

**NORTH SUNFLOWER MEDICAL CENTER
RULEVILLE, MISSISSIPPI**

**AUDITED FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION
SEPTEMBER 30, 2015**

NORTH SUNFLOWER MEDICAL CENTER
Audited Financial Statements and Additional Information
September 30, 2015

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Independent Auditors' Report

The Board of Trustees
North Sunflower Medical Center
Ruleville, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of North Sunflower Medical Center, a component unit of Sunflower County, Mississippi, as of September 30, 2015 and 2014, and the related notes to financial statements, which collectively comprise North Sunflower Medical Center's basic financial statements as listed in the 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Sunflower Medical Center, a component unit of Sunflower County, Mississippi, as of September 30, 2015 and 2014 and the changes in its financial position and its cash flows 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, the financial statements present only the financial information of North Sunflower Medical Center and do not purport to, and do not, present fairly the financial position of Sunflower County, Mississippi as of September 30, 2015 and 2014, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. 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 discussion and analysis (pages 4 to 9), the Schedule of the Hospital's Proportionate Share of the Net Pension Liability (page 30), and the Schedule of Hospital Contributions (page 31) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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 Information

Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. The detailed schedules of operating revenues and detailed schedules of operating expenses for the years ended September 30, 2015 and 2014, and schedule of surety bonds for officials and employees (pages 33 to 37) are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The detailed schedules of operating revenues and detailed schedules of operating expenses for the years ended September 30, 2015 and 2014, and schedule of surety bonds for officials and employees are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures in accordance with auditing standards generally accepted in the United

States of America. In our opinion, the detailed schedules of operating revenues and detailed schedules of operating expenses and schedule of surety bonds for officials and employees are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2016, on our consideration of North Sunflower Medical Center's internal control over financial reporting and on 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 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 North Sunflower Medical Center's internal control over financial reporting and compliance.

Eupora, Mississippi
March 29, 2016

Watkins Ward and Stafford, PLLC

**North Sunflower Medical Center
Management's Discussion and Analysis
Years Ended September 30, 2015, and 2014**

Our discussion and analysis of North Sunflower Medical Center's financial performance provides an overview of the facility's financial activities for the fiscal years ended September 30, 2015, and 2014. Please read it in conjunction with the facility's financial statements, which begin on page 10.

FINANCIAL HIGHLIGHTS

- ◆ The facility's net position decreased from 2014 to 2015 by \$5,549,949 or 267.53%, and decreased from 2013 to 2014 by \$1,218,062, or 142.22%.
- ◆ The facility reported an operating loss in 2015 of \$7,542,273, and operating loss in 2014 of \$1,106,755.
- ◆ Nonoperating revenues increased by \$1,374,847, or 748.43%, in 2015 compared to 2014. Nonoperating revenues decreased by \$97,358, or 34.64%, in 2014 compared to 2013.

USING THIS ANNUAL REPORT

The facility's financial statements consist of three statements – Statements of Net Position; Statements of Revenues, Expenses, and Changes in Net Position; and Statements of Cash Flows. These financial statements and related notes provide information about the activities of the facility, including resources held by the facility but restricted for specific purposes by contributors, grantors, or enabling legislation.

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position

Our analysis of the facility finances begins on page 5. One of the most important questions asked about the facility's finances is, "Is the facility as a whole better or worse off as a result of the year's activities?" The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position report information about the facility's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets, deferred outflows, deferred inflows, and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the facility's net position and changes in it. You can think of the facility's net position – the difference between assets and liabilities – as one way to measure the facility's financial health, or financial position. Over time, increases or decreases in the facility's net position is one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the facility's patient base and measures of the quality of service it provides to the community, as well as local economic factors, to assess the overall health of the facility.

**North Sunflower Medical Center
Management's Discussion and Analysis
Years Ended September 30, 2015, and 2014**

USING THIS ANNUAL REPORT (Continued)

The Statement of Cash Flows

The final required statement is the Statements of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

THE FACILITY'S NET POSITION

- ◆ The facility's net position is the difference between its assets combined with deferred outflows and liabilities combined with deferred inflows reported in the Statements of Net Position on pages 10 and 11. The facility's net position decreased from 2014 to 2015 by \$5,549,949 or 267.53%, and decreased from 2013 to 2014 by \$1,218,062, or 142.22%.

Table 1: Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

	2015	2014
Assets:		
Current assets	\$ 30,312,104	\$ 26,382,817
Capital assets, net	17,163,919	18,236,210
Other noncurrent assets	2,049,384	2,295,981
Total Assets	49,525,407	46,915,008
Deferred Outflows of Resources	9,464,935	5,628,463
Total Assets and Deferred Outflows	\$ 58,990,342	\$ 52,543,471
Liabilities:		
Current liabilities	8,295,211	8,986,556
Long-term debt outstanding	5,529,914	5,189,158
Net Pension Liability	47,919,887	35,322,072
Total Liabilities	61,745,012	49,497,786
Deferred Inflows of Resources	4,869,788	5,120,194
Net Position:		
Invested in capital assets, net of related debt	11,091,172	9,673,742
Unrestricted (Deficit)	(18,715,630)	(11,748,251)
Total Net Position (Deficit)	(7,624,458)	(2,074,509)
Total Liabilities, Deferred Inflows, and Net Position (Deficit)	\$ 58,990,342	\$ 52,543,471

**North Sunflower Medical Center
Management's Discussion and Analysis
Years Ended September 30, 2015, and 2014**

THE FACILITY'S NET POSITION (Continued)

Additional information on unrestricted net position (deficit):

In connection with the implementation of new standards on accounting and financial reporting for pensions, management presents the following additional information:

	2015	2014
Total unrestricted net position (deficit)	\$ (18,715,630)	\$ (11,748,251)
Less unrestricted deficit in net position resulting from recognition of the net pension liability	43,324,740	34,813,803
Unrestricted net position, exclusive of the net pension liability effect	\$ 24,609,110	\$ 23,065,552

The change in the facility's net position is due to several factors. The facility's cash balance increased by \$4,772,365, or 39.02%, compared to 2014. The inventory decreased by \$11,576, or 0.58% compared to 2014. Patient accounts receivable net of estimated uncollectibles and allowances increased by \$1,513,592, or 16.76% compared to 2014. Other receivables decreased by \$634,548, or 73.84% compared to 2014. The facility has a payable to third-party payors of \$1,084,387 in 2015 and a receivable from third-party payors of \$1,121,774 in 2014. The facility acquired capital assets in the amounts of \$3,194,257 and \$7,781,777 for the years 2015 and 2014, respectively. Depreciation and amortization expenses amounted to \$2,798,218 in 2015 and \$2,276,655 in 2014.

