

**CHOCTAW REGIONAL MEDICAL CENTER
ACKERMAN, MISSISSIPPI**

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

Choctaw Regional Medical Center
Audited Financial Statements and Additional Information
September 30, 2015

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Independent Auditors' Report

The Board of Trustees
Choctaw Regional Medical Center
Ackerman, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of Choctaw Regional Medical Center, a component unit of Choctaw County, Mississippi, as of and for the year ended September 30, 2015, and for the period from inception, August 1, 2014, to September 30, 2014, and the related notes to financial statements, which collectively comprise Choctaw Regional 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 Choctaw Regional Medical Center, a component unit of Choctaw County, Mississippi, as of September 30, 2015, and 2014 and the changes in its financial position and its cash flows for the year ended September 30, 2015, and the period from inception, August 1, 2014, to September 30, 2014 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 Choctaw Regional Medical Center and do not purport to, and do not, present fairly the financial position of Choctaw County, Mississippi as of September 30, 2015, and 2014, the changes in its financial position, or, where applicable, its cash flows for the periods 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

Choctaw Regional Medical Center has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by the missing information.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. The schedule of surety bonds for officials and employees (page 18) as of September 30, 2015 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of surety bonds for officials and employees is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the audit procedures applied in the audits 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 schedule of surety bonds for officials and employees is 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 May 3, 2016, on our consideration of Choctaw Regional 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 Choctaw Regional Medical Center's internal control over financial reporting and compliance.

Eupora, Mississippi
May 3, 2016

Watkins Ward and Stafford, PLLC

Choctaw Regional Medical Center
Statements of Net Position
September 30,

	2015	2014
Assets		
Current Assets:		
Cash	\$ 967,432	\$ 443,094
Cash - Patient funds held by facility	20,544	31,319
Patient accounts receivable (Net of estimated uncollectibles and allowances of \$2,846,045 in 2015 and \$913,697 in 2014)	2,840,278	1,327,478
Estimated third-party payor settlements	419,227	529,098
Inventories of supplies and drugs	73,025	79,549
Prepaid expenses	43,726	40,619
Total Current Assets	<u>4,364,232</u>	<u>2,451,157</u>
Noncurrent Cash:		
Cash - Restricted under note agreement	<u>650,639</u>	<u>-</u>
Capital Assets:		
Property and Equipment (Net of accumulated depreciation and amortization of \$3,026,931 in 2015 and \$2,258,411 in 2014)	<u>15,232,395</u>	<u>14,269,105</u>
Other Assets:		
Unemployment reserve account	23,440	23,440
Unamortized loan issue costs	42,227	47,000
Total Other Assets	<u>65,667</u>	<u>70,440</u>
Total Assets	<u>\$ 20,312,933</u>	<u>\$ 16,790,702</u>

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

Choctaw Regional Medical Center
Statements of Net Position
September 30,

	2015	2014
Liabilities and Net Position		
Current Liabilities:		
Accounts payable	\$ 3,141,980	\$ 1,038,944
Patient accounts receivable credit balances	89,863	-
Accrued expenses and payroll withholdings	501,877	248,531
Accrued interest payable	84,813	6,587
Current maturities of capitalized lease obligations	34,398	8,219
Current portion of note payable	400,000	-
Patient funds held by facility	20,544	31,319
Total Current Liabilities	<u>4,273,475</u>	<u>1,333,600</u>
Long-Term Debt:		
Capitalized lease obligations, net of current maturities	123,297	39,087
Note payable, net of current maturities	<u>3,609,827</u>	<u>1,701,384</u>
Total Long-Term Debt	<u>3,733,124</u>	<u>1,740,471</u>
Total Liabilities	<u>8,006,599</u>	<u>3,074,071</u>
Net Position:		
Invested in capital assets, net of related debt	11,064,874	12,520,415
Restricted by note agreement	650,639	-
Unrestricted	<u>590,821</u>	<u>1,196,216</u>
Total Net Position	<u>12,306,334</u>	<u>13,716,631</u>
Total Liabilities and Net Position	<u>\$ 20,312,933</u>	<u>\$ 16,790,702</u>

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

Choctaw Regional Medical Center
Statements of Revenues, Expenses, and Changes in Net Position
For the Year Ended and Period

