

**NORTH SUNFLOWER MEDICAL CENTER  
RULEVILLE, MISSISSIPPI**

**AUDITED FINANCIAL STATEMENTS  
AND ADDITIONAL INFORMATION  
SEPTEMBER 30, 2016**



NORTH SUNFLOWER MEDICAL CENTER

Contents

	<u>Page</u>
<b>Independent Auditors' Report</b>	1
<b>Management's Discussion and Analysis</b>	4
<b>Basic Financial Statements</b>	
Statements of Net Position	10
Statements of Revenues, Expenses, and Changes in Net Position	12
Statements of Cash Flows	13
Notes to Financial Statements	15
<b>Required Supplementary Information</b>	
Schedule of the Hospital's Proportionate Share of the Net Pension Liability	31
Schedule of Hospital Contributions	32
Notes to Required Supplementary Information	33
<b>Other Information</b>	
Detailed Schedules of Operating Revenues	34
Detailed Schedules of Operating Expenses	37
Schedule of Surety Bonds for Officials and Employees	38
<b>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</b>	39
<b>Independent Auditors' Report on Compliance with State Laws and Regulations</b>	41



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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, 2016, and 2015, 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, 2016, and 2015, 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, 2016, and 2015, 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 31), and the Schedule of Hospital Contributions (page 32) 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, 2016, and 2015, and schedule of surety bonds for officials and employees (pages 34 to 38) 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, 2016, and 2015, 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 April 21, 2017, 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  
April 21, 2017

*Watkins Ward and Stafford, PLLC*

**North Sunflower Medical Center  
Management's Discussion and Analysis  
Years Ended September 30, 2016, and 2015**

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, 2016, and 2015. Please read it in conjunction with the facility's financial statements, which begin on page 10.

**FINANCIAL HIGHLIGHTS**

- ◆ The facility's net position (deficit) decreased from 2015 to 2016 by \$7,789,600, or 244.82%, and decreased from 2014 to 2015 by \$733,739, or 29.97%.
- ◆ The facility reported an operating loss in 2016 of \$7,690,112, and operating loss in 2015 of \$2,726,063.
- ◆ Nonoperating revenues decreased by \$1,362,986, or 87.45%, in 2016 compared to 2015. Nonoperating revenues increased by \$1,374,847, or 748.43%, in 2015 compared to 2014.

**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, 2016, and 2015**

**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 (deficit) decreased from 2015 to 2016 by \$7,789,600, or 244.82%, and decreased from 2014 to 2015 by \$733,739, or 29.97%.

**Table 1: Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (Deficit)**

	2016	2015
<b>Assets:</b>		
Current assets	\$ 32,642,449	\$ 29,805,784
Capital assets, net	15,919,130	17,163,919
Other noncurrent assets	574,490	1,712,328
<b>Total Assets</b>	<b>49,136,069</b>	<b>48,682,031</b>
<b>Deferred Outflows of Resources</b>	<b>14,765,440</b>	<b>10,904,385</b>
<b>Total Assets and Deferred Outflows</b>	<b>\$ 63,901,509</b>	<b>\$ 59,586,416</b>
<b>Liabilities:</b>		
Current liabilities	\$ 10,107,202	\$ 8,295,211
Long-term debt outstanding	64,607,078	53,439,289
<b>Total Liabilities</b>	<b>74,714,280</b>	<b>61,734,500</b>
<b>Deferred Inflows of Resources</b>	<b>158,562</b>	<b>1,033,649</b>
<b>Net Position (Deficit):</b>		
Invested in capital assets, net of related debt	10,432,921	11,091,172
Unrestricted	( 21,404,254)	( 14,272,905)
<b>Total Net Position (Deficit)</b>	<b>( 10,971,333)</b>	<b>( 3,181,733)</b>
<b>Total Liabilities, Deferred Inflows, and Net Position (Deficit)</b>	<b>\$ 63,901,509</b>	<b>\$ 59,586,416</b>



**North Sunflower Medical Center  
Management's Discussion and Analysis  
Years Ended September 30, 2016, and 2015**

**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:

	2016	2015
Total unrestricted net position (deficit)	\$ ( 21,404,254)	\$ ( 14,272,905)
Less unrestricted deficit in net position resulting from recognition of the net pension liability	45,496,750	38,450,594
Unrestricted net position, exclusive of the net pension liability effect	\$ 24,092,496	\$ 24,177,689

The change in the facility's net position is due to several factors. The facility's cash balance increased by \$2,217,813, or 13.04%, compared to 2015. The inventory increased by \$107,268, or 6.92%, compared to 2015. Patient accounts receivable net of estimated uncollectibles and allowances increased by \$550,777, or 5.22%, compared to 2015. Other receivables decreased by \$42,113, or 18.73%, compared to 2015. The facility has a payable to third-party payors of \$2,204,786 in 2016, and \$1,084,387 in 2015. The facility acquired capital assets in the amounts of \$1,859,353, and \$3,194,257, for the years 2016, and 2015, respectively. Depreciation and amortization expenses amounted to \$3,104,142 in 2016, and \$2,798,218 in 2015.

