GREENWOOD LEFLORE HOSPITAL

Audited Financial Statements

Years Ended September 30, 2016 and 2015

CONTENTS

HORNE
CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

The Board of Hospital Commissioners
Greenwood Leflore Hospital
Greenwood, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Greenwood Leflore Hospital (the "Hospital"), a component unit of Leflore County, including the City of Greenwood, Mississippi, as of and for the years ended September 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Hospital, as of September 30, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 and the pension information on pages 35 through 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The Schedule of Surety Bonds for Officers and Employees on page 39 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2016 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Ridgeland, Mississippi
December 20, 2016

The discussion and analysis of Hospital financial performance provides an overview of the Hospital's financial activities for the fiscal years ended September 30, 2016 and 2015. This discussion and analysis should be read in conjunction with the Hospital's financial statements, which begin on page 11.

Using This Annual Report

The Hospital's three main financial statements include the 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 Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors or enabling legislation.

Financial Statement Comparison

During the fiscal year ended September 30, 2015, the Hospital adopted Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made After the Measurement Date*. These statements require employers providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability and to more comprehensively and comparably measure the annual costs of pension benefits. The adoption of these statements resulted in a $15,896,549 decrease of beginning net position as of October 1, 2014 for the change in accounting.

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

The statements of net position include all of the Hospital's assets and liabilities, using the accrual basis of accounting, as well as an indication about which assets can be utilized for general purposes and which are restricted as a result of bond covenants or other purposes. The statements of revenues, expenses and changes in net position report all of the revenues and expenses during the time periods indicated.

The Statements of Cash Flows

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

The Hospital's Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the statements of net position on page 11. Total net position decreased during fiscal year 2016 by $5.8 million (5.9 percent) as reflected on the statements of revenues, expenses and changes in net position.

The Hospital's net position decreased in 2015 by $14.8 million (13.1 percent). The most significant issue impacting net position in 2015 was caused by the restatement of beginning net position as a result of adoption of GASB No. 68. Recognition of GASB No. 68 resulted in a decrease in beginning net position of $15.9 million. This was offset by the $1.1 million increase in net position reflected on the statements of revenues, expenses and changes in net position, as illustrated on the following table:

Assets, Liabilities and Net Position (in thousands)

	September 30,		
	2016	2015	2014
Assets			
Current assets	$ 45,837	$ 51,570	$ 53,097
Designated funds and funds held by trustee	25,000	25,000	20,000
Capital assets, net	47,887	49,714	50,985
Other assets	3,222	3,003	2,451
Total assets	121,946	129,287	126,533
Deferred outflows of resources	1,106	1,636	-
Total assets and deferred outflows of resources	123,052	130,923	126,533
Liabilities			
Current liabilities	14,361	15,594	13,621
Net pension liability	15,438	17,229	-
Total liabilities	29,799	32,823	13,621
Deferred inflows of resources	924	-	-
Net position			
Invested in capital assets	47,887	49,714	50,985
Restricted			
Expendable for use in self-insurance	1,357	1,650	1,491
Expendable for specific operating activities	50	49	47
Unrestricted	43,035	46,687	60,389
Total net position	$ 92,329	$ 98,100	$ 112,912

The Hospital's cash and investment position decreased in 2016 by $3.5 million. This net decrease in cash is attributable to the outlays related to the surgery electronic medical record system purchase and implementation and the use of cash to reduce current liabilities. The Hospital's cash and investment position increased in 2015 by $2.5 million. This net increase in cash is attributable to the accumulation of operating cash to establish reserves in excess of the use of operating cash to reduce current liabilities.

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

	2016	2015	2014
Cash and cash equivalents	$ 10,718	$ 13,884	$ 16,551
Restricted cash and cash equivalents	1,357	1,650	1,491
Designated by Board for capital improvements	25,000	25,000	20,000
Total available cash and investments	$ 37,075	$ 40,534	$ 38,042

Cash and investment balances available for operations at September 30, 2016 and 2015 represent cash sufficient to cover approximately 111 and 123 days of operating expenses, respectively.

Capital Assets and Current Liabilities Adminstration

Net capital assets decreased by $1.8 million in 2016. This decrease relates to $5.8 million in capital expenditures offset by $7.6 million in depreciation of the Hospital's assets. Net capital assets decreased by $1.3 million in 2015. This decrease relates to $6.4 million in capital expenditures offset by $7.7 million in depreciation of the Hospital's assets.

The table below shows the changes in capital assets:

Capital Assets (in thousands)

	September 30,		
	2016	2015	2014
Land and land improvements	$ 1,863	$ 1,837	$ 1,801
Building and leasehold improvements	50,758	49,860	49,625
Equipment	127,873	122,240	117,159
Subtotal	180,494	173,937	168,585
Less: Accumulated depreciation	(133,223)	(126,001)	(118,783)
Construction in progress	616	1,778	1,183
Net capital assets	$ 47,887	$ 49,714	$ 50,985

Current liabilities decreased by $1.2 million in 2016, due to decreases in accounts payable and accrued expenses. Current liabilities increased by $2 million in 2015, due to an increase in accounts payable related to the additional service volume and expenses of five new physicians added to the staff the last quarter of the fiscal year.

Net Pension Liability

The net pension liablility and related deferred outflows and inflows of resources are actuarially determined. Deferred outflows from pension were $1.1 million and 1.6 million in 2016 and 2015, respectively. Deferred inflows from pension were $0.9 million in 2016. These represent a change in actuarial assumptions, experience and investment gains or losses pertaining to the defined benefit plan that is being amortized over a 2.3 to 5 year period. Net pension liabilty as of September 30, 2016 and 2015 was $15.4 and $17.2 million, respectively.

GASB No. 68, *Accounting and Financial Reporting for Pensions*

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, an Amendment of GASB Statement No. 27. GASB No. 68 results from comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. GASB No. 68 replaces the requirement of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB Statement No. 50, *Pension Disclosures*, as they related to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. GASB No. 68 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosures and required supplementary information requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined benefit plans.

GASB No. 68 was effective for fiscal years beginning after June 15, 2014, with earlier application encouraged. The Hospital adopted GASB No. 68 as of October, 1 2014 and, as required, adjusted net position and restated the statements of net position as of October 1, 2014. The impact of adopting GASB No. 68 resulted in a decrease in net position of $15,896,549 and increase in liabilities of 17,229,050.

