

Choctaw Regional Medical Center
Statements of Net Position
September 30, 2016, and 2015

	2016	2015 As Restated
Assets		
Current Assets:		
Cash	\$ 531,822	\$ 967,431
Cash - Patient funds held by facility restricted for use	81,664	20,544
Patient accounts receivable (Net of estimated uncollectibles and allowances of \$2,763,920 in 2016, and \$2,846,045 in 2015)	2,594,125	2,840,278
Other current receivable	575,872	-
Estimated third-party payor settlements	-	419,227
Inventories of supplies and drugs	96,097	73,025
Prepaid expenses	71,488	43,727
Total Current Assets	<u>3,951,068</u>	<u>4,364,232</u>
Capital Assets:		
Property and Equipment (Net of accumulated depreciation and amortization of \$3,945,131 in 2016, and \$3,026,931 in 2015)	<u>15,235,565</u>	<u>15,247,925</u>
Other Assets:		
Cash - Restricted under note agreement	951,418	650,640
Unemployment reserve account	36,931	23,440
Unamortized loan issue costs (Net of accumulated amortization of \$9,180 in 2016, and \$4,773 in 2015)	<u>37,820</u>	<u>42,227</u>
Total Other Assets	<u>1,026,169</u>	<u>716,307</u>
Total Assets	<u>\$ 20,212,802</u>	<u>\$ 20,328,464</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, 2016, and 2015

	2016	2015 As Restated
Liabilities and Net Position		
Current Liabilities:		
Accounts payable	\$ 2,015,239	\$ 3,141,980
Patient accounts receivable credit balances	210,503	89,863
Accrued expenses and payroll withholdings	673,450	444,458
Accrued interest payable	97,017	84,813
Estimated third-party payor settlements	531,736	-
Current maturities of capitalized lease obligations	100,623	34,398
Current portion of note payable	415,000	400,000
Patient funds held by facility restricted for use	81,664	20,544
Total Current Liabilities	<u>4,125,232</u>	<u>4,216,056</u>
Long-Term Debt:		
Capitalized lease obligations, net of current maturities	129,480	123,297
Note payable, net of current maturities	4,185,000	3,609,826
Total Long-Term Debt	<u>4,314,479</u>	<u>3,733,123</u>
Total Liabilities	<u>8,439,711</u>	<u>7,949,179</u>
Net Position:		
Invested in capital assets, net of related debt	10,405,462	11,080,404
Restricted by note agreement	951,418	650,640
Unrestricted	416,210	648,241
Total Net Position	<u>11,773,090</u>	<u>12,379,285</u>
Total Liabilities and Net Position	<u>\$ 20,212,802</u>	<u>\$ 20,328,464</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 Years Ended September 30, 2016, and 2015

	<u>2016</u>	<u>2015</u> <u>As Restated</u>
Operating Revenues:		
Net patient service revenue (net of provision for uncollectible accounts of \$3,362,900 in 2016, and \$2,303,427 in 2015)	\$ 17,826,734	\$ 15,712,170
Electronic health records incentive	1,512,769	-
Other revenue	202,458	6,350
Total Operating Revenues	<u>19,541,961</u>	<u>15,718,520</u>
Operating Expenses:		
Salaries and benefits	13,538,055	8,990,453
Supplies and drugs	1,980,273	1,605,304
Other expenses	5,402,285	5,822,290
Insurance	223,554	211,169
Depreciation and amortization	922,606	773,293
Total Operating Expenses	<u>22,066,773</u>	<u>17,402,509</u>
Operating Loss	<u>(2,524,812)</u>	<u>(1,683,989)</u>
Nonoperating Revenues (Expenses):		
Grant income	1,479,795	514,574
Interest income	1,767	640.00
Interest expense	(259,786)	(190,571)
Total Nonoperating Revenues (Expenses)	<u>1,221,776</u>	<u>324,643</u>
Excess of Expenses Over Revenues	<u>(1,303,036)</u>	<u>(1,359,346)</u>
Net Position Beginning of Year As Restated	12,379,285	13,716,631
Capital Contributions	<u>696,841</u>	<u>22,000</u>
Net Position End of Year As Restated	<u>\$ 11,773,090</u>	<u>\$ 12,379,285</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 Years Ended September 30, 2016, and 2015

	2016	2015 As Restated
Cash Flows From Operating Activities:		
Receipts from and on behalf of patients	\$ 19,144,490	\$ 14,399,097
Payments for supplies and other expenses	(7,846,788)	(5,547,834)
Payments to and on behalf of employees	(13,407,368)	(8,801,114)
Other receipts and payments	202,458	6,349
Net Cash Provided (Used) by Operating Activities	<u>(1,907,208)</u>	<u>56,498</u>
Cash Flows from Capital and Related Financing Activities:		
Principal payments on capital lease obligations	(86,080)	(9,984)
Principal payments on notes payable	(400,000)	-
Change in funds restricted under note agreement	(300,778)	(650,639)
Interest paid on long-term debt	(162,769)	(105,758)
Proceeds from issuance of debt	990,174	2,308,443
Purchase of capital assets	(50,510)	(1,589,437)
Total Cash Flows Used by Capital and Related Financing Activities	<u>(9,963)</u>	<u>(47,375)</u>
Cash Flows from Investing Activities:		
Interest Income	1,767	640
Grant income	1,479,795	514,574
Total Cash Flows Provided by Investing Activities	<u>1,481,562</u>	<u>515,214</u>
Net Increase (Decrease) in Cash	(435,609)	524,337
Cash at Beginning of Year	<u>967,431</u>	<u>443,094</u>
Cash at End of Year	<u><u>\$ 531,822</u></u>	<u><u>\$ 967,431</u></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 Years Ended September 30, 2016, and 2015