**North Sunflower Medical Center  
Management's Discussion and Analysis  
Years Ended September 30, 2016, and 2015**

**OPERATING RESULTS AND CHANGES IN THE FACILITY'S NET POSITION**

**Table 2: Operating Results**

	<u>2016</u>	<u>2015</u>
<b>Operating Revenues:</b>		
Net patient service revenues	\$ 64,363,222	\$ 56,420,946
Other revenues	742,191	3,563,029
Electronic health records incentive	<u>972,869</u>	<u>123,600</u>
Total Operating Revenues	<u>66,078,282</u>	<u>60,107,575</u>
<b>Operating Expenses:</b>		
Salaries and benefits	39,662,902	32,011,560
Supplies and drugs	10,336,510	5,906,662
Other operating expenses	19,985,748	21,614,117
Insurance	679,092	503,081
Depreciation and amortization	<u>3,104,142</u>	<u>2,798,218</u>
Total Operating Expenses	<u>73,768,394</u>	<u>62,833,638</u>
<b>Operating Loss</b>	<u>( 7,690,112)</u>	<u>( 2,726,063)</u>
<b>Nonoperating Revenues (Expenses):</b>		
Interest and investment income	141,356	229,153
Interest expense	( 295,046)	( 346,220)
Gain on sale of assets	-	163,366
Gain on forgiveness of debt	-	107,453
Grants	<u>54,202</u>	<u>1,058,572</u>
Total Nonoperating Revenues (Expenses)	<u>( 99,488)</u>	<u>1,212,324</u>
<b>Excess of Revenues Under Expenses</b>	<u>( 7,789,600)</u>	<u>( 1,513,739)</u>
<b>Net Position (Deficit) Beginning of Year as Previously Reported</b>	( 3,181,733)	( 2,074,509)
<b>Prior Period Adjustment</b>	<u>-</u>	<u>( 373,485)</u>
<b>Net Position (Deficit) Beginning of Year as Restated</b>	( 3,181,733)	( 2,447,994)
<b>Contributed Capital</b>	<u>-</u>	<u>780,000</u>
<b>Net Position (Deficit) End of Year as Restated</b>	<u><u>\$ ( 10,971,333)</u></u>	<u><u>\$ ( 3,181,733)</u></u>

**North Sunflower Medical Center  
Management's Discussion and Analysis  
Years Ended September 30, 2016, and 2015**

**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 2016 increased by \$4,964,049, or 182.10%, compared to the operating loss reported in 2015. The operating loss in 2015 increased by \$594,269, or 40.15%, compared to the operating loss reported in 2014.

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

- ◆ An increase in net patient service revenues of \$7,942,276, or 14.08%, in 2016 compared to 2015, and an increase of \$443,249, or 0.79%, in 2015 compared to 2014. Medicaid Mississippi hospital access payments, a component of net patient revenue, totaled \$985,306 in 2016, and upper payment limit payments totaled \$1,057,117 in 2015.
- ◆ An increase in salaries and benefits of \$7,651,342, or 23.90%, in 2016 compared to 2015, and an increase of \$4,488,302, or 16.31%, in 2015 compared to 2014. This is mainly due to a pension expense balance of \$10,558,451 in 2016, and \$6,754,226 in 2015.
- ◆ An increase in supplies and drugs, other operating expenses and insurance of \$2,977,490, or 10.62%, in 2016 compared to 2015, and a decrease of \$263,388, or 0.94%, in 2015 compared to 2014.
- ◆ Electronic health records incentives funds from Medicare and Medicaid in the amount of \$972,869 for 2016, and \$123,600 in 2015.

**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 \$141,356 for the year ended September 30, 2016, and \$229,153 for the year ended September 30, 2015. The facility received grants and contributions of \$54,202 for the year ended September 30, 2016, and \$1,058,572 for the year ended September 30, 2015. The facility had a gain on the sale of assets of \$0 for the year ended September 30, 2016, and \$163,366 for the year ended September 30, 2015. The facility had a gain on the forgiveness of debt of \$0 for the year ended September 30, 2016, and \$107,453 for the year ended September 30, 2015.

Nonoperating expenses consist primarily of interest expense. The facility had interest expense in the amount of \$295,046 for the year ended September 30, 2016, and \$346,220 for the year ended September 30, 2015.

**North Sunflower Medical Center  
Management's Discussion and Analysis  
Years Ended September 30, 2016, and 2015**

**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 \$15,919,130 invested in capital assets net of accumulated depreciation at September 30, 2016, and \$17,163,919 at September 30, 2015. The facility had capital expenditures of \$1,859,353, and \$2,011,054 in 2016, and 2015, respectively.

**Long-Term Debt**

At September 30, 2016, the facility had \$5,486,209 in long-term debt outstanding, including the current portion. The facility incurred no new debt in 2016 while making \$586,538 in principal payments. In 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.

**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, 2016, and 2015

**Assets and Deferred Outflows of Resources**

	2016	2015
<b>Current Assets:</b>		
Cash	\$ 19,221,983	\$ 17,004,170
Cash - Nursing home residents' funds	47,954	44,917
Patient accounts receivable (Net of estimated uncollectibles and allowances of \$8,629,173 in 2016, and \$6,955,741 in 2015)	11,096,627	10,545,850
Estimated third-party payor settlements	50,387	-
Other receivables	182,677	224,790
Inventories	1,657,298	1,550,030
Prepaid expenses	385,523	436,027
Total Current Assets	32,642,449	29,805,784
<b>Capital Assets:</b>		
Property and equipment (Net of accumulated depreciation and amortization of \$16,056,719 in 2016, and \$12,952,577 in 2015)	15,919,130	17,163,919
<b>Other Assets:</b>		
Investment in Healthcare Providers Insurance Company	98,490	98,490
Note receivable - Sunflower Discount Pharmacy, LLC	-	1,137,838
Goodwill - dental clinic	376,000	376,000
Goodwill - hospice	100,000	100,000
Total Other Assets	574,490	1,712,328
<b>Total Assets</b>	49,136,069	48,682,031
<b>Deferred Outflows of Resources:</b>		
Deferred outflows - pensions	14,332,019	10,492,430
Deferred outflows - recruitment incentives	433,421	411,955
Total Deferred Outflows of Resources	14,765,440	10,904,385
<b>Total Assets and Deferred Outflows of Resources</b>	\$ 63,901,509	\$ 59,586,416