	September 30, 2015	From Inception August 1, 2014 through September 30, 2014
Operating Revenues:		
Net patient service revenue (net of provision for uncollectible accounts of \$2,303,426 in 2015 and \$527,638 in 2014)	\$ 15,712,163	\$ 1,973,911
Other revenue	6,349	1,659
Total Operating Revenues	<u>15,718,512</u>	<u>1,975,570</u>
Operating Expenses:		
Salaries and benefits	9,047,873	1,005,807
Supplies and drugs	1,620,834	434,095
Other expenses	5,822,282	884,387
Insurance	211,169	16,221
Depreciation and amortization	773,293	83,276
Total Operating Expenses	<u>17,475,451</u>	<u>2,423,786</u>
Operating Loss	<u>(1,756,939)</u>	<u>(448,216)</u>
Nonoperating Revenues (Expenses):		
Grant income	514,574	43,404
Interest income	640	-
Interest expense	<u>(190,572)</u>	<u>(11,282)</u>
Total Nonoperating Revenues (Expenses)	<u>324,642</u>	<u>32,122</u>
Excess of Expenses Over Revenues	<u>(1,432,297)</u>	<u>(416,094)</u>
Net Position Beginning of Year	13,716,631	-
Capital Contributions	<u>22,000</u>	<u>14,132,725</u>
Net Position End of Year	<u>\$ 12,306,334</u>	<u>\$ 13,716,631</u>

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

Choctaw Regional Medical Center
Statements of Cash Flows
For the Year Ended and Period

	September 30, 2015	From Inception August 1, 2014 through September 30, 2014
Cash Flows From Operating Activities:		
Receipts from and on behalf of patients	\$ 14,399,097	\$ 117,335
Payments for supplies and other expenses	(5,547,833)	(462,927)
Payments to and on behalf of employees	(8,801,114)	(780,716)
Other receipts and payments	6,349	1,659
Net Cash Provided (Used) by Operating Activities	<u>56,499</u>	<u>(1,124,649)</u>
Cash Flows from Capital and Related Financing Activities:		
Principal payments on capital lease obligations	(9,984)	(657)
Change in funds restricted under note agreement	(650,639)	-
Interest paid on long-term debt	(105,758)	(4,695)
Proceeds from issuance of debt	2,308,443	1,701,384
Purchase of capital assets	(1,589,437)	(171,693)
Total Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>(47,375)</u>	<u>1,524,339</u>
Cash Flows from Investing Activities:		
Interest Income	640	-
Grant income	514,574	43,404
Total Cash Flows Provided by Investing Activities	<u>515,214</u>	<u>43,404</u>
Net Increase in Cash	524,338	443,094
Cash at Beginning of Year	<u>443,094</u>	<u>-</u>
Cash at End of Year	<u>\$ 967,432</u>	<u>\$ 443,094</u>

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

Choctaw Regional Medical Center
Statements of Cash Flows
For the Year Ended and Period

	<u>September 30, 2015</u>	<u>From Inception August 1, 2014 through September 30, 2014</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:		
Operating loss	\$ (1,756,939)	\$ (448,216)
Adjustments to Reconcile Operating Loss to Net Cash Flows Used by Operating Activities:		
Depreciation and amortization	773,293	83,276
Provision for uncollectible accounts	2,303,426	527,638
Changes in:		
Patient accounts receivable	(3,726,364)	(1,855,116)
Supplies and other current assets	3,417	(190,608)
Accounts payable, accrued expenses, and other current liabilities	2,349,795	1,287,475
Estimated third-party payor settlements	109,871	(529,098)
Net Cash Provided (Used) by Operating Activities	<u>\$ 56,499</u>	<u>\$ (1,124,649)</u>

Noncash Capital and Financing Activities:

The facility entered into capital lease obligations of \$120,373 for new equipment in 2015 and \$47,962 in 2014.

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

Choctaw Regional Medical Center
Notes to Financial Statements

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

Reporting Entity – Choctaw Regional Medical Center (a component unit of Choctaw County, Mississippi) is an acute care hospital located in Ackerman, Mississippi. The facility consists of a 25-bed acute short-term care hospital, a 60-bed long-term care facility, and medical clinics. The facility provides inpatient, outpatient, emergency care and long-term care services for residents of Choctaw County, Mississippi and surrounding areas. The facility is governed by a Board of Trustees appointed by the Board of Supervisors of Choctaw County, Mississippi.

