

**Forrest County General Hospital
(A Component Unit of Forrest County, Mississippi)**

Independent Auditor's Report and Financial Statements

September 30, 2017 and 2016



Forrest County General Hospital
(A Component Unit of Forrest County, Mississippi)
September 30, 2017 and 2016

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Independent Auditor's Report

Board of Trustees
Forrest County General Hospital
Hattiesburg, Mississippi

We have audited the accompanying balance sheets of Forrest County General Hospital, a component unit of Forrest County, Mississippi (the Hospital), as of September 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of 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.

Auditor's 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. 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 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 Forrest County General Hospital as of September 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension and postemployment health care plan information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 audits 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The surety bonds for officials and employees information, balance sheets – Pointe Properties, LLC and statements of revenue, expenses and changes in net position – Pointe Properties, LLC listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Jackson, Mississippi
November 27, 2017

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Management's Discussion and Analysis
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Introduction

This management's discussion and analysis of the financial performance of Forrest County General Hospital (the Hospital) provides an overview of the Hospital's financial activities for the fiscal years that ended on September 30, 2017 and 2016. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

2017

- Total operating revenues increased 2.4%. Current year changes impacting operating revenues include:
 - Demand for services remained consistent, as admissions and surgery cases demand fluctuated less than 1%.
 - In 2017, the number of patients seen at the Hospital with insurance exchange products increased 30.0%, with a correlating increase in payments. Coincidentally, the number of uninsured patients seen at the Hospital decreased.
 - Continuous improvement in the revenue cycle after implementation of a new electronic health records (EHR) system contributed to increased operating revenues. Management expanded the new system to all facilities during fiscal year 2017.
- Operating expenses increased 5.6%. Current year changes impacting operating expenses include:
 - Salaries, wages and employee benefits increased approximately 6.7%, due to preparations made to implement the new EHR system at the regional facilities and market and merit adjustments given at the end of fiscal year 2016 in order to attract and retain quality staff.
 - Medical supplies and other increased approximately 4.5%, due primarily to volume increases in pharmaceuticals and implants needed for surgical cases.

2016

- Total operating revenues increased 4.1%. Current year changes impacting operating revenues include:
 - Demand for services continued to improve, as reflected by increases in admissions and surgery cases by 1.5% and 2.8% respectively.

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- Even though the State of Mississippi has chosen not to expand Medicaid, 2016 saw reductions of 8.8% in uncollectible accounts due to increased efforts to lower the uninsured by way of the insurance exchange. However, management is monitoring the increased levels of patients with high deductibles for effects on future cash flows.
- Continuous improvement in the revenue cycle after implementation of a new EHR system contributed to increased operating revenues. Management plans to expand the new system to all facilities during fiscal year 2017.
- Operating expenses increased 4.6%. Current year changes impacting operating expenses include:
 - Salaries, wages and employee benefits increased approximately 3.1%, due to increased demand for services, as well as for preparations made to implement the new EHR system at the regional facilities. Market and merit adjustments were also given in order to attract and retain quality staff.
 - Medical supplies increased approximately 10.8%, due primarily to price increases in pharmaceuticals and implants needed for surgical cases. Contractual services increased approximately 3.3%, due to expansions of the Family Medicine Residency Program and physician clinics and the need for additional providers due to increased demand.
 - Provisions for medical liability claims increased by approximately 50%. However, plans are in place to monitor and reduce future risk and liability expenses.
 - These increases were offset, in part, by various expense decreases in other areas.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

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

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets, all

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liabilities and all deferred inflows and outflows of resources using the accrual basis of accounting. Using the accrual basis of accounting means that 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 Hospital's net position and changes in it. The Hospital's total net position—the difference between assets, liabilities and deferred inflows and outflows of resources—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of 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 and cash equivalents during the reporting period.

The Hospital's Net Position

The Hospital's net position is the difference between its assets, liabilities and deferred inflows and outflows of resources reported in the balance sheet. The Hospital's net position increased by approximately \$17,800,000 (4.2%) in 2017 over 2016, and by approximately \$36,700,000 (9.4%) in 2016 over 2015, as shown in Table A-1 and Table A-2.

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Table A-1
Condensed Balance Sheets (in millions of dollars)

	2017	2016	Dollar Change	Percentage Change
Assets and Deferred Outflows of Resources				
Cash and other current assets	\$ 139.5	\$ 144.1	\$ (4.6)	-3.2%
Patient accounts receivable, net	51.9	53.5	(1.6)	-3.0%
	<u>191.4</u>	<u>197.6</u>	<u>(6.2)</u>	<u>-3.1%</u>
Investments and other assets	253.1	237.3	15.8	6.7%
Capital assets	320.1	336.4	(16.3)	-4.8%
Deferred outflows of resources	8.1	17.0	(8.9)	-52.4%
	<u>8.1</u>	<u>17.0</u>	<u>(8.9)</u>	<u>-52.4%</u>
Total assets and deferred outflows of resources	<u>\$ 772.7</u>	<u>\$ 788.3</u>	<u>\$ (15.6)</u>	<u>-2.0%</u>
Liabilities and Deferred Inflows of Resources				
Current liabilities	\$ 67.4	\$ 71.1	\$ (3.7)	-5.2%
Long-term liabilities	257.5	286.8	(29.3)	-10.2%
Deferred inflows of resources	2.9	3.3	(0.4)	-12.1%
	<u>2.9</u>	<u>3.3</u>	<u>(0.4)</u>	<u>-12.1%</u>
Total liabilities and deferred inflows of resources	<u>327.8</u>	<u>361.2</u>	<u>(33.4)</u>	<u>-9.2%</u>
Net Position				
Net investment in capital assets	158.3	166.3	(8.0)	-4.8%
Unrestricted	286.6	260.8	25.8	9.9%
	<u>286.6</u>	<u>260.8</u>	<u>25.8</u>	<u>9.9%</u>
Total net position	<u>444.9</u>	<u>427.1</u>	<u>17.8</u>	<u>4.2%</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 772.7</u>	<u>\$ 788.3</u>	<u>\$ (15.6)</u>	<u>-2.0%</u>

Table A-1 above shows net cash and other current assets decreased by approximately \$4,600,000 from 2016 to 2017. This was the result of management's decision to contribute incremental monies into the Hospital's pension plan. Investments and other assets reflect an increase of approximately \$15,800,000 for the same time period. These changes are due primarily to current year operating results and revenue cycle management. Deferred outflows of resources decreased by approximately \$8,900,000, due primarily to differences between net investment gains on pension plan assets and assumed gains.

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Long-term liabilities decreased approximately \$29,300,000, due primarily to decreases in the net pension obligation (*Note 12*).

Table A-2
Condensed Balance Sheets (in millions of dollars)

	2016	2015	Dollar Change	Percentage Change
Assets and Deferred Outflows of Resources				
Cash and other current assets	\$ 144.1	\$ 126.7	\$ 17.4	13.7%
Patient accounts receivable, net	53.5	52.4	1.1	2.1%
	<u>197.6</u>	<u>179.1</u>	<u>18.5</u>	<u>10.3%</u>
Investments and other assets	237.3	223.9	13.4	6.0%
Capital assets	336.4	334.0	2.4	0.7%
Deferred outflows of resources	<u>17.0</u>	<u>7.9</u>	<u>9.1</u>	<u>115.2%</u>
Total assets and deferred outflows of resources	<u>\$ 788.3</u>	<u>\$ 744.9</u>	<u>\$ 43.4</u>	<u>5.8%</u>
Liabilities and Deferred Inflows of Resources				
Current liabilities	\$ 71.1	\$ 72.9	\$ (1.8)	-2.5%
Long-term liabilities	286.8	276.4	10.4	3.8%
Deferred inflows of resources	<u>3.3</u>	<u>5.2</u>	<u>(1.9)</u>	<u>-36.5%</u>
Total liabilities and deferred inflows of resources	<u>361.2</u>	<u>354.5</u>	<u>6.7</u>	<u>1.9%</u>
Net Position				
Net investment in capital assets	166.3	156.5	9.8	6.3%
Unrestricted	<u>260.8</u>	<u>233.9</u>	<u>26.9</u>	<u>11.5%</u>
Total net position	<u>427.1</u>	<u>390.4</u>	<u>36.7</u>	<u>9.4%</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 788.3</u>	<u>\$ 744.9</u>	<u>\$ 43.4</u>	<u>5.8%</u>

Table A-2 above shows net cash and other current assets increased by approximately \$17,400,000 from 2015 to 2016. Investments and other assets reflect an increase of approximately \$13,400,000 for the same time period. These are due primarily to 2016 operating results and revenue cycle management. Deferred outflows of resources increased by approximately \$9,100,000, due primarily to net investment gains on pension plan assets in excess of assumed gains.

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Long-term liabilities increased approximately \$10,400,000, due primarily to increases in the net pension obligation (*Note 12*) and deferred compensation arrangements (*Note 16*).

