269
Fixed equipment	5,839,040	167,921	-	6,006,961
Movable equipment	92,890,628	2,346,210	(269,716)	94,967,122
Total	138,336,837	2,688,205	(538,973)	140,486,069
Less accumulated depreciation for				
Land improvements	$ (225,151)	$ (25,763)	$ -	$ (250,914)
Buildings	(8,408,911)	(926,005)	98,594	(9,334,916)
Assets under capital lease	(1,586,975)	(36,777)	-	(1,623,752)
Fixed equipment	(3,462,833)	(38,166)	-	(3,500,999)
Movable equipment	(73,879,863)	(7,325,083)	153,640	(80,952,712)
Total accumulated depreciation	(87,563,733)	(8,351,794)	252,234	(95,663,293)
Depreciable capital assets, net	50,773,104	(5,663,589)	(286,739)	44,822,776
Total capital assets, net	$ 53,607,425	$ (1,653,683)	$ (1,308,411)	$ 50,645,331

The Hospital had approximately $2,678,000 and $361,000 in construction commitments outstanding as of September 30, 2012 and 2011, respectively. Interest capitalized and included in construction in progress during the years ended September 30, 2012 and 2011 totaled $359,600 and $269,700, respectively.

Note 4. Other Receivables

The Hospital has entered into various agreements with physicians, registered nurses and other health care professionals specifically to benefit the Hospital's community service area. These agreements include income guarantees, loans, scholarships 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. Loans are generally due within five years.

NOTES TO FINANCIAL STATEMENTS

Note 4. Continued

Advances under some agreements are forgiven upon fulfillment of the professional's contractual service commitment, but are due in full if such commitment is not fulfilled. Advances under those arrangements are amortized to expense using the straight-line method over the related commitment period. Amounts expected to be amortized in the ensuing fiscal year are classified as a current asset in the accompanying balance sheets.

During 2009, the Hospital entered into a loan agreement for 60 months at 6 percent interest with LTAC Hospital of Greenwood, LLC in the amount of $2,150,976 which consisted of debt owed to the Hospital by the previous owner but now assumed by LTAC Hospital of Greenwood, LLC. The balance at September 30, 2012 and 2011 totaled $461,685 and $785,189, respectively.

Note 5. Other Assets

The composition of other assets consisted of the following as of September 30:

	2012	2011
Net pension asset	$ 647,452	$ 649,402
Other	17,494	17,494
Total other assets	$ 664,946	$ 666,896

Note 6. Long-Term Debt

A summary of long-term debt consisted of the following as of September 30:

	2012	2011
Master lease agreement, collateralized by equipment, payable in monthly installments of $95,594, including interest at 4.21 percent, paid off during 2012	$ -	$ 190,186
Note payable, collateralized by equipment, payable in monthly installments of interest only at 3.56 percent until January 2013 at which principal payments will begin in monthly installments of $58,888, including interest at 3.56 percent, through December 2017	10,100,000	10,100,000
	10,100,000	10,290,186
Less current portion of note payable obligations	(263,431)	(190,186)
Long-term debt, excluding current portion	$ 9,836,569	$ 10,100,000

NOTES TO FINANCIAL STATEMENTS

Note 6. Continued

Debt service requirements associated with the Hospital's long-term debt as of September 30, 2012 follow:

Year Ending September 30,	Note Payable Principal	Note Payable Interest
2013	$ 263,431	$ 356,499
2014	362,346	344,308
2015	375,458	331,195
2016	389,045	317,609
2017	403,123	303,531
2018	8,306,597	73,624
	$ 10,100,000	$ 1,726,766

Changes in the Hospital's long-term debt for fiscal year 2012 are as follows:

Description	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
Capital lease obligations	$ 190,186	$ -	$ 190,186	$ -	$ -
Note payable	10,100,000	-	-	10,100,000	263,431
	$ 10,290,186	$ -	$ 190,186	$ 10,100,000	$ 263,431

Changes in the Hospital's long-term debt for fiscal year 2011 are as follows:

Description	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
Capital lease obligations	$ 7,735,851	$ 687,207	$ 8,232,872	$ 190,186	$ 190,186
Note payable	-	10,100,000	-	10,100,000	-
	$ 7,735,851	$ 10,787,207	$ 8,232,872	$ 10,290,186	$ 190,186

Effective December 22, 2010, the Hospital entered into an Equipment Lease-Purchase Agreement by issuing a bond in the amount of $10,100,000 maturing December 22, 2017. The proceeds are held in escrow in a public money market account to be used to purchase equipment in accordance with the Equipment Lease-Purchase Agreement. The balance in the escrow account was $2,736,766 and $9,794,229 at September 30, 2012 and 2011, respectively, and is presented as restricted net assets on the accompanying balance sheet.