The Balanced Budget Act of 1997 created the Medicare State Rural Hospital Flexibility Program. The purpose of the program is to assist rural hospitals and to improve access to health services in rural communities. The United States Congress allowed for a new hospital designation: Critical Access Hospital (CAH). CAH conversion can allow for enhanced service diversification and combines potentially improved cost-based reimbursement with savings from related operating requirements to help ensure the financial viability of participating hospitals. Choctaw Regional Medical Center is classified as a Critical Access Hospital.

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

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

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

Cash and Cash Equivalents - Cash and cash equivalents include all unrestricted cash of the facility.

Accounts Receivable - Patient receivables are reduced by an allowance for uncollectible accounts. The allowance for uncollectible accounts is based upon management's assessment of historical and expected net collections considering historical and economic conditions, trends in healthcare coverage, major payor sources and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category. The results of this review are then used to make modifications to the provision for uncollectible accounts to establish an appropriate allowance for uncollectible receivables. After satisfaction of amounts due from insurance, established guidelines are used for placing certain past-due patient balances with collection agencies, subject to terms of certain restrictions on collection efforts.

Choctaw Regional Medical Center
Notes to Financial Statements

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

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
Buildings and building improvements	5 to 40 years
Equipment, computers, and furniture	5 to 25 years

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

Net Position - Net position of Choctaw Regional Medical Center consists of those net assets invested in capital assets, net of related debt; restricted under loan agreement; and unrestricted net position. *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. *Net position restricted under note agreement* consists of cash restricted under note agreement equal to the first year principal and interest payments. *Unrestricted net position* are the remaining net assets that do not meet the definition of invested in capital assets, net of related debt or restricted under loan agreement.

Net Patient Services Revenue - The facility has agreements with third-party payors that provide for payments to the facility 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.

Operating Revenues and Expenses - Choctaw Regional Medical Center's statement 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. 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.

Compensated Absences - Choctaw Regional Medical Center employees earn vacation days at varying rates depending on years of service. Accumulated vacation pay is accrued at the balance sheet date because it is payable upon termination of employment. Employees also earn sick leave benefits based on varying rates depending on years of service. Sick pay accrues but is not reflected as a liability because it is not payable upon termination of employment.

Choctaw Regional Medical Center
Notes to Financial Statements

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

Cost of Borrowing - Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. None of the hospital's interest cost was capitalized during the year ended September 30, 2015 or the period August 1, 2014 through September 31, 2014.

Restricted Resources - When the hospital has both restricted and unrestricted resources available to finance a particular program, it is the hospital's policy to use restricted resources before unrestricted resources.

Charity Care - The hospital provides care to patients who meet certain criteria under its charity care policy. Because the hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. There was no cost associated with charity care provided during the year ended September 30, 2015 or the period August 1, 2014 through September 31, 2014.

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 the 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 risks of loss related to workers' compensation claims from the Healthcare Employers Resources Exchange.

Under *Governmental Accounting Standards Board Statement Number 10: Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, a liability for claims must be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has then incurred at the date of the financial statements and that the amount of the loss can be reasonably estimated. The facility has not been exposed to any risk of loss above the applicable insurance coverage amounts at September 30, 2015; therefore, no liability has been accrued at this time.

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

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

Excess of Expenses Over Revenues - The statement of revenues, expenses, and changes in net position includes excess of expenses over revenues. Changes in net position which are excluded from excess of expenses over revenues, 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).

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.

Choctaw Regional Medical Center
Notes to Financial Statements

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

Electronic Health Record Incentive Program (Continued) - The EHR reporting period for hospitals is based on the federal fiscal year, which runs from October 1 through September 30. The facility did not receive any EHR incentive revenue for the year ended September 30, 2015 and the period August 1, 2014 through September 30, 2014.

Note 2: Cash and Other Deposits

The facility deposits funds in financial institutions selected by the Board of Trustees. Various restrictions on deposits 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 funds available to be included in the state's collateral pool program were properly included and were fully collateralized at September 30, 2015.

Note 3: Accounts Receivable - Estimated Uncollectibles and Allowances

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

	2015	2014
Provision for uncollectible accounts	\$ 2,295,008	\$ 527,687
Allowance for Medicare adjustment	446,340	364,821
Allowance for Medicaid adjustment	104,697	21,189
	<u>\$ 2,846,045</u>	<u>\$ 913,697</u>

Choctaw Regional Medical Center
Notes to Financial Statements

Note 4: Capital Assets

Capital asset additions, retirement and balances for the year ended September 30, 2015 and period August 1, 2014 through September 30, 2014 were as follows:

