

RANKIN COUNTY HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from and on Behalf of Patients	\$ 6,151,321	\$ 4,133,175
Other Receipts and Payments, net	540,453	127,817
Payments to Suppliers and Contractors	(3,521,944)	(2,715,763)
Payments to Employees	(5,783,067)	(6,301,851)
Net Cash Provided by (Used in) Operating Activities	(2,613,237)	(4,756,622)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Earnings	39,953	40,767
Net Change in Investments	1,007,937	236,337
Net Cash Provided by (Used in) Investing Activities	1,047,890	277,104
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Property Taxes Received for Debt Service Requirements	1,810,243	1,857,610
Principal Payments on Long-Term Debt and Notes Payable	(1,057,854)	(877,295)
Interest Payments on Long-Term Debt and Notes Payable	(896,893)	(1,000,653)
Proceeds From Sale of Capital Assets	72,100	-
Purchase of Capital Assets	(1,852,021)	(17,374,224)
Net Cash (Used in) Capital and Related Financing Activities	(1,924,425)	(17,394,562)
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES:		
Property Taxes	4,110,539	3,947,369
Noncapital Grants and Contributions	20,270	73,140
Net Cash Provided by Noncapital Financing Activities	4,130,809	4,020,509
Net Increase (Decrease) in Cash and Cash Equivalents	641,037	(17,853,571)
Cash and Cash Equivalents, Beginning of Year	3,992,197	21,845,768
Cash and Cash Equivalents, End of Year	\$ 4,633,234	\$ 3,992,197

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

RANKIN COUNTY HOSPITAL DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF CASH AND EQUIVALENTS TO THE STATEMENTS OF NET POSITION:		
Cash and Cash Equivalents Presented Under the Following Titles:		
Cash and Cash Equivalents	\$ 2,882,472	\$ 326,346
Assets Whose Use is Limited	1,750,762	-
Assets Whose Use is Limited - Long Term	-	3,665,851
Total Cash and Cash Equivalents	<u>\$ 4,633,234</u>	<u>\$ 3,992,197</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income (Loss)	\$ (4,278,279)	\$ (7,177,514)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Used in Operating Activities:		
Depreciation and Amortization	1,593,943	786,367
(Increase) Decrease in:		
Patient Accounts Receivable	401,344	(1,122,818)
Estimated Third-Party Payor Settlements	(360,689)	364,298
Inventory of Supplies		
Prepaid Expenses and Other Current Assets	(300,925)	(20,918)
Deferred Outflows of Resources	(388,490)	202,811
Net Pension Asset	57,188	(310,366)
Increase (Decrease) in:		
Accounts Payable	(264,985)	270,793
Accrued Salaries and Benefits Payable	139,758	6,882
Other Accrued Liabilities	440,784	2,243,843
Deferred Inflows of Resources	347,114	-
Net Cash Provided by (Used in) Operating Activities	<u>\$ (2,613,237)</u>	<u>\$ (4,756,622)</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Capital Assets Acquired Under Capital Lease Obligations	<u>\$ -</u>	<u>\$ 119,000</u>
Capital Asset Purchases Included in Accounts Payable	<u>\$ 413,569</u>	<u>\$ 972,556</u>

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

**RANKIN COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Rankin County Hospital District (the "District") located in Rankin, Texas, was created by a law of the State of Texas. The District is governed by a board of directors, elected from the population in the District. The District is a critical access hospital providing short-term inpatient and outpatient health care and is funded, in part, by ad valorem taxes on real and personal property within the jurisdiction.

Enterprise Fund Accounting - The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. The District has elected to apply the provisions based on Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The District has also elected to apply the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

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.

Newly Adopted Accounting Pronouncements

GASB Statement No. 68 - The District has implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*. This Statement objective is to improve accounting and financial reporting by pension plan sponsors. The Statement requires recognition of the entire net pension asset and a more comprehensive measure of pension expense and new footnote disclosures and required supplementary information. The cumulative effect of the implementation of this Statement has been applied to the District's financial statements.

GASB Statement No. 71 - The District has implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*. This Statement requires employer contributions made between the measurement date, which is the date used to determine an employer's net pension asset or liability, and the employer's fiscal year-end be reported as a deferred outflow of resources. The cumulative effect of the implementation of this Statement has been applied to the District's financial statements.