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

NORTH SUNFLOWER MEDICAL CENTER  
Statements of Net Position  
September 30, 2016, and 2015

**Liabilities, Deferred Inflows of Resources and Net Position**

	2016	2015
<b>Current Liabilities:</b>		
Accounts payable	\$ 2,246,411	\$ 2,429,799
Patient accounts receivable - credit balances	538,456	458,180
Estimated third-party payor settlements	2,204,786	1,084,387
Current portion of notes payable	420,890	407,886
Current portion of bond payable	112,500	120,000
Current portion of capitalized lease obligation	15,948	14,947
Accrued expenses and payroll withholdings	4,520,257	3,735,095
Nursing home residents' funds	47,954	44,917
Total Current Liabilities	10,107,202	8,295,211
<b>Long-Term Debt:</b>		
Notes payable	2,786,390	3,237,198
Bond payable	2,135,000	2,260,000
Capitalized lease obligation	15,481	32,716
Net Pension Liability	59,670,207	47,909,375
Total Long-Term Debt	64,607,078	53,439,289
<b>Total Liabilities</b>	74,714,280	61,734,500
<b>Deferred Inflows of Resources:</b>		
Deferred inflows - pensions	158,562	1,033,649
<b>Net Position (Deficit):</b>		
Invested in capital assets, net of related debt	10,432,921	11,091,172
Unrestricted	( 21,404,254)	( 14,272,905)
Total Net Position (Deficit)	( 10,971,333)	( 3,181,733)
<b>Total Liabilities, Deferred Inflows of Resources and Net Position (Deficit)</b>	\$ 63,901,509	\$ 59,586,416

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, 2016, and 2015

	2016	2015
<b>Operating Revenues:</b>		
Net patient service revenue (Net of provision for uncollectible accounts of \$2,278,092 in 2016, and \$3,366,895 in 2015)	\$ 64,363,222	\$ 56,420,946
Other revenue	742,191	3,563,029
Electronic health records incentive	972,869	123,600
Total Operating Revenues	66,078,282	60,107,575
<b>Operating Expenses:</b>		
Salaries and benefits	39,662,902	32,011,560
Supplies and drugs	10,336,510	5,906,662
Other operating expenses	19,985,748	21,614,117
Insurance	679,092	503,081
Depreciation and amortization	3,104,142	2,798,218
Total Operating Expenses	73,768,394	62,833,638
<b>Operating Loss</b>	( 7,690,112)	( 2,726,063)
<b>Nonoperating Revenues (Expenses):</b>		
Interest and investment income	141,356	229,153
Interest expense	( 295,046)	( 346,220)
Gain on sale of assets	-	163,366
Gain on forgiveness of debt	-	107,453
Grants	54,202	1,058,572
Total Nonoperating Revenues (Expenses)	( 99,488)	1,212,324
<b>Excess of Revenues Under Expenses</b>	( 7,789,600)	( 1,513,739)
<b>Net Position (Deficit) Beginning of Year as Previously Reported</b>	( 3,181,733)	( 2,074,509)
<b>Prior Period Adjustment</b>	-	( 373,485)
<b>Net Position (Deficit) Beginning of Year as Restated</b>	( 3,181,733)	( 2,447,994)
<b>Contributed Capital</b>	-	780,000
<b>Net Position (Deficit) End of Year as Restated</b>	\$ ( 10,971,333)	\$ ( 3,181,733)

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, 2016, and 2015

	2016	2015
<b>Cash Flows From Operating Activities:</b>		
Receipts from and on behalf of patients	\$ 65,373,020	\$ 58,592,371
Payments to suppliers and contractors	( 30,796,991)	( 26,953,452)
Payments to and on behalf of employees	( 31,822,135)	( 27,212,173)
Receipts from other than patients	972,869	3,563,029
Receipts from electronic health records incentive	742,191	123,600
<b>Net Cash Provided by Operating Activities</b>	<b>4,468,954</b>	<b>8,113,375</b>
<b>Cash Flows From Noncapital Financing Activities:</b>		
Grants and donations	121,702	263,763
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Principal payments on bond payable	( 132,500)	( 120,000)
Principal payments on notes payable	( 437,804)	( 485,943)
Principal payments on capitalized lease obligation	( 16,234)	( 3,077,724)
Purchase of property and equipment	( 1,620,119)	( 1,519,453)
Proceeds from sale of assets	-	5,000
Interest paid on long-term debt	( 308,742)	( 354,182)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>( 2,515,399)</b>	<b>( 5,552,302)</b>
<b>Cash Flows From Investing Activities:</b>		
Interest and investment income	141,356	229,153
Proceeds from payments on note receivable	-	1,718,376
Cash received from reacquisition of pharmacy	1,200	-
<b>Net Cash Provided by Investing Activities</b>	<b>142,556</b>	<b>1,947,529</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>2,217,813</b>	<b>4,772,365</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>17,004,170</b>	<b>12,231,805</b>
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 19,221,983</b>	<b>\$ 17,004,170</b>