NOTES TO FINANCIAL STATEMENTS

Note 7. Net Assets

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

	2012	2011
Capital assets	$ 158,168,751	$ 146,308,624
Less accumulated depreciation	(103,195,050)	(95,663,293)
Less debt outstanding related to capital assets	(10,100,000)	(10,290,186)
Net assets invested in capital assets, net of related debt	$ 44,873,701	$ 40,355,145

Note 8. Pension Plan

Greenwood Leflore Hospital Pension Plan (the "Plan") is a single-employer defined benefit pension plan sponsored by the Hospital. The Plan provides retirement, disability and death benefits to Plan members and beneficiaries. The Hospital elected to freeze the Plan as of March 31, 2012.

Funding Policy

The Hospital contributes the amount necessary to fund the Plan at an actuarially determined rate. Employees are not allowed to contribute to the Plan. The current actuarially required minimum rate is 1.7 percent of annual covered payroll. The Hospital's contributions to the Plan for the years ended September 30, 2012 and 2011 were $1,898,954 and $2,190,303, respectively, equal to the required annual contributions for each year.

Annual Pension Cost and Net Pension Asset

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

	2012	2011
Annual required contribution	$ 1,898,954	$ 2,190,303
Interest on net pension asset	(50,329)	(50,480)
Adjustment to annual required contribution	52,279	52,435
Annual pension cost	1,900,904	2,192,258
Contributions made	1,898,954	2,190,303
Decrease in net pension asset	1,950	1,955
Net pension asset at beginning of year	649,402	651,357
Net pension asset at end of year	$ 647,452	$ 649,402

NOTES TO FINANCIAL STATEMENTS

Note 8. Continued

The annual required contribution for 2012 and 2011 was determined by an actuary using the frozen initial liability method. The actuarial assumptions for both years included (a) 7.75 percent investment rate of return and (b) projected salary increases of 6.5 percent per year to age 65. Both (a) and (b) included a cost of living escalation of 5 percent per year.

Three-Year Trend Information

Fiscal Year Ended September 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
2012	$ 1,900,904	99.9%	$ 647,452
2011	2,192,258	99.9%	649,402
2010	1,973,339	99.9%	651,357

Funding Progress

Analysis of the Plan's funding progress follows:

Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a % of Covered Payroll
10/1/11	$ 23,380,061	$ 35,236,629	$ 11,856,568	66.4%	$ 40,123,235	29.6%
10/1/10	22,040,946	35,593,952	13,553,006	61.9%	38,142,043	35.5%
10/1/09	22,122,533	33,062,608	10,940,075	66.9%	37,419,961	29.2%
10/1/08	21,961,966	N/A	N/A	N/A	35,744,477	N/A
10/1/07	21,760,138	N/A	N/A	N/A	33,316,833	N/A

Note 9. Net Patient Service Revenue

The Hospital has agreements with governmental and other third-party payors that provide for payments to the Hospital 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, psychiatric, rehabilitation and outpatient services rendered to Medicare beneficiaries are paid primarily by prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic 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 Hospital and audits thereof by the Medicare fiscal intermediary.

NOTES TO FINANCIAL STATEMENTS

Note 9. Continued

Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a prospective reimbursement methodology. The Hospital is reimbursed at a prospective rate which is adjusted annually based on published market basket updates (inpatient) or adjusted cost-to-charge ratios per annual cost reports (outpatient) as submitted by the Hospital and settled by the Medicaid fiscal intermediary.

The Hospital participates in the Medicaid Disproportionate Share Hospital ("DSH") and in the Medicaid Upper Payment Limit Program ("UPL"). Under these programs, the Hospital receives enhanced reimbursement through a matching mechanism. For the fiscal years ended September 30, 2012 and 2011, the Hospital reported approximately $9,040,000 and $10,858,000, respectively, from the UPL program. UPL amounts received are shown as a reduction of contractual adjustments with related tax assessments of approximately $4,293,000 and $3,787,000 for the years ended September 30, 2012 and 2011 that are recorded in operating expenses, respectively. The Hospital did not receive any amounts in enhanced reimbursements through the DSH program for the years ended September 30, 2012 and 2011.