The cumulative effect in fiscal year 2015 of the implementation of GASB Statements 68 and 71 was an increase in beginning net position of \$630,169.

**RANKIN COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GASB Statement No. 76 - The District has implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to improve accounting and financial reporting by raising the category of GASB Implementation Guides in the hierarchy of generally accepted accounting principles used to prepare financial statements of state and local governmental entities. The implementation of this Statement did not affect the change in net position in 2016 or 2015.

Pending Adoption of Recent Accounting Pronouncements:

GASB Statement No. 82 – GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy plan member contribution requirements. The requirements of this Statement are effective for periods beginning after June 15, 2016.

Cash and Cash Equivalents - The District considers highly liquid investments with an original maturity of three months or less to be cash equivalents, excluding amounts whose use is limited by board designation or other arrangements under trust agreements or with third-party payors.

Investments – The District may legally invest in direct obligations and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities. The District's short-term investments are stated at fair value and are comprised of certificates of deposits with maturities in excess of three months, but less than a year, when purchased.

The District's long-term investments consist of certificates of deposits with maturities in excess of twelve months when purchased.

Assets Whose Use is Limited - Assets whose use is limited include assets which have been designated by the Board for future capital improvements and debt service. Amounts required to meet current liabilities of the District have been reclassified in the statement of net position when applicable.

Patient Accounts Receivable - The allowance for estimated uncollectible patient accounts receivable is maintained at a level which, in management's judgment, is adequate to absorb patient account balance write-offs inherent in the billing process. The amount of the allowance is based on management's evaluation of the collectibility of patient accounts receivable, including the nature of the accounts, credit concentrations, trends in historical write-off experience, specific impaired accounts, and economic conditions. Allowances for uncollectibles and contractals are generally determined by applying historical percentages to financial classes within accounts receivable. The allowances are increased by a provision for bad debt expenses and contractual adjustments, and reduced by write-offs, net of recoveries.

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

**RANKIN COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory of Supplies - Inventory is stated at historical cost on the First-In, First-Out (FIFO) method.

Capital Assets Capital assets are carried at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. The District provides for depreciation of capital assets by the straight-line method and at rates promulgated by the American Hospital Association, which are designed to amortize the cost of such equipment over its useful life. Equipment under capital lease obligations is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment life. Such amortization is included in depreciation and amortization in the financial statements. Except for capital assets acquired through gift, contributions, or capital grants, interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The District's capitalization policy states that any asset with a value greater than \$5,000 and a useful life of greater than one year will be capitalized.

The following are a range of useful lives used by asset class:

Land Improvements	15 to 20 years
Building (Components)	5 to 50 years
Fixed Equipment	7 to 25 years
Major Moveable Equipment	3 to 20 years

Defined Benefit Pension Plan – For purposes of measuring the net pension asset, deferred outflows of resources, deferred inflows of resources, and pension income/expense related to the defined benefit pension plan, information about the fiduciary net position of the Texas County and District Retirement System ("TCDRS") defined benefit pension plan and additions to/deductions from the TCERS's fiduciary net position have been determined on the same basis as they are reported by TCERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources – Transactions not meeting the definition of an asset or liability that result in the consumption or acquisition of net position in one period that are applicable to future periods are reported as deferred outflows of resources and deferred inflows of resources, respectively.

Net Position – Net position of the District is classified into two components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

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

**RANKIN COUNTY HOSPITAL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Revenues and Expenses - For purposes of display, the District's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the District's principal activity. Non-exchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Federal Income Taxes - The District is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the District is subject to federal income tax on any unrelated business taxable income, if any

Charity Care - The District provides care to patients who meet certain criteria under its charity care policy without charge at amounts less than its established rates. Management's policy for the provision of charity care requires that the patient must complete an application questionnaire. Upon meeting the aforementioned criteria, the individual is then subject to various means tests to determine eligibility status. Because the District does not pursue collection of amounts determined to qualify as charity care, charity care is excluded from net patient revenue.

Grants and Contributions - From time to time, the District receives grants from the state 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.

Property Taxes - The District received approximately 49% and 67% of its financial support from property taxes in 2016 and 2015, respectively. These funds were used as follows:

	<u>2016</u>	<u>2015</u>
Percentage used to support operations	69%	68%
Percentage used for debt service on general obligation bonds	31%	32%

Risk Management - The District is exposed to various risks of loss from torts: theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disaster; and employee health, dental, and accidental benefits. Commercial insurance coverage is purchased for claims arising from such matters.