Table A-3
Condensed Statements of Revenues, Expenses and
Changes in Net Position (in millions of dollars)

	2017	2016	Dollar Change	Percentage Change
Operating Revenues				
Net patient service revenue	\$ 533.8	\$ 520.2	\$ 13.6	2.6%
Other	16.4	16.9	(0.5)	-3.0%
Total operating revenues	<u>550.2</u>	<u>537.1</u>	<u>13.1</u>	2.4%
Operating Expenses				
Salaries, wages and employee benefits	256.1	240.0	16.1	6.7%
Supplies and other expenses	234.8	224.7	10.1	4.5%
Depreciation and amortization	34.4	32.9	1.5	4.6%
Total operating expenses	<u>525.3</u>	<u>497.6</u>	<u>27.7</u>	5.6%
Operating Income	24.9	39.5	(14.6)	-37.0%
Nonoperating Revenues (Expenses), Net	<u>(7.1)</u>	<u>(2.8)</u>	<u>(4.3)</u>	153.6%
Increase in Net Position	17.8	36.7	(18.9)	-51.5%
Beginning Net Position	<u>427.1</u>	<u>390.4</u>	<u>36.7</u>	9.4%
Ending Net Position	<u>\$ 444.9</u>	<u>\$ 427.1</u>	<u>\$ 17.8</u>	4.2%

Table A-3 above shows net patient service revenue increased by approximately \$13,600,000 from 2016 to 2017. The change was primarily the result of an increase in overall patient volume and improved payer mix. Acute care admissions increased 0.9%, while emergency room visits increased 4.9%.

Salaries, wages and employee benefits increased \$16,100,000, due to increases in full-time equivalent employees related to volume and implementation of an EHR system at regional facilities, combined with pay increases for market and merit adjustments. Supplies, contractual services, repairs and maintenance, and other expenses increased by 4.5%, due primarily to increases in volume.

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Table A-4
Condensed Statements of Revenues, Expenses and
Changes in Net Position (in millions of dollars)

	2016	2015	Dollar Change	Percentage Change
Operating Revenues				
Net patient service revenue	\$ 520.2	\$ 500.7	\$ 19.5	3.9%
Other	16.9	15.1	1.8	11.9%
Total operating revenues	537.1	515.8	21.3	4.1%
Operating Expenses				
Salaries, wages and employee benefits	240.0	232.8	7.2	3.1%
Supplies and other expenses	224.7	210.5	14.2	6.7%
Depreciation and amortization	32.9	32.2	0.7	2.2%
Total operating expenses	497.6	475.5	22.1	4.6%
Operating Income	39.5	40.3	(0.8)	-2.0%
Nonoperating Revenues (Expenses), Net	(2.8)	(2.7)	(0.1)	3.7%
Increase in Net Position	36.7	37.6	(0.9)	-2.4%
Beginning Net Position	390.4	352.8	37.6	10.7%
Ending Net Position	\$ 427.1	\$ 390.4	\$ 36.7	9.4%

Table A-4 above shows net patient service revenue increased by approximately \$19,500,000 from 2015 to 2016. The change was primarily the result of an increase in overall patient volume. Acute care admissions increased 1.5%, while surgery cases increased 2.8%.

Salaries, wages and employee benefits increased \$7,200,000, due to volume related increases in full-time equivalent employees combined with pay increases for market and merit adjustments. Supplies, contractual services, repairs and maintenance, and other expenses increased by 6.7%, due primarily to increases in volume.

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Capital Assets and Debt Financing

Capital Assets

The Hospital's investment in a variety of net capital assets was approximately \$320,100,000 as of September 30, 2017 and approximately \$336,400,000 as of September 30, 2016, as shown in Table A-5 below.

Table A-5
Capital Assets (in millions of dollars)

	2017	2016	2015
Land and land improvements	\$ 30.9	\$ 30.0	\$ 29.9
Buildings	338.1	327.8	324.1
Furniture, fixtures and equipment	310.2	289.1	278.6
	<hr/>	<hr/>	<hr/>
Total capital assets	679.2	646.9	632.6
Accumulated depreciation	(365.7)	(338.3)	(313.1)
Construction in progress	6.6	27.8	14.5
	<hr/>	<hr/>	<hr/>
Capital assets, net	<u>\$ 320.1</u>	<u>\$ 336.4</u>	<u>\$ 334.0</u>

Debt Financing

During 2017, the Hospital entered into a line-of-credit with a bank (*Note 6*) and in 2016, the Hospital entered into one equipment note (*Note 4*).

For more detailed information regarding the Hospital's capital assets, debt financing and interest rate swap agreements, please refer to the notes to the financial statements that follow this section.

Next Year's Operating Plan

The Hospital's Board of Trustees adopted the fiscal year 2018 operating plan in August 2017. The operating plan for 2018 assumes that inpatient admissions will remain consistent with 2017. The plan includes an increase in net assets of approximately \$15,300,000.

Management continues to anticipate changes from the Patient Protection and Affordable Care Act (PPACA) legislation passed by Congress. Proposed changes call for reduction in payments to all hospitals for Medicare disproportionate share to help pay for proposed legislation. Other revenue reductions could come in the form of higher deductible plans, readmission penalties, Recovery Audit

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Contract (RAC) audits, value-based purchasing requirements, bundled payments, etc. Over the next 12 months, management will continue its focus on becoming more efficient with resources while striving to achieve the highest level of quality of care.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to Ben R. Hester, Chief Financial Officer, by telephone at (601) 288-2892.

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Balance Sheets

September 30, 2017 and 2016

Assets and Deferred Outflows of Resources

	2017	2016
Current Assets		
Cash and cash equivalents	\$ 117,867,317	\$ 124,852,185
Funds held by trustee for self-insurance funding – current	226,900	347,700
Patient accounts receivable, net of allowance for doubtful accounts of \$68,287,000 in 2017 and \$81,139,000 in 2016	51,931,072	53,452,669
Other receivables	6,530,187	4,697,103
Supplies	9,497,139	9,548,489
Prepaid expenses and other	5,344,669	4,673,618
Total current assets	191,397,284	197,571,764
Noncurrent Cash and Investments		
Funds held by trustee for self-insurance funding	4,632,012	3,166,142
Funds held by trustee under deferred fee agreement	65,042,349	56,816,453
Funds designated by the Board for discretionary purposes	176,628,189	174,549,265
	246,302,550	234,531,860
Capital Assets, Net	320,136,300	336,420,547
Other Assets	6,815,187	2,778,019
Deferred Outflows of Resources	8,087,568	17,024,731
Total assets and deferred outflows of resources	\$ 772,738,889	\$ 788,326,921

Liabilities, Deferred Inflows of Resources and Net Position

	2017	2016
Current Liabilities		
Current installments of long-term debt	\$ 3,028,913	\$ 6,816,148
Current installments of capital lease obligations	1,803,311	1,616,800
Line of credit	581,856	-
Accounts payable	24,093,813	21,376,796
Salaries and wages payable	11,445,259	10,771,516
Payroll taxes and withholdings	3,089,806	2,881,139
Due to third-party payers	11,083,545	13,538,871
Other accrued expenses	<u>12,316,034</u>	<u>14,125,685</u>
Total current liabilities	<u>67,442,537</u>	<u>71,126,955</u>
Long-term debt	131,179,173	134,806,945
Capital lease obligations	22,143,609	23,947,302
Fair value of interest rate swap	102,762	-
Workers' compensation and professional liability reserves	4,639,934	4,643,660
Net post-employment benefit obligation	5,142,535	4,325,705
Net pension liability	27,311,924	58,248,247
Deferred compensation	<u>66,891,998</u>	<u>60,839,760</u>
Total liabilities	<u>324,854,472</u>	<u>357,938,574</u>
Deferred Inflows of Resources	<u>2,977,157</u>	<u>3,288,483</u>
Net Position		
Net investment in capital assets	158,341,821	166,338,872
Unrestricted	<u>286,565,439</u>	<u>260,760,992</u>
Total net position	<u>444,907,260</u>	<u>427,099,864</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 772,738,889</u>	<u>\$ 788,326,921</u>