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

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

	Fiscal Year Ended September 30,		
	2016	2015	2014
Operating revenues			
Net patient service revenue	$ 121,425	$ 121,579	$ 117,560
Other revenues	2,162	2,388	2,506
Total operating revenues	123,587	123,967	120,066
Operating expenses			
Professional care of patients	88,563	84,586	81,399
General, administrative and plant services	21,761	20,881	20,799
Employee health and welfare	11,654	9,874	8,431
Depreciation and amortization	7,558	7,677	8,058
Total operating expenses	129,536	123,018	118,687
Operating income (loss)	(5,949)	949	1,379
Non-operating revenues (expenses)			
Investment income	235	197	222
Interest expense	-	-	(173)
Loss on disposal of capital assets	(57)	(61)	(1)
Total non-operating revenues, net	178	136	48
Increase (decrease) in net position	(5,771)	1,085	1,427
Net position, beginning of year before change in accounting principle	98,100	112,912	111,485
Accumulative effect of change in accounting principle	-	(15,897)	-
Net position, beginning of year, after change in accounting principle	98,100	97,015	-
Net position, end of year	$ 92,329	$ 98,100	$ 112,912

Net Patient Service Revenue

Fiscal Year Ended September 30, 2016

Compared to 2015, net patient service revenue decreased by $0.1 million or 0.1 percent due to decreases in Hospital volumes and a continuing focus in the industry toward observation care offset by an increase in physician revenue. Gross revenues increased $5 million or 1.3 percent. Inpatient admissions decreased 7 percent, while average length of stay increased 0.45 percent, resulting in total patient days decreasing 6.75 percent. Observation care admissions increased 13.6 percent with observation days of care increasing 15.7 percent. In general, outpatient visits to the Hospital remained flat, decreasing approximately 0.6 percent with the exception of the emergency room where patient volume decreased 9 percent. Overall, gains in patient volumes were recognized in surgical services, radiology, laboratory, cancer center, endoscopy, physical therapy, cardio pulmonary

and the clinic network while decreases were recognized in routine nursing, ICU, inpatient rehab, geriatric psychiatric unit, labor and delivery, newborn nursery, cath lab, emergency room, pharmacy, sleep lab and wound care.

Contractual adjustments, which are deductions from gross patient service revenue, increased $2.8 million (1.2 percent) from $231.2 million in 2015 to $234.0 million in 2016. Contractual adjustments expressed as a percentage of gross patient service revenues were 60.6 percent in 2016 and 2015. Since the majority of the Hospital's patients are Medicare, Medicaid and Blue Cross, price increases have little to no effect on increased reimbursement. The Hospital's net benefit from the Medicaid Voluntary Contribution program and the Mississippi Hospital Access program decreased approximately $226 thousand in fiscal year 2016. There can be no assurance that the Hospital will continue to qualify for future participation in these programs or that the programs will not ultimately be discontinued or materially modified.

Bad debt expense increased $2.3 million (8.1 percent) to $31.0 million in 2016 from $28.7 million in 2015. Bad debt expense expressed as a percentage of gross patient service revenue was 8 percent in 2016 and 7.5 percent in 2015.

Fiscal Year Ended September 30, 2015

Compared to 2014, net patient service revenue increased by $4 million or 3.4 percent due to slight changes in payor mix and the closure of the subacute unit, offset by increases in the rehabilitation unit. Gross revenues decreased $702 thousand or less than 1 percent. Inpatient admissions increased 1.5 percent, while average length of stay increased 3.4 percent, resulting in total patient days increasing 4.9 percent. In general, outpatient visits to the Hospital remained flat, increasing approximately .17 percent. Gains in patient volumes were recognized in routine nursing, ICU, Leflore Rehabilitation Unit, radiology, laboratory, cancer center, clinic network, sleep lab and the pain clinic, while decreases were recognized in surgery, geriatric psychiatric unit, labor and delivery, emergency room, endoscopy, pharmacy, cardio pulmonary, physical therapy and wound care.

Contractual adjustments, which are deductions from gross patient service revenue, decreased $3.9 million (1.6 percent) from $235.1 million in 2014 to $231.2 million in 2015. Contractual adjustments expressed as a percentage of gross patient service revenues were 60.6 percent in 2015 and 61.5 percent in 2014. Since the majority of the Hospital's patients are Medicare, Medicaid and Blue Cross, price increases have little to no effect on increased reimbursement. The Hospital's net benefit from the Medicaid Voluntary Contribution program and the Medicare Upper Payment Limit program decreased approximately $289 thousand in fiscal year 2015. There can be no assurance that the Hospital will continue to qualify for future participation in these programs or that the programs will not ultimately be discontinued or materially modified.

Bad debt expense decreased $846 thousand (2.8 percent) from $29.5 million in 2014 to $28.7 million in 2015. Bad debt expense expressed as a percentage of gross patient service revenue was 7.5 percent in 2015 and 7.7 percent in 2014.

Operating Expenses

Fiscal Year Ended September 30, 2016

Total operating expenses were $129.5 million in 2016 compared to $123 million in 2015, an increase of $6.5 million or 5.3 percent.

Professional care of patients' expenses comprise 68.4 percent and 68.8 percent of total operating expenses for 2016 and 2015, respectively, and increased to $88.6 million in 2016 from $84.6 million in 2015, an increase of $4 million or 4.7 percent. Salaries and contract expenses associated with rendering patient care comprises approximately 65.8 percent of total professional care of patients' expenses. Salaries and contract expenses within the cost component increased $2.1 million in 2016, primarily due to the addition of newly employed physicians, their associated staff and a premium nursing staffing program to address staffing needs in specific areas. Supplies and other costs included in the professional care of patients' component increased $1.9 million from 2015 to 2016 primarily due to the addition of new physician clinics and an increase in surgical supplies, specifically neurosurgical and orthopedic implants.

General, administrative and plant expenses comprise approximately 16.8 percent and 17.0 percent of total operating expenses in 2016 and 2015, respectively. These costs increased $0.9 million from 2015 to 2016.

Employee health and welfare expenses comprise 9 percent and 8 percent of total operating expenses for 2016 and 2015, respectively. These costs increased from $9.9 million in 2015 to $11.7 million in 2016, an increase of $1.8 million or 18 percent. This increase is due to an increase in the health insurance expense. The health insurance expense increased $2.1 million.

Depreciation and amortization expense was $7.6 million for 2016 and $7.7 million for 2015.

Fiscal Year Ended September 30, 2015

Total operating expenses were $123 million in 2015 compared to $118.7 million in 2014, an increase of $4.3 million or 3.6 percent.

Professional care of patients' expenses comprise 68.8 percent and 68.6 percent of total operating expenses for 2015 and 2014, respectively, and increased from $81.4 million in 2014 to $84.6 million in 2015, an increase of $3.2 million or 3.8 percent. Salaries and contract expenses associated with rendering patient care comprises approximately 70 percent of total professional care of patients' expenses. Salaries and contract expenses within the cost component increased $3.0 million in 2015, primarily due to the addition of physician clinics, addition of the cancer center service line, and the implementation of an updated market based salary scale. Supplies and other costs included in the professional care of patients' component increased $1 million from 2014 to 2015 primarily due to the addition of physician clinics, addition of the cancer center service line and increases in pharmacy expenses.

General, administrative and plant expenses comprise approximately 17.0 percent and 17.5 percent of total operating expenses in 2015 and 2014, respectively. These costs increased $82 thousand from 2014 to 2015.

Employee health and welfare expenses comprise 8.0 percent and 7.1 percent of total operating expenses for 2015 and 2014, respectively. These costs increased from $8.4 million in 2014 to $9.8 million in 2015, an increase of $1.4 million or 17.1 percent. This increase is due to an increase in the funding requirement for the defined benefit pension plan, the adoption of GASB No 68, as well as the implementation of the employer funding of the 403B pension for 2015.

