

**Rankin County Hospital District
Rankin, Texas**

**For the Years Ended
September 30, 2016 and 2015**

DURBIN & COMPANY, L. L. P.

Certified Public Accountants

2950 - 50th Street

Lubbock, Texas 79413

(806) 791 - 1591

Fax (806) 791-3974

INDEPENDENT AUDITOR'S REPORT

Management and the Board of Directors
Rankin County Hospital District
Rankin, Texas 79778

We have audited the accompanying statement of net position of Rankin County Hospital District, (the "District"), as of September 30, 2016, and the related statements of revenues, expenses, and changes in net position and statements of cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise Rankin County Hospital District's basic financial statements.

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.

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. Those standards require that we plan and perform the audit 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 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 District'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 District'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 Rankin County Hospital District, as of September 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Rankin County Hospital District as of September 30, 2015, were audited by other auditors whose report dated April 5, 2016, expressed an unmodified opinion on those financial statements.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis and defined benefit plan information on pages A-1 through A-5 and pages 27 and 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Durbin & Company, L.L.P.

Durbin & Company, L. L. P.
Lubbock, Texas
April 20, 2017

**Rankin County Hospital District
Rankin, Texas**

Management's Discussion and Analysis

**For the Years Ended
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**RANKIN COUNTY HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AND FINANCIAL STATEMENTS**

**FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2016 AND 2015
UNAUDITED**

Our discussion and analysis of Rankin County Hospital District's financial performance provides an overview of the District's financial activities for the fiscal years ended September 30, 2016 and 2015. Please read it in conjunction with the District's financial statements, which begin on page 1. Rankin County Hospital District is a political subdivision authorized by the State of Texas. The District's enabling legislation does include the ability to assess taxes.

FINANCIAL HIGHLIGHTS

- The District's net position reflects a \$782,980 or 16.6% increase in 2016 and a (\$731,266) or (13.4%) decrease in 2015, respectively.
- Net Patient Service Revenue (Net of Provision for Bad Debts) increased by \$3,022,030 or 114.1% in fiscal year 2016 compared to an increase of \$2,201,248, or 492.9% for fiscal year 2015.
- The District reported operating losses in both 2016 and 2015 of (\$4,278,279) and (\$7,177,514), respectively.

USING THIS ANNUAL REPORT

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

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

Our analysis of the District's finances begins on page A-2. One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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The Statement of Cash Flows

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

THE DISTRICT'S NET POSITION

The District's net position is the difference between its assets and liabilities reported in the Statement of Net Position on page 1. The District's total assets decreased by (\$195,380) or (0.6%) and liabilities increased by (\$267,620) or (6.3%) in 2016, as you can see from **Table 1**.

Table 1: Assets, Liabilities, and Net Position

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Assets and Deferred Outflows of Resources:			
Current Assets	\$ 7,244,184	\$ 2,674,956	\$ 4,249,798
Capital Assets (Net)	24,499,216	24,919,268	9,372,145
Deferred Outflows of Resources	661,887	273,397	-
Other Non-Current Assets	667,418	5,400,464	20,735,753
Total Assets and Deferred Outflows of Resources	<u>\$ 33,072,705</u>	<u>\$ 33,268,085</u>	<u>\$ 34,357,696</u>
Liabilities and Deferred Inflows of Resources:			
Long-Term Debt Outstanding	\$ 23,277,062	\$ 24,334,916	\$ 25,110,588
Deferred Inflows of Resources	347,114	-	-
Other Current and Non-Current	3,954,287	4,221,907	3,804,580
Total Liabilities and Deferred Inflows of Resources	27,578,463	28,556,823	28,915,168
Net Position:			
Net Investment in Capital Assets	1,222,154	584,352	2,010,452
Unrestricted	4,272,088	4,126,910	3,432,076
Total Net Position	<u>5,494,242</u>	<u>4,711,262</u>	<u>5,442,528</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 33,072,705</u>	<u>\$ 33,268,085</u>	<u>\$ 34,357,696</u>

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A significant component of the change in the District's assets is the decrease in other non-current assets of (\$4,733,046) primarily due to Depreciation. Another significant change in the District's assets was the increase in deferred outflows of resources of \$388,490 related to the District's participation in the TCDRS retirement plan. The main factor in the change in liabilities is the payment of debt obligations in 2016.

OPERATING RESULTS AND CHANGES IN THE DISTRICT'S NET POSITION

In 2016, the District's net position increased by \$782,980 or 16.6% and (\$731,266) or (13.4%) in fiscal 2015. These changes are reflected in Table 2.

Table 2: Operating Results and Changes in Net Position

	2016	2015	2014
Operating Revenues:			
Net Patient Service Revenue	\$ 5,669,882	\$ 2,647,852	\$ 446,604
Other Operating Revenue	543,827	128,921	74,449
Total Operating Revenue	<u>6,213,709</u>	<u>2,776,773</u>	<u>521,053</u>
Operating Expenses:			
Salaries and Benefits	5,938,637	6,201,178	4,620,462
Other Operating Expenses	2,959,408	2,966,742	2,098,140
Depreciation / Amortization	1,593,943	786,367	457,898
Total Operating Expenses	<u>10,491,988</u>	<u>9,954,287</u>	<u>7,176,500</u>
Operating Income (Loss)	(4,278,279)	(7,177,514)	(6,655,447)
Nonoperating Revenues (Expenses):			
Property Tax Revenue	5,920,782	5,741,073	3,511,160
Noncapital Grants and Contributions	20,270	73,140	64,751
Investment Income	39,953	8,661	9,827
Interest Expense	(890,804)	(6,795)	(7,513)
Debt Issuance Costs	-	-	(408,021)
Gain (Loss) on Disposal of Assets	(28,942)	-	-
Total Nonoperating Revenues (Expenses)	<u>5,061,259</u>	<u>5,816,079</u>	<u>3,170,204</u>
Increase (Decrease) in Net Position	<u>782,980</u>	<u>(1,361,435)</u>	<u>(3,485,243)</u>
Net Position, Beginning of Year, as Previously Reported	4,711,262	5,442,528	8,927,771
Prior Period Adjustment	-	630,169	-
Net Position, Beginning of Year	<u>4,711,262</u>	<u>6,072,697</u>	<u>8,927,771</u>
Net Position, End of Year	<u>\$ 5,494,242</u>	<u>\$ 4,711,262</u>	<u>\$ 5,442,528</u>

