

**RANKIN COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017 AND 2016**

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>2017</u>	<u>2016</u>
Routine Patient Services	\$ 167,833	\$ 408,820
Ancillary Patient Services		
Inpatient	718,541	658,594
Outpatient	<u>3,815,497</u>	<u>3,572,439</u>
Gross Patient Service Revenue	4,701,871	4,639,853
Charity	(69,186)	(41,690)
Third-Party Contractual Adjustments	1,297,082	149,952
Provision for Bad Debts	(948,607)	(566,050)
Medicaid Supplemental Payments and Adjustments	<u>849,735</u>	<u>1,206,199</u>
Net Patient Service Revenue	<u>\$ 5,830,895</u>	<u>\$ 5,388,264</u>

**RANKIN COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017 AND 2016**

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, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Medicare Cost Report Receivable/ (Payable)	\$ 985,736	\$ 610,222
Estimated Third-Party Payor Settlements	<u>\$ 985,736</u>	<u>\$ 610,222</u>

Charity Care - The value of charity care provided by the District based upon its established rates, was \$69,186 in 2017 and \$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 \$155,855 and \$96,585 for the year ended September 30, 2017 and 2016, respectively.

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

At September 30, 2017 and 2016, the carrying amount of the District's deposits with financial institutions was \$4,492,786 and \$5,499,618, respectively, and the bank balance was \$3,043,262 and \$5,597,275, respectively. The bank balance is categorized as follows:

	<u>2017</u>	<u>2016</u>
Amount insured by the FDIC	\$ 600,000	\$ 850,000
Amount collateralized with securities held by the pledging financial institutions in the District's name	<u>2,443,262</u>	<u>4,747,275</u>
Total bank balance	<u>\$ 3,043,262</u>	<u>\$ 5,597,275</u>

The District holds money market investments held with Happy Trust Company that are not insured by the FDIC. These investments have a carrying value of \$1,600,157. Happy Trust Company is a member of the Securities Investor Protection Corporation (SIPC). The SIPC protects assets held in a brokerage custody account against broker-related insolvency up to a value of \$500,000 per customer, including \$250,000 for claims for cash.

**RANKIN COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017 AND 2016**

NOTE 4 – ASSETS WHOSE USE IS LIMITED

The composition of assets whose use is limited as of September 30, 2017 and 2016 is set forth in the following table:

	<u>2017</u>	<u>2016</u>
Internally designated for debt service - short-term:		
Cash and cash equivalents	\$ 2,111,905	\$ 1,750,762
Internally designated operating reserves - short-term:		
Cash and cash equivalents - money market	<u>1,600,157</u>	<u>-</u>
 Total Assets Whose Use is Limited	 <u>\$ 3,712,062</u>	 <u>\$ 1,750,762</u>

NOTE 5 - PATIENT ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Gross Accounts Receivable	\$ 968,518	\$ 1,500,399
Less: Allowance for Bad Debts	(452,559)	(416,928)
Allowance for Contractuals	25,000	(196,840)
Accounts Receivable, Net of Allowance	<u>\$ 540,959</u>	<u>\$ 886,631</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>2017</u>	<u>2016</u>
Medicare	12%	18%
Medicaid	4%	2%
Other Third-Party Payors	35%	18%
Patients	<u>49%</u>	<u>62%</u>
Total	<u>100%</u>	<u>100%</u>

**RANKIN COUNTY HOSPITAL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2017 AND 2016**

NOTE 6 – INVESTMENTS

The District maintains investments consisting of certificates of deposit with Prosperity Bank and Security Bank. As of September 30, 2017 and 2016, the District's investments were comprised of certificates of deposit in the amount of \$100,000 and \$866,384, respectively, all of which were covered by FDIC and pledged securities.

The District's investments may be exposed to the following types of risks:

Interest Rate Risk – Interest rate risk is the risk that market values of investments will change based on changes in market interest rates.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk – The District places no limit on the amount that may be invested in any one issuer.

Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the value of investments will occur in the near-term and that such change could materially affect the amounts reported in the accompanying statements of net position.

NOTE 7 - TAXES RECEIVABLE

Property taxes are levied on October 1 of each year and become delinquent as of February 1 of the following year. Taxes are reported as revenues in the period for which they are levied. Tax revenue, net of related expenses for the years ended September 30, 2017 and 2016, were \$6,342,802 and \$5,920,782, respectively. The tax rates for September 30, 2017 and 2016 were \$0.3008 and \$0.1946, respectively. As of September 30, 2017 and 2016, the balance of property taxes receivable and its related allowance for uncollectible taxes are as follows:

	<u>2017</u>	<u>2016</u>
Taxes Receivable	\$ 112,047	\$ 71,223
Allowance for Uncollectible Taxes	<u>(66,441)</u>	<u>(22,739)</u>
Net Taxes Receivable	<u>\$ 45,606</u>	<u>\$ 48,484</u>

**RANKIN COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017 AND 2016**

NOTE 8 – CAPITAL ASSETS

The following is a summary of capital assets at cost less accumulated depreciation:

	Balance 09/30/16	Additions	Reclass/ Retirements	Balance 09/30/17
Land and Improvements	\$ 1,286,792	\$ -	\$ -	\$ 1,286,792
Building and Improvements	19,682,666	-	-	19,682,666
Equipment	6,532,957	112,059	-	6,645,016
Capital leases	-	55,976	-	55,976
Construction In Progress	849,317	959,676	-	1,808,993
Totals at Historical Cost	<u>28,351,732</u>	<u>1,127,711</u>	-	<u>29,479,443</u>
Less Accumulated Depreciation for:				
Land Improvements	(98,849)	(77,514)	-	(176,363)
Buildings	(1,175,011)	(786,190)	-	(1,961,201)
Equipment	(2,578,656)	(571,851)	-	(3,150,507)
Capital leases	-	(666)	-	(666)
Total Accumulated Depreciation	<u>(3,852,516)</u>	<u>(1,436,221)</u>	-	<u>(5,288,737)</u>
Capital Assets, Net	<u>\$ 24,499,216</u>	<u>\$ (308,510)</u>	<u>\$ -</u>	<u>\$ 24,190,706</u>
	Balance 09/30/15	Additions	Reclass/ Retirements	Balance 09/30/16
Land and Improvements	\$ 1,875	\$ -	\$ 1,284,917	1,286,792
Building and Improvements	23,520,024	109,499	(3,946,857)	19,682,666
Equipment	4,803,393	145,928	1,583,636	6,532,957
Construction In Progress	9,001	1,037,606	(197,290)	849,317
Totals at Historical Cost	<u>28,334,293</u>	<u>1,293,033</u>	<u>(1,275,594)</u>	<u>28,351,732</u>
Less Accumulated Depreciation for:				
Land Improvements	(27,161)	(73,547)	1,859	(98,849)
Buildings	(1,201,697)	(787,473)	814,159	(1,175,011)
Equipment	(2,186,166)	(751,025)	358,535	(2,578,656)
Total Accumulated Depreciation	<u>(3,415,024)</u>	<u>(1,612,045)</u>	<u>1,174,553</u>	<u>(3,852,516)</u>
Capital Assets, Net	<u>\$ 24,919,269</u>	<u>\$ (319,012)</u>	<u>\$ (101,041)</u>	<u>\$ 24,499,216</u>

**RANKIN COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017 AND 2016**

NOTE 8 – CAPITAL ASSETS (CONTINUED)

Total depreciation expense for 2017 and 2016 was \$1,442,373 and \$1,612,044, respectively. At September 30, 2016, construction in progress consisted of amounts paid and accrued for the purchase of accounting and clinical software. The software is expected to be fully installed and implemented during fiscal year 2018.