Depreciation and amortization expense was $7.7 million for 2015 and $8.0 million 2014.

Economic Factors and Next Year's Budget

Based on the trending financial results of fiscal year 2016, cost savings initiatives were implemented to counteract reductions in inpatient volumes, reductions in reimbursement and higher expenses realized when compared to fiscal year 2015. Labor cost savings totaling approximately $6.2 million began to be implemented in June 2016 resulting in job eliminations, including upper and middle management and physicians, as well as taking advantage of attrition during the remainder of the fiscal year. Nursing and other front-line staff were minimally affected, however a focused effort was placed on a better management of variable labor with shifts in patient volumes. Another $400 thousand in non-labor expense reductions were identified and implemented.

The Hospital's value analysis committee, in conjunction with our Group Purchase Organization, launched a supply chain initiative in September 2016 to address the escalating neurosurgery and orthopedic implant costs. Further analysis will continue through 2017.

The Board of Hospital Commissioners approved the 2017 operating budget. The budget was developed after a review of key volume indicators and trends, a review of the Hospital's strategic business plan, a review of the funding changes to Medicaid and a review of local economic conditions in Leflore County. The budget provides for a net income of $631 thousand and a 0.51 percent margin.

Contacting the Hospital Financial Manager

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

GREENWOOD LEFLORE HOSPITAL
Statements of Net Position
September 30, 2016 and 2015

	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	$ 10,718,084	$ 13,883,658
Assets limited as to use	1,357,119	1,650,226
Patient accounts receivable, net of allowance for doubtful accounts of $32,334,017 and $29,715,561, respectively	29,094,079	29,403,337
Estimated third-party payor settlements	158,586	2,274,276
Other current receivables	109,993	409,471
Inventories	2,508,653	2,169,596
Prepaid expenses and other current assets	1,890,731	1,779,712
Total current assets	45,837,245	51,570,276
Funds internally designated for capital improvements	25,000,000	25,000,000
Capital assets, net	47,887,004	49,713,595
Other assets		
Other receivables	1,930,540	1,960,140
Other assets	267,494	17,495
Intangibles	1,024,940	1,024,940
Total other assets	3,222,974	3,002,575
Total assets	121,947,223	129,286,446
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources from pension	1,105,603	1,636,315
LIABILITIES		
Current liabilities		
Accounts payable	7,314,274	8,289,620
Accrued expenses, including payroll taxes withheld	7,047,112	7,304,147
Total current liabilities	14,361,386	15,593,767
Net pension liability	15,437,502	17,229,050
Total liabilities	29,798,888	32,822,817
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources from pension	924,468	-
NET POSITION		
Invested in capital assets	47,887,004	49,713,595
Restricted		
Use in self-insurance	1,357,119	1,650,226
Specific operating activities	50,279	48,984
Unrestricted	43,035,068	46,687,139
Total net position	$ 92,329,470	$ 98,099,944

See notes to financial statements.

GREENWOOD LEFLORE HOSPITAL

Statements of Revenues, Expenses and Changes in Net Position

Years Ended September 30, 2016 and 2015

	2016	2015
Operating revenues		
Net patient service revenue, net of provision for bad debts of $31,019,553 and $28,646,476, respectively	$ 121,425,709	$ 121,578,989
Other operating revenue	2,161,729	2,388,134
Total operating revenues	123,587,438	123,967,123
Operating expenses		
Professional care of patients	88,563,214	84,586,292
General and administrative services	14,938,332	13,984,836
Dietary services	1,250,333	1,250,889
Household and plant operations	5,572,114	5,644,547
Employee health and welfare	11,654,481	9,874,396
Depreciation and amortization	7,557,733	7,677,199
Total operating expenses	129,536,207	123,018,159
Income (loss) from operations	(5,948,769)	948,964
Nonoperating revenues (expenses)		
Investment income	235,212	196,858
Loss on disposal of capital assets	(56,917)	(61,280)
Total nonoperating revenues	178,295	135,578
Increase (decrease) in net position	(5,770,474)	1,084,542
Net position, beginning of year	98,099,944	97,015,402
Net position, end of year	$ 92,329,470	$ 98,099,944

See notes to financial statements.

GREENWOOD LEFLORE HOSPITAL

Statements of Cash Flows

Year Ended September 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Receipts from and on behalf of patients	$ 124,260,128	$ 120,065,396
Payments to employees	(70,511,082)	(66,672,369)
Payments to suppliers and contractors	(53,816,609)	(47,018,699)
Other receipts and payments, net	2,161,729	2,388,134
Net cash provided by operating activities	2,094,166	8,762,462
Cash flows from capital and related financing activities		
Proceeds from sale of capital assets	-	143,000
Purchase of capital assets and intangibles	(5,788,059)	(6,610,487)
Net cash used in capital and related financing activities	(5,788,059)	(6,467,487)
Cash flows from investing activities		
Purchases of investments	(7,162,200)	(3,053,821)
Proceeds from sale of investments	5,033,450	-
Interest and dividends on investments	235,212	196,858
Net cash used in investing activities	(1,893,538)	(2,856,963)
Decrease in cash and cash equivalents	(5,587,431)	(561,988)
Cash and cash equivalents, beginning of year	32,494,177	33,056,165
Cash and cash equivalents, end of year	$ 26,906,746	$ 32,494,177
Reconciliation of cash and cash equivalents to the statements of net position		
Cash and cash equivalents	$ 10,718,084	$ 13,883,658
Assets limited as to use	1,357,119	1,650,226
Cash internally designated for capital improvements	14,831,543	16,960,293
Total cash and cash equivalents	$ 26,906,746	$ 32,494,177

See notes to financial statements.

	2016	2015
Reconciliation of income (loss) from operations to net cash provided by operating activities		
Income (loss) from operations	$ (5,948,769)	$ 948,964
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities		
Depreciation and amortization	7,557,733	7,677,199
Provision for bad debts	31,019,553	28,676,476
Changes in operating assets and liabilities		
Receivables	(30,300,824)	(31,931,907)
Inventories	(339,057)	14,230
Prepaid and other assets	(441,411)	(33,774)
Accounts payable	(975,346)	2,367,292
Estimated third-party payor settlements	2,115,690	1,741,838
Accrued expenses, including payroll taxes withheld	(257,035)	(394,042)
Net pension liability, and related accounts	(336,368)	(303,814)
Net cash provided by operating activities	$ 2,094,166	$ 8,762,462
Supplemental cash flow Information		
Loss on disposal of capital assets	$ (56,917)	$ (61,280)

NOTES TO FINANCIAL STATEMENTS

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

Nature of Operations and Reporting Entity

Greenwood Leflore Hospital (the "Hospital") is a governmental component unit of Leflore County, Mississippi (including the City of Greenwood). The Hospital consists of a 208-bed acute-care hospital and related psychiatric, rehabilitation and outpatient care facilities and physician clinics principally located in Greenwood, Mississippi. The Hospital's financial accountability as a component unit, is defined in Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, as amended. The Hospital is governed by a five-member Board of Hospital Commissioners, three of whom are appointed by the Board of Supervisors of Leflore County and two of whom are appointed by the Mayor and Board of Commissioners of the City of Greenwood.