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Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts of \$61,365,000 in 2017 and \$107,692,000 in 2016	\$ 533,815,335	\$ 520,266,217
Other	<u>16,369,731</u>	<u>16,870,671</u>
Total operating revenues	<u>550,185,066</u>	<u>537,136,888</u>
Operating Expenses		
Salaries, wages and employee benefits	256,051,492	240,012,967
Supplies	112,623,765	106,159,453
Contractual services	76,221,159	74,390,092
Repairs, maintenance and other	33,819,415	31,587,203
Insurance	2,208,007	3,173,106
Lease and rentals	9,917,026	9,410,408
Depreciation and amortization	<u>34,425,763</u>	<u>32,863,166</u>
Total operating expenses	<u>525,266,627</u>	<u>497,596,395</u>
Operating Income	<u>24,918,439</u>	<u>39,540,493</u>
Nonoperating Revenues (Expenses)		
Net investment income	821,574	4,801,720
Interest expense	(7,534,610)	(7,545,612)
Noncapital grants and gifts received and other	695,819	682,879
Noncapital grants and gifts paid to others	(979,571)	(1,168,507)
Net gain (loss) on disposal of capital assets and other	<u>(114,255)</u>	<u>434,745</u>
Total nonoperating expenses	<u>(7,111,043)</u>	<u>(2,794,775)</u>
Increase in Net Position	17,807,396	36,745,718
Net Position, Beginning of Year	<u>427,099,864</u>	<u>390,354,146</u>
Net Position, End of Year	<u>\$ 444,907,260</u>	<u>\$ 427,099,864</u>

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Statements of Cash Flows

Years Ended September 30, 2017 and 2016

	2017	2016
Operating Activities		
Receipts from and on behalf of patients	\$ 529,640,619	\$ 526,849,380
Other cash received	16,099,605	14,267,624
Cash paid to suppliers and others	(235,635,430)	(224,529,697)
Cash paid to or on behalf of employees	(280,047,419)	(245,574,411)
Net cash provided by operating activities	30,057,375	71,012,896
Noncapital Financing Activities		
Noncapital grants and gifts received and other	741,794	786,595
Noncapital grants and gifts paid to others	(979,571)	(1,168,507)
Net cash used in noncapital financing activities	(237,777)	(381,912)
Capital and Related Financing Activities		
Proceeds from line of credit	581,856	-
Principal paid on long-term debt	(7,272,598)	(6,588,726)
Principal paid on capital lease obligations	(1,617,182)	(1,524,292)
Purchase of capital assets	(18,148,081)	(34,159,134)
Proceeds from sale of capital assets	79,302	714,529
Interest paid on long-term debt and capital lease obligations	(7,879,455)	(8,074,807)
Net cash used in capital and related financing activities	(34,256,158)	(49,632,430)
Investing Activities		
Interest and dividends on investments	4,880,476	4,644,050
Proceeds from sale of investments	25,818,861	33,941,748
Purchase of investments	(33,924,181)	(52,512,143)
Net cash used in investing activities	(3,224,844)	(13,926,345)
Increase (Decrease) in Cash and Cash Equivalents	(7,661,404)	7,072,209
Cash and Cash Equivalents, Beginning of Year	144,601,773	137,529,564
Cash and Cash Equivalents, End of Year	\$ 136,940,369	\$ 144,601,773

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Statements of Cash Flows (Continued)
Years Ended September 30, 2017 and 2016

	2017	2016
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 24,918,439	\$ 39,540,493
Items not requiring cash		
Depreciation and amortization	34,425,763	32,863,166
Provision for uncollectible accounts	61,364,807	107,692,189
Changes in		
Patient accounts receivable, net	(59,843,210)	(108,716,037)
Accounts payable and accrued liabilities	2,134,787	(4,532,074)
Amounts due to third-party payers	(2,455,326)	6,560,361
Net pension liability	(30,936,323)	10,425,849
Post-retirement benefit obligation	816,830	440,172
Other assets, deferred outflows, liabilities and deferred inflows	(368,392)	(13,261,223)
Net cash provided by operating activities	\$ 30,057,375	\$ 71,012,896
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 117,867,317	\$ 124,852,185
Cash and cash equivalents in funds internally designated and held by trustee for capital acquisition and deferred fee agreements	15,559,210	16,235,746
Cash and cash equivalents in funds held by trustee for self-insurance funding	3,513,842	3,513,842
Total cash and cash equivalents	\$ 136,940,369	\$ 144,601,773
Supplemental Cash Flows Information		
Capital asset purchases included in accounts payable	\$ 1,579,472	\$ 1,895,969
Equipment acquired through note payable	\$ -	\$ 1,047,981

Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)

Notes to Financial Statements September 30, 2017 and 2016

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Forrest County General Hospital (the Hospital) is an acute care hospital established by Forrest County, Mississippi (the County) as a special purpose government entity under Mississippi Code Section 41-13-15. The Hospital is owned by the County and per Mississippi statute is governed by a Board of Trustees appointed by the County Board of Supervisors. The Hospital is a component unit of Forrest County, Mississippi, as defined by Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. The Hospital's component unit relationship to the County is principally due to the Hospital's financial accountability to the County as defined in GASB Statement No. 61.

In addition to the Hattiesburg, Mississippi campus, the Hospital also operates the following locations:

- Highland Community Hospital (HCH), an acute care hospital located in Picayune, Mississippi, over which the Hospital obtained control on May 1, 2006;
- Walthall General Hospital (WGH), a critical access hospital located in Tylertown, Mississippi, over which the Hospital obtained control on October 1, 2010;
- Jefferson Davis General Hospital (JDGH), a critical access hospital located in Prentiss, Mississippi, over which the Hospital obtained control on July 1, 2011; and
- Marion General Hospital (MGH), a hospital located in Columbia, Mississippi, over which the Hospital obtained control on January 1, 2012.

The accompanying financial statements also include entities that are blended component units of the Hospital as defined by GASB Statement No. 61. Those entities are:

- AAA Ambulance Service, Inc. (AAA), a provider of medical and emergency transportation services;
- Forrest General Healthcare Foundation, Inc. (the Foundation), which raises funds for the benefit of the Hospital;
- South Mississippi Health Services, Inc., a property management organization;
- Forrest General Health Services, Inc., a management and consulting organization;
- Clean Earth, Inc., a waste removal organization;
- Forrest General Managed Care Services, Inc., which owns a physical hospital organization and managed care contracting entity; and
- Forrest General Occupational Medicine Services, Inc., which owns an occupational medicine provider.

Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)

Notes to Financial Statements September 30, 2017 and 2016

On August 1, 2015, the Hospital acquired the membership interest in Pointe Properties, LLC, an entity that owned the building in which the Hospital operated its Orthopedic Institute through a capital lease. The membership interest was acquired through the assumption of debt and a cash transfer.

All entities have the same fiscal year as the Hospital. All entities have been, with the exception of the Foundation, presented as a blended component unit because the Hospital is the sole corporate member of the entity or the entities are operated by the same, or substantially the same, governing board as the Hospital, and management of the Hospital has operational responsibility of the entities. The Foundation has been presented as a blended component unit because it is operated for the primary benefit of the Hospital. AAA issues separate audited financial statements, which can be obtained by writing to AAA Ambulance Service, Inc., 214 South 28th Avenue, Hattiesburg, Mississippi 39401, or calling (601) 264-5211. The Foundation also issues separate financial statements, which can be obtained from the Hospital's management.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions (principally federal and state grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated or voluntary nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific, property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, funds held in interest and noninterest-bearing checking accounts and all highly liquid investments with maturities at the time of purchase of three months or less.

Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)

Notes to Financial Statements September 30, 2017 and 2016

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method or market.

Risk Management

The Hospital 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 disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice at the Hospital's main and HCH campuses, workers' compensation at the Hospital's main campus and employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from medical malpractice, workers' compensation and employee health claims. Annual estimated provisions are accrued for the self-insured portion of these risks, which include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Designated Funds and Funds Held by Trustees

Designated funds and funds held by trustees include: (1) assets set aside by the Board of Trustees (currently for future plant replacement and expansion and deferred compensation arrangements) over which the Board of Trustees retains control and may, at its discretion, subsequently use for other purposes, (2) assets held by trustee under the self-insurance trust agreement and (3) assets held by trustee under the terms of a deferred fee agreement with Hattiesburg Clinic Professional Association.

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one-year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Forrest County General Hospital **(A Component Unit of Forrest County, Mississippi)**

Notes to Financial Statements **September 30, 2017 and 2016**

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Capital Assets

Capital assets are recorded at cost, if purchased or, if donated, at acquisition value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset using the straight-line method. Capital assets under capital lease obligations are amortized using the straight-line method over the shorter of the lease term, or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization expense in the accompanying financial statements. Major renewals and betterments are capitalized. Costs for repairs and maintenance are expensed when incurred. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and the gain or loss, if any, is included in nonoperating revenues (expenses) in the accompanying statements of revenues, expenses and changes in net position.

All capital assets other than land are depreciated or amortized (in the case of capital leases) using these asset lives:

Land improvements	10 – 20 years
Leasehold improvements	3 – 20 years
Buildings	10 – 40 years
Fixed equipment	5 – 20 years
Movable equipment	3 – 7 years
Automotive equipment	3 – 5 years

The Hospital recognizes the impairment of capital assets when events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined. If such assets are no longer used, they are reported at the lower of carrying value or fair value. If such assets will continue to be used, the impairment loss is measured using the method that best reflects the diminished utility of the capital assets. The restoration or replacement of an impaired capital asset is reported as a separate transaction from any associated insurance recovery. The impairment loss is reported net of the associated realized or realizable insurance recovery when the recovery and loss occur in the same year. Insurance recoveries reported in subsequent years are reported as other nonoperating revenue.