NOTE 9 – LONG-TERM DEBT

Following is a summary of long-term debt at September 30, 2017:

	Balance 09/30/16	Additions	Reductions	Balance 09/30/17	Due Within One Year
Bonds and Notes Payable:					
Southside Bank, Series 2013 Bonds	\$ 13,750,000	\$ -	\$ (540,000)	\$ 13,210,000	\$ 560,000
Bank of Texas, Series 2014 Bonds	9,215,000	-	(397,000)	8,818,000	400,000
Bond Premium, Net	312,062	-	(18,101)	293,961	-
Total Bond and Notes Payable	23,277,062	-	(955,101)	22,321,961	960,000
Capital Leases Obligations	-	55,976	-	55,976	9,899
Total Long-Term Debt and Capital Leases	<u>\$ 23,277,062</u>	<u>\$ 55,976</u>	<u>\$ (955,101)</u>	<u>\$ 22,377,937</u>	<u>\$ 969,899</u>
	Balance 09/30/15	Additions	Reductions	Balance 09/30/16	Due Within One Year
Bonds and Notes Payable:					
Southside Bank, Series 2013 Bonds	\$ 14,270,000	\$ -	\$ (520,000)	\$ 13,750,000	\$ 540,000
Bank of Texas, Series 2014 Bonds	9,609,000	-	(394,000)	9,215,000	397,000
Bond Premium, Net	330,163	-	(18,101)	312,062	-
Total Bond and Notes Payable	24,209,163	-	(932,101)	23,277,062	937,000
Capital Leases Obligations	125,753	-	(125,753)	-	-
Total Long-Term Debt and Capital Leases	<u>\$ 24,334,916</u>	<u>\$ -</u>	<u>\$ (1,057,854)</u>	<u>\$ 23,277,062</u>	<u>\$ 937,000</u>

**RANKIN COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017 AND 2016**

NOTE 9 – LONG-TERM DEBT (CONTINUED)

The terms and due dates of the District's long-term debt at September 30, 2017 and 2016:

- **Tax and Revenue Bonds, Series 2013:** Bond Payable to bank in annual principal installments ranging from \$391,000 to \$703,000, semiannual interest payments ranging from \$326,916 to \$31,916. The interest rate changes from 0.76% to 4.54%, the bond matures in December 2033.
- **Tax and Revenue Bond, Series 2014:** Bond payable to bank in annual principal installments ranging from \$415,000 to \$1,045,000, semiannual interest payments ranging \$546,813 to \$44,413. The interest rate changes from 4.00% to 4.25%, the bond matures in August 2034. As of September 30, 2017 and 2016 the balance of the unamortized premium is \$293,961 and \$312,062, respectively.

Tax and Revenue Bond, Series 2014 require that the District establish payment funds, which shall be maintained as long as any payments are unpaid. The District shall, not later than the day preceding any such payment date, deposit into the funds an amount sufficient to make such payments.

The following is a schedule of the long-term debt principal and interest maturities for each of the next five years:

For the Year Ending September 30,	Bonds Payable			Capital Lease Obligations	
	Principal	Interest	Total	Principal	Interest
2018	960,000	844,802	1,804,802	9,899	3,084
2019	991,000	819,362	1,810,362	10,508	2,475
2020	1,021,000	786,300	1,807,300	11,155	1,828
2021	1,056,000	752,199	1,808,199	11,842	1,141
2022	1,091,000	716,860	1,807,860	12,571	412
2023-2027	6,104,000	2,953,265	9,057,265	-	-
2028-2032	7,386,000	1,686,856	9,072,856	-	-
2033-2034	3,419,000	225,621	3,644,621	-	-
Unamortized Bond Premium	293,961			-	-
Total	\$ 22,321,961	\$ 8,785,265	\$ 30,813,265	\$ 55,975	\$ 8,940

The District follows the policy of capitalizing interest as a component of the cost of capital assets constructed for its own use. The amount of interest incurred in 2017 and 2016 was \$859,905 and \$890,804, all of which was charged to operations.