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, 2016, and 2015

	2016	2015
<b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:</b>		
Operating loss	\$ ( 7,690,112)	\$ ( 2,726,063)
Adjustment to Reconcile Operating Loss to Net Cash Flows Provided by Operating Activities:		
Depreciation and amortization	3,104,142	2,798,218
Pension expense adjustment	7,046,156	3,676,513
Ways, LLC Medicare overpayment note	-	1,301,399
HPIC equity credit	( 118,251)	( 91,006)
Property donated to Sunflower County	-	290,000
In-kind contribution from University of Mississippi Medical Center	-	788,000
Provision for uncollectible accounts	2,278,092	3,366,895
Deferred outflows - recruitment incentives	( 21,466)	( 67,964)
Changes in:		
Patient accounts receivable	( 2,336,512)	( 4,704,053)
Supplies and other current assets	542,748	396,485
Accounts payable, accrued expenses, and other current liabilities	594,145	878,790
Estimated third-party payor payments	1,070,012	2,206,161
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 4,468,954</b>	<b>\$ 8,113,375</b>

**Capital and Financing Activities:**

The facility entered into no new capital lease obligations during the years ended September 30, 2016, and 2015.

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**

**a. 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.

**b. 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.

**c. 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.

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

**e. 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)**

**f. 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.

**g. 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.

**h. 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.

**i. 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*.

**j. 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)**

**k. 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.

**l. 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.

**m. 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, 2016; therefore, no liability has been accrued at this time.

**n. 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.

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

**p. 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)**

**q. 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 \$972,869 in 2016, and \$123,600 in 2015.

**r. 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, 2016.

**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 2016, and 2015, approximated \$743,000, and \$782,000, 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, 2016, and 2015, is comprised of the following:

	2016	2015
Provision for uncollectible accounts	\$ 3,860,126	\$ 4,701,305
Allowance for Medicare/Medicaid adjustment	4,248,937	2,055,896
Allowance for DME adjustment	520,110	198,540
	\$ 8,629,173	\$ 6,955,741

**Note 5: Capital Assets**

	Balance September 30, 2015	Additions and Transfers	Retirements and Transfers	Balance September 30 2016
Land	\$ 43,355	-	-	\$ 43,355
Land improvements	533,093	-	-	533,093
Buildings and improvements				
Under capital lease	74,995	-	-	74,995
Other	13,644,326	435,131	571,327	14,650,784
Fixed equipment	2,128,220		-	2,128,220
Major movable equipment	12,645,030	747,054	-	13,392,084
Automobiles	476,150	104,748	-	580,898
Construction in Progress	571,327	572,420	( 571,327)	572,420
 Total Historical Cost	 30,116,496	 1,859,353	 -	 31,975,849
 Less: Accumulated Depreciation and Amortization for:				
Land improvements	( 277,830)	( 39,291)	-	( 317,121)
Buildings and improvements				
Under capital lease	( 7,812)	( 3,750)	-	( 11,562)
Other	( 3,120,043)	( 568,971)		( 3,689,014)
Fixed equipment	( 1,714,958)	( 40,952)	-	( 1,755,910)
Major movable equipment	( 7,583,787)	( 2,370,117)	-	( 9,953,904)
Automobiles	( 248,147)	( 81,061)	-	( 329,208)
 Total Accumulated Depreciation and Amortization	 (12,952,577)	 ( 3,104,142)	 -	 (16,056,719)
 Capital Assets, Net	 \$ 17,163,919	 ( 1,244,789)	 -	 \$ 15,919,130

NORTH SUNFLOWER MEDICAL CENTER  
Notes to Financial Statements

**Note 5: Capital Assets (Continued)**

	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				
Under capital lease	74,995	-	-	74,995
Other	12,441,815	1,010,219	192,292	13,644,326
Fixed equipment	2,128,220	-	-	2,128,220
Major movable equipment:				
Under capital lease	3,395,390	-	( 3,395,390)	-
Other	8,149,210	450,779	4,045,041	12,645,030
Automobiles	309,184	196,226	( 29,260)	476,150
Construction in Progress	1,400,699	353,830	( 1,183,202)	571,327
	<u>28,475,961</u>	<u>2,011,054</u>	<u>( 370,519)</u>	<u>30,116,496</u>
Total Historical Cost				
Less: Accumulated Depreciation and Amortization for:				
Land improvements	( 243,630)	( 34,200)	-	( 277,830)
Buildings and improvements				
Under capital lease	( 4,062)	( 3,750)	-	( 7,812)
Other	( 2,986,805)	( 133,238)	-	( 3,120,043)
Fixed equipment	( 1,673,219)	( 41,739)	-	( 1,714,958)
Major movable equipment				
Under capital lease	( 151,945)	( 911,673)	1,063,618	-
Other	( 4,989,585)	( 1,596,716)	( 997,486)	( 7,583,787)
Automobiles	( 190,505)	( 76,902)	19,260	( 248,147)
	<u>(10,239,751)</u>	<u>( 2,798,218)</u>	<u>85,392</u>	<u>(12,952,577)</u>
Total Accumulated Depreciation and Amortization				
Capital Assets, Net	<u>\$ 18,236,210</u>	<u>( 787,164)</u>	<u>( 285,127)</u>	<u>\$ 17,163,919</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, 2016, and 2015, follows:

	Balance 9/30/2015	Additions	Reductions	Balance 9/30/2016	Amounts Due Within One Year
Note payable	\$ 3,645,084	-	( 437,804)	\$ 3,207,280	\$ 420,890
Bond payable	2,380,000	-	( 132,500)	2,247,500	112,500
Capital lease obligation	47,663	-	( 16,234)	31,429	15,948
Total Long-Term Debt	<u>\$ 6,072,747</u>	<u>-</u>	<u>( 586,538)</u>	<u>\$ 5,486,209</u>	<u>\$ 549,338</u>