Compensated Absences

The Hospital's employees accumulate vacation, holiday and sick leave at varying rates depending upon their years of continuous service and their payroll classification, subject to maximum limitations. Upon termination of employment, employees are paid all unused accrued vacation and

Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)

Notes to Financial Statements September 30, 2017 and 2016

holiday time at their regular rate of pay up to a designated maximum number of days. Since the employees' vacation and holiday time both accumulate and vest, an accrual for this liability, plus an additional amount for compensation-related payments such as social security and Medicare taxes, are included in salaries and wages payable in the accompanying balance sheets.

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. At September 30, 2017 and 2016, deferred outflows of resources was comprised of approximately \$3,266,000 and \$3,746,000, respectively, related to a swap termination (*Note 4*) and approximately \$4,822,000 and \$13,279,000, respectively, related to the pension plan (*Note 12*). At September 30, 2017 and 2016, deferred inflows of resources was comprised of approximately \$2,785,000 and \$3,195,000, respectively, related to a gain on debt refunding (*Note 4*) and approximately \$192,000 and \$94,000, respectively, related to the pension plan (*Note 12*).

Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

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.

Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)

Notes to Financial Statements September 30, 2017 and 2016

Net Position

The Hospital's net position is classified into the components as shown below:

- Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by outstanding balances of any borrowings used to finance the purchase or construction of those assets and any unpaid capital asset related invoices.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

The Hospital had no material restricted net position at September 30, 2017 or 2016.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the American Recovery and Reinvestment Act of 2009, provides for one time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records (EHR) technology. For hospitals paid under the prospective payment system, payments under the Medicare program are generally made for up to four years based on a statutory formula. Critical access hospitals are eligible to receive incentive payments for up to four years under the Medicare program for its reasonable costs of the purchase of certified EHR technology multiplied by the hospital's Medicare utilization plus 20%, limited to 100% of the costs incurred. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). Payments under both programs are contingent on the Hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period.

The Hospital recognizes revenue under the grant accounting model using the cliff recognition approach for its hospitals paid under the prospective payment system. Under this approach, revenue is recognized once meaningful use status has been met for the full reporting period. For its critical access hospitals, the Hospital recognizes revenue over the life of the EHR asset once meaningful use requirements have been achieved.

The Hospital recognized revenue from these programs of approximately \$1,121,000 and \$2,976,000 for the years ended September 30, 2017 and 2016, respectively. This revenue is included as a component of other operating revenue in the accompanying statements of revenues, expenses and changes in net position.

The final amount for any payment year is determined based upon an audit by the administrative contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

**Forrest County General Hospital
(A Component Unit of Forrest County, Mississippi)**

**Notes to Financial Statements
September 30, 2017 and 2016**

Income Taxes

The Hospital is classified as a governmental entity under the laws of Mississippi and is exempt from income taxes, but also carries an exemption from income taxes under Internal Revenue Code Section 501(c)(3). South Mississippi Health Services, Inc., Forrest General Health Services, Inc., Forrest General Healthcare Foundation, Inc. and AAA Ambulance Service, Inc. are tax-exempt organizations under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3), whereby only unrelated business income is taxable. Forrest General Managed Care Services, Inc. and Forrest General Occupational Medicine Services, Inc. are nonprofit organizations subject to tax. Clean Earth, Inc. is subject to federal and state income taxes. Income taxes related to unrelated business income and the taxable entities are not significant to the Hospital.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Forrest County General Hospital Pension Plan (the Plan) and additions to and deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 presentation. The reclassifications had no effect on the changes in financial position.

**Forrest County General Hospital
(A Component Unit of Forrest County, Mississippi)**

**Notes to Financial Statements
September 30, 2017 and 2016**

Note 2: Deposits, Investments and Investment Income

The Hospital's deposits and investments are summarized below as of September 30, 2017 and 2016:

	2017	2016
Cash and cash equivalents	\$ 117,867,317	\$ 124,852,185
Designated funds and funds held by trustees		
Cash and cash equivalents	10,243,625	6,546,222
Money market mutual funds	8,829,427	13,203,366
U.S. agency securities	21,119,708	25,085,326
U.S. Treasury securities	200,895	2,485,241
State municipal securities	20,847,803	16,432,718
Open-end mutual funds	62,768,292	52,356,694
Corporate debt securities	37,146,699	33,209,954
Pooled investment securities	85,373,001	85,560,039
	246,529,450	234,879,560
	\$ 364,396,767	\$ 359,731,745

The Hospital is required to provide additional disclosures of investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk associated with cash deposits and investments. These disclosures are reflected below.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The Hospital's investment policy, which conforms to Mississippi state law, does not specifically limit investment in securities based on an NRSRO credit rating, but the policy does designate authorized investments by type. These authorized investments, within established guidelines, are limited to securities of the U.S. government or its agencies, U.S. government obligations, U.S. and Mississippi municipal bonds, interest-bearing accounts and certificates of deposits of financial institutions, open-end or closed-end management type investment company or investment trust and an investment trust consisting of pooled or commingled funds of other hospitals.

Unless there is information to the contrary, obligations of the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

Forrest County General Hospital
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Notes to Financial Statements
September 30, 2017 and 2016

A summary of cash and investments is as follows:

September 30, 2017	Fair Value	Percentage	Credit Rating
Cash and cash equivalents, operating funds	\$ 117,867,317	32.35%	Exempt from disclosure
Cash and cash equivalents, designated and held by trustee	10,243,625	2.81%	Exempt from disclosure
Money market mutual funds	8,829,427	2.42%	Aaa
U.S. agency securities	21,119,708	5.80%	Exempt from disclosure
U.S. Treasury securities	200,895	0.05%	Exempt from disclosure
State municipal securities	20,847,803	5.72%	Exempt from disclosure
Open-end mutual funds	62,768,292	17.23%	*
Corporate debt securities	37,146,699	10.19%	Aaa - A3
Pooled investment securities	<u>85,373,001</u>	<u>23.43%</u>	**
Total cash and investments	<u>\$ 364,396,767</u>	<u>100.00%</u>	

September 30, 2016	Fair Value	Percentage	Credit Rating
Cash and cash equivalents, operating funds	\$ 124,852,185	34.71%	Exempt from disclosure
Cash and cash equivalents, designated and held by trustee	6,546,222	1.82%	Exempt from disclosure
Money market mutual funds	13,203,366	3.67%	Aaa
U.S. agency securities	25,085,326	6.97%	Exempt from disclosure
U.S. Treasury securities	2,485,241	0.69%	Exempt from disclosure
State municipal securities	16,432,718	4.57%	Exempt from disclosure
Open-end mutual funds	52,356,694	14.55%	*
Corporate debt securities	33,209,954	9.23%	Aaa - A3
Pooled investment securities	<u>85,560,039</u>	<u>23.79%</u>	**
Total cash and investments	<u>\$ 359,731,745</u>	<u>100.00%</u>	

* The open-end mutual funds primarily represent funds that the Hospital holds on behalf of Hattiesburg Clinic Professional Association (HCPA) for certain deferred fees as part of a 457(f) plan. The Hospital does not make investment decisions on these funds, and the entirety of the funds is due to HCPA. Mutual funds included in board designated accounts totaled \$4,198,774 and \$3,274,762 at September 30, 2017 and 2016, respectively.

** The pooled investment securities represent the Hospital's investment in the Mississippi Hospital Association investment pool. Although open to all hospitals, the pool is structured to comply with the provisions of Section 27-105-365 of the Mississippi Code Annotated (1972), which establishes guidelines for depository and investment activity for all county and municipal hospital funds. Accordingly, the pooled investment securities are limited to U.S. government and U.S. agencies, certain investment and trust funds and commercial paper and corporate notes and bonds that have an "A" rating or better.

Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)

Notes to Financial Statements September 30, 2017 and 2016

Concentration of Credit Risk

The Hospital's investment policy, in accordance with state statute, restricts investments in U.S. agencies to 50% of total investments. Investments in open-end and closed-end management type investment companies and investment trusts are limited to 20% of total investments.

Concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer (an investment that represents more than 5% of the market value of the total investment portfolio). At September 30, 2017, approximately 12% and 5% of the Hospital's investment portfolio concentrations (exclusive of funds held for HCPA or designated for deferred compensation arrangements) was invested in bonds of the State of Mississippi and Federal National Mortgage Association, respectively. At September 30, 2016, approximately 6% and 9% of the Hospital's investment portfolio concentrations (exclusive of funds held for HCPA or designated for deferred compensation arrangements) was invested in bonds of the Federal Home Loan Bank and State of Mississippi, respectively.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Hospital will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The Hospital's formal investment policy is governed by and in conformity with Section 27-105-365 of the Mississippi Code Annotated (1972), which establishes guidelines for depository and investment activity:

- In accordance with statutes of the state of Mississippi, the Hospital maintains its deposits at financial institutions authorized by the Board of Trustees.
- The collateral for public entity deposits in financial institutions is held in the name of the State Treasurer of Mississippi under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 of the Mississippi Code Annotated (1972). Under this program, the Hospital'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 these deposits.

Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)

Notes to Financial Statements September 30, 2017 and 2016

- In the event of a financial institution's failure, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Commission (FDIC).

Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. At September 30, 2017 and 2016, deposits and investments requiring custodial credit risk disclosure totaled approximately \$175,562,000 and \$173,107,000, respectively, all of which were insured or collateralized in accordance with state statute.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates and will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates.

Interest rate risk inherent in the portfolio is measured by monitoring the segmented time distribution of the investments in the portfolio.

The following is a summary of the Hospital's segmented time distribution investment maturities in years by investment type as of September 30, 2017 and 2016.

September 30, 2017	Fair Value	Years			
		< 1	1 – 5	6 – 10	More than 10
U.S. agency securities	\$ 21,119,708	\$ 324,603	\$ 15,092,818	\$ 5,702,287	\$ -
U.S. Treasury securities	200,895	-	200,895	-	-
State municipal securities	20,847,803	872,170	17,740,829	2,234,804	-
Corporate debt securities	37,146,699	2,449,596	17,801,138	16,895,965	-
	<u>\$ 79,315,105</u>	<u>\$ 3,646,369</u>	<u>\$ 50,835,680</u>	<u>\$ 24,833,056</u>	<u>\$ -</u>

September 30, 2016	Fair Value	Years			
		< 1	1 – 5	6 – 10	More than 10
U.S. agency securities	\$ 25,085,326	\$ 1,700,579	\$ 15,868,830	\$ 7,515,917	\$ -
U.S. Treasury securities	2,485,241	-	2,485,241	-	-
State municipal securities	16,432,718	1,010,215	12,091,855	3,330,648	-
Corporate debt securities	33,209,954	7,459,459	11,655,974	14,094,521	-
	<u>\$ 77,213,239</u>	<u>\$ 10,170,253</u>	<u>\$ 42,101,900</u>	<u>\$ 24,941,086</u>	<u>\$ -</u>

The Hospital holds investments on behalf of HCPA related to certain fees paid to HCPA and its members that are deferred according to the terms of a deferred fee agreement, as amended April 1, 2005. The investments are held under a deferred fee trust agreement (trust agreement) dated April 1, 2005. Fidelity Management Trust Company is the trustee under an agreement with the Hospital and HCPA. The deferred compensation plan was established as a 457(f) plan.

Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)

Notes to Financial Statements September 30, 2017 and 2016

The intent of the trust agreement is to provide for the deferred payment by the Hospital to HCPA of certain fees earned by HCPA for services rendered to the Hospital and to be the nonprofit vehicle through which related investments are held on behalf of HCPA. The Hospital is liable to HCPA for the entirety of the investment.

The Hospital makes no management decisions on how and where the funds are invested. HCPA directs the Hospital as to how deferral amounts are to be invested. The corpus and income of the grantor trust are considered to be owned by the Hospital for income tax purposes through the 457(f) plan. In all other respects, the corpus and income of the grantor trust are considered by the Hospital to be fully due to HCPA.

The Hospital only funds the amount of deferred fees as determined by HCPA. The only participants in the 457(f) plan are HCPA employees. Hospital employees do not participate in the 457(f) plan. As noted previously, the Hospital holds these investments with Fidelity Management Trust Company under the trust agreement. The types of investments are:

- Money market mutual funds
- Fixed income mutual funds
- Equity mutual funds

Currently, the amount of the deferred fees that the Hospital deposits on behalf of HCPA in the trust account for the deferred compensation plan is \$248,600 per month. Periodically, usually in January, HCPA notifies the Hospital of the deferral amount based on the enrollment of HCPA physicians. In 2017, this amount was modified by notification from HCPA.

At September 30, 2017 and 2016, the fair value of the assets held under the trust agreement for the 457(f) plan and the corresponding liability was approximately \$65,042,000 and \$56,817,000, respectively. The amounts have been reflected on the accompanying balance sheets.

Investment Income

Investment income for the years ended September 30, 2017 and 2016 consisted of:

	2017	2016
Interest and dividend income	\$ 4,710,197	\$ 4,447,576
Realized losses on investments	(1,692,702)	(601,669)
Unrealized gains (losses) on investments	(2,195,921)	955,813
	\$ 821,574	\$ 4,801,720

Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)

Notes to Financial Statements September 30, 2017 and 2016

Note 3: Capital Assets

Capital assets and related activity for the year ended September 30, 2017, consist of the items shown below.

	Balance October 1, 2016	Transfers in and Additions	Transfers Out and Retirements	Balance September 30, 2017
Capital assets not being depreciated				
Land	\$ 15,970,830	\$ -	\$ -	\$ 15,970,830
Construction in progress	<u>27,787,965</u>	<u>9,415,791</u>	<u>(30,641,674)</u>	<u>6,562,082</u>
Total book value of capital assets not being depreciated	<u>43,758,795</u>	<u>9,415,791</u>	<u>(30,641,674)</u>	<u>22,532,912</u>
Capital assets being depreciated				
Land improvements	14,072,983	883,229	-	14,956,212
Leasehold improvements	4,110,235	1,067,424	(40,651)	5,137,008
Buildings	327,844,998	10,292,753	(10,067)	338,127,684
Fixed equipment	45,238,992	3,561,620	(11,455)	48,789,157
Movable equipment	236,084,247	23,433,331	(6,866,631)	252,650,947
Automotive equipment	<u>3,602,415</u>	<u>207,445</u>	<u>(203,799)</u>	<u>3,606,061</u>
Total book value of capital assets being depreciated	<u>630,953,870</u>	<u>39,445,802</u>	<u>(7,132,603)</u>	<u>663,267,069</u>
Less accumulated depreciation for				
Land improvements	7,698,872	781,383	-	8,480,255
Leasehold improvements	2,083,482	618,603	(34,141)	2,667,944
Buildings	151,668,811	12,057,976	(2,689)	163,724,098
Fixed equipment	20,073,625	2,606,402	(1,146)	22,678,881
Movable equipment	153,907,541	18,049,768	(6,815,377)	165,141,932
Automotive equipment	<u>2,859,787</u>	<u>311,631</u>	<u>(200,847)</u>	<u>2,970,571</u>
Total accumulated depreciation	<u>338,292,118</u>	<u>34,425,763</u>	<u>(7,054,200)</u>	<u>365,663,681</u>
Capital assets, being depreciated, net	<u>292,661,752</u>	<u>5,020,039</u>	<u>(78,403)</u>	<u>297,603,388</u>
Capital assets, net	<u>\$ 336,420,547</u>	<u>\$ 14,435,830</u>	<u>\$ (30,720,077)</u>	<u>\$ 320,136,300</u>

**Forrest County General Hospital
(A Component Unit of Forrest County, Mississippi)**

**Notes to Financial Statements
September 30, 2017 and 2016**

Capital assets and related activity for the year ended September 30, 2016, consist of the items shown below.

	Balance October 1, 2015	Transfers in and Additions	Transfers Out and Retirements	Balance September 30, 2016
Capital assets not being depreciated				
Land	\$ 15,866,645	\$ 104,185	\$ -	\$ 15,970,830
Construction in progress	14,500,943	14,837,499	(1,550,477)	27,787,965
	<u>30,367,588</u>	<u>14,941,684</u>	<u>(1,550,477)</u>	<u>43,758,795</u>
Total book value of capital assets not being depreciated				
Capital assets being depreciated				
Land improvements	14,072,983	-	-	14,072,983
Leasehold improvements	4,037,338	72,897	-	4,110,235
Buildings	324,058,241	3,786,757	-	327,844,998
Fixed equipment	44,074,490	1,177,619	(13,117)	45,238,992
Movable equipment	227,225,555	16,359,108	(7,500,416)	236,084,247
Automotive equipment	3,294,585	479,736	(171,906)	3,602,415
	<u>616,763,192</u>	<u>21,876,117</u>	<u>(7,685,439)</u>	<u>630,953,870</u>
Total book value of capital assets being depreciated				
Less accumulated depreciation for				
Land improvements	6,946,523	752,349	-	7,698,872
Leasehold improvements	1,472,644	623,892	(13,054)	2,083,482
Buildings	139,829,254	11,839,557	-	151,668,811
Fixed equipment	17,632,687	2,454,055	(13,117)	20,073,625
Movable equipment	144,572,604	16,829,425	(7,494,488)	153,907,541
Automotive equipment	2,647,971	363,888	(152,072)	2,859,787
	<u>313,101,683</u>	<u>32,863,166</u>	<u>(7,672,731)</u>	<u>338,292,118</u>
Total accumulated depreciation				
Capital assets, being depreciated, net	<u>303,661,509</u>	<u>(10,987,049)</u>	<u>(12,708)</u>	<u>292,661,752</u>
Capital assets, net	<u>\$ 334,029,097</u>	<u>\$ 3,954,635</u>	<u>\$ (1,563,185)</u>	<u>\$ 336,420,547</u>

Construction in progress at September 30, 2017, consists of expenditures associated with renovation of acute care areas of the main facility and replacement of plant and information technology infrastructure.