**RANKIN COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications – Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 presentation. The reclassifications did not affect the financial position or changes in net position as previously reported.

NOTE 2 - NET PATIENT SERVICE REVENUE

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

Medicare and Medicaid – The District is a Critical Access Hospital. Thus, inpatient acute care services, certain inpatient non-acute care services, and outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary.

Other - The District has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Net patient service revenue is comprised as follows:

	<u>2016</u>	<u>2015</u>
Routine Patient Services	\$ 408,820	\$ 175,038
Ancillary Patient Services		
Inpatient	883,361	403,468
Outpatient	3,572,439	2,849,515
Gross Patient Service Revenue	<u>4,864,620</u>	<u>3,428,021</u>
Charity	(41,690)	-
Third-Party Contractual Adjustments	206,803	872,155
Provision for Bad Debts	(566,050)	-
Medicaid Supplemental Payments and Adjustments	<u>1,206,199</u>	<u>(1,652,324)</u>
Net Patient Service Revenue	<u>\$ 5,669,882</u>	<u>\$ 2,647,852</u>

Due to system conversion issues, the District did not complete billing for a portion of 2015. As a result, management is unable to determine the allowance for uncollectible accounts and the related provision. Accordingly, these estimated deductions from revenue have been included in the allowance for contractual adjustments in the accompanying financial statements.

**RANKIN COUNTY HOSPITAL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2016 AND 2015**

NOTE 2 - NET PATIENT SERVICE REVENUE (CONTINUED)

Estimated Third-Party Payor Settlements - Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Anticipated final settlement amounts from current and prior years' cost reports are recorded in the financial statements as they are determined by the District. Estimated third-party payor settlements recorded at September 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Medicare cost report receivable (payable)	\$ 610,222	\$ 249,533
Estimated Third-Party Payor Settlements	<u>\$ 610,222</u>	<u>\$ 249,533</u>

Charity Care - The value of charity care provided by the District based upon its established rates, was \$41,690 in 2016. ASU 2010-23 requires charity care to be disclosed on a cost basis. The District utilizes the cost to charge ratios, as calculated based on its most recent cost reports, to determine the total cost. The District's cost of providing charity care was \$96,585 for the year ended September 30, 2016.

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

At September 30, 2016 and 2015, the carrying amount of the District's deposits with financial institutions was \$5,499,618 and \$5,866,518, respectively, and the bank balance at September 30, 2016 was \$5,597,275. At September 30, 2016 and 2015, the District's bank accounts were fully insured and collateralized by the FDIC and pledged securities held in the District's Name. For September 30, 2016, the bank balance is categorized as follows:

	<u>2016</u>
Amount insured by the FDIC	\$ 850,000
Amount collateralized with securities held by the pledging financial institutions in the District's name	<u>4,649,618</u>
Total bank balance	<u>\$ 5,499,618</u>

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

**RANKIN COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016 AND 2015**

NOTE 4 – ASSETS WHOSE USE IS LIMITED

The composition of assets whose use is limited as of September 30, 2016 and 2015 is set forth in the following table:

	<u>2016</u>	<u>2015</u>
Internally designated for debt service - short-term:		
Cash and cash equivalents	\$ 1,750,762	\$ -
Internally designated for capital projects - long-term:		
Cash and cash equivalents	<u>-</u>	<u>3,665,851</u>
 Total Assets Whose Use is Limited	 <u>\$ 1,750,762</u>	 <u>\$ 3,665,851</u>

NOTE 5 - PATIENT ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Gross Accounts Receivable	\$ 1,500,399	\$ 3,815,611
Less: Allowance for Bad Debts	(416,928)	218,579
Allowance for Contractuals	<u>(196,840)</u>	<u>(2,746,215)</u>
Accounts Receivable, Net of Allowance	<u>\$ 886,631</u>	<u>\$ 1,287,975</u>

Concentration of Credit Risk - The District 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 is as follows:

	<u>2016</u>	<u>2015</u>
Medicare	75%	40%
Medicaid	1%	1%
Other Third-Party Payors	17%	36%
Patients	<u>7%</u>	<u>23%</u>
Total	<u>100%</u>	<u>100%</u>

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