**North Sunflower Medical Center
Management's Discussion and Analysis
Years Ended September 30, 2015, and 2014**

OPERATING RESULTS AND CHANGES IN THE FACILITY'S NET POSITION

Table 2: Operating Results

	<u>2015</u>	<u>2014</u>
Operating Revenues:		
Net patient service revenues	\$ 56,331,767	\$ 55,977,697
Other revenues	3,563,029	605,881
Electronic health records incentive	123,600	436,550
Total Operating Revenues	<u>60,018,396</u>	<u>57,020,128</u>
Operating Expenses:		
Salaries and benefits	36,845,985	27,562,980
Supplies and drugs	5,799,269	8,313,268
Other operating expenses	21,614,116	19,485,530
Insurance	503,081	488,450
Depreciation and amortization	2,798,218	2,276,655
Total Operating Expenses	<u>67,560,669</u>	<u>58,126,883</u>
Operating Loss	<u>(7,542,273)</u>	<u>(1,106,755)</u>
Nonoperating Revenues (Expenses):		
Interest and investment income	229,153	103,868
Interest expense	(346,220)	(295,004)
Gain on sale of assets	163,366	20,000
Gain on forgiveness of debt	107,453	-
Grants	1,058,572	59,829
Total Nonoperating Revenues (Expenses)	<u>1,212,324</u>	<u>(111,307)</u>
Excess of Revenues Under Expenses	<u>(6,329,949)</u>	<u>(1,218,062)</u>
Net Position (Deficit) Beginning of Year as Previously Reported	(2,074,509)	32,932,603
Prior Period Adjustment	<u>-</u>	<u>(33,789,050)</u>
Net Position (Deficit) Beginning of Year as Restated	(2,074,509)	(856,447)
Contributed Capital	<u>780,000</u>	<u>-</u>
Net Position (Deficit) End of Year as Restated	<u><u>\$ (7,624,458)</u></u>	<u><u>\$ (2,074,509)</u></u>

**North Sunflower Medical Center
Management's Discussion and Analysis
Years Ended September 30, 2015, and 2014**

OPERATING RESULTS AND CHANGES IN THE FACILITY'S NET POSITION (Continued)

Operating Loss

The first component of the overall change in the facility's net position is its operating loss – generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. Operating loss in 2015 increased by \$6,435,518, or 581.48% compared to the operating loss reported in 2014. The operating income in 2013 decreased by \$2,694,379 to the 2014 operating loss, or 169.71%.

The primary components responsible for the fluctuations in operating loss are:

- ◆ An increase in net patient service revenues of \$354,070, or 0.63%, in 2015 compared to 2014, and an increase of \$7,844,217, or 16.30%, in 2014 compared to 2013. Medicaid upper payment limit payments, a component of net patient revenue, totaled \$1,057,117 in 2015, and \$933,585 in 2014.
- ◆ An increase in salaries and benefits of \$9,283,005, or 33.68%, in 2015 compared to 2014, and an increase of \$5,713,950, or 26.15%, in 2014 compared to 2013. This is mainly due to a pension expense balance of \$11,588,650 in 2015 and \$3,897,560 in 2014.
- ◆ A decrease in supplies and drugs, other operating expenses and insurance of \$370,782 or 1.31%, in 2015 compared to 2014, and an increase of \$5,452,149 or 23.88%, in 2014 compared to 2013.
- ◆ Electronic health records incentives funds from Medicare and Medicaid in the amount of \$123,600 for 2015, and \$436,550 in 2014.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of interest income, net investment earnings, gain on the sale of assets and grants and contributions. The facility had interest income and investment income, primarily from checking accounts and certificates of deposit, of \$229,153 for the year ended September 30, 2015, and \$103,868 for the year ended September 30, 2014. The facility received grants and contributions of \$1,058,572 for the year ended September 30, 2015, and \$59,829 for the year ended September 30, 2014. The facility had a gain on the sale of assets of \$163,366 for the year ended September 30, 2015, and \$20,000 for the year ended September 30, 2014. The facility had a gain on the forgiveness of debt of \$107,453 for the year ended September 30, 2015, and \$0 for the year ended September 30, 2014.

Nonoperating expenses consist primarily of interest expense. The facility had interest expense in the amount of \$346,220 for the year ended September 30, 2015, and \$295,004 for the year ended September 30, 2014.

**North Sunflower Medical Center
Management's Discussion and Analysis
Years Ended September 30, 2015, and 2014**

THE HOSPITAL'S CASH FLOWS

Changes in the hospital's cash flows are consistent with changes in operating income and nonoperating revenues and expenses.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As detailed in Note 5 of the financial statements, the facility had \$17,163,919 invested in capital assets net of accumulated depreciation, at September 30, 2015, and \$18,236,210 at September 30, 2014. The facility had capital expenditures of \$3,194,257 and \$7,781,777 in 2015 and 2014, respectively.

Long - Term Debt

At September 30, 2015, the facility had \$6,072,747 in long-term debt outstanding, including the current portion. The facility incurred new debt of \$1,301,399 in 2015 while making \$3,791,120 in principal payments. In 2014, the facility had \$8,562,468 in long-term debt outstanding, including the current portion. The facility incurred new debt of \$3,412,662 in 2014 while making \$2,236,857 in principal payments.

CONTACTING THE FACILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the facility's finances and to show the facility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact North Sunflower Medical Center's administrative offices at 662-756-2711.

NORTH SUNFLOWER MEDICAL CENTER
Statements of Net Position
September 30,

Assets and Deferred Outflows of Resources

	2015	2014
Current Assets:		
Cash	\$ 17,004,170	\$ 12,231,805
Cash - Nursing home residents' funds	44,917	37,434
Patient accounts receivable (Net of estimated uncollectibles and allowances of \$6,955,741 in 2015 and \$6,849,817 in 2014)	10,545,850	9,032,258
Estimated third-party payor settlements	-	1,121,774
Other receivables	224,790	859,338
Inventories	1,981,451	1,993,027
Prepaid expenses	436,027	488,608
Note receivable - Ways, LLC - current	-	618,573
Deferred expense	74,899	-
Total Current Assets	30,312,104	26,382,817
Capital Assets:		
Property and equipment (Net of accumulated depreciation and amortization of \$12,952,577 in 2015 and \$10,239,751 in 2014)	17,163,919	18,236,210
Other Assets:		
Investment in Healthcare Providers Insurance Company	98,490	98,490
Note receivable - Sunflower Discount Pharmacy, LLC	1,137,838	-
Goodwill - pharmacies	-	1,377,500
Goodwill - dental clinic	376,000	376,000
Goodwill - hospice	100,000	100,000
Deferred expense	337,056	343,991
Total Other Assets	2,049,384	2,295,981
Total Assets	49,525,407	46,915,008
Deferred Outflows of Resources:		
Deferred outflows - pensions	9,464,935	5,628,463
Total Assets and Deferred Outflows of Resources	\$ 58,990,342	\$ 52,543,471