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Note 4: Long-term Debt

A summary of long-term obligation transactions for the Hospital for the years ended September 30, 2017 and 2016 follows.

Description	Balance October 1, 2016	Additions	Retired	Amortization	Balance September 30, 2017	Due Within One Year
Series 2009 (A)	\$ 35,995,000	\$ -	\$ 1,850,000	\$ -	\$ 34,145,000	\$ 1,945,000
Pike National Bank (B)	18,563	-	18,563	-	-	-
Series 2010 (C)	70,000,000	-	-	-	70,000,000	-
BancorpSouth (D)	503,424	-	503,424	-	-	-
BancorpSouth (E)	4,000,000	-	4,000,000	-	-	-
Mercy Loan Note A (F)	14,705,195	-	-	-	14,705,195	343,465
Mercy Loan Note B (G)	4,694,805	-	-	-	4,694,805	159,162
ECD Note A (H)	7,225,257	-	-	-	7,225,257	168,758
ECD Note B (I)	1,549,743	-	-	-	1,549,743	52,539
GO Zone Revenue Bond (J)	847,489	-	673,640	-	173,849	173,849
Equipment Note (K)	40,831	-	40,831	-	-	-
Zoll Equipment Note (L)	930,700	-	186,140	-	744,560	186,140
Unamortized Bond Premium	1,112,086	-	-	(142,409)	969,677	-
	<u>\$ 141,623,093</u>	<u>\$ -</u>	<u>\$ 7,272,598</u>	<u>\$ (142,409)</u>	<u>\$ 134,208,086</u>	<u>\$ 3,028,913</u>

Description	Balance October 1, 2015	Additions	Retired	Amortization	Balance September 30, 2016	Due Within One Year
Series 2009 (A)	\$ 37,750,000	\$ -	\$ 1,755,000	\$ -	\$ 35,995,000	\$ 1,850,000
Pike National Bank (B)	36,286	-	17,723	-	18,563	18,563
Series 2010 (C)	70,000,000	-	-	-	70,000,000	-
BancorpSouth (D)	548,641	-	45,217	-	503,424	46,974
BancorpSouth (E)	8,000,000	-	4,000,000	-	4,000,000	4,000,000
Mercy Loan Note A (F)	14,705,195	-	-	-	14,705,195	-
Mercy Loan Note B (G)	4,694,805	-	-	-	4,694,805	-
ECD Note A (H)	7,225,257	-	-	-	7,225,257	-
ECD Note B (I)	1,522,498	27,245	-	-	1,549,743	-
GO Zone Revenue Bond (J)	1,487,408	-	639,919	-	847,489	673,640
Equipment Note (K)	81,662	-	40,831	-	40,831	40,831
Zoll Equipment Note (L)	-	1,020,736	90,036	-	930,700	186,140
Unamortized Bond Premium	1,262,009	-	-	(149,923)	1,112,086	-
	<u>\$ 147,313,761</u>	<u>\$ 1,047,981</u>	<u>\$ 6,588,726</u>	<u>\$ (149,923)</u>	<u>\$ 141,623,093</u>	<u>\$ 6,816,148</u>

Revenue Bonds Payable, Revenue Funding Bond and Promissory Note

- (A) Series 2009 Revenue Refunding Bonds, bearing interest at 5.25%; collateralized by Hospital revenues; due on January 1, 2030.
- (B) Promissory note, bearing interest at 4.35%; collateralized by various real property; matured on September 15, 2017.

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- (C) Series 2010 Build America Revenue Bonds; bearing interest at 7.265% to 7.390%; collateralized by Hospital revenue; due on January 1, 2040.
- (D) Promissory note, bearing interest at 3.66%; collateralized by various real property; due on November 15, 2018. This note was paid in full in September 2017.
- (E) Promissory note, bearing interest at 1.66% below prime rate as published in *The Wall Street Journal*; collateralized by various equipment. This note was paid in full in September 2017.
- (F) Promissory note dated December 28, 2010, bearing interest at 4.91%; collateralized by real property; due from February 5, 2018 to January 5, 2036. On the 10th and 20th anniversary of the note, the interest rate will adjust to a rate that is based on a U.S. Treasury rate plus a fixed percentage.
- (G) Promissory note, bearing interest at 1.00%; collateralized by real property; due from February 5, 2018 to January 5, 2036.
- (H) Promissory note dated December 28, 2010, bearing interest at 4.91%; collateralized by real property; due from February 5, 2018 to January 5, 2036. On the 10th and 20th anniversary of the note, the interest rate will adjust to a rate that is based on a U.S. Treasury rate plus a fixed percentage.
- (I) Promissory note, bearing interest at 1.00%; collateralized by real property; due from February 5, 2018 to January 5, 2036.
- (J) Series 2010B Gulf Opportunity Zone Revenue Bond, bearing interest at 5.05%; collateralized by real property; due from January 15, 2013 to December 15, 2017.
- (K) Promissory note, bearing interest at 0%; collateralized by equipment. This note was paid in full in July 2017.
- (L) Note payable to vendor for equipment, due in equal annual installments of \$206,736; which includes an interest rate of 11% through November 1, 2020.

Promissory notes F through I and the Series 2010B Gulf Opportunity Zone Revenue Bond were assumed through the acquisition of Pointe Properties, LLC, discussed in *Note 1*. This debt was originally issued as part of an integrated financing structure developed under the New Market Tax Credit (NMTC) program pursuant to Section 45D of the Internal Revenue Code and the regulations, compliance and reporting requirements thereunder.

In January 2018, through the NMTC structure, the holder of Notes G and I has the ability to effectively put its interest in the notes to the Hospital, who will have the ability to forgive the debt.

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On September 20, 2012, the Hospital issued a promissory note in the amount of \$20,000,000 to BancorpSouth. The note proceeds were used to fund facility capital equipment purchases and was paid off during the current fiscal year.

On November 17, 2010, the Hospital issued \$70,000,000 of fixed rate revenue bonds (the Series 2010 Bonds) through Mississippi Hospital Equipment and Facilities Authority (MHEFA). The Series 2010 Bond proceeds were used to fund campus renovations and equipment purchases, as well as construction of a replacement hospital facility for Highland Community Hospital in Picayune, Mississippi. The Series 2010 Bonds may be redeemed at the option of the Hospital on any date on or after January 1, 2020, at a redemption price of par plus accrued interest to the redemption date.

The Series 2010 Bonds were issued as Direct Payment Build America Bonds (BABs) for the purposes of the American Recovery and Reinvestment Act of 2009 (the Act), and the Hospital expects to receive a cash subsidy payment from the United States Treasury pursuant to the Act equal to 35% of the interest payable on the Series 2010 Bonds on or about each interest payment date. As a result of federal sequestration, the cash subsidy was reduced by approximately 6.9% in 2017.

On November 18, 2010, AAA Ambulance Service, Inc. issued a promissory note in the amount of \$735,000 through BancorpSouth. The note proceeds were used to fund facility construction for AAA Ambulance Service, Inc. This promissory note was paid in full during fiscal year 2017.

On October 15, 2009, the Hospital issued \$43,670,000 of fixed rate revenue refunding bonds (the Series 2009 Bonds) through MHEFA. The Series 2009 Bond proceeds were used to refund all amounts outstanding under the Series 2007A variable rate revenue bonds (Series 2007A Bonds) and included a premium of \$2,283,000. The owner of the Series 2007A Bonds agreed to accept \$37,528,000 for settlement of the outstanding bonds with a par amount of \$45,555,000. The economic gain (generally defined as the present value of the net cash flow differential discounted at the effective interest rate of the new debt) on the refunding transaction totaled approximately \$6,250,000. The Series 2009 Bonds may be redeemed at the option of the Hospital on any date on or after January 1, 2020, at a redemption price of par plus accrued interest to the redemption date. The Hospital recognized a gain on the refunding of the Series 2007A Bonds, which is being recognized over the term of the Series 2009 Bonds. The unamortized gain was \$2,785,540 and \$3,194,630 at September 30, 2017 and 2016, respectively, and is included in the balance sheets as a deferred inflow of resources.

Upon the issuance of the Series 2009 Bonds, there was also a termination of a cost of funds swap (*Note 8*). The termination payment of \$7,690,000 has been deferred and is being amortized over the term of the Series 2009 Bonds. The unamortized loss on the swap termination was \$3,265,860 and \$3,745,491 at September 30, 2017 and 2016, respectively, and is included in the balance sheets as a deferred outflow of resources.