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

Basis of Accounting

The Hospital prepares its financial statements as a business-type activity in conformity with the applicable pronouncements of the GASB. The accompanying financial statements have been prepared on the accrual basis using the economic resources measurement focus. In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* GASB 62 makes the GASB Accounting Standards Codification the sole source of authoritative accounting guidance for governmental entities in the United States of America. In June 2011, the GASB also issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.* This statement provides financial reporting standards guidance for deferred inflows and outflows of resources and identifies net position as the residual of all other elements presented in the statements of net position. The accompanying financial statements are prepared and presented in accordance with the requirements of these statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities at the date of the financial statements. Significant estimates and assumptions are used for, but are not limited to, contractual allowances for revenue adjustments, allowance for doubtful accounts, depreciable lives of assets.

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

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

Cash and Cash Equivalents

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

Patient Accounts Receivable

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

Inventories

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

Prepaid Expenses and Deferred Charges

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

Investments

Investments in debt and equity securities are carried at fair value except for investments in money market investments and participating interest-earning investment contracts with a remaining maturity of less than one year at the time of purchase. These investments are reported at amortized cost, which approximates fair value. Investment income on investments in debt and equity securities, including realized and unrealized gains and losses, are included in nonoperating revenues when earned or incurred.

Designated Funds

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Capital Assets

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

Useful lives for the major asset classes follows:

	Years
Land improvements	5 – 20
Buildings and improvements	5 – 40
Fixed equipment	5 – 25
Major moveable equipment	5 – 20

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

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

Intangible Assets

Intangible assets consist of a certificate of need acquired in a business combination. Intangible assets with indefinite lives are not amortized, but are tested for impairment annually and more frequently in the event of an impairment indicator. In the event intangible assets are considered to be impaired, a charge to earnings would be recorded during the period in which management makes such impairment assessment.

Income Taxes

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

Net Position

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

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

Operating Revenue and Expenses

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

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Patient service revenue is reported at estimated net realizable amounts from patients, third-party payors and others for services rendered, and includes estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are considered in the recognition and accrual of revenue on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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

Charity Care

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

Electronic Health Record Incentive Payments

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

when it has demonstrated meaningful use requirements of certified EHR technology for the EHR reporting period. The Hospital recognizes Medicaid incentive payments in the period that it qualifies for the funds based on the provisions of the Mississippi DOM.

The Hospital recognized $146,514 and $573,861 of revenues related to the Medicare and Medicaid incentive programs for the years ended September 30, 2016 and 2015, respectively. These revenues are reflected in other operating revenues on the accompanying statements of revenues, expenses and changes in net position. The Hospital recorded $-0- and $409,471 of receivables related to the Medicare and Medicaid incentive programs for the years ended September 30, 2016 and 2015, respectively. These receivables are reflected in other current receivables on the accompanying statements of net position. Future incentive payments could vary due to certain factors such as availability of federal funding for both Medicare and Medicaid incentive payments and the Hospital's ability to implement and demonstrate meaningful use of certified EHR technology. The Hospital has and will continue to incur both capital costs and operating expenses in order to implement its certified EHR technology and meet meaningful use requirements in the future. These expenses are ongoing and are projected to continue over all stages of implementation of meaningful use. The timing of recognizing the expenses may not correlate with the receipt of the incentive payments and the recognition of revenues. There can be no assurance that the Hospital will be able to continue to demonstrate meaningful use of certified EHR technology in the future, and the failure to do so could have a material, adverse effect on the results of operations. As a part of operating this program, there is a possibility that government authorities may make adjustments to amounts previously recorded by the Hospital. The Hospital's attestation of demonstrating meaningful use is also subject to review by the appropriate government authorities. The amount of revenue recognized is based on management's best estimate, which is subject to change. Such changes will be reflected in the period in which the changes occur.

Grants and Contributions

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

Compensated Absences

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Estimated Health Insurance

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

Defined Benefit Pension Plan (the "Plan")

For purposes of measuring the 2016 and 2015 net pension liability, deferred outflows of resources and deferred inflows of resources related to pension and pension expense, information about the fiduciary net position of the Hospital's defined benefit pension plans and additions to/deductions from the Hospital's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Prior to the adoption of GASB Statement No. 68 in 2015, contributions to the pension plans were actuarially determined and approximated annual pension expense (see Note 8.)

Estimated Malpractice Costs

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

Newly Adopted Accounting Standards

The Hospital adopted GASB 72, *Fair Value Measurement and Application*, in fiscal year 2016. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this statement are effective for financial statements for reporting periods beginning after June 15, 2015. The adoption of GASB 72 did not have a material impact on the Hospital.

The Hospital adopted GASB 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, in fiscal year 2016. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. The adoption of GASB 76 did not have a material impact on the Hospital.

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Accounting Pronouncements Issued Not Yet Adopted

The Hospital will adopt GASB 82, *Pension Issues- An Amendment of GASB Statements No. 67, No. 68, and No. 73*, in fiscal year 2017. This statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements for this standard are effective for the first reporting period which the measurement date of the pension liability is after June 15, 2017.

The Hospital is currently assessing the impact of adopting these accounting standards.

Note 2. Deposits and Investments

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Hospital's deposits might not be recovered. The collateral for public entities' deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann (1972). Under this program, the Hospital's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation ("FDIC"). All deposits with financial institutions must be collateralized in an amount equal to 105 percent of uninsured deposits and are therefore fully insured. The bank balance of the collateralized and insured balances was $27,267,506 and $30,601,660 at September 30, 2016 and 2015, respectively, including money market accounts listed below.

Investments

The statutes of the State of Mississippi restrict the authorized investments of the Hospital to obligations of the U. S. Treasury, agencies and instrumentalities of the United States and certain other types of investments. The Hospital does not have a formal investment policy that further limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. The Mississippi Hospital Association ("MHA") investment pool is the result of an amendment to the Mississippi Code of 1972 passed in the 1999 and 2000 sessions of the Mississippi Legislature. The new law expanded the investment options and permits the pooling of hospital funds. All Mississippi hospitals are allowed to participate in these funds. Pooled funds are invested in authorized investments and are managed by approved investment advisors. The external investment pools do not have a credit rating on the overall pool and they are not insured.

NOTES TO FINANCIAL STATEMENTS

Note 2. Continued

The Hospital's investments are reported at fair value, as discussed in Note 3. At September 30, 2016 and 2015, the Hospital had the following investments and maturities.