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

NORTH SUNFLOWER MEDICAL CENTER
Statements of Net Position
September 30,

Liabilities, Deferred Inflows of Resources and Net Position

	2015	2014
Current Liabilities:		
Accounts payable	\$ 2,429,799	\$ 2,189,405
Patient accounts receivable - credit balances	458,180	281,746
Estimated third-party payor settlements	1,084,387	-
Current portion of bonds payable	120,000	120,000
Current portion of notes payable	407,886	68,124
Current portion of capitalized lease obligations	14,947	3,185,186
Accrued expenses and payroll withholdings	3,735,095	3,104,661
Nursing home residents' funds	44,917	37,434
Total Current Liabilities	8,295,211	8,986,556
Long-Term Debt:		
Notes payable	3,237,198	2,761,504
Bonds payable	2,260,000	2,380,000
Capitalized lease obligations	32,716	47,654
Net Pension Liability	47,919,887	35,322,072
Total Long-Term Debt	53,449,801	40,511,230
Total Liabilities	61,745,012	49,497,786
Deferred Inflows of Resources:		
Deferred inflows - pensions	4,869,788	5,120,194
Net Position:		
Invested in capital assets, net of related debt	11,091,172	9,673,742
Unrestricted (Deficit)	(18,715,630)	(11,748,251)
Total Net Position (Deficit)	(7,624,458)	(2,074,509)
Total Liabilities, Deferred Inflows of Resources and Net Position (Deficit)	\$ 58,990,342	\$ 52,543,471

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

NORTH SUNFLOWER MEDICAL CENTER
 Statements of Revenues, Expenses, and Changes in Net Position
 Years Ended September 30,

	2015	2014
Operating Revenues:		
Net patient service revenue (Net of provision for uncollectible accounts of \$3,366,895 in 2015 and \$5,636,502 in 2014)	\$ 56,331,767	\$ 55,977,697
Other revenue	3,563,029	605,881
Electronic health records incentive	123,600	436,550
Total Operating Revenues	60,018,396	57,020,128
Operating Expenses:		
Salaries and benefits	36,845,984	27,562,980
Supplies and drugs	5,799,269	8,313,268
Other operating expenses	21,614,117	19,485,530
Insurance	503,081	488,450
Depreciation and amortization	2,798,218	2,276,655
Total Operating Expenses	67,560,669	58,126,883
Operating Loss	(7,542,273)	(1,106,755)
Nonoperating Revenues (Expenses):		
Interest and investment income	229,153	103,868
Interest expense	(346,220)	(295,004)
Gain on sale of assets	163,366	20,000
Gain on forgiveness of debt	107,453	-
Grants	1,058,572	59,829
Total Nonoperating Revenues (Expenses)	1,212,324	(111,307)
Excess of Revenues Under Expenses	(6,329,949)	(1,218,062)
Net Position (Deficit) Beginning of Year as Previously Reported	(2,074,509)	32,932,603
Prior Period Adjustment	-	(33,789,050)
Net Position (Deficit) Beginning of Year as Restated	(2,074,509)	(856,447)
Contributed Capital	780,000	-
Net Position (Deficit) End of Year as Restated	\$ (7,624,458)	\$ (2,074,509)

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

NORTH SUNFLOWER MEDICAL CENTER
Statements of Cash Flows
Years Ended September 30,

	2015	2014
Cash Flows From Operating Activities:		
Receipts from and on behalf of patients	\$ 58,503,192	\$ 56,184,862
Payments to suppliers and contractors	(26,864,272)	(29,184,152)
Payments to and on behalf of employees	(27,212,174)	(26,184,190)
Receipts from other than patients	3,563,029	605,881
Receipts from electronic health records incentive	123,600	436,550
Net Cash Provided by Operating Activities	8,113,375	1,858,951
Cash Flows From Noncapital Financing Activities:		
Grants and donations	263,763	24,553
Net Cash Provided by Noncapital Financing Activities	263,763	24,553
Cash Flows From Capital and Related Financing Activities:		
Principal payments on bonds payable	(120,000)	(92,727)
Principal payments on notes payable	(485,943)	(37,130)
Principal payments on capitalized lease obligations	(3,077,724)	(2,089,727)
Purchase of property and equipment	(1,519,453)	(1,882,377)
Proceeds from sale of assets	5,000	20,000
Interest paid on long-term debt	(354,182)	(290,179)
Net Cash Used by Capital and Related Financing Activities	(5,552,302)	(4,372,140)
Cash Flows From Investing Activities:		
Interest and investment income	229,153	103,868
Proceeds from payments on note receivable	1,718,376	535,405
Goodwill in Hospice	-	(100,000)
Net Cash Provided by Investing Activities	1,947,529	539,273
Net Increase (Decrease) in Cash and Cash Equivalents	4,772,365	(1,949,363)
Cash and Cash Equivalents at Beginning of Year	12,231,805	14,181,168
Cash and Cash Equivalents at End of Year	\$ 17,004,170	\$ 12,231,805

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

NORTH SUNFLOWER MEDICAL CENTER
Statements of Cash Flows
Years Ended September 30,

	<u>2015</u>	<u>2014</u>
Reconciliation of Operating Loss to Net Cash		
Provided by Operating Activities:		
Operating loss	\$ (7,542,273)	\$ (1,106,755)
Adjustment to Reconcile Operating Income to Net Cash Flows		
Provided by Operating Activities:		
Depreciation and amortization	2,798,218	2,276,655
Pension expense adjustment	8,510,937	1,024,753
Ways, LLC Medicare overpayment note	1,301,399	-
HPIC equity credit	(91,006)	(85,145)
Property donated to Sunflower County	290,000	-
In-kind contribution from University of Mississippi Medical Center	788,000	-
Provision for uncollectible accounts	3,366,895	5,636,502
Deferred expense	(67,964)	(286,711)
Changes in:		
Patient accounts receivable	(4,704,053)	(6,689,601)
Supplies and other current assets	378,271	(670,161)
Accounts payable, accrued expenses, and other current liabilities	878,790	500,857
Estimated third-party payor payments	2,206,161	1,258,557
Net Cash Provided by Operating Activities	<u>\$ 8,113,375</u>	<u>\$ 1,858,951</u>

Capital and Financing Activities:

The facility entered into capital lease obligations of \$0 during the year ended September 30, 2015 and \$3,395,389 during the year ended September 30, 2014.

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

NORTH SUNFLOWER MEDICAL CENTER
Notes to Financial Statements

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

Reporting Entity - The facility provides inpatient, outpatient, emergency, psychiatric, long-term care, durable medical equipment, pharmacy, hospice, eye clinic, diagnostic and dental services for residents of Sunflower County, Mississippi, and surrounding areas. The facility is governed by a Board of Trustees appointed by the Board of Supervisors of Sunflower County, Mississippi.

Under Governmental Accounting Standards Board Statement Number 14: *The Financial Reporting Entity*, the facility is defined as a component unit of Sunflower County, Mississippi. These financial statements present only the financial position and results of operations and cash flows of North Sunflower Medical Center.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include allowance for uncollectibles and third-party settlements.

Proprietary Fund Accounting - The facility utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual. Based on Governmental Accounting Standards Board (GASB) Statement No. 20: *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the facility has elected to apply the provisions and all pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict or contradict GASB pronouncements.

Cash and Cash Equivalents - Cash and cash equivalents includes unrestricted cash used for operating purposes only.