	2016	2015 As Restated
Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Operating loss	\$ (2,524,812)	\$ (1,683,989)
Adjustments to Reconcile Operating Loss to Net Cash Flows Used by Operating Activities:		
Depreciation and amortization	922,606	773,293
Provision for uncollectible accounts	3,362,900	2,303,427
Changes in:		
Patient accounts receivable	(2,996,107)	(3,726,365)
Supplies and other current assets	(640,196)	(12,114)
Accounts payable, accrued expenses, and other current liabilities	(982,562)	2,292,375
Estimated third-party payor settlements	950,963	109,871
Net Cash Provided (Used) by Operating Activities	<u>\$ (1,907,208)</u>	<u>\$ 56,498</u>

Noncash Capital and Financing Activities:

The facility entered into capital lease obligations of \$158,488 for new equipment in 2016, and \$120,373 in 2015.

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 (Continued)

s. 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. In 2016, and 2015, the hospital received EHR incentive revenue of \$1,512,769, and \$0, respectively. EHR incentive revenues are included in operating revenues in the accompanying statements of revenues, expenses, and changes in net position.

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, 2016.

Note 3: Accounts Receivable - Estimated Uncollectibles and Allowances

The balance in the estimated uncollectibles and allowances account at September 30, 2016, and 2015, is composed of the following:

	2016	2015
Provision for uncollectible accounts	\$ 2,280,127	\$ 2,295,008
Allowance for Medicare adjustment	402,508	446,340
Allowance for Medicaid adjustment	81,285	104,697
	<u>\$ 2,763,920</u>	<u>\$ 2,846,045</u>

Choctaw Regional Medical Center
Notes to Financial Statements

Note 4: Capital Assets

Capital asset additions, retirement and balances for the years ended September 30, 2016, and 2015, were as follows:

	Balance September 30, 2014	Additions/ Other As Restated	Retirements/ Other As Restated	Balance September 30, 2015	Additions/ Other	Retirements/ Other	Balance September 30 2016
Land improvements	\$ -	10,165	-	10,165	462,842	-	473,007
Buildings and improvements	15,595,014	24,449	-	15,619,463	291,927	-	15,911,390
Equipment:							
Under capital lease	47,962	120,373	-	168,335	158,488	-	326,823
Other	580,856	1,722,458	-	2,303,314	-	-	2,303,314
Automobiles	138,532	22,000	-	160,532	-	-	160,532
Total Historical Cost	16,362,364	1,899,445	-	18,261,809	913,257	-	19,175,066
Less Accumulated Depreciation and Amortization for:							
Land improvements	-	(226)	-	(226)	(13,534)	-	(13,760)
Buildings and improvements	(1,870,800)	(379,921)	-	(2,250,721)	(405,622)	-	(2,656,343)
Equipment:							
Under capital lease	(799)	(13,605)	-	(14,404)	(33,667)	-	(48,071)
Other	(262,132)	(373,668)	-	(635,800)	(460,977)	-	(1,096,777)
Automobiles	(124,680)	(1,100)	-	(125,780)	(4,400)	-	(130,180)
Total Accumulated Depreciation and Amortization	(2,258,411)	(768,520)	-	(3,026,931)	(918,200)	-	(3,945,131)
Construction in progress	165,152	1,570,353	(1,722,458)	13,047	256,688	(264,105)	5,630
Capital Assets, Net	\$ 14,269,105	2,701,278	(1,722,458)	\$ 15,247,925	251,745	(264,105)	\$ 15,235,565

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 years ended September 30, 2016, and 2015, follows:

	Balance September 30, 2014	Additions	Reductions	Balance September 30, 2015	Additions	Reductions	Balance September 30, 2016	Amounts Due Within One Year
Note Payable								
Bank of Kilmichael Series 2014 Note	\$ 1,701,383	2,308,443	-	\$ 4,009,826	990,174	(400,000)	\$ 4,600,000	\$ 415,000
Capital Lease Obligations	47,306	120,373	(9,984)	157,695	158,488	(86,080)	230,103	100,623
Total Noncurrent Liabilities	<u>\$ 1,748,689</u>	<u>2,428,816</u>	<u>(9,984)</u>	<u>\$ 4,167,521</u>	<u>1,148,662</u>	<u>(486,080)</u>	<u>\$ 4,830,103</u>	<u>\$ 515,623</u>

The terms and due dates of the facility's long-term debt, including capital leases obligations, at September 30, 2016 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 was supplied by multiple advances as needed by the Hospital. 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, 2016. 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.
- Capital lease obligations with varying rates of interest of 5.100 to 10.768 percent, collateralized by leased equipment with a cost of \$326,823 at September 30, 2016, and \$47,962 at September 30, 2015.