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The loan agreements for the Series 2010 Bonds and Series 2009 Bonds contain certain terms and restrictive covenants typical of such agreements, including maintenance of certain debt service coverage and liquidity levels and limitations on additional indebtedness.

Debt service requirements associated with the Hospital's long-term debt are shown below. Interest payments included in this table do not include the interest subsidy from the BABs discussed previously.

<u>Years Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 3,028,913	\$ 8,061,082	\$ 11,089,995
2019	3,350,609	7,903,569	11,254,178
2020	3,496,717	7,750,154	11,246,871
2021	3,660,457	7,588,891	11,249,348
2022	3,642,571	7,398,615	11,041,186
2023 - 2027	20,594,493	34,172,445	54,766,938
2028 - 2032	34,122,688	26,823,014	60,945,702
2033 - 2037	38,966,961	14,320,379	53,287,340
2038 - 2040	22,375,000	2,118,621	24,493,621
	<u>\$ 133,238,409</u>	<u>\$ 116,136,770</u>	<u>\$ 249,375,179</u>

Note 5: Capital Leases

During 2012, the Hospital entered into the capital lease of a parking facility on the main campus in Hattiesburg with Eagle Parking & Development, LLC. A summary of the obligation follows.

<u>Eagle Parking & Development, LLC</u>	<u>Monthly Payment</u>	<u>Interest</u>	<u>Final Payment</u>
1 year	\$ 133,634	5.91%	June 2013
2 - 7 years	131,403	5.91%	June 2019
8 - 15 years	116,630	5.91%	June 2027

During 2012, the Hospital entered into the capital lease of a facility which houses the Orthopedic Institute, a freestanding inpatient orthopedic hospital and surgery facility in Hattiesburg, Mississippi, with Pointe Properties, LLC.

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During 2009, the Hospital entered into a capital lease of a building with Twenty-Eighth Place, LLC, which houses various administrative and support departments of the Hospital. A summary of the obligation follows.

Twenty-Eighth Place, LLC	Monthly Payment	Interest	Final Payment
1 - 5 years	\$ 113,580	5.85%	February 2013
6 - 10 years	124,938	5.85%	February 2018
11 - 15 years	137,432	5.85%	February 2023
16 - 20 years	151,175	5.85%	February 2028

The Hospital's scheduled payments on capital lease obligations follow:

	Principal	Interest	Total
2018	\$ 1,803,311	\$ 1,360,244	\$ 3,163,555
2019	1,933,023	1,248,681	3,181,704
2020	1,912,188	1,136,555	3,048,743
2021	2,027,676	1,021,067	3,048,743
2022	2,150,140	898,603	3,048,743
2023 - 2027	13,375,635	2,274,068	15,649,703
2028	744,947	10,930	755,877
	<u>\$ 23,946,920</u>	<u>\$ 7,950,148</u>	<u>\$ 31,897,068</u>

A schedule of changes in the Hospital's capital lease obligation balances for 2017 and 2016 follows.

Description	Interest Rate	Date of Issuance/ Assumption	Balance October 1, 2016	Additions	Payments/ Adjustments	Balance September 30, 2017	Due Within One Year
Parking garage	5.91%	July 2012	\$ 11,565,484	\$ -	\$ 918,299	\$ 10,647,185	\$ 973,683
Support services building	5.85%	March 2008	13,998,618	-	698,883	13,299,735	829,628
			<u>\$ 25,564,102</u>	<u>\$ -</u>	<u>\$ 1,617,182</u>	<u>\$ 23,946,920</u>	<u>\$ 1,803,311</u>

Description	Interest Rate	Date of Issuance/ Assumption	Balance October 1, 2015	Additions	Payments	Balance September 30, 2016	Due Within One Year
Parking garage	5.91%	July 2012	\$ 12,430,511	\$ -	\$ 865,027	\$ 11,565,484	\$ 917,917
Support services building	5.85%	March 2008	14,657,883	-	659,265	13,998,618	698,883
			<u>\$ 27,088,394</u>	<u>\$ -</u>	<u>\$ 1,524,292</u>	<u>\$ 25,564,102</u>	<u>\$ 1,616,800</u>

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Capital assets totaling approximately \$33,889,000 at both September 30, 2017 and 2016, are related to the above capital lease obligations. Related accumulated amortization was approximately \$14,187,000 and \$12,228,000 at September 30, 2017 and 2016, respectively.

Note 6: Line of Credit

On September 6, 2017, AAA Ambulance Service, Inc. obtained a line of credit from a bank with maximum available funds of \$1,160,000. The amount payable to the bank is \$581,856 at September 30, 2017, due on September 6, 2018. The proceeds were used to fund facility construction for AAA Ambulance Service, Inc.

Note 7: Other Accrued Expenses

Other accrued expenses consist of the following:

	2017	2016
Patient credit balances	\$ 4,677,722	\$ 6,091,353
Reserve for incurred but not reported employee health claims	1,792,000	1,575,000
Workers' compensation and professional liability reserves	1,406,900	937,700
Advanced revenue	862,101	955,665
Accrued interest expense	1,958,464	1,986,978
Construction retainage	74,976	598,522
Other	1,543,871	1,980,467
	\$ 12,316,034	\$ 14,125,685

Note 8: Interest Rate Swap Agreements

Accounting principles generally accepted in the United States of America (GAAP) require the Hospital to recognize the fair value of a derivative instrument on its balance sheets. The change in fair value is either recorded as a deferred amount on the Hospital's balance sheets (if the derivative agreement qualifies for hedge accounting) or as a component of investment income on the accompanying statements of revenues, expenses and changes in net position.

The Hospital entered into two interest rate swap agreements in June 2007. The Hospital accounted for a cost of funds swap as a hedging derivative instrument and accounts for a basis swap as an investment derivative. The terms of the swaps are more fully described below.

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The changes in fair value of the basis swap is shown in the following table.

	Basis Swap
Fair value, September 30, 2015	\$ 103,455
Change in fair value	(24,399)
Fair value, September 30, 2016	79,056
Change in fair value	(181,818)
Fair value, September 30, 2017	\$ (102,762)

The cost of funds swap was terminated in conjunction with the issuance of the Series 2009 Bonds. The termination payment of \$7,690,000 has been deferred and is being amortized as discussed in *Note 4*. At September 30, 2017 and 2016, only the basis swap remained in effect.

The fair value of the basis swap was estimated by the counterparty, which uses a proprietary pricing model to compute the fair value.

- **Objective of the Interest Rate Swaps** – While the Hospital’s long-term debt at September 30, 2017 and 2016, is a fixed rate, the Hospital’s asset/liability strategy in the past has included a mixture of fixed and variable rate debt to take advantage of market fluctuations. As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations and to lower its borrowing costs when compared against fixed rate debt at the time of issuance, the Hospital utilized two interest rate swap agreements to convert its variable rate debt exposure to a fixed rate for the retired Series 2007A revenue bonds. The intention of the terminated cost of funds swap was to effectively change the Hospital’s variable interest rate on this note to a synthetic fixed rate of 5.02%. The intention of the basis swap was to provide additional interest rate savings over time.
- **Terms** – The basis swap agreement matures on January 1, 2030. The basis swap includes an amortizing notional amount through January 1, 2030. The notional amount was \$35,545,000 and \$37,455,000 at September 30, 2017 and 2016, respectively. The swaps were entered into at the same time the bonds were issued (June 2007). The swaps were comprised of the cost of funds swap, which was terminated in the 2009 refunding issue and a basis swap. Under the basis swap, the Hospital pays the counterparty a variable payment computed at the Securities Industry and Financial Market Association (SIFMA) Swap Index and receives a variable payment computed as 67% of one-month LIBOR plus 24 basis points.

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- **Credit Risk** – The Hospital is exposed to credit risk on the amount of the derivative’s fair value. The swap’s counterparty was rated A+ by Standard & Poor’s and Fitch as of September 30, 2017.
- **Interest Rate Risk** – The cost of funds swap exposed the Hospital to interest rate risk prior to its termination. As LIBOR increased, the aggregate payments under the swap increased. However, the interest payments on the hedged 2007 revenue bonds also decreased by a corresponding amount.
- **Basis Risk** – The Hospital is exposed to basis risk on the basis swap because the variable rate payments received by the Hospital are based on a different index than the benchmark interest rate used to determine the Hospital’s payments on the swap. As of September 30, 2017, the SIFMA rate, which is paid to the counterparty by the Hospital, was 0.94%, whereas 67.00% of one-month LIBOR plus 24 basis points (which is received by the Hospital) was 1.07%.
- **Termination Risk** – The derivative contracts use the International Swaps and Derivatives Association, Inc. Master Agreement, which includes standard termination events, such as failure to pay, failure to perform under the terms of the contract and bankruptcy. The swaps may be terminated by the Hospital if the counterparty’s credit quality rating falls below a rating “Baa3” by Moody’s Investors Service or “BBB” by Standard & Poor’s. If, at the time of termination, the basis swap has a negative fair value, the Hospital would be liable to the counterparty for a payment equal to the swap’s fair value.
- **Swap Payments** – Using rates as of September 30, 2017, future net receipts under the basis swap are as follows:

2017	\$	80,775
2018		75,495
2019		69,941
2020		64,091
2021		57,932
2022 - 2026		188,467
2027 - 2030		21,682
		21,682
	\$	558,383

As rates fluctuate, payments under the basis swap will vary.