Capital Assets – The facility’s policy is to capitalize acquisition and construction costs greater than \$5,000 which will provide benefit to future periods, Capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation, using the following asset lives:

Land improvements	5 to 20 years
Building and building improvements	5 to 40 years
Equipment, computers, and furniture	3 to 20 years

NORTH SUNFLOWER MEDICAL CENTER
Notes to Financial Statements

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

Deferred Outflows and Deferred Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The hospital has incurred a deferred outflow which is presented as a deferred outflow related to pensions.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The hospital has incurred a deferred inflow which is presented as a deferred inflow related to pensions. See Note 10 for further details.

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System of Mississippi and additions to and deductions from Public Employees' Retirement System of Mississippi's fiduciary net position have been determined on the same basis as they are reported by Public Employees' Retirement System of Mississippi. For this purpose, the benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Grants and Contributions - From time to time, the hospital receives grants from Sunflower 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 for 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 and expenses.

Net Position - Net position of North Sunflower Medical Center is classified in two components. *Net position invested in capital assets net of related debt* consists of capital assets net of accumulated depreciation and is reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Unrestricted net position* is the remaining net position that does not meet the definition of *invested in capital assets net of related debt*.

Operating Revenues and Expenses - North Sunflower Medical Center's statements of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the hospital's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital assets acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

NORTH SUNFLOWER MEDICAL CENTER
Notes to Financial Statements

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

Net Patient Service Revenue - The facility 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. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Compensated Absences - North Sunflower Medical Center's employees earn PTO time at varying rates depending on years of service. PTO time is used for absences such as vacation, holidays, personal time off and the first two days of illness and is payable upon termination not to exceed 480 hours.

Risk Management - The facility is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The facility purchases coverage of risks of loss related to torts and malpractice up to \$500,000 per case from Healthcare Providers Insurance Company. The facility purchases coverage of risks of loss related to theft of, damage to and destruction of assets from various commercial insurance carriers. The facility purchases coverage of risk of loss related to workers' compensation claims from Bridgefield Employers Insurance Company.

Under Governmental Accounting Standards Board Statement Number 10: *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, a liability for a claim must 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 that the amount of the loss can be reasonably estimated. The facility has not been exposed to any risk of loss above the applicable insurance coverage amounts at September 30, 2015; therefore, no liability has been accrued at this time.

Income Taxes - As a political subdivision of the State of Mississippi, the facility qualifies as a tax-exempt organization under existing provisions of the Internal Revenue Code, and its income is not subject to federal or state income taxes.

Inventories of Supplies and Drugs - Inventories of supplies and drugs are stated at the lower of cost (first-in, first-out) or market.

Excess of Revenues Under Expenses - The statements of revenues, expenses and changes in net position includes excess of revenues under expenses. Changes in Net Position which are excluded from excess of revenues under expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

NORTH SUNFLOWER MEDICAL CENTER
Notes to Financial Statements

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

Electronic Health Record Incentive Program – The Centers for Medicare and Medicaid Services (CMS) have implemented provisions of the American Recovery and Reinvestment Act of 2009 that provide incentive payments for the meaningful use of certified electronic health record (EHR) technology. CMS has defined meaningful use as meeting certain objectives and clinical quality measures based on current and updated technology capabilities over predetermined reporting periods as established by CMS. The Medicare EHR incentive program provides annual incentive payments to eligible professionals, eligible hospitals, and critical access hospitals, as defined, that are meaningful users of certified EHR technology. The Medicaid EHR incentive program provides annual incentive payments to eligible professionals and hospitals for efforts to adopt, implement, and meaningfully use certified EHR technology. The EHR reporting period for hospitals is based on the federal fiscal year, which runs from October 1 through September 30. The facility recorded EHR incentive revenue of \$123,600 in 2015, and \$436,550 in 2014.

New Pronouncements – In June 2012, the GASB issued *GASB Statement No. 68: Accounting and Financial Reporting for Pensions*. In November 2013, the GASB also issued *GASB Statement No. 71: Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. These statements established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pensions, note disclosure and required supplementary information requirements about pensions also are addressed. These Statements were effective for fiscal years beginning after June 15, 2014 and are to be applied simultaneously.

Note 2: Cash and Other Deposits

The facility deposits funds in financial institutions selected by the Board of Trustees and invests excess funds in investment instruments that are allowed by statutes. Various restrictions on deposits and investments are imposed by statutes.

The collateral for public entities' deposits in financial institutions is required to be held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-1 Miss. Code Ann. (1972). Under the program, an entity'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 Deposit Insurance Corporation. All of the facility's funds eligible to be included in the state's collateral pool program were properly included and were fully collateralized as of September 30, 2015.

Note 3: Charity Care

The facility provides care to patients who meet certain criteria under its charity care policy. Because the facility does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. The cost of charity care provided in 2015 and 2014 approximated \$782,000 and \$259,000, respectively.

NORTH SUNFLOWER MEDICAL CENTER
Notes to Financial Statements

Note 4: Accounts Receivable – Estimated Uncollectibles and Allowances

The balance in the estimated uncollectibles and allowances accounts at September 30, 2015 and 2014, is comprised of the following:

	2015	2014
Provision for uncollectible accounts	\$ 4,701,305	\$ 3,456,225
Allowance for Medicare/Medicaid adjustment	2,055,896	3,308,072
Allowance for DME adjustment	198,540	85,520
	\$ 6,955,741	\$ 6,849,817

Note 5: Capital Assets

	Balance September 30, 2014	Additions and Transfers	Retirements and Transfers	Balance September 30 2015
Land	\$ 43,355	-	-	\$ 43,355
Land improvements	533,093	-	-	533,093
Buildings and improvements	12,516,810	1,202,511	-	13,719,321
Fixed equipment	2,128,220	-	-	2,128,220
Major movable equipment:				
Under capital lease	3,470,385	-	(3,395,390)	74,995
Other	8,074,215	5,029,371	(533,551)	12,570,035
Automobiles	309,184	196,226	(29,260)	476,150
Construction in Progress	1,400,699	353,830	(1,183,202)	571,327
 Total Historical Cost	 28,475,961	 6,781,938	 (5,141,403)	 30,116,496
 Less: Accumulated Depreciation and Amortization for:				
Land improvements	(243,630)	(34,200)	-	(277,830)
Buildings and improvements	(2,990,867)	(136,988)	-	(3,127,855)
Fixed equipment	(1,673,219)	(41,739)	-	(1,714,958)
Major movable equipment	(5,141,530)	(2,509,990)	67,733	(7,583,787)
Automobiles	(190,505)	(76,902)	19,260	(248,147)
 Total Accumulated Depreciation and Amortization	 (10,239,751)	 (2,799,819)	 86,993	 (12,952,577)
 Capital Assets, Net	 \$ 18,236,210	 3,982,119	 (5,054,410)	 \$ 17,163,919

NORTH SUNFLOWER MEDICAL CENTER
Notes to Financial Statements

Note 5: Capital Assets (Continued)