Laws and regulations governing the Medicare and Medicaid program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change. The 2012 and 2011 net patient service revenue decreased approximately $80,000 and $123,000, respectively, due to prior year retroactive adjustments in excess of amounts previously estimated. The Hospital's cost reports have been settled through September 30, 2006.

Other

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

The composition of net patient service revenue as of September 30, includes:

	2012	2011
Gross patient service revenue	$ 409,597,109	$ 412,284,508
Less:		
Provisions for contractual adjustments	269,597,467	264,874,248
Provisions for bad debts	17,538,405	19,626,975
Net patient service revenue	$ 122,461,237	$ 127,783,285

NOTES TO FINANCIAL STATEMENTS

Note 10. Fair Value Measurements

The Financial Accounting Standards Board ("FASB") expanded the measurement and disclosure requirements related to fair value measurements. The FASB defined fair value, established a framework and hierarchy for measuring fair value and expanded the related disclosure requirements. Fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability based upon an exit price model.

Financial assets and liabilities recorded on the balance sheets are categorized based on the inputs to the valuation techniques as follows:

Level 1. Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in active exchange markets.

Level 2. Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments or derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Level 3. Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing model, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management or estimation.

The following table represents the Hospital's fair value hierarchy for its financial assets, and changes therein, measured at fair value on a recurring basis as of and for the years ended September 30, 2012:

	Fair Value Measurements at September 30, 2012			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total at September 30, 2012**
Financial assets				
Certificates of deposit	$ 5,118,268	$ -	$ -	$ 5,118,268
Total assets	$ 5,118,268	$ -	$ -	$ 5,118,268

NOTES TO FINANCIAL STATEMENTS

Note 10. Continued

The following table represents the Hospital's fair value hierarchy for its financial assets, and changes therein, measured at fair value on a recurring basis as of and for the years ended September 30, 2011:

	Fair Value Measurements at September 30, 2011			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total at September 30, 2011**
Financial assets				
Certificates of deposit	$ 9,405,622	$ -	$ -	$ 9,405,622
Total assets	$ 9,405,622	$ -	$ -	$ 9,405,622

Note 11. Charity Care

The Hospital has established a policy under which it provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Following that policy, the Hospital maintains records to identify and monitor the level of charity care it provides which include the amount of charges foregone for services and supplies furnished under its policy. The direct and indirect costs associated with these services cannot be identified to specific charity care patients. Therefore, management estimated the costs of these services by calculating a cost to gross charge ratio and multiplying it by the charges associated with services provided to patients meeting the Hospital's charity care guidelines. Charges foregone, based on the cost to charge ratio, was approximately $9,197,000 and $6,250,000 in 2012 and 2011, respectively.

Note 12. Concentration of Credit Risks and Patient Service Revenue

Accounts Receivable

The Hospital 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 accounts receivable, based on gross charges, from patients and major third-party payors at September 30 are as follows:

	2012	**2011**
Medicare	39%	33%
Medicaid	13	12
Blue Cross	4	6
Self-pay	24	27
Other	20	22
	100%	100%

NOTES TO FINANCIAL STATEMENTS

Note 12. Continued

Patient Service Revenue

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

	2012	2011
Medicare	43%	44%
Medicaid	22	21
Blue Cross	11	12
Self-pay	12	11
Other	12	12
	100%	100%

Note 13. Commitments and Contingencies

Operating Leases

The Hospital leases various equipment under operating leases expiring at various dates through October 2016. Total rental expense for the years ended September 30, 2012 and 2011, for all operating leases was approximately $834,000 and $823,000, respectively.

The following is a schedule by year of future minimum lease payments under noncancelable operating leases as of September 30, 2012, that have initial or remaining lease terms in excess of one year:

Year Ending September 30,	Amount
2013	$ 128,155
2014	72,529
2015	25,940
2016	1,542
	$ 228,166

Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illness; natural disasters and professional and general liability claims and judgments. Commercial liability insurance is purchased for most of these risks. However, employee health and dental insurance and certain general and professional liability risks, are self-funded as further explained below. The Hospital has accrued for the estimate of self-funded claims.