September 30, 2016	Bond Ratings		Interest		Carrying	
Investment Type	Moodys	S&P	Rate		Amount	Maturity Date
FHLB Bond	Aaa	AA+	1.63%	$	3,049,478	08/25/2021
FHLB Bond	Aaa	AA+	2.00%		2,000,480	11/23/2021
MHA Intermediate Pool	N/A	N/A	N/A		5,118,499	N/A
Total				$	10,168,457	

September 30, 2015	Bond Ratings		Interest		Carrying	
Investment Type	Moodys	S&P	Rate		Amount	Maturity Date
FHLB Bond	Aaa	AA+	2.00%	$	5,023,712	07/30/2020
FHLB Bond	Aaa	AA+	2.00%		3,015,995	8/24/2020
Total				$	8,039,707	

Deposits and investments are presented on the statements of net position as of September 30, 2016 and 2015, as follows:

	2016	2015
Cash and cash equivalents	$ 10,718,084	$ 13,883,658
Assets limited as to use	1,357,119	1,650,226
Internally designated for capital improvements	25,000,000	25,000,000
Total	$ 37,075,203	$ 40,533,884

Of the $43,035,068 and $46,687,139 of unrestricted net position reported at September 30, 2016 and 2015, respectively, $25,000,000 has been internally designated by the Hospital's Board of Commissioners for capital acquisitions. Designated funds remain under the control of the Board of Commissioners which may, at its discretion, later use the funds for other purposes, and the portion invested in cash and cash equivalents is presented on the statements of cash flows as of September 30, 2016 and 2015, as follows:

	2016	2015
Cash and cash equivalents	$ 14,831,543	$ 16,960,293
Investments	10,168,457	8,039,707
Total	$ 25,000,000	$ 25,000,000

NOTES TO FINANCIAL STATEMENTS

Note 3. Fair Value Measurement

The Hospital holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the Hospital's mission, the Hospital determined that the disclosures related to these investments only need to be disaggregated by major type. The Hospital elected a narrative format for the fair value disclosures.

The Hospital categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Hospital has the following recurring fair value measurements:

- Investment pools of $5,118,499 as of September 30, 2016, are valued at the Hospital's percentage ownership based on the value of the underlying investments (Level 2 inputs).
- Government agency bond obligations of $5,049,958 and $8,039,707 as of September 30, 2016 and 2015, respectively, are valued based on observable inputs such as benchmark yields, broker quotes, base spread, rating agency updates and prepayment schedule and history (Level 2 inputs).

Note 4. Capital Assets

Major classes of capital assets at September 30, 2016 and 2015 are summarized as follows:

	2016	2015
Land and improvements	$ 1,863,184	$ 1,836,829
Buildings	50,758,119	49,860,000
Fixed equipment	7,066,566	6,952,642
Moveable equipment	120,806,994	115,287,192
Total capital assets	180,494,863	173,936,663
Less accumulated depreciation	133,223,711	126,001,211
Add construction in progress	615,852	1,778,143
Capital assets, net	$ 47,887,004	$ 49,713,595

Depreciation expense for the years ended September 30, 2016 and 2015 totaled $7,557,733 and $7,677,199, respectively.

A summary of capital assets for the years ended September 30, 2016 and 2015 follows:

	Balance September 30, 2015	Increases	Decreases	Balance September 30, 2016
Capital assets not being depreciated				
Land	$ 562,925	$ -	$ -	$ 562,925
Construction in progress	1,778,143	2,481,000	(3,643,291)	615,852
Total	2,341,068	2,481,000	(3,643,291)	1,178,777

NOTES TO FINANCIAL STATEMENTS

Note 4. Continued

	Balance September 30, 2015	Increases	Decreases	Balance September 30, 2016
Capital assets being depreciated				
Land improvements	$ 1,273,904	$ 26,355	$ -	$ 1,300,259
Buildings	49,860,000	898,119	-	50,758,119
Fixed equipment	6,952,642	113,924	-	7,066,566
Movable equipment	115,287,192	5,911,952	(392,150)	120,806,994
Total	173,373,738	6,950,350	(392,150)	179,931,938
Less accumulated depreciation for				
Land improvements	(362,612)	(40,977)	-	(403,589)
Buildings	(13,985,010)	(1,308,177)	-	(15,293,187)
Fixed equipment	(3,652,826)	(75,123)	-	(3,727,949)
Movable equipment	(108,000,763)	(6,133,456)	335,233	(113,798,986)
Total accumulated depreciation	(126,001,211)	(7,557,733)	335,233	(133,223,711)
Depreciable capital assets, net	47,372,527	(607,383)	(56,917)	46,708,227
Total capital assets, net	$ 49,713,595	$ 1,873,617	$ (3,700,208)	$ 47,887,004

A summary of capital assets for the years ended September 30, 2015 and 2014 follows:

	Balance September 30, 2014	Increases	Decreases	Balance September 30, 2015
Capital assets not being depreciated				
Land	$ 562,925	$ -	$ -	$ 562,925
Construction in progress	1,182,645	1,984,384	(1,388,886)	1,778,143
Total	1,745,570	1,984,384	(1,388,886)	2,341,068
Capital assets being depreciated				
Land improvements	1,238,276	35,628	-	1,273,904
Buildings	49,625,000	235,000	-	49,860,000
Fixed equipment	6,077,268	875,374	-	6,952,642
Movable equipment	111,082,077	4,679,025	(473,910)	115,287,192
Total	168,022,621	5,825,027	(473,910)	173,373,738

NOTES TO FINANCIAL STATEMENTS

Note 4. Continued

	Balance September 30, 2014	Increases	Decreases	Balance September 30, 2015
Less accumulated depreciation for				
Land improvements	$ (328,211)	$ (34,401)	$ -	$ (362,612)
Buildings	(12,685,361)	(1,299,649)	-	(13,985,010)
Fixed equipment	(3,616,817)	(36,009)	-	(3,652,826)
Movable equipment	(102,153,215)	(6,307,140)	459,592	(108,000,763)
Total accumulated depreciation	(118,783,604)	(7,677,199)	459,592	(126,001,211)
Depreciable capital assets, net	49,239,017	(1,852,172)	(14,318)	47,372,527
Total capital assets, net	$ 50,984,587	$ 132,212	$ (1,403,204)	$ 49,713,595

The Hospital had approximately $3,540,000 and $1,776,000 in construction commitments outstanding as of September 30, 2016 and 2015, respectively. No interest was capitalized during the years ended September 30, 2016 and 2015.

Note 5. Other Receivables

The Hospital has entered into various agreements with physicians, registered nurses and other healthcare professionals specifically to benefit the Hospital's community service area. These agreements include income guarantees, loans, scholarships and other advances, all of which are generally conditioned upon a service commitment to the community. Amounts paid under income guarantee arrangements are generally expensed as incurred, unless repayment is expected under the terms of the related agreements. Loans are generally due within five years.

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

Note 6. Other Assets

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

	2016	2015
Investment in Provider Sponsored Health Plan	$ 250,000	$ -
Other	17,494	17,495
Total other assets	$ 267,494	$ 17,495

NOTES TO FINANCIAL STATEMENTS

Note 7. Line of Credit

January 2016, the Hospital entered into a $7,500,000 line-of-credit with a bank and matures in January 2017. Equipment and assets purchased under this line have up to five-year maturities as individual notes. Line of credit is collateralized by Hospital revenues and capital assets purchased with borrowings under the line. As of September 30, 2016, there have been no borrowings on the line of credit.