	Balance September 30, 2013	Additions and Transfers	Retirements and Transfers	Balance September 30 2014
Land	\$ 43,355	-	-	\$ 43,355
Land improvements	533,093	-	-	533,093
Buildings and improvements	12,098,181	418,629	-	12,516,810
Fixed equipment	2,009,971	118,249	-	2,128,220
Major movable equipment:				-
Under capital lease	5,793,628	3,395,390	(5,718,633)	3,470,385
Other	5,918,248	8,310,662	(6,154,695)	8,074,215
Automobiles	283,260	25,924	-	309,184
Construction in Progress	169,141	1,231,558	-	1,400,699
 Total Historical Cost	 <u>26,848,877</u>	 <u>13,500,412</u>	 <u>(11,873,328)</u>	 <u>28,475,961</u>
 Less: Accumulated Depreciation and Amortization for:				
Land improvements	(208,895)	(34,735)	-	(243,630)
Buildings and improvements	(2,905,045)	(85,822)	-	(2,990,867)
Fixed equipment	(1,634,720)	(38,499)	-	(1,673,219)
Major movable equipment	(6,713,788)	(2,078,424)	3,650,682	(5,141,530)
Automobiles	(151,330)	(39,175)	-	(190,505)
 Total Accumulated Depreciation and Amortization	 <u>(11,613,778)</u>	 <u>(2,276,655)</u>	 <u>3,650,682</u>	 <u>(10,239,751)</u>
 Capital Assets, Net	 <u>\$ 15,235,099</u>	 <u>11,223,757</u>	 <u>(8,222,646)</u>	 <u>\$ 18,236,210</u>

NORTH SUNFLOWER MEDICAL CENTER
Notes to Financial Statements

Note 6: Long-Term Debt

A schedule of changes in the facility's long-term debt for September 30, 2015 and 2014 follows:

	Balance 9/30/2014	Additions	Reductions	Balance 9/30/2015	Amounts Due Within One Year
Note payable	\$ 2,829,628	1,301,399	(485,943)	\$ 3,645,084	\$ 407,886
Bonds payable	2,500,000	-	(120,000)	2,380,000	120,000
Capital lease obligations	3,232,840	-	(3,185,177)	47,663	14,947
Total Long-Term Debt	\$ 8,562,468	1,301,399	(3,791,120)	\$ 6,072,747	\$ 542,833

	Balance 9/30/2013	Additions	Reductions	Balance 9/30/2014	Amounts Due Within One Year
Note payable	\$ 2,866,758	-	(37,130)	\$ 2,829,628	\$ 68,124
Bonds payable	2,592,727	17,273	(110,000)	2,500,000	120,000
Capital lease obligations	1,927,178	3,395,389	(2,089,727)	3,232,840	3,185,186
Total Long-Term Debt	\$ 7,386,663	3,412,662	(2,236,857)	\$ 8,562,468	\$ 3,373,310

A detail of long-term debt, including capital lease obligations at September 30, 2015 and 2014 follows:

Notes Payable	<u>2015</u>	<u>2014</u>
USDA Rural Development Loan with an interest rate of 4.197%. Due in monthly installments of \$15,005 for 28 years with final installment due January 15, 2040. Secured by Wellness Center building.	\$ 2,761,504	\$ 2,829,628
Ways, LLC Medicare overpayment with an interest rate of 0.885% Due in monthly installments of \$34,755.51 for 36 months with final installment due February 20, 2018.	883,580	-
Total Notes Payable	\$ 3,645,084	\$ 2,829,628

NORTH SUNFLOWER MEDICAL CENTER
Notes to Financial Statements

Note 6: Long-Term Debt (Continued)

Bonds Payable	2015	2014
Series 2009 Revenue Bond with varying interest rates, interest due semiannually and principal due in varying annual installments with final installment due in the year 2029, secured by facility revenue.	<u>\$ 2,380,000</u>	<u>\$ 2,500,000</u>

Capital Lease obligations

Capital lease obligations, at varying rates of imputed interest from 1.099% to 6% collateralized by leased assets with a cost of \$74,995 for 2015 and \$3,470,385 for 2014.	<u>\$ 47,663</u>	<u>\$ 3,232,840</u>
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Scheduled principal and interest repayments on long-term debt and payments on capital lease obligations are as follows:

Year Ended September 30,	Bond Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2016	\$ 120,000	\$ 105,394	\$ 407,886	\$ 189,240
2017	125,000	99,994	450,808	146,318
2018	135,000	94,369	246,037	107,801
2019	140,000	88,294	79,909	100,151
2020	145,000	76,369	82,894	97,166
Thereafter	1,715,000	415,044	2,377,550	1,024,772
Total	<u>\$ 2,380,000</u>	<u>\$ 879,464</u>	<u>\$ 3,645,084</u>	<u>\$ 1,665,448</u>

Year Ended September 30,	Capital Lease Obligations	
	Principal	Interest
2016	\$ 14,947	\$ 2,453
2017	15,869	1,531
2018	16,847	562
2019	-	-
2020	-	-
Total	<u>\$ 47,663</u>	<u>\$ 4,546</u>

NORTH SUNFLOWER MEDICAL CENTER
Notes to Financial Statements

Note 7: Net Patient Service Revenue

The facility has agreements with third-party payors that provide for payments to the facility at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute care services, outpatient services, nonacute inpatient services and rural health clinic services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The facility is paid for inpatient senior care psychiatric services based on prospectively determined rates. Home health agency services are paid at prospectively determined rates based on service provided. The facility is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the facility and audits thereof by the Medicare fiscal intermediary. The facility's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2012.

Medicaid - Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The facility is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the facility and audits thereof by the Medicaid fiscal intermediary.

Medicaid Upper Payment Limit Payments - The hospital received Medicaid upper payment limit payments of \$1,057,117 and \$933,585 for the years ended September 30, 2015 and 2014, respectively.

The Medicaid Upper Payment Limit Program is a program whereby the hospital qualifies for upper payment limit funds in addition to regular funds. The Mississippi Division of Medicaid administers the upper payment limit program and the continuation of the program rests with the federal government.

Note 8: Medical Benefit Plan

The facility provides health insurance coverage to its employees through a self-funded medical benefit plan that covers substantially all of its employees and certain dependents of the employees. The total medical benefit expense for the self-funded medical benefit plan for the years ended September 30, 2015 and 2014, amounted to \$2,102,494 and \$2,052,417 respectively. The facility's policy is to fund the estimated medical benefit claims that will be filed against the plan less the contributions made by employees covered by the plan. In addition, an allowance representing the write-off of charges applicable to in-house claims of the employees and their dependents for the year ended September 30, 2015 and 2014, was provided in the amount of \$1,391,836 and \$1,166,366, respectively.

Note 9: Lease Commitments

As of September 30, 2015, there were no future minimum lease payments required related to operating lease commitments.