**RANKIN COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017 AND 2016**

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Litigation - The District is from time to time subject to claims and suits for damages, including damages for personal injuries to patients and others, most of which are covered as to risk and amount. In the opinion of management, the ultimate resolution of pending legal proceedings will not have a material effect on the District's financial position or results of operation.

NOTE 11 – EMPLOYEE BENEFITS

Plan Description

The District participates in the Texas County & District Retirement System (TCDRS), an agent multiple-employer defined benefit pension plan covering all full-time and part-time non-temporary employees, regardless of the number of hours they work in a year. Employees in a temporary position are not eligible for membership. The Plan is administered by a board of trustees appointed by TCDRS. Benefit provisions are contained in the plan document and were established and can be amended by action of the District's governing body within the options available in the state statutes governing TCDRS. The plan does not issue a separate report that includes financial statements and required supplementary information for the plan. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The most recent CAFR for TCDRS can be found at the following link, www.tcdrs.org.

Benefits Provided

The Plan provides retirement, disability and survivor benefits to plan members and their beneficiaries. Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the District within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the commitment of the District to contribute to the plan. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by TCDRS.

Members can retire at ages 60 and above with 10 or more years, with 30 years regardless of age, or when the sum of their age and years of service equals 80 or more. A member is vested after 10 years but must leave their accumulated contributions in the plan to receive any employer-financed benefit. If a member withdraws their personal contributions in a lump sum, they are not entitled to any amounts contributed by the employer.

**RANKIN COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017 AND 2016**

NOTE 11 – EMPLOYEE BENEFITS (CONTINUED)

Benefits Provided (Continued)

At December 31, 2016, the following employees were covered by the benefit terms:

	<u>2016</u>	<u>2015</u>
Inactive Employees or Beneficiaries Currently Receiving Benefits	22	21
Inactive Employees Entitled to but not Yet Receiving Benefits	60	61
Active Employees	<u>58</u>	<u>59</u>
Total	<u>140</u>	<u>141</u>

Contributions

The District’s governing board has the authority to establish and amend the contribution requirements of the District and active employees.

The District establishes rates based on the annually determined rate plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both the employee members and the employer based on the covered payroll of employee members. Plan members are required to contribute 7% of their annually covered salary. Under the TCDRS Act, rates are based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the plan year ended December 31, 2016, employees contributed approximately \$303,086, or 7.0% of covered payroll, and the District contributed approximately \$276,165, or 6.4% of covered payroll, to the Plan. For the plan year ended December 31, 2015, employees contributed approximately \$289,599, or 7.0% of covered payroll, and the District contributed approximately \$262,837, or 6.4% of covered payroll, to the Plan.

**RANKIN COUNTY HOSPITAL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2017 AND 2016**

NOTE 11 – EMPLOYEE BENEFITS (CONTINUED)

Net Pension Asset

At September 30, 2017 and 2016, The District's net pension asset was measured as of December 31, 2016 and 2015, respectively, and the total pension liability used to calculate the net pension asset was respectively determined by an actuarial valuation as of that date.

The total pension asset in the December 31, 2016 and 2015 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Inflation	3.0%
Salary Increases	Varies by age and service. 4.9% average over career including inflation.
Investment Rate of Return	8.0%

Mortality rates were based as follows:

Depositing Members	The RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year setback, both projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale thereafter.
Service Retirees, Beneficiaries and Non-depositing Members	The RP-2000 Combined Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale thereafter, with a one-year set-forward for males and no age adjustment for females.
Disabled Retirees	The RP-2000 Disabled Mortality Table projected to 2014 with scale AA and then projected 110% of the MP-2014 Ultimate scale thereafter, with no age adjustment for males and a two-year set-forward for females.

The actuarial assumptions used in the December 31, 2016 and 2015 valuations were based on the results of an actuarial experience study for the period January 1, 2009 – December 31, 2012, except where required to be different by GASB 68.