Note 8. Defined Benefit Pension Plan

Greenwood Leflore Hospital Pension Plan (the "Plan") is a single-employer defined benefit pension plan sponsored by the Hospital. The Plan provides retirement, disability and death benefits to Plan members and beneficiaries. The Hospital elected to freeze the Plan to new members as of March 31, 2012. The Plan issues a publically available financial report that can be obtained from the Chief Financial Officer of Greenwood Leflore Hospital at P.O. Box 1410, Greenwood, Mississippi, 38935.

For purposes of measuring the net pension liability or asset, deferred outflows of resources and deferred inflows of resources related to the defined benefit plan, and defined benefit pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported on the Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Normal Retirement Benefit

The normal retirement date of a participant is the first day of the calendar month coincident with or next following his attainment of age 65 and completion of five years of service.

The normal retirement benefit, payable monthly for life, is equal to the sum of (i), (ii) and (iii) as follows:

(i) For service before October 1, 1972:
   a. 1.00 percent of average compensation multiplied by benefit service through September 30, 1972.

(ii) For service from October 1, 1972 through September 30, 1988:
   a. 0.85 percent of average compensation plus 1.00 percent of average compensation in excess of $15,000, all multiplied by benefit service from October 1, 1972 through September 30, 1988 (limited to 16 years).

(iii) For each year of participation on and after October 1, 1988:
   a. 1.25 percent of compensation for a given year of participation plus 0.65 percent of compensation for that year in excess of the integration level for that year.

"Years of participation" as used in (iii) above for the benefit attributable to compensation in excess of the integration level cannot exceed 35 years minus the number of years of benefit service used in (ii) above.

NOTES TO FINANCIAL STATEMENTS

Note 8. Continued

"Average compensation" is the average of a participant's compensation for the three consecutive plan years preceding October 1, 1988, which produce the highest average (or the average over all years of benefit service if less than three).

"Integration level" for a plan year means one-half of Social Security-covered compensation for an individual who reaches Social Security retirement age in that year, but not less than $10,000.

Summary of Participant Data

	2016	2015
1. Inactive Plan Participants		
a.) Retirees and beneficiaries currently receiving benefits	286	279
b.) Terminated employees entitled to deferred benefits	547	549
c.) Disabled employees entitled to deferred benefits	-	-
d.) Total	833	828
2. Active Plan Participants		
a.) Vested	447	434
b.) Nonvested	-	34
c.) Total	447	468
3. Total Plan Participants	1,280	1,296

Funding Policy

Although a formal funding policy has not been established, the Hospital generally contributes the amount necessary to fund the Plan at an actuarially determined rate. Employees are not allowed to contribute to the Plan. The current actuarially required minimum rate is 1.7 percent of annual covered payroll. The Hospital's contributions to the Plan for the years ended September 30, 2016 and 2015 were $1,394,632 and $1,458,037, respectively, equal to the actuarial determined annual contributions for each year.

Net Pension Liability

The Hospital's net pension liability was measured as of September 30, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2015 and 2014, respectfully.

Summary of Assumptions

The total pension liability in the September 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Investment Rate of Return	7.30 percent, per annum, compounded annually
Discount Rate	7.30 percent per annum, compounded annually

NOTES TO FINANCIAL STATEMENTS

Note 8. Continued

The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rates. Based on that assumption, 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 projected benefit payments to determine the total pension liability.

Salary increases Not applicable, benefits are frozen

As of October 1, 2014, mortality rates were based upon the RP-2014 Blue Collar, Separate Pre- and Post-Commencement, with separate Male and Female tables, fully Generational using Projections Scale MP-2014.

Effective of October 1, 2015, the mortality table was changed from the RP-2014 Blue Collar, Separate Pre- and Post-Commencement, with separate Male and Female tables, fully Generational using Projections Scale MP-2014 to the RP-2014 Blue Collar, Separate Pre- and Post-Commencement, with separate Male and Female tables, fully Generational using Projections Scale MP-2016 to better recognize current and future mortality improvements.

All liabilities and normal costs are calculated based on the Entry Age Normal method.

Schedule of Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Net Position (b)	Net Pension Liability (a)–(b)
Balance at September 30, 2015	$ 46,368,349	$ 29,139,299	$ 17,229,050
Changes for the Year:			
Service cost	-	-	-
Interest	3,384,889	-	3,384,889
Benefit changes	-	-	-
Difference between expected and actual experience	(294,088)	-	(294,088)
Changes of assumptions	(1,336,081)	-	(1,336,081)
Contributions - employer	-	1,394,632	(1,394,632)
Contributions - employees	-	-	-
Net investment income	-	2,229,987	(2,229,987)
Refunds of contributions	-	-	-
Benefits paid	(2,053,702)	(2,053,702)	-
Administrative expenses	-	(78,351)	78,351
Other changes	-	-	-
Net changes	(298,982)	1,492,566	(1,791,548)
Balance at September 30, 2016	$ 46,069,367	$ 30,631,865	$ 15,437,502

NOTES TO FINANCIAL STATEMENTS

Note 8. Continued

	Total Pension Liability (a)	Increase (Decrease) Plan Net Position (b)	Net Pension Liability (a)–(b)
Balance at September 30, 2014	$ 44,881,035	$ 28,568,193	$ 16,312,842
Changes for the Year:			
Service cost	-	-	-
Interest	3,384,889	-	3,384,889
Benefit changes	-	-	-
Difference between expected and actual experience	68,042	-	68,042
Changes of assumptions	-	-	-
Contributions - employer	-	2,517,899	(2,517,899)
Contributions - employees	-	-	-
Net investment income	-	107,212	(107,212)
Refunds of contributions	-	-	-
Benefits paid	(1,965,617)	(1,965,617)	-
Administrative expenses	-	(88,388)	88,388
Other changes	-	-	-
Net changes	1,487,314	571,106	916,208
Balance at September 30, 2015	$ 46,368,349	$ 29,139,299	$ 17,229,050

* **Notes to Schedules**. The September 30, 2016 and 2015 results reflect updated mortality table and interest rate assumptions that were adopted by the employer effective September 30, 2016 and 2015.

The following represents the net pension liability as calculated using the stated discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease (6.30%)	Current Rate (7.30%)	1% Increase (8.30%)
Net Pension Liability	$ 21,228,356	$ 15,437,502	$ 10,631,895

The asset allocation for each major asset class at September 30, 2016 are summarized below in the following table:

Asset Class	2016 Allocation	2015 Allocation
Mutual funds – fixed income	41.67%	51.95%
Mutual funds – equities	35.15%	23.00%
Common stock – equities	10.26%	9.96%
International mutual funds	10.70%	8.73%
Cash and cash equivalents	1.08%	5.97%
International foreign stock	1.14%	0.39%
Total	100%	100%

NOTES TO FINANCIAL STATEMENTS

Note 8. Continued

Pension Expense and Deferred Outflows/Inflows of Resources

For the year ended September 30, 2016 and 2015, the Hospital recognized pension expense of $1,058,265 and $1,797,793. At September 30, the Hospital reported deferred outflows of resources and deferred inflows of resources related to the Plan from the following sources:

	2016	2015
Deferred outflows of resources		
Experience losses	$ 12,270	$ 40,156
Net difference between projected and actual earnings on pension plan investments	1,093,333	1,596,159
Total deferred outflows of resources	$ 1,105,603	$ 1,636,315
Deferred Inflows of Resources		
Experience losses	$ (166,777)	$ -
Change in assumptions	(757,691)	-
Total deferred inflows of resources	$ (924,468)	$ -
Net deferred outflows of resources	$ 181,135	$ 1,636,315

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending September 30,	Amount
2017	$ (320,338)
2018	154,326
2019	373,093
2020	(25,946)
Total	$ 181,135

Amortization Period

Investment gains or losses are amortized over five years.