NORTH SUNFLOWER MEDICAL CENTER
Notes to Financial Statements

Note 10: Defined Benefit Pension Plan

General Information about the Pension Plan

Plan Description. The hospital contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann. Section 25-11-1 et seq., (1972, as amended) and may be amended only by the Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Benefits provided. Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public hospitals. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

Contributions. PERS members are required to contribute 9.00% of their annual covered salary, and the hospital is required to contribute at an actuarially determined rate. The employer's rate as of September 30, 2015 was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The hospital's contributions to PERS for the plan's fiscal years ending June 30, 2015, 2014 and 2013 were \$3,022,229, \$2,787,536 and \$2,093,868, respectively, which equaled the required contributions for each year.

NORTH SUNFLOWER MEDICAL CENTER
Notes to Financial Statements

Note 10: Defined Benefit Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2015 and 2014, the hospital reported a liability of \$47,919,887 and \$35,322,072, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of those dates. The hospital's proportion of the net pension liability was based on a projection of the hospital's long-term share of contributions to the pension plan relative to projected contributions of all participating entities, actuarially determined. At June 30, 2015, the hospital's proportion was .309932 percent, and at June 30, 2014, the hospital's proportion was .290751 percent.

For the years ended September 30, 2015 and 2014, the hospital recognized pension expense of \$11,588,650, and \$3,897,560, respectively. See the following schedule for a reconciliation of actual pension expense to pension expense per GASB 68 and 71 for the years ended September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Pension Expense - prior to GASB 68 adjustments	\$ 3,077,713	\$ 2,872,807
Current year pension expense includes deferred outflows and deferred inflows	5,710,324	2,392,227
Contributions made subsequent to the measurement date of June 30, 2015 and 2014	(852,988)	(797,504)
Amortize change in proportional share	619,960	1,539,549
Reverse contributions from beginning of fiscal year through June 30, 2015 and 2014	(2,224,725)	(2,075,303)
Amortize prior year deferred outflows	1,737,755	-
Amortize prior year deferred inflows	(1,280,048)	-
Net pension liability adjustment	4,800,659	(34,216)
Pension Expense - after GASB 68 adjustments	<u>\$ 11,588,650</u>	<u>\$ 3,897,560</u>

NORTH SUNFLOWER MEDICAL CENTER
Notes to Financial Statements

Note 10: Defined Benefit Pension Plan (Continued)

At September 30, 2015, and 2014, the hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources at 9/30/15	Deferred Inflows of Resources at 9/30/15
Differences between expected and actual experience	\$ 1,166,838	\$ -
Net difference between projected and actual earnings on pension plan investments	-	4,869,788
Changes of assumptions	3,018,421	-
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	4,426,688	-
Hospital contributions subsequent to the measurement date	852,988	-
Total	<u>\$ 9,464,935</u>	<u>\$ 4,869,788</u>
	Deferred Outflows of Resources at 9/30/14	Deferred Inflows of Resources at 9/30/14
Differences between expected and actual experience	\$ 551,014	\$ -
Net difference between projected and actual earnings on pension plan investments	-	5,120,194
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	4,279,945	-
Hospital contributions subsequent to the measurement date	797,504	-
Total	<u>\$ 5,628,463</u>	<u>\$ 5,120,194</u>

\$852,988 reported as deferred outflows of resources related to pensions resulting from hospital contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2016	\$ 2,229,246
2017	1,846,940
2018	(76,615)
2019	(257,412)
2020	-
Thereafter	-

NORTH SUNFLOWER MEDICAL CENTER
Notes to Financial Statements

Note 10: Defined Benefit Pension Plan (Continued)

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

Inflation	3.00 percent
Salary increases	3.75 – 19.00 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2016 with males rates set forward one year.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2014. The experience report is dated May 4, 2015.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Broad	34 %	5.20 %
International Equity	19	5.00
Emerging Markets Equity	8	5.45
Fixed Income	20	0.25
Real Assets	10	4.00
Private Equity	8	6.15
Cash	1	(0.50)
Total	100.00 %	

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate (9.00%) and that employer contributions will be made at the current employer contribution rate (15.75%). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NORTH SUNFLOWER MEDICAL CENTER
Notes to Financial Statements

Note 10: Defined Benefit Pension Plan (Continued)

Sensitivity of the Hospital's proportionate share of the net pension liability to changes in the discount rate. The following presents the hospital's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Hospital's proportionate share of the net pension liability	\$ 63,162,801	\$ 47,919,887	\$ 35,271,118

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

Note 11: Concentrations of Credit Risk

The facility grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, 2015 and 2014, was as follows:

	2015	2014
Medicare	30%	25%
Medicaid	6%	3%
Patients and other third-party payors	64%	72%
	100%	100%

Note 12: Litigation

The facility is a defendant in lawsuits arising from normal business activities. At this time, management and legal representatives are expressing no opinion on the ultimate outcome of the litigation. However, state statutes limit the facility's liability exposure to the amount of insurance coverage.

Note 13: Home Health Agency

The Board of Trustees approved the sale of the home health agency on July 19, 2010 to WAYS, LLC. The sales price was \$8,250,000 and consisted of cash of \$6,500,000 and a note receivable of \$1,750,000. The note receivable is to be paid over a five (5) year period with interest only payments for the first two (2) years. At September 30, 2015 and 2014 the note balance was \$0 and \$618,573 respectively.

NORTH SUNFLOWER MEDICAL CENTER
Notes to Financial Statements

Note 14: Effect of Deferred Amounts on Net Position

The unrestricted net position amount of (\$19,314,322) at September 30, 2015 and (\$11,748,251) at September 30, 2014 include the effect of deferring the recognition of expenses resulting from a deferred outflow from pensions. The \$9,464,935 balance of the deferred outflow of resources at September 30, 2015 and the \$5,628,463 balance at September 30, 2014 will be recognized as expenses and decrease unrestricted net position over the next 3 years.

The unrestricted net position amount of (\$19,314,322) at September 30, 2015 and (\$11,748,251) at September 30, 2014 include the effect of deferring the recognition of revenue resulting from a deferred inflow from pensions. The \$4,869,788 balance of the deferred inflow of resources at September 30, 2015 and the \$5,120,194 balance at September 30, 2014 will be recognized as expenses and decrease unrestricted net position over the next 4 years.

Note 15: Prior Period Adjustment

Prior period adjustments were made for the fiscal years ending September 30, 2014 and 2013, to meet the requirements of *GASB Statement No. 68: Accounting and Financial Reporting for Pensions* and *GASB Statement No. 71: Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. These Statements were effective for fiscal years beginning after June 15, 2014.

For the year ended September 30, 2013, the effect of these adjustments was a decrease in the hospital's net position of \$33,789,050 and to record the hospital's net pension liability of \$34,501,283. This created a deferred outflow of resources of \$712,233 for the year ended September 30, 2013.

The adjustments for the year ended September 30, 2014 included an increase of \$820,789 to the hospital's net pension liability, an increase of \$4,916,230 to deferred outflows of resources, an increase of \$5,120,194 to deferred inflows of resources, and an increase of \$1,024,753 to pension expense.

Note 16: Subsequent Events

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of North Sunflower Medical Center evaluated the activity of the hospital through, March 29, 2016 (the date the financial statements were available to be issued), and determined that there were no subsequent events requiring disclosures in the notes to financial statements.