	Balance August 1, 2014	Additions/ Other	Retirements/ Other	Balance September 30, 2014	Additions/ Other	Retirements/ Other	Balance September 30 2015
Land improvements	-	-	-	-	10,165	-	10,165
Buildings and improvements	-	15,595,014	-	15,595,014	8,919	-	15,603,933
Equipment:							
Under capital lease	-	47,962	-	47,962	120,373	-	168,335
Other	-	580,856	-	580,856	1,722,458	-	2,303,314
Automobiles	-	138,532	-	138,532	22,000	-	160,532
Total Historical Cost	-	<u>16,362,364</u>	-	<u>16,362,364</u>	<u>1,883,915</u>	-	<u>18,246,279</u>
Less Accumulated Depreciation and Amortization for:							
Land improvements	-	-	-	-	(226)	-	(226)
Buildings and improvements	-	(1,870,800)	-	(1,870,800)	(379,921)	-	(2,250,721)
Equipment:							
Under capital lease	-	(799)	-	(799)	(13,605)	-	(14,404)
Other	-	(262,132)	-	(262,132)	(373,668)	-	(635,800)
Automobiles	-	(124,680)	-	(124,680)	(1,100)	-	(125,780)
Total Accumulated Depreciation and Amortization	-	<u>(2,258,411)</u>	-	<u>(2,258,411)</u>	<u>(768,520)</u>	-	<u>(3,026,931)</u>
Construction in progress	-	165,152	-	165,152	1,570,353	(1,722,458)	13,047
Capital Assets, Net	-	<u>14,269,105</u>	-	<u>14,269,105</u>	<u>2,685,748</u>	<u>(1,722,458)</u>	<u>\$ 15,232,395</u>

Choctaw Regional Medical Center
Notes to Financial Statements

Note 5: Long-Term Debt and Capital Lease Obligations

Under the terms of the note agreement, the hospital is required to maintain deposits with trustees. Such deposits are included in noncurrent assets in the financial statements. The note agreement also places limits on the incurrence of additional borrowing and requires the hospital satisfy certain measures of financial performance as long as the note is outstanding. The hospital has satisfied the note requirements.

A schedule of changes in Choctaw Regional Medical Center's long-term debt for the year ended September 30, 2015 and period August 1, 2014 through September 30, 2014 follows:

	Balance August 1, 2014	Additions	Reductions	Balance September 30, 2014	Additions	Reductions	Balance September 30, 2015	Amounts Due Within One Year
Note Payable								
Bank of Kilmichael								
Series 2014 Note	\$ -	1,701,384	-	\$ 1,701,384	2,308,443	-	\$ 4,009,827	\$ 400,000
Capital Lease								
Obligations	-	47,962	(656)	47,306	120,373	(9,984)	157,695	34,398
Total Noncurrent								
Liabilities	\$ -	1,749,346	(656)	\$ 1,748,690	2,428,816	(9,984)	\$ 4,167,522	\$ 434,398

The terms and due dates of the facility's long-term debt, including capital leases obligations, at September 30, 2015 follow:

- \$5 Million Maximum Principal Amount Revenue and Limited Tax Note, designated Choctaw Regional Medical Center Taxable Revenue and Limited Tax Note, Series 2014 (Bank of Kilmichael) dated September 2014. The principal amount of the Series 2014 Note shall be supplied by multiple advances as needed by the Hospital. No further advances will be made on the Series 2014 Note after May 1, 2015. Payment on the 2014 Series Note shall be paid solely from Pledged Revenues of the Hospital, from Tax Revenues, and other funds as may be made available to the Hospital. The County has pledged as security for the Series 2014 Note the avails of an ad valorem tax levy on all taxable property in the County not to exceed 5 mills in any one year. No tax levies have been made available to Choctaw Regional Medical Center as of September 30, 2015. The note is bearing interest at 5% through May 1, 2020. The rate is subject to change at May 1, 2020. The Series 2014 Note is a term bond and is subject to a mandatory sinking fund, see Note 6.
- One capital lease obligation has a 7.78% imputed interest rate with 60 monthly payments of \$967 beginning September 2014. Lease is financed by NEC Financial Services and is collateralized by a phone system. The other capital lease obligation has a 5.10% imputed interest rate with 60 monthly payments of \$2,277 beginning July 2015. Lease is financed by US Bank and is collateralized by Radiology Equipment.