Changes in actuarial assumptions and experience gains or losses are amortized over the average working lifetime of all participants, which for the current period is 2.31 and 2.44 years for the measurement periods ended September 30, 2016 and 2015, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 9. Net Patient Service Revenue

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

Medicare

Inpatient acute, psychiatric, rehabilitation and outpatient services rendered to Medicare beneficiaries are paid primarily by prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Medicare bad debts and disproportionate share payments are paid at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a prospective reimbursement methodology. The Hospital is reimbursed at a prospective rate which is adjusted annually based on published market basket updates (inpatient) or adjusted cost-to-charge ratios per annual cost reports (outpatient) as submitted by the Hospital and settled by the Medicaid fiscal intermediary. Beginning September 1, 2013, the Medicaid program changed to an Ambulatory Payment Classification ("APC") system for outpatient payments and beginning October 1, 2012, an APR-DRG system for inpatient payments.

The Hospital participates in the Medicaid Disproportionate Share Hospital ("DSH") and in the Medicaid Upper Payment Limit Program ("UPL"). Under these programs, the Hospital receives enhanced reimbursement through a matching mechanism. For the fiscal year ended September 30, 2015, the Hospital reported approximately $10,097,000 from the UPL program. UPL amounts received are shown as a reduction of contractual adjustments with related tax assessments of approximately $3,324,000 for the year ended September 30, 2015 are recorded in operating expenses. The Hospital received approximately $-0- of enhanced reimbursements through the DSH program for the years ended September 30, 2016 and 2015, respectively.

Beginning with the state fiscal year 2016, July 1, 2015, UPL payments were phased out and the Division of Medicaid ("DOM") implemented the Mississippi Hospital Access Payment ("MHAP") program (the "MHAP Program") in its place. The MHAP Program will be administered by the DOM through the Mississippi CAN coordinated care organizations ("CCO"). The CCO's will subcontract with the Hospitals throughout the state for distribution of the MHAP for the purpose of protecting patient access to hospital care. The MHAP Program began December 1, 2015 and the MHAP payments and associated tax are distributed and collected in seven equal installments during the months of December 2015 through June 2016. For the fiscal year ended September 30 2016, the Hospital received approximately $10,012,000 from the MHAP program with related tax assessments of approximately $3,465,000 for the year ended September 30, 2016 are recorded in operating expenses.

NOTES TO FINANCIAL STATEMENTS

Note 9. Continued

Laws and regulations governing the Medicare and Medicaid program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change. The 2016 and 2015 net patient service revenue decreased approximately $153,000 and $540,000, respectively, due to prior year retroactive adjustments in excess of amounts previously estimated. The Hospital's cost reports have been settled through September 30, 2010.

Other

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

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

	2016	2015
Gross patient service revenue	$ 386,463,490	$ 381,459,231
Less:		
Provisions for contractual adjustments	234,018,228	231,203,766
Provisions for bad debts	31,019,553	28,676,476
Net patient service revenue	$ 121,425,709	$ 121,578,989

Note 10. Charity Care

The Hospital has established a policy under which it provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Following that policy, the Hospital maintains records to identify and monitor the level of charity care it provides, which include the amount of charges foregone for services and supplies furnished under its policy. The direct and indirect costs associated with these services cannot be identified to specific charity care patients. Therefore, management estimated the costs of these services by calculating a cost to gross charge ratio and multiplying it by the charges associated with services provided to patients meeting the Hospital's charity care guidelines. Charges foregone, based on the cost to charge ratio, were approximately $1,522,000 and $1,689,000 in 2016 and 2015, respectively.

Note 11. Concentration of Credit Risks and Patient Service Revenue

Accounts Receivable

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The percentage mix of accounts receivable, based on gross charges, from patients and major third-party payors at September 30 are as follows:

NOTES TO FINANCIAL STATEMENTS

Note 11. Continued

	2016	2015
Medicare	29%	32%
Medicaid	14	15
Blue Cross	5	6
Self-pay	35	29
Other	17	18
	100%	100%

Patient Service Revenue

The percentage mix of gross revenue for the years ended September 30, 2016 and 2015 for patient services rendered under contract with major third-party cost reimbursers follows:

	2016	2015
Medicare	48%	49%
Medicaid	21	21
Blue Cross	11	11
Self-pay	8	8
Other	12	11
	100%	100%

Note 12. Commitments and Contingencies

Operating Leases

The Hospital leases various equipment under operating leases expiring at various dates through September 2019. Total rental expense for the years ended September 30, 2016 and 2015, for all operating leases was approximately $936,000 and $916,000, respectively.

The following is a schedule by year of future minimum lease payments under noncancelable operating leases as of September 30, 2016, that have initial or remaining lease terms in excess of one year:

Year Ending September 30,		Amount
2017	$	491,254
2018		481,699
2019		77,497
2020		12,618
	$	1,063,068

NOTES TO FINANCIAL STATEMENTS

Note 12 Continued

Risk Management

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

Medical Malpractice Program

The Hospital holds professional and general liability insurance under a self-funded plan. At year-end, the Hospital has accrued for an estimate of losses for malpractice and general liability claims outstanding, based on historical loss and loss adjustment expense development patterns. The future assertion of claims for occurrences prior to year-end is reasonably possible and may occur, although not anticipated.

The Mississippi Tort Claims Act ("MTCA") provides a cap on the amount of damages recoverable against government entities, including governmental hospitals. The amount recoverable for claims is the greater of $500,000 or the amount of liability insurance coverage that has been retained. Changes in the Hospital's medical malpractice liability are as follows:

	(Beginning) October 1, Claims Liability	Current Year Claims and Change in Estimates	Current Year Claim Payments	(Ended) September 30, Claims Liability
2015	$ 1,832,859	$ 403,218	$ (21,425)	$ 2,214,652
2016	$ 2,214,652	$ 712,455	$ (264,312)	$ 2,662,795

Self-Funded Health Insurance

The Hospital is self-insured for employee health coverage, up to a limit of $70,000 per individual claim. Substantial coverage with a third-party carrier is maintained for excess losses. The Hospital records a liability for employee health claims incurred but not reported or paid. This liability as of September 30, 2016 and 2015 is based on the requirements of GASB, which requires that liability claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the Hospital's health insurance claims liability amount in fiscal years 2015 and 2014 are as follows:

	(Beginning) October 1, Claims Liability	Current Year Claims and Change in Estimates	Current Year Claim Payments	(Ended) September 30, Claims Liability
2015	$ 532,631	$ 3,317,934	$ (3,011,011)	$ 839,554
2016	$ 839,554	$ 3,927,851	$ (3,767,405)	$ 1,000,000

NOTES TO FINANCIAL STATEMENTS

Note 13. Acquisition and Disposition

During fiscal year 2015, the Hospital disposed of its investment in Cleveland Medical Alliance, which was accounted for as a blended component unit. The disposition resulted in a net loss of approximately $60,000 in the 2015 accompanying statements of revenues, expenses, and changes in net position.