NORTH SUNFLOWER MEDICAL CENTER
 Required Supplementary Information
 Schedule of the Hospital's Proportionate Share of the Net Pension Liability
 PERS
 Last 10 Plan Fiscal Years*

	2015	2014
Hospital's proportion of net pension liability	\$ 47,919,887	\$ 35,322,072
Hospital's proportionate share of the net pension liability	0.309932%	0.290751%
Hospital's covered-employee payroll	\$ 19,188,756	\$ 17,698,641
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	249.73%	199.58%
Plan fiduciary net position as a percentage of the total pension liability	61.70%	67.21%

*The amounts presented for each fiscal year were determined as of the measurement date of June 30 of the fiscal year presented.

The schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE 9/30/14, and, until a full 10-year trend is compiled, the hospital has only presented information for the years in which information is available.

The notes to required supplementary information are an integral part of this schedule.

NORTH SUNFLOWER MEDICAL CENTER
 Required Supplementary Information
 Schedule of Hospital Contributions
 PERS
 Last 10 Plan Fiscal Years

	2015	2014
Contractually required contribution	\$ 3,022,229	\$ 2,787,536
Contribution in relation to the contractually required contribution	(3,022,229)	(2,787,536)
Contribution deficiency (excess)	\$ -	\$ -
Hospital's covered-employee payroll	\$ 19,188,756	\$ 17,698,641
Contributions as a percentage of covered-employee payroll	15.75%	15.75%

The schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE 9/30/14, and, until a full 10-year trend is compiled, the hospital has only presented information for the years in which information is available.

The notes to required supplementary information are an integral part of this schedule.

NORTH SUNFLOWER MEDICAL CENTER
Notes to Required Supplementary Information

Pension Schedules

Changes of benefit terms – There were no changes of benefit terms for the years ended September 30, 2015 and 2014.

Changes of assumptions – In 2015 and later, the expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015. In 2015, the expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015. Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience. In 2015, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. Finally, the price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

Method and assumptions used in calculations of actuarially determined contributions. The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported (2015 Employer contributions are developed from 2013 valuation). The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	32.2 years
Asset valuation method	5-year smoothed market
Price Inflation	3.50 percent
Salary increase	4.25 percent to 19.50 percent, including inflation
Investment rate of return	8.00 percent, net of pension plan investment expense, including inflation

NORTH SUNFLOWER MEDICAL CENTER
Detailed Schedules of Operating Revenues
Years Ended September 30,

	<u>2015</u>	<u>2014</u>
Inpatient:		
Nursing Services:		
Routine care	\$ 15,528,670	\$ 15,084,301
Other Nursing Services:		
Operating and recovery rooms	795,266	943,985
Observation room	17,507	52,482
Central service and supply	299,051	119,173
Emergency service	75,747	149,531
Total Nursing Services Revenue	<u>16,716,241</u>	<u>16,349,472</u>
Other Professional Services:		
Respiratory therapy	1,630,679	1,569,674
Laboratory	1,836,290	1,837,653
Blood bank	96,071	110,533
Electrocardiology	94,403	111,757
Radiology	413,460	431,166
CT scan/Nuclear Medicine	451,531	574,880
Ultrasound/MRI	290,449	290,919
Pharmacy	2,556,100	2,456,946
IV therapy	537,003	513,012
Anesthesia	102,425	124,350
Physical therapy	2,137,997	2,088,505
Speech therapy	477,471	314,392
Occupational therapy	1,146,719	1,024,013
Psychiatric therapy	213,416	-
Hospital based physician	591,262	615,366
Total Other Professional Services Revenue	<u>12,575,276</u>	<u>12,063,166</u>
Total Inpatient Revenue	<u>\$ 29,291,517</u>	<u>\$ 28,412,638</u>

NORTH SUNFLOWER MEDICAL CENTER
Detailed Schedules of Operating Revenues
Years Ended September 30,

	2015	2014
Outpatient:		
Other Nursing Services:		
Operating and recovery rooms	\$ 14,269,751	\$ 12,573,573
Observation room	122,686	144,444
Central service and supply	30,756	50,000
Emergency service	1,795,195	1,926,162
Hospice	566,853	-
Total Nursing Services Revenue	16,785,241	14,694,179
Other Professional Services:		
Respiratory therapy	60,697	59,485
Laboratory	8,025,550	7,209,918
Blood	50,679	48,691
Electrocardiology	263,970	274,470
Radiology	2,098,144	2,081,475
Cardiology	278,729	18,211
CT scan/Nuclear Medicine	4,266,577	4,191,768
Ultrasound/MRI	1,762,671	1,439,113
Pharmacy	2,568,058	1,346,026
IV therapy	245,050	189,046
Anesthesia	1,645,675	1,394,850
Physical therapy	1,208,327	967,865
Speech therapy	55,343	32,885
Occupational therapy	142,899	130,782
Psychiatric therapy	5,198,002	5,201,169
Wound care	454,560	510,535
DME	2,206,264	1,971,373
Eye Station	202,889	280,508
Diagnostic Center	583,488	533,807
Dental clinic	1,243,895	841,268
Discount pharmacy	930,566	5,934,362
Simply Sunflower	234,858	339,171
Wellness center	125,916	83,331
Infusion therapy	391,253	316,610
Sleep Lab	1,514,890	1,423,200
RHC Screen Team	8,469,574	1,618,947
Clinic	4,959,719	4,911,102
Total Other Professional Services Revenue	49,188,243	43,349,968
Total Outpatient Revenue	\$ 65,973,484	\$ 58,044,147

NORTH SUNFLOWER MEDICAL CENTER
Detailed Schedules of Operating Revenues
Years Ended September 30,

	<u>2015</u>	<u>2014</u>
Total Patient Services Revenue	\$ <u>95,265,001</u>	\$ <u>86,456,785</u>
Deductions from Patient Service Revenue:		
Contractual Adjustments and Allowances:		
Medicare	16,321,100	11,299,497
Medicaid	249,167	988,789
Medicaid upper payment limit payments	(1,057,117)	(933,585)
Blue Cross	6,074,504	4,581,555
Administrative adjustments and other	13,978,685	8,906,330
Total Deductions from Patient Service Revenue	<u>35,566,339</u>	<u>24,842,586</u>
Provision for Uncollectible Accounts	<u>3,366,895</u>	<u>5,636,502</u>
Net Patient Services Revenue	<u>56,331,767</u>	<u>55,977,697</u>
Other Revenue:		
Medical records transcripts	17,309	25,589
Employee and other meals	34,251	20,877
County tax revenue	20	249
Miscellaneous revenue	3,511,449	559,166
Total Other Revenue	<u>3,563,029</u>	<u>605,881</u>
Electronic Health Records Incentive	<u>123,600</u>	<u>436,550</u>
Total Revenue	<u>\$ 60,018,396</u>	<u>\$ 57,020,128</u>

NORTH SUNFLOWER MEDICAL CENTER
Detailed Schedules of Operating Expenses
Years Ended September 30,