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:

<u>Year Ended September 30,</u>	<u>Note Payable</u>		<u>Capital Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	415,000	229,152	100,623	13,871
2018	440,000	209,347	53,106	6,864
2019	460,000	187,347	44,365	3,811
2020	485,000	164,347	29,500	1,202
2021	505,000	140,097	2,509	42
Thereafter	2,295,000	294,641	-	-
Total	<u>\$ 4,600,000</u>	<u>\$ 1,224,931</u>	<u>\$ 230,103</u>	<u>\$ 25,790</u>

Note 6: Cash - Restricted Under Note Agreement:

The funds held by the trustee as of September 30, 2016, and 2015, established in accordance with the requirements of the Series 2014 Note Agreement are as follows:

<u>Series 2014 Note</u>	<u>2016</u>	<u>2015</u>
Debt service reserve fund	<u>\$ 951,418</u>	<u>\$ 650,640</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:

a. 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.

b. 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.

Choctaw Regional Medical Center
Notes to Financial Statements

Note 7: Net Patient Service Revenue (Continued)

c. Medicaid Mississippi Hospital Access Payments (MHAP), Upper Payment Limit Payments (UPL) and Disproportionate Share Hospital (DSH) - Under these programs, the facility receives enhanced reimbursement through a matching mechanism. During fiscal year ending September 30, 2016, the Mississippi Division of Medicaid phased out the upper payment limit program as it relates to hospitals and replaced it with the Medicaid Mississippi hospital access program. The hospital received Medicaid Mississippi hospital access payments of \$194,921 for the year ended September 30, 2016. The Medicaid Mississippi hospital access program is a program whereby the hospital qualifies for Mississippi hospital access program funds in addition to regular funds. The Mississippi Division of Medicaid administers the program through the MississippiCAN coordinated care organizations, and the continuation of the program rests with the federal government.

The facility received Medicaid upper payment limit payments of \$575,872, and \$406,059, for the years ended September 30, 2016, and 2015, respectively. The Medicaid upper payment limit program was a program whereby the hospital qualified for upper payment limit funds in addition to regular funds. The facility received Medicaid Disproportionate Share Hospital payments of \$746,868, and \$469,325, for the years ended September 30, 2016, and 2015, respectively.

The composite of net patient service revenues at September 30, 2016, and 2015, follows:

	2016	2015
Gross patient service revenue	\$ 26,920,682	\$ 20,125,286
Provision for contractuals and other adjustments	(5,731,048)	(2,109,689)
Less provision for bad debts	(3,362,900)	(2,303,427)
	<u>\$ 17,826,734</u>	<u>\$ 15,712,170</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>	
2017	\$ 271,515
2018	181,010

Rental expense under all operating leases for the years ended September 30, 2016, and 2015, amounted to \$380,155, and \$398,199, respectively.

Choctaw Regional Medical Center
Notes to Financial Statements

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, 2016, and 2015, was as follows:

	2016	2015
Medicare	27%	26%
Medicaid	4%	5%
Patients and other third-party payors	69%	69%
	<u>100%</u>	<u>100%</u>

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 \$497,383 for the year ended September 30, 2016, and \$1,339,536 for the year ended September 30, 2015. The amount due to Sunflower Revenue Cycle Management – Ackerman, LLC as of September 30, 2016, and 2015, was \$0, and \$211,518, respectively.

The facility has contracted with Sunflower LTC Management for nursing home consulting and management services. The expenses for the services were \$74,196 for the year ended September 30, 2016, and \$180,000 for the year ended September 30, 2015. The amount due to Sunflower LTC Management as of September 30, 2016, and 2015, was \$0, and \$15,000, 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 \$60,904 for the year ended September 30, 2016, and \$278,364 for the year ended September 30, 2015. The amount due to Sunflower CAH Management Company, LLC as of September 30, 2016, and 2015, was \$0, and \$13,151, respectively.

The facility has contracted with Trilogy Healthcare Solutions, LLC for the administrative management of the hospital. The expenses for the services were \$471,920 for the year ended September 30, 2016, and \$477,894 for the year ended September 30, 2015. The amount due to Trilogy Healthcare Solutions, LLC as of September 30, 2016, and 2015, was \$150,387, and \$66,676, respectively.

The facility has contracted with Choctaw Behavioral Services, LLC for the operation of the intensive outpatient geriatric psychiatric unit. The expenses for the services were \$289,130 for the year ended September 30, 2016, and \$0 for the year ended September 30, 2015. The amount due to Choctaw Behavioral Services as of September 30, 2016, and 2015, was \$54,722, and \$0, respectively.

Note 11: Other Assets

Included in other assets on the statements of net position 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 \$4,406, and \$4,773, for the years ended September 30, 2016, and 2015, respectively.

Also, included in other assets on the balance sheet is an unemployment reserve fund with MHA Solutions, Inc. in the amount of \$36,931, and \$23,440, as of September 30, 2016, and 2015, respectively.