Note 14. Risks and Uncertainties

The Patient Protection and Affordable Care Act ("ACA") is the comprehensive healthcare reform bill passed by Congress in March 2010. The law reshapes the way healthcare is delivered and financed by transitioning providers from a volume-based fee-for-service system toward value-based care. Through a series of new programs, regulations, fees and subsides, the ACA seeks to achieve a triple aim of better population health, lower per capita costs and elevated patient experience. Several legal challenges have been made against the legislation since it was enacted, and uncertainty exists as to the ultimate impact of the legislation on the healthcare delivery system. On June 28, 2012, the Unites State Supreme Court upheld the constitutionality of components of the ACA, allowing the historic overhaul of the healthcare system to continue. Potential impacts of healthcare reform include political uncertainty and volatility in Medicare and Medicaid reimbursement, fundamental changes in payment systems, increased regulation and significant required investments in healthcare information technology.

The accompanying financial statements have been prepared using values and information currently available to the Hospital.

REQUIRED SUPPLEMENTARY INFORMATION

GREENWOOD LEFLORE HOSPITAL
Schedule of Changes in Net Pension Liability and Related Ratios
Years ended September 30, 2016 and 2015

	2016	2015
Total Pension Liability		
Service cost	$ -	$ -
Interest	3,384,889	3,384,889
Difference between expected and actual experience	(294,088)	68,042
Changes of assumptions	(1,336,081)	-
Benefit payments/refunds	(2,053,702)	(1,965,617)
Net change in total pension liability	(298,982)	1,487,314
Total pension liability – beginning	46,368,349	44,881,035
Total pension liability – ending (a)	$ 46,069,367	$ 46,368,349
Plan Fiduciary Net Position		
Contributions – employer	$ 1,394,632	$ 2,517,899
Contributions - employee	-	-
Net investment income	2,229,987	107,212
Benefit payments/refunds	(2,053,702)	(1,965,617)
Administrative expenses	(78,351)	(88,388)
Net change in plan fiduciary net position	1,492,566	571,106
Plan fiduciary net position – beginning	29,139,299	28,568,193
Plan fiduciary net position – ending (b)	$ 30,631,865	$ 29,139,299
Net pension liability – ending (a) – (b)	$ 15,437,502	$ 17,229,050
Plan fiduciary net position as a percent of the total pension liability	63.7%	62.8%
Covered-employee payroll	N/A	N/A
Net pension liability as a percent of covered-employee payroll	N/A	N/A

Notes to Schedule

* The September 30, 2016 and 2015 results reflect updated mortality table and interest rate assumptions that were adopted by the employer effective September 30, 2016 and 2015, respectively.

See notes to required supplementary information.

GREENWOOD LEFLORE HOSPITAL
Schedule of Contributions
Years Ended September 30, 2016 and 2015

Year Ended September 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarial Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as % of Covered Payroll
2016	$ 1,394,632	$ 1,394,632	$ -	N/A	N/A
2015	$ 1,458,037	$ 1,458,037	$ -	N/A	N/A

See notes to required supplementary information.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Summary of Assumptions and Methods Used to Determine Contributions Rates

The total pension liability in the September 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Investment Rate of Return	7.30 percent, per annum, compounded annually
Discount Rate	7.30 percent per annum, compounded annually

The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rates. Based on that assumption, 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 projected benefit payments to determine the total pension liability.

Salary increases	Not applicable, benefits are frozen

As of October 1, 2014, mortality rates were based upon the RP-2014 Blue Collar, Separate Pre- and Post-Commencement, with separate Male and Female tables, fully Generational using Projections Scale MP-2014.

Effective of October 1, 2015, he mortality table was changed from the RP-2014 Blue Collar, Separate Pre- and Post-Commencement, with separate Male and Female tables, fully Generational using Projections Scale MP-2014 to the RP-2014 Blue Collar, Separate Pre- and Post-Commencement, with separate Male and Female tables, fully Generational using Projections Scale MP-2016 to better recognize current and future mortality improvements.

Amortization Period

Investment gains or losses are amortized over five years.

Changes in actuarial assumptions and experience gains or losses are amortized over the average working lifetime of all participants, which for the current period is 2.44 years.

Schedule of Investment Returns

	Fiscal year ended September 30,	
	2016	2015
Net pension liability	7.91%	0.37%

The annual money-weighted rate of return is based on monthly cash flows on pension plan investments, net of pension plan investment expense.

Fiduciary net position is the amount of assets available for benefits in the Plan.

Total pension liability is the Plan liability determined using assumption listed in the Summary of Actuarial Assumption.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

Net pension liability is the difference in the total pension liability and the fiduciary net position.

Amortization Period (Funding)

The actuarially determined contribution for the Plan year ended September 30, 2016 and 2015 uses a closed period of 26 and 27 years, respectively.

Assumptions and Valuation Method

The Hospital selected the assumptions and funding methods based on the review of Plan experience in conjunction with the October 1, 2015 and 2014 Actuarial Valuation Reports. The actuary annually reviews the assumptions and methods for reasonableness.

The normal retirement date of a participant is the first day of the calendar month coincident with or next following his attainment of age 65 and completion of five years of service.

SUPPLEMENTARY INFORMATION

GREENWOOD LEFLORE HOSPITAL
Schedule of Surety Bonds for Officers and Employees
September 30, 2016

Name	Position	Surety		Amount
Brian Waldrop	Board Member	Travelers	$	100,000
Gladys Flaggs	Board Member	Travelers		100,000
Sammy Foster	Board Member	Travelers		100,000
Bryan Thornhill	Board Member	Travelers		100,000
Larry Griggs	Board Member	Travelers		100,000
James Jackson	Chief Executive Officer	Travelers		100,000
Dodie McElmurray	Chief Operating Officer	Travelers		100,000
Dawne Holmes	Chief Financial Officer	Travelers		100,000

HORNE
CPAs & BUSINESS ADVISORS

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

Board of Hospital Commissioners
Greenwood Leflore Hospital
Greenwood, Mississippi

We have audited, 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, the financial statements of the business-type activities of Greenwood Leflore Hospital (the "Hospital"), a component unit of Leflore County, including the City of Greenwood, Mississippi, as of and for the year ended September 30, 2016 and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated December 20, 2016

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting ("internal control") to determine audit procedures that are appropriate in circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital'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 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our 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 Standard*s.

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.

Horne LLP

Ridgeland, Mississippi
December 20, 2016