	2015			2014		
	Salaries and Benefits	Supplies and Drugs	Other	Salaries and Benefits	Supplies and Drugs	Other
Nursing Services:						
Routine services	\$ 1,192,995	78,930	741,746	\$ 1,159,052	69,760	859,942
Senior care	1,207,717	122,554	1,031,539	1,153,865	131,203	767,106
Operating and recovery rooms	1,297,256	692,201	1,397,796	1,226,081	778,413	1,010,689
Emergency room	472,297	70,637	502,356	485,622	77,071	461,592
Skilled nursing facility	1,656,572	581,805	1,311,731	1,627,438	544,636	1,280,440
Hospice	312,342	84,646	359,977	33,444	15,022	38,218
Swingbed	1,509,859	71,770	525,545	1,376,127	63,884	975,225
Nursing administration	78,008	5,780	412,413	75,097	5,148	441,896
Other Professional Services:						
Laboratory	843,311	512,984	197,758	788,179	452,893	219,466
Radiology	622,331	24,606	633,382	622,931	19,237	661,713
Mammography	-	-	-	506	-	-
Cardiology	-	6,618	311,767	-	170	33,123
Respiratory	150,173	28,821	38,789	140,502	31,064	58,737
Therapy	944,015	5,164	492,124	910,773	6,028	432,208
Cardiac Rehab	-	108	1,117	-	-	-
Central supply	37,856	-	-	35,858	-	-
Pharmacy	342,470	1,114,379	187,317	319,823	600,495	95,445
Nuclear Medicine	113,133	111,515	62,766	108,522	30,722	54,801
Infusion therapy	54,174	16,268	17,828	52,000	256,116	42,184
Sleep lab	166,198	14,090	205,973	158,828	14,225	243,132
Wound Care	86,452	1,450	233,697	79,558	3,844	329,655
Social service	54,432	23	88,917	54,944	-	85,544
Health information services	2,482,160	20,103	702,204	1,765,105	27,361	784,370
Medical records	190,504	8,333	198,913	186,783	13,259	218,836
DME	696,197	586,135	284,082	639,769	458,412	304,012
Eye Station	25,029	33,626	60,576	147,885	28,432	15,951
Diagnostic Center	184,787	3,741	46,552	183,021	6,341	54,599
Dental clinic	563,839	55,530	247,689	594,179	48,082	74,269
IOP Indianola	6	-	1,745	(3,181)	112	1,526
Discount pharmacy	176,834	561,595	16,597	1,170,549	3,789,802	540,406
Simply Sunflower	67,113	95,624	34,440	82,962	58,060	40,722
Wellness center	155,247	5,440	36,795	203,600	2,551	29,349
RHC Screen Team Clinic	574,995 2,037,431	263,075 537,991	2,713,616 1,515,831	162,592 2,005,506	58,374 589,549	935,263 1,900,861
General Services:						
Dietary	483,228	68,075	98,168	450,034	86,081	99,895
Maintenance	233,929	628	546,719	214,797	1,022	606,980
Housekeeping	981,091	4,592	209,563	839,116	2,385	175,931
Laundry	98,680	6,012	90,144	74,241	1,204	102,963
Inservice/Infection control	165,052	4,127	2,583	182,136	3,490	4,217
Administrative and Fiscal Services:						
Administrative	1,130,499	52,959	5,598,363	1,184,633	34,731	5,050,377
Fiscal	84,570	(52,876)	128,341	78,970	3,489	133,311
Information technology	370,556	210	326,658	328,195	600	320,576
Employee benefits	3,413,996	-	-	2,765,378	-	-
Pension Expense	11,588,650	-	-	3,897,560	-	-
Total Operating Expenses	\$ 36,845,984	5,799,269	21,614,117	\$ 27,562,980	8,313,268	19,485,530

NORTH SUNFLOWER MEDICAL CENTER
Schedule of Surety Bonds for Officials and Employees
September 30, 2015

Name	Position	Company	Amount of Bond
Drew Weissinger	Interim CFO	American Guarantee and Liability Insurance Company	\$ 100,000
Billy Marlow	Executive Director	American Guarantee and Liability Insurance Company	\$ 100,000
Sam Miller	CEO	American Guarantee and Liability Insurance Company	\$ 100,000
Rodney Clark	COO	American Guarantee and Liability Insurance Company	\$ 100,000
Bobbie B. Allen	Trustee	American Guarantee and Liability Insurance Company	\$ 100,000
H.T. Miller, Jr.	Trustee	American Guarantee and Liability Insurance Company	\$ 100,000
Billy Joe Waldrup	Trustee	American Guarantee and Liability Insurance Company	\$ 100,000
Brenda Vanlandingham	Trustee	American Guarantee and Liability Insurance Company	\$ 100,000



WATKINS, WARD and STAFFORD
Professional Limited Liability Company
Certified Public Accountants

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William B. Staggers, CPA
Michael W. McCully, CPA
Mort Stroud, CPA
R. Steve Sinclair, CPA
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Robin Y. McCormick, CPA/PFS
J. Randy Scrivner, CPA

Kimberly S. Caskey, CPA
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Thomas J. Browder, CPA
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John N. Russell, CPA
Thomas A. Davis, CPA
Anita L. Goodrum, CPA
Ricky D. Allen, CPA
Jason D. Brooks, CPA
Robert E. Cordle, Jr., CPA
Perry C. Rackley, Jr., CPA

**Independent Auditors' 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***

The Board of Trustees
North Sunflower Medical Center
Ruleville, 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 North Sunflower Medical Center, a component unit of Sunflower, Mississippi, as of and for the years ended September 30, 2015 and 2014, and the related notes to financial statements, which collectively comprise North Sunflower Medical Center's basic financial statements, and have issued our report thereon dated March 29, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered North Sunflower Medical Center's internal control over financial reporting (internal control) to determine the audit 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 North Sunflower Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of North Sunflower 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 entity'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 North Sunflower 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 *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eupora, Mississippi
March 29, 2016

Watkins Ward and Stafford, PLLC



WATKINS, WARD and STAFFORD
 Professional Limited Liability Company
 Certified Public Accountants

James L. Stafford, CPA	Kimberly S. Caskey, CPA
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Independent Auditors' Report on Compliance with State Laws and Regulations

The Board of Trustees
 North Sunflower Medical Center
 Ruleville, Mississippi

We have audited the financial statements of North Sunflower Medical Center, a component unit of Sunflower County, Mississippi, as of and for the years ended September 30, 2015 and 2014, and have issued our report thereon dated March 29, 2016.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with state laws applicable to North Sunflower Medical Center is the responsibility of the facility's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of North Sunflower Medical Center's compliance with certain provisions of state laws and regulations. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, North Sunflower Medical Center complied with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that North Sunflower Medical Center had not complied with those provisions.

This report is intended solely for the information and use of the board of trustees, management, others within the organization, and the Board of Supervisors of Sunflower County, Mississippi and is not intended to be and should not be used by anyone other than these specified parties.

Eupora, Mississippi
 March 29, 2016

Watkins Ward and Stafford, PLLC