  

	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
Bond 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	<u>\$ 8,562,468</u>	<u>1,301,399</u>	<u>( 3,791,120)</u>	<u>\$ 6,072,747</u>	<u>\$ 542,833</u>

A detail of long-term debt, including capital lease obligations at September 30, 2016, and 2015, follows:

<b>Notes Payable</b>	<u>2016</u>	<u>2015</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.	\$ 2,690,910	\$ 2,761,504
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.	<u>516,370</u>	<u>883,580</u>
Total Notes Payable	<u>\$ 3,207,280</u>	<u>\$ 3,645,084</u>



NORTH SUNFLOWER MEDICAL CENTER  
Notes to Financial Statements

**Note 6: Long-Term Debt (Continued)**

<b>Bond Payable</b>	2016	2015
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>\$ 2,247,500</u>	<u>\$ 2,380,000</u>

**Capital Lease obligation**

Performance Capital Leasing with an interest rate of 6.00% Due in monthly installments of \$1,450 for 60 months with final installment due August 1, 2018, collateralized by a clinic Specialty Modular Building	<u>\$ 31,429</u>	<u>\$ 47,663</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
2017	\$ 112,500	\$ 99,994	\$ 420,890	\$ 171,399
2018	135,000	94,369	246,037	107,801
2019	140,000	88,294	79,909	100,151
2020	145,000	82,169	82,894	97,166
2021	155,000	76,369	86,542	93,518
Thereafter	1,560,000	338,675	2,291,008	931,254
Total	<u>\$ 2,247,500</u>	<u>\$ 779,870</u>	<u>\$ 3,207,280</u>	<u>\$ 1,501,289</u>

Year Ended September 30,	Capital Lease Obligation	
	Principal	Interest
2017	\$ 15,948	\$ 1,452
2018	15,481	461
2019	-	-
2020	-	-
2021	-	-
Total	<u>\$ 31,429</u>	<u>\$ 1,913</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:

**a. 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, 2014.

**b. 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.

**c. Medicaid Mississippi Hospital Access Payment and Upper Payment Limit Payment** - During fiscal year ending September 30, 2016, the Mississippi Division of Medicaid phased out the upper payment limit program as it relates to hospitals and replaced it with the Medicaid Mississippi hospital access program. The hospital received Medicaid Mississippi hospital access payments of \$985,306 for the year ended September 30, 2016. The Medicaid Mississippi hospital access program is a program whereby the hospital qualifies for Mississippi hospital access program funds in addition to regular funds. The Mississippi Division of Medicaid administers the program through the MississippiCAN coordinated care organizations, and the continuation of the program rests with the federal government.

The hospital received Medicaid upper payment limit payments of \$1,057,117 for the year ended September 30, 2015. The Medicaid upper payment limit program was a program whereby the hospital qualified for upper payment limit funds in addition to regular funds.

**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, 2016, and 2015, amounted to \$2,344,345, and \$2,102,494, 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, 2016, and 2015, was provided in the amount of \$1,846,570, and \$1,391,836, respectively.

NORTH SUNFLOWER MEDICAL CENTER  
Notes to Financial Statements

**Note 9: Lease Commitments**

The facility leases equipment under operating leases expiring at various dates. Future minimum pending noncancelable lease payments are as follows:

<u>Year Ended September 30,</u>	
2017	\$ 192,965
2018	74,619
2019	-
2020	-
2021	-

Rental expense under all operating leases for the years ended September 30, 2016, and 2015, was \$1,092,326, and \$649,292, respectively.

**Note 10: Defined Benefit Pension Plan**

**a. 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

NORTH SUNFLOWER MEDICAL CENTER  
Notes to Financial Statements

**Note 10: Defined Benefit Pension Plan (Continued)**

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, 2016 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 fiscal years ending September 30, 2016, 2015, and 2014, were \$3,480,120, \$3,105,125, and \$2,872,807, respectively, which equaled the required contributions for each year.

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

At September 30, 2016, and 2015, the hospital reported a liability of \$59,670,207, and \$47,909,375, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and 2015, 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, 2016, the hospital's proportion was .334053 percent, and at June 30, 2015, the hospital's proportion was .309932 percent.

For the years ended September 30, 2016, and 2015, the hospital recognized pension expense of \$10,526,276, and \$6,781,638, 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, 2016, and 2015:

	<u>2016</u>	<u>2015</u>
Pension Expense - prior to GASB 68 adjustments	\$ 3,480,120	\$ 3,105,125
Current year pension expense includes deferred outflows and deferred inflows	5,900,332	5,703,925
Contributions made subsequent to the measurement date of June 30, 2016, and 2015	( 967,302)	( 852,988)
Amortize change in proportional share	1,058,997	617,071
Reverse contributions from beginning of fiscal year through June 30, 2016, and 2015	( 2,512,818)	( 2,252,137)
Amortize prior year deferred outflows	3,566,947	1,739,595
Amortize prior year deferred inflows	-	( 1,278,953)
Pension Expense - after GASB 68 adjustments	<u>\$ 10,526,276</u>	<u>\$ 6,781,638</u>