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The first component of the overall change in the District's net position is its' operating loss generally, the difference between net patient service revenue and the expenses incurred to perform those services. In each of the past three years the District has reported an operating loss.

The primary components of the favorable change in the operating loss of \$2,899,235 or 40.4% in 2016 are:

- A favorable increase in net patient service revenue of \$3,022,030 or 114.1%.
- A favorable decrease in Salaries and Benefits of (\$262,541) or (4.2%).
- A favorable increase in other operating revenues of \$414,906 or 321.8%.

The primary components of the unfavorable change in operating loss of (\$522,067) or (7.8%) in 2015 are:

- An unfavorable increase in Salaries and Benefits of \$1,580,716 or 34.2%.
- An unfavorable increase in other operating expenses of \$868,602 or 41.4%.

THE DISTRICT'S CASH FLOWS

Changes in the District's cash flows are consistent with changes in operating income and non-operating revenues and expenses discussed earlier.

CAPITAL ASSETS

At the end of 2016 and 2015, the District had \$24,499,216 and \$24,919,268, respectively, invested in capital assets net of accumulated depreciation as detailed in Note 8 to the financial statements. The District acquired \$1,293,033 and \$16,322,968 of new capital assets in 2016 and 2015, respectively

DEBT

At the end of 2016, the District had long term debt outstanding of \$23,277,062 , as detailed in Note 9 of the financial statements, compared to \$24,334,916 in 2015.

OTHER ECONOMIC FACTORS

The District has a significant Medicare and Medicaid utilization. Total Medicare and Medicaid inpatient utilization is in 2016 compared with in 2015. Changes in State and Federal reimbursement methodologies continue to have a significant effect on the District's operating income.

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CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The financial report is designed to provide our patients, suppliers, community and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's administration offices at Rankin County Hospital District, 1611 Spur 576, Rankin, Texas 79778.

**Rankin County Hospital District
Rankin, Texas**

Financials

**For the Years Ended
September 30, 2016 and 2015**

RANKIN COUNTY HOSPITAL DISTRICT

STATEMENTS OF NET POSITION

SEPTEMBER 30, 2016 AND 2015

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION:	<u>2016</u>	<u>2015</u>
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	\$ 937,000	\$ 974,472
Accounts Payable	506,769	1,330,741
Accrued Payroll, Benefits, and Related Liabilities	508,441	368,683
Other Accrued Liabilities	<u>2,852,896</u>	<u>2,436,302</u>
Total Current Liabilities	4,805,106	5,110,198
NONCURRENT LIABILITIES		
Long-Term Debt, Net of Current Portion	22,340,062	23,360,444
Post-Employment Benefits	86,181	86,181
Total Noncurrent Liabilities	<u>22,426,243</u>	<u>23,446,625</u>
Total Liabilities	27,231,349	28,556,823
DEFERRED INFLOWS OF RESOURCES		
Difference Between Projected and Actual Earnings	347,114	-
NET POSITION		
Net Investment in Capital Assets	1,222,154	584,352
Unrestricted	<u>4,272,088</u>	<u>4,126,910</u>
Total Net Position	<u>5,494,242</u>	<u>4,711,262</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 33,072,705</u>	<u>\$ 33,268,085</u>

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

RANKIN COUNTY HOSPITAL DISTRICT
STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
OPERATING REVENUES:		
Net Patient Service Revenue	\$ 5,669,882	\$ 2,647,852
Other Revenue	543,827	128,921
Total Operating Revenues	6,213,709	2,776,773
OPERATING EXPENSES:		
Salaries	4,923,820	4,355,021
Employee Benefits and Payroll Taxes	1,014,817	1,846,157
Professional Fees and Purchased Services	1,702,987	1,438,830
Supplies	542,864	619,198
Other Operating	713,557	908,714
Depreciation and Amortization	1,593,943	786,367
Total Operating Expenses	10,491,988	9,954,287
Operating Income (Loss)	(4,278,279)	(7,177,514)
NONOPERATING REVENUES (EXPENSES):		
Property Tax Revenue	5,920,782	5,741,073
Noncapital Grants and Contributions	20,270	73,140
Investment Income	39,953	8,661
Interest Expense	(890,804)	(6,795)
Gain (Loss) on Disposal of Assets	(28,942)	-
Total Nonoperating Revenues (Expenses)	5,061,259	5,816,079
Increase (Decrease) in Net Position	782,980	(1,361,435)
Net Position, Beginning of Year as Previously Reported	4,711,262	5,442,528
Prior Period Restatement - Change in Accounting Principle	-	630,169
Net Position, Beginning of Year as Restated	4,711,262	6,072,697
Net Position, End of Year	\$ 5,494,242	\$ 4,711,262

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