Choctaw Regional Medical Center
Notes to Financial Statements

Note 5: Long-Term Debt and Capital Lease Obligations (Continued)

Scheduled principal and interest repayments on long-term debt and payments on capital lease obligations are as follows:

Year Ended September 30,	Note Payable		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2016	\$ 400,000	\$ 200,463	\$ 34,398	\$ 9,095
2017	415,000	180,463	32,709	6,230
2018	440,000	159,713	34,690	4,248
2019	460,000	137,713	35,830	2,141
2020	485,000	114,713	20,068	429
Thereafter	1,809,827	204,600	-	-
Total	<u>\$ 4,009,827</u>	<u>\$ 997,665</u>	<u>\$ 157,695</u>	<u>\$ 22,143</u>

Note 6: Cash - Restricted Under Note Agreement:

The funds held by the trustee as of September 30, 2015 and 2014, established in accordance with the requirements of the Series 2014 Note Agreement are as follows:

Series 2014 Note	2015	2014
Debt service reserve fund	\$ <u>650,639</u>	\$ <u>-</u>

The above funds are and have been maintained in accordance with the note agreement.

Note 7: Net Patient Service Revenue

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

Medicare - Inpatient acute care services, outpatient services and nonacute inpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. 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.

Medicaid - Inpatient 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. The facility is reimbursed for outpatient services under a cost reimbursement methodology that is updated annually. Nursing home services are reimbursed under a cost based case mix reimbursement system.

Medicaid Upper Payment Limit Payments (UPL) and Medicaid Disproportionate Share Hospital (DSH) – Under these programs, the facility receives enhanced reimbursement through a matching mechanism. The facility received Medicaid upper payment limit payments of \$406,059 for the year ended September 30, 2015. There were no Medicaid upper payment limit payments received for the period August 1, 2014 through September 30, 2014. The facility received Medicaid Disproportionate Share Hospital payments of \$469,325 for the year ended September 30, 2015. There were no Medicaid Disproportionate Share Hospital payments received for the period August 1, 2014 through September 30, 2014.

Choctaw Regional Medical Center
Notes to Financial Statements

Note 7: Net Patient Service Revenue (Continued)

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

The composite of net patient service revenues at September 30, 2015 and for period August 1, 2014 through September 30, 2014 follows:

	2015	2014
Gross patient service revenue	\$ 20,125,278	\$ 2,357,321
Provision for contractals and other adjustments	(2,109,689)	144,228
Less provision for bad debts	(2,303,426)	(527,638)
	<u>\$ 15,712,163</u>	<u>\$ 1,973,911</u>

Note 8: Lease Commitments

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

<u>Year Ended September 30,</u>	
2016	\$ 294,387
2017	271,515
2018	181,010

Rental expense under all operating leases for the year ended September 30, 2015 was \$398,198 and for the period August 1, 2014 through September 30, 2014 was \$44,907.

Note 9: Concentrations of Credit Risk

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

	2015	2014
Medicare	26%	37%
Medicaid	5%	25%
Patients and other third-party payors	69%	38%
	<u>100%</u>	<u>100%</u>

Choctaw Regional Medical Center
Notes to Financial Statements

Note 10: Management Agreement

The facility has contracted with Sunflower Revenue Cycle Management – Ackerman, LLC for revenue cycle management and consulting services. The expenses for the services were \$1,339,536 for the year ended September 30, 2015 and \$2,103 for the period August 1, 2014 through September 30, 2014. The amount due to Sunflower Revenue Cycle Management - Ackerman, LLC as of September 30, 2015 and 2014 was \$211,518 and \$2,103, respectively.

The facility has contracted with Sunflower LTC Management for nursing home consulting and management services. The expenses for the services were \$180,000 for the year ended September 30, 2015 and \$30,000 for the period August 1, 2014 through September 30, 2014. The amount due to Sunflower LTC Management as of September 30, 2015 and 2014 was \$15,000 and \$0, respectively.

The facility has contracted with Sunflower CAH Management Company, LLC to provide various healthcare consulting services on an as-needed basis. The expenses for the services were \$278,364 for the year ended September 30, 2015 and \$56,691 for the period August 1, 2014 through September 30, 2014. The amount due to Sunflower CAH Management Company, LLC as of September 30, 2015 and 2014 was \$13,151 and \$0, respectively.

The facility has contracted with Trilogy Healthcare Solutions, LLC for the administrative management of the hospital. The expenses for the services were \$477,894 for the year ended September 30, 2015 and \$55,601 for the period August 1, 2014 through September 30, 2014. The amount due to Trilogy Healthcare Solutions, LLC as of September 30, 2015 and 2014 was \$66,676 and \$601, respectively.