NOTES TO FINANCIAL STATEMENTS

Note 13. Continued

Medical Malpractice Program

The Hospital holds professional and general liability insurance under a self-funded plan. At year-end, the Hospital has accrued for an estimate of losses for malpractice and general liability claims outstanding, based on historical loss and loss adjustment expense development patterns. 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. As of September 30, 2012 and 2011, this accrual totaled approximately $1,123,000 and $2,371,000, respectively.

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:

	(Beginning) October 1, Claims Liability	Current Year Claims and Change in Estimates	Current Year Claim Payments	(Ending) September 30, Claims Liability
2011	$ 2,073,414	$ 1,045,364	$ (748,178)	$ 2,370,600
2012	$ 2,370,600	$ (205,355)	$ (1,042,500)	$ 1,122,745

Self-Funded Health Insurance

The Hospital is self-insured for employee health coverage, up to a limit of $70,000 per individual claim. Substantial coverage with a third-party carrier is maintained for excess losses. The Hospital records a liability for employee health claims incurred but not reported or paid. This liability as of September 30, 2012 and 2011 is based on the requirements of GASB Statements No. 10, which requires that liability 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 the loss can be reasonably estimated.

Changes in the Hospital's health insurance claims liability amount in fiscal years 2012 and 2011 were:

	(Beginning) October 1, Claims Liability	Current Year Claims and Change in Estimates	Current Year Claim Payments	(Ending) September 30, Claims Liability
2011	$ 1,035,988	$ 3,597,411	$ (3,595,668)	$ 1,037,731
2012	$ 1,037,731	$ 3,023,387	$ (3,243,540)	$ 817,578

NOTES TO FINANCIAL STATEMENTS

Note 14. Subsequent Events

In preparing these financial sttements, the Hospital has evaluated events and transactions for potential recognition or disclosure through December 17, 2012, the date the financial statements were available to be issued.

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

Note 15. Recent Reporting and Disclosure Developments

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

The Hospital will adopt GASB No. 61, *The Financial Reporting Entity: Omnibus,* in fiscal year 2013. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of GASB No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of GASB No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. Management has not yet evaluated the impact of adopting this standard.

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

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

Governmental Accounting Standards Board Statement No. 62 ("GASB No. 63")

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

NOTES TO FINANCIAL STATEMENTS

Note 15. Continued

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

The Hospital will adopt GASB No. 65, *Items Previously Reported as Assets and Liabilities,* in fiscal year 2014. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain line items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Some of the major changes will be showing any gain or loss on debt refunding as a deferred inflow/outflow on the balance sheet instead of an addition or subtraction from the related debt (similar to a discount or premium). Also, debt issue costs will no longer be able to be capitalized and would be expensed when incurred. Management has not yet evaluated the impact of adopting this standard.

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

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

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

The Hospital will adopt GASB No. 68, *Accounting and Financial Reporting for Pensions,* 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 comprehensively and comparably measure the annual costs for pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and RSI. In the past as long as a government paid its Annual Required Contribution, there would be no recorded liability. This will provide for the liability (net pension obligation) of underfunding of defined benefit pension plans to be recorded on the balance sheet. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries.

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

NOTES TO FINANCIAL STATEMENTS

Note 15. Continued

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

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

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

SUPPLEMENTARY INFORMATION

GREENWOOD LEFLORE HOSPITAL
Schedule of Surety Bonds for Officers and Employees
September 30, 2012

Name	Position	Surety		Amount
Brian Waldrop	Board Member	Travelers	$	100,000
Gladys Flaggs	Board Member	Travelers		100,000
Sammy Foster	Board Member	Travelers		100,000
Alex Malouf	Board Member	Travelers		100,000
Walter Parker	Board Member	Travelers		100,000
James Jackson	Chief Executive Officer	Travelers		100,000
Dawne Holmes	Chief Financial Officer	Travelers		100,000

HORNE
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 Hospital Commissioners
Greenwood Leflore Hospital
Greenwood, Mississippi

We have audited the financial statements of Greenwood Leflore Hospital (the "Hospital"), a component unit of Leflore County and the City of Greenwood, Mississippi, as of and for the years ended September 30, 2012 and 2011, and have issued our report thereon dated December 17, 2012. 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.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital'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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Commissioners, others within the entity and the Mississippi State Auditor's office and is not intended to be, and should not be, used by anyone other than those specified parties.

Horne LLP

Ridgeland, Mississippi
December 17, 2012