NORTH SUNFLOWER MEDICAL CENTER  
Notes to Financial Statements

**Note 10: Defined Benefit Pension Plan (Continued)**

At September 30, 2016, and 2015, the hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources at 9/30/16</b>	<b>Deferred Inflows of Resources at 9/30/16</b>
Differences between expected and actual experience	\$ 1,605,068	\$ -
Net difference between projected and actual earnings on pension plan investments	4,259,693	-
Changes of assumptions	2,609,865	( 158,562)
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	4,890,091	-
Hospital contributions subsequent to the measurement date	967,302	-
Total	<u>\$ 14,332,019</u>	<u>\$ ( 158,562)</u>
	<b>Deferred Outflows of Resources at 9/30/15</b>	<b>Deferred Inflows of Resources at 9/30/15</b>
Differences between expected and actual experience	\$ 1,089,805	\$ -
Net difference between projected and actual earnings on pension plan investments	-	( 1,033,649)
Changes of assumptions	4,127,229	-
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	4,422,408	-
Hospital contributions subsequent to the measurement date	852,988	-
Total	<u>\$ 10,492,430</u>	<u>\$ ( 1,033,649)</u>

\$967,302 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, 2017. 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:	
2017	\$ 5,755,018
2018	3,724,588
2019	2,547,754
2020	1,178,795
2021	-
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, 2016 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, 2016 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 %	

*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	\$ 76,510,584	\$ 59,670,207	\$ 45,698,153

*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, 2016, and 2015, was as follows:

	2016	2015
Medicare	31%	30%
Medicaid	14%	4%
Patients and other third-party payors	55%	66%
	100%	100%

**Note 12: Contingencies and Commitments**

**a. Attorney General Opinion Dated March 3, 2017** – The Attorney General of the State of Mississippi, in response to a request, has issued an opinion stating that a hospital facility, as a participating employer in the Public Employees' Retirement System of Mississippi, is responsible for paying the employer contributions as established by the Board of Trustees under MS Code Section 25-11-123. Additionally, the facility is responsible for causing the employee contributions to be deducted and remitted to PERS on behalf of the employee. The facility has no obligation above or beyond the proper payment of these contributions. The Attorney General's opinion further states that the Office of the Attorney General does not address accounting principles or an entity's compliance or noncompliance with accounting principles. *Governmental Accounting Standards Board Statement No. 68* requires that the facility record a liability for its proportionate share of the plans net pension liability.

NORTH SUNFLOWER MEDICAL CENTER  
Notes to Financial Statements

**Note 12: Contingencies and Commitments (Continued)**

**b. 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: Effect of Deferred Amounts on Net Position (Deficit)**

The unrestricted net position (deficit) amount of (\$21,404,254) at September 30, 2016, and (\$14,272,905) at September 30, 2015, include the effect of deferring the recognition of expenses resulting from a deferred outflow from pensions. The \$14,332,019 balance of the deferred outflow of resources at September 30, 2016, and the \$10,492,430 balance at September 30, 2015 will be recognized as expenses and decrease unrestricted net position over the next 3 years.

The unrestricted net position (deficit) amount of (\$21,404,254) at September 30, 2016, and (\$14,272,905) at September 30, 2015, include the effect of deferring the recognition of revenue resulting from a deferred inflow from pensions. The \$158,562 balance of the deferred inflow of resources at September 30, 2016, and the \$1,033,649 balance at September 30, 2015, will be recognized as expenses and decrease unrestricted net position over the next 4 years.

**Note 14: Prior Period Adjustment**

Prior period adjustments were made for the fiscal year ending September 30, 2015. One of these adjustments was to correctly report the amounts related to the implementation 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. The other prior period adjustment was to correctly report the DME inventory balance at September 30, 2015.

For the year ended September 30, 2015, the effect of the pension adjustment included a decrease of \$10,512 to the hospital's net pension liability, an increase of \$1,027,495 to deferred outflows of resources, a decrease of \$3,836,139 to deferred inflows of resources, a decrease of \$4,834,424 to pension expense, and an increase of \$39,722 to beginning net position. The effect of the inventory adjustment for the year ended September 30, 2015 included a decrease of \$431,421 to inventory, an increase of \$18,214 to supplies and drugs expense, and a decrease of \$413,207 to beginning net position.



NORTH SUNFLOWER MEDICAL CENTER  
Notes to Financial Statements

**Note 15: 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, April 21, 2017 (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 Fiscal Years\*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Hospital's proportion of net pension liability	\$ 59,670,207	\$ 47,909,375	\$ 35,291,848
Hospital's proportionate share of the net pension liability	0.334053%	0.309932%	0.290751%
Hospital's covered-employee payroll	\$ 22,096,000	\$ 19,715,079	\$ 18,240,044
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	270.05%	243.01%	193.49%
Plan fiduciary net position as a percentage of the total pension liability	57.47%	61.70%	67.21%

\*The amounts presented 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 for the fiscal year ended September 30, 2015, 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 Fiscal Years\*

	2016	2015	2014
Contractually required contribution	\$ 3,480,120	\$ 3,105,125	\$ 2,872,807
Contribution in relation to the contractually required contribution	( 3,480,120)	( 3,105,125)	( 2,872,807)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Hospital's covered-employee payroll	\$ 22,096,000	\$ 19,715,079	\$ 18,240,044
Contributions as a percentage of covered-employee payroll	15.75%	15.75%	15.75%

\*The schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented for the fiscal year ended September 30, 2015, 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 assumptions.*

- 2015
  - 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.
  - 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.
  - Assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.
  - The price inflation and investment rate of return assumptions were changed from 3.50% to 3.00%, and 8.00% to 7.75%, respectively.
- 2016
  - The assumed rate of interest credited to employee contributions was changed from 3.50% to 2.00%.