Note 11: Other Assets

Included in other assets on the balance sheet is the unamortized portion of loan issue cost, which is being amortized over the life of the loan. The amortization expense associated with the loan issue cost was \$4,773 for the year ended September 30, 2015. There is no amortization expense associated with the loan issue cost for the period August 1, 2014 through September 30, 2014.

Included in other assets on the balance sheet is an unemployment reserve fund with MHA Solutions, Inc. in the amount of \$23,440 as of September 30, 2015 and \$23,440 as of September 30, 2014.

Note 12: Restatement of Prior Period

The September 30, 2014 financial statements have been restated to correctly reflect unamortized loan issuance cost. The effect of this restatement was an increase in unamortized loan issuance cost of \$47,000, and a decrease in other expenses of \$47,000, as of September 30, 2014 and for the period August 1, 2014 through September 30, 2014.

Note 13: Litigation

The facility has been notified of a potential lawsuit arising from normal business activities. At this time, management and legal representatives are expressing no opinion on the ultimate outcome. However, state statutes limit the facility's liability to the amount of insurance coverage.

Choctaw Regional Medical Center
Notes to Financial Statements

Note 14: 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 Choctaw Regional Medical Center evaluated the activity of the hospital through May 3, 2016, (the date the financial statements were available to be issued), and determined that there were no subsequent events with the exception of the subsequent event disclosed in the following paragraph requiring disclosures in the notes to financial statements.

Subsequent to September 30, 2015, Choctaw Regional Medical Center and Bank of Kilmichael amended the Series 2014 Note Agreement (see Note 5) to waive the provision stating that no further advances will be made on the Series 2014 Note after May 1, 2015. The Bank of Kilmichael executed an Amended and Restated Loan and Note Purchase Agreement specifically waving this provision and stating that all other provisions of the original agreement remain in effect.

Choctaw Regional Medical Center
Schedule of Surety Bonds for Officials and Employees
September 30, 2015

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Amount of Bond</u>
Dorothy Lilley	Trustee	Travelers	\$ 50,000
Rick Jenkins	Trustee	Travelers	\$ 50,000
Harvey Black	Trustee	Travelers	\$ 50,000
Waverly King	Trustee	Travelers	\$ 50,000
Bobby H Prewitt	Trustee	Travelers	\$ 50,000
Jamie Rodgers	Administrator	Travelers	\$ 100,000



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***

Board of Trustees
Choctaw Regional Medical Center
Ackerman, 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 Choctaw Regional Medical Center, a component unit of Choctaw County, Mississippi, as of and for the year ended September 30, 2015, and for the period from inception, August 1, 2014, to September 30, 2014, and the related notes to financial statements, which collectively comprise Choctaw Regional Medical Center's basic financial statements, and have issued our report thereon dated May 3, 2016:

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Choctaw Regional 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 Choctaw Regional Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of Choctaw Regional 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 Choctaw Regional 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
May 3, 2016

Watkins Ward and Stafford, PLLC



WATKINS, WARD and STAFFORD
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Perry C. Rackley, Jr., CPA

Independent Auditors' Report on Compliance with State Laws and Regulations

Board of Trustees
Choctaw Regional Medical Center
Ackerman, Mississippi

We have audited the financial statements of Choctaw Regional Medical Center, a component unit of Choctaw County, Mississippi, as of and for the year ended September 30, 2015, and for the period from inception, August 1, 2014, to September 30, 2014, and have issued our report thereon dated May 3, 2016.

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

Compliance with state laws applicable to Choctaw Regional 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 Choctaw Regional 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, Choctaw Regional 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 Choctaw Regional Medical Center had not complied with those provisions.

Condition – In violation of Mississippi Code Section 27-105-365, the facility failed to give notice by publication to all financial institutions in its county whose accounts are insured by the Federal Deposit Insurance Corporation, that bids will be received from financial institutions for the privilege of keeping the hospital funds or any part thereof for a period of three years.

Recommendation – To comply with applicable state statutes, the facility should give notice by publication to all financial institutions in its county whose accounts are insured by the Federal Deposit Insurance Corporation, that bids will be received from financial institutions for the privilege of keeping the hospital funds or any part thereof for a period of three years.

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 Choctaw County, Mississippi, and is not intended to be and should not be used by anyone other than these specified parties.

Eupora, Mississippi
May 3, 2016

Watkins Ward and Stafford, PLLC