*Changes in benefit provisions*

- 2016
  - Effective July 1, 2016, the interest rate on employee contributions shall be calculated based on the money market rate as published by the Wall Street Journal on December 31 of each preceding year with a minimum rate of one percent and a maximum rate of five percent.

*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 (2016 Employer contributions are developed from 2014 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, 2016, and 2015

	2016	2015
<b>Inpatient:</b>		
Nursing Services:		
Routine care	\$ 16,894,934	\$ 15,528,670
Other Nursing Services:		
Operating and recovery rooms	383,279	795,266
Observation room	24,743	17,507
Central service and supply	336,688	299,051
Emergency service	89,908	75,747
Total Nursing Services Revenue	17,729,552	16,716,241
Other Professional Services:		
Respiratory therapy	1,944,959	1,630,679
Laboratory	1,849,098	1,836,290
Blood bank	79,375	96,071
Electrocardiology	89,271	94,403
Radiology	405,086	413,460
CT scan/Nuclear Medicine	372,055	451,531
Ultrasound/MRI	262,622	290,449
Pharmacy	3,389,164	2,556,100
IV therapy	532,275	537,003
Anesthesia	55,225	102,425
Physical therapy	3,160,787	2,137,997
Speech therapy	1,325,048	477,471
Occupational therapy	2,305,849	1,146,719
Psychiatric therapy	333,544	213,416
Hospital based physician	666,698	591,262
Total Other Professional Services Revenue	16,771,056	12,575,276
Total Inpatient Revenue	\$ 34,500,608	\$ 29,291,517

NORTH SUNFLOWER MEDICAL CENTER  
Detailed Schedules of Operating Revenues  
Years Ended September 30, 2016, and 2015

	2016	2015
<b>Outpatient:</b>		
Other Nursing Services:		
Operating and recovery rooms	\$ 14,846,509	\$ 14,269,751
Observation room	162,224	122,686
Central service and supply	30,574	30,756
Emergency service	1,835,851	1,795,195
Hospice	1,308,744	566,853
Total Nursing Services Revenue	18,183,902	16,785,241
Other Professional Services:		
Respiratory therapy	75,465	60,697
Laboratory	9,040,403	8,025,550
Blood	77,643	50,679
Electrocardiology	300,558	263,970
Radiology	2,080,779	2,098,144
Cardiology	311,323	278,729
CT scan/Nuclear Medicine	4,401,085	4,266,577
Ultrasound/MRI	2,197,219	1,762,671
Pharmacy	3,868,831	2,568,058
IV therapy	282,095	245,050
Anesthesia	1,699,200	1,645,675
Physical therapy	1,554,391	1,208,327
Speech therapy	35,568	55,343
Occupational therapy	139,441	142,899
Psychiatric therapy	5,996,938	5,198,002
Wound care	435,161	454,560
DME	2,281,070	2,206,264
Eye Station	231,896	202,889
Diagnostic Center	605,111	583,488
Dental clinic	711,898	1,243,895
Discount pharmacy	-	930,566
NSMC Pharmacy	5,056,115	-
Simply Sunflower	182,154	234,858
Wellness center	123,451	125,916
Infusion therapy	395,159	391,253
Sleep Lab	1,704,620	1,514,890
RHC Screen Team	6,829,065	8,469,574
Clinic	5,150,625	4,959,719
Total Other Professional Services Revenue	55,767,264	49,188,243
Total Outpatient Revenue	\$ 73,951,166	\$ 65,973,484

NORTH SUNFLOWER MEDICAL CENTER  
Detailed Schedules of Operating Revenues  
Years Ended September 30, 2016, and 2015

	<u>2016</u>	<u>2015</u>
<b>Total Patient Services Revenue</b>	\$ <u>108,451,774</u>	\$ <u>95,265,001</u>
<b>Deductions from Patient Service Revenue:</b>		
Contractual Adjustments and Allowances:		
Medicare	18,786,782	16,321,100
Medicaid	( 3,772,634)	249,167
Medicaid Mississippi hospital access payments and Medicaid upper payment limit payments	( 985,306)	( 1,057,117)
Blue Cross	6,265,290	6,074,504
Administrative adjustments and other	21,516,328	13,889,506
Total Deductions from Patient Service Revenue	<u>41,810,460</u>	<u>35,477,160</u>
<b>Provision for Uncollectible Accounts</b>	<u>2,278,092</u>	<u>3,366,895</u>
<b>Net Patient Services Revenue</b>	<u>64,363,222</u>	<u>56,420,946</u>
<b>Other Revenue:</b>		
Medical records transcripts	16,998	17,309
Employee and other meals	39,843	34,251
County tax revenue	3	20
Miscellaneous revenue	685,347	3,511,449
Total Other Revenue	<u>742,191</u>	<u>3,563,029</u>
<b>Electronic Health Records Incentive</b>	<u>972,869</u>	<u>123,600</u>
<b>Total Revenue</b>	<u>\$ 66,078,282</u>	<u>\$ 60,107,575</u>

NORTH SUNFLOWER MEDICAL CENTER  
Detailed Schedules of Operating Expenses  
Years Ended September 30, 2016, and 2015

	2016			2015		
	Salaries and Benefits	Supplies and Drugs	Other	Salaries and Benefits	Supplies and Drugs	Other
<b>Nursing Services:</b>						
Routine services	\$ 1,340,120	151,810	730,649	\$ 1,192,995	78,930	741,746
Senior care	1,402,632	126,796	976,911	1,207,717	122,554	1,031,539
Operating and recovery rooms	1,053,437	703,042	1,747,088	1,297,256	692,201	1,397,796
Emergency room	790,605	74,734	385,511	472,297	70,637	502,356
Skilled nursing facility	1,589,930	684,947	1,243,606	1,656,572	581,805	1,311,731
Hospice	420,527	47,321	648,297	312,342	84,646	359,977
Swingbed	1,539,381	76,003	644,581	1,509,859	71,770	525,545
Nursing administration	72,463	5,335	369,333	78,008	5,780	412,413
<b>Other Professional Services:</b>						
Laboratory	904,909	649,767	219,487	843,311	512,984	197,758
Radiology	458,928	28,388	1,030,548	622,331	24,606	633,382
Cardiology	-	5,921	282,458	-	6,618	311,767
Respiratory	240,070	20,171	37,010	150,173	28,821	38,789
Therapy	1,258,701	21,382	619,830	944,015	5,164	492,124
Cardiac Rehab	-	502	58,635	-	108	1,117
Central supply	35,636	-	-	37,856	-	-
Pharmacy	521,448	1,498,627	189,751	342,470	1,114,379	187,317
Nuclear Medicine	115,548	169,834	75,585	113,133	111,515	62,766
Infusion therapy	85,570	16,053	14,281	54,174	16,268	17,828
Sleep lab	185,019	21,305	249,032	166,198	14,090	205,973
Wound Care	89,469	378	266,052	86,452	1,450	233,697
Social service	52,066	107	69,784	54,432	23	88,917
Health information services	2,985,955	25,522	977,404	2,482,160	20,103	702,204
Medical records	193,906	8,274	167,026	190,504	8,333	198,913
DME	761,609	881,457	251,033	696,197	586,135	284,082
Eye Station	68,441	30,014	66,431	25,029	33,626	60,576
Diagnostic Center	184,491	7,585	78,075	184,787	3,741	46,552
Dental clinic	375,031	51,831	132,416	563,839	55,530	247,689
IOP Indianola	-	-	245	6	-	1,745
Discount pharmacy	-	-	-	176,834	579,809	16,597
NSMC Pharmacy	812,793	3,978,915	155,702	-	-	-
Simply Sunflower	34,098	130,100	30,491	67,113	184,803	34,440
Wellness center	137,168	6,721	32,771	155,247	5,440	36,795
RHC Screen Team	649,134	258,283	3,129,801	574,995	263,075	2,713,616
Clinic	2,767,648	459,571	957,357	2,037,431	537,991	1,515,831
<b>General Services:</b>						
Dietary	535,842	109,828	131,762	483,228	68,075	98,168
Maintenance	198,955	580	453,474	233,929	628	546,719
Housekeeping	1,068,431	13,339	261,663	981,091	4,592	209,563
Laundry	107,535	10,816	88,437	98,680	6,012	90,144
Inservice/Infection control	69,072	4,717	6,867	165,052	4,127	2,583
<b>Administrative and Fiscal Services:</b>						
Administrative	1,602,772	51,408	2,447,165	1,130,499	52,959	5,598,363
Fiscal	91,277	4,706	94,374	84,570	( 52,876)	128,341
Information technology	423,492	420	664,825	370,556	210	326,658
Employee benefits	3,880,342	-	-	3,413,996	-	-
Pension Expense	10,558,451	-	-	6,754,226	-	-
<b>Total Operating Expenses</b>	<b>\$ 39,662,902</b>	<b>10,336,510</b>	<b>19,985,748</b>	<b>\$ 32,011,560</b>	<b>5,906,662</b>	<b>21,614,117</b>



NORTH SUNFLOWER MEDICAL CENTER  
Schedule of Surety Bonds for Officials and Employees  
September 30, 2016

Name	Position	Company	Amount of Bond
Drew Weissinger	CFO	-	-
Billy Marlow	Executive Director	-	-
Sam Miller	CEO	-	-
Rodney Clark	COO	-	-
Bobbie B. Allen	Trustee	-	-
H.T. Miller, Jr.	Trustee	-	-
Billy Joe Waldrup	Trustee	-	-
Willie Mays Burton	Trustee	-	-
Phil McNeer	Trustee	-	-



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

James L. Stafford, CPA	Kimberly S. Caskey, CPA
Harry W. Stevens, CPA	Susan M. Lummus, CPA
S. Keith Winfield, CPA	Thomas J. Browder, CPA
William B. Staggers, CPA	Stephen D. Flake, CPA
Michael W. McCully, CPA	John N. Russell, CPA
Mort Stroud, CPA	Thomas A. Davis, CPA
R. Steve Sinclair, CPA	Anita L. Goodrum, CPA
Marsha L. McDonald, CPA	Ricky D. Allen, CPA
Wanda S. Holley, CPA	Jason D. Brooks, CPA
Robin Y. McCormick, CPA/PFS	Robert E. Cordle, Jr., CPA
J. Randy Scrivner, 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 year ended September 30, 2016, and the related notes to financial statements, which collectively comprise North Sunflower Medical Center’s basic financial statements as listed in the contents, and have issued our report thereon dated April 21, 2017.

**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  
April 21, 2017

*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 year ended September 30, 2016, and have issued our report thereon dated April 21, 2017.

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, except as stated in the following paragraphs. 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.

**Condition** – In violation of Mississippi Code Section 41-13-29, North Sunflower Medical Center failed to secure surety bond coverage for each member of the board of trustees.

**Recommendation** – To comply with applicable state statutes, the facility should secure the proper surety bond coverage for each member of the board of trustees.

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  
April 21, 2017

*Watkins Ward and Stafford, PLLC*