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Note 9: Operating Leases

The Hospital, as a lessee, leases certain property from other outside parties. Rent expense under all operating leases was approximately \$9,917,000 and \$9,410,000 in 2017 and 2016, respectively.

Note 10: Net Patient Service Revenue

The Hospital has agreements with governmental and other third-party payers that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at established rates for services and amounts reimbursed by third-party payers. A summary of the basis for reimbursement with major third-party payers follows.

- **Medicare** – Substantially all acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic and other factors. Certain other Medicare reimbursement items are paid based on other retroactive-determination methodologies. WGH and JDGH are classified as critical access hospitals and are reimbursed based on the reasonable costs of providing care to Medicare program beneficiaries. MGH is not classified as a critical access hospital, but is receiving payments based on reasonable costs through the Rural Community Hospital Demonstration Project. The demonstration project ends on October 1, 2021. The Hospital is reimbursed for retroactively determined items at tentative rates, with final settlement determined after submission of annual cost reports by the Hospital and audits by the Medicare fiscal intermediary. Revenue from the Medicare program accounted for approximately 43% and 42% of the Hospital's net patient service revenue for the years ended September 30, 2017 and 2016, respectively.
- **Medicaid** – Inpatient and certain outpatient services rendered to Medicaid program beneficiaries are generally paid based upon prospective reimbursement methodologies established by the state of Mississippi. Inpatient services are reimbursed using a prospective-payment system based on All Patient Refined Diagnosis Related Groups (APR-DRG). Outpatient services are reimbursed using an Ambulatory Payment Classification (APC) methodology, similar to the Medicare payment model. The Hospital is reimbursed for retroactively determined items at tentative rates, with final settlement determined after submission of annual cost reports by the Hospital and audits by the state of Mississippi Medicaid Program.

Revenue from the Medicaid program accounted for approximately 22% of the Hospital's net patient service revenue for both years ended September 30, 2017 and 2016. This includes revenue from the programs described below.

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Prior to July 1, 2015, the state of Mississippi operated the Medicaid Upper Payment Limit (UPL) program for providers participating in the state Medicaid program. Beginning July 1, 2015, UPL payments were phased out, and the Division of Medicaid (DOM) implemented the Mississippi Hospital Access Payment (MHAP) program in its place. The program is administered by DOM through the Mississippi CAN coordinated care organizations (CCO). The CCO subcontracts with hospitals throughout the state for distribution of the MHAP for the purpose of protecting patient access to hospital care. The net benefit for the Hospital associated with the MHAP program was \$22,503,000 and \$21,296,000 for the years ended September 30, 2017 and 2016, respectively.

The Hospital also participates in a voluntary disproportionate share program available to certain qualifying hospitals in the state Medicaid program. The net program benefit for the Hospital of approximately \$7,254,000 and \$6,699,000 for 2017 and 2016, respectively, is recognized as net patient service revenue in the accompanying statements of revenues, expenses and changes in net position.

The Hospital has received notices from DOM of audits of cost reports from prior years, which were used to set reimbursement rates in subsequent fiscal years. The Hospital has retained counsel and stated its opposition to the audit to DOM. The Hospital estimated and recorded a payable to reflect liability for related potential claims of approximately \$1,531,000 and \$2,817,000 as of September 30, 2017 and 2016, respectively.

The Medicaid programs described above are subject to review and scrutiny by both the Mississippi legislation and CMS, and the programs could be modified or terminated based on new legislation or regulation in future periods.

The Hospital has also entered into other reimbursement arrangements with third-party payers that provide for payments under various methodologies, including prospectively determined rates per discharge, per diem amounts and discounts from established charges.

The composition of net patient service revenue follows.

	2017	2016
Gross patient service revenue	\$ 1,776,128,670	\$ 1,722,575,443
Less provisions for		
Contractual, charity and other adjustments	(1,180,948,528)	(1,094,617,037)
Bad debts	(61,364,807)	(107,692,189)
Net patient service revenue	\$ 533,815,335	\$ 520,266,217

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Note 11: Charity Care

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies and equivalent service statistics. The level of charity care provided for 2017 and 2016 is shown in the table below. The estimated cost to provide charity care is based on a ratio of overall operating expenses to gross patient service revenue applied to charges foregone under established rates.

	2017	2016
Charges foregone, based on established rates	\$ 22,985,242	\$ 27,646,912
Estimated costs and expenses incurred to provide charity care	6,797,582	7,986,300
Equivalent percentage of charity care patients to all patients served	1.29%	1.60%

Note 12: Pension Plans

Defined Contribution Pension Plan

The Hospital has a defined contribution pension plan that allows for employee and employer contributions. The plan was established on July 1, 2011, and only full-time employees hired after that date are eligible to receive Hospital contributions to the plan. Hospital contributions were \$1,232,000 and \$1,010,000 during 2017 and 2016, respectively. The Hospital's contributions are vested after five years of service. Forfeitures are used to offset future employer contributions. At September 30, 2017 and 2016, forfeitures were approximately \$142,000 and \$186,000, respectively. Employee contributions were \$3,043,000 and \$2,694,000 during 2017 and 2016, respectively.

Defined Benefit Pension Plan

The Hospital contributes to the Forrest County General Hospital Pension Plan (the Plan), a single-employer defined benefit pension plan, which was frozen effective July 1, 2011, thereby excluding new entrants into the Plan. The Plan's fiscal year ends June 30. Actuarial valuations are performed annually on July 1. The Plan is administered by the Hospital's Human Resources Support Department, whose work on the Plan is overseen by the Pension Committee of the Hospital's Board of Trustees. The Hospital retains Capital Research and Planning in an advisory capacity for the Plan's matters. The Plan issues a financial report available for all participants that includes financial statements and required supplementary information. The report may be obtained

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at www.mshospitaltransparency.com when issued or by writing the administration of the Hospital at P.O. Box 16389, Hattiesburg, Mississippi 39404 or calling (601) 288-7000.

Benefits Provided

The Plan provides retirement and disability benefits and death benefits to plan members and beneficiaries. Benefit provisions are established by the Hospital’s Board of Trustees. Retirement benefits for employees are calculated at 1.5% times average monthly compensation times years of service. Death benefits are equal to the single sum present value of the vested accrued benefit otherwise payable at the normal retirement date. Disability benefits are equal to the vested accrued benefit payable at normal retirement age or an actuarially reduced benefit paid immediately.

The terms of the Plan provide for annual cost-of-living adjustments to each employee’s retirement allowance subsequent to the employee’s retirement date. The annual adjustments for cost-of-living are 2.5% per year.

The employees covered by the Plan at June 30, 2017 and 2016, follow:

	2017	2016
Active participants	1,321	1,416
Vested former employees	1,135	1,089
Retirees and beneficiaries	491	472
	2,947	2,977

Contributions

The Hospital’s Board of Trustees has the authority to establish and amend the contribution requirements of the Hospital. The Board of Trustees establishes rates 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. Plan members are not required or permitted to contribute any portion of their salary to fund the Plan. The Hospital is required to contribute to the plan at actuarially determined rates at a percentage of annual covered payroll. For the fiscal year ended September 30, 2017, the Hospital contributed \$30,063,476 (or 39% of covered payroll) to the Plan. For the fiscal year ended September 30, 2016, the Hospital contributed \$10,063,476 (or 12% of covered payroll) to the Plan.

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Net Pension Liability

The Hospital's net pension liability was measured as of June 30, 2017 and 2016, as reported as of September 30, 2017 and 2016, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017 and 2016, respectively.

The total pension liability in the June 30, 2017 and 2016, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	2.0% - 4.5%, based on age, including inflation
Ad hoc cost of living adjustments	2.5% per year
Investment rate of return	7.25%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Mortality Table, projected to 2017 using scale AA.

The Hospital has not performed a recent experience study. Due to the frozen nature of the Plan, the benefits of an experience study are estimated by the actuary to be minimal.

The long-term expected rate of return on pension plan investments was based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

The target allocation and best estimates of rates of return for each major asset class are summarized in the following table.

Asset Class	Target Allocations			
	Tier One Near-term Sub Portfolio	Tier Two Mid-term Sub Portfolio	Tier Three Long-term Sub Portfolio	Tactical Asset Allocation Portfolio
Cash/fixed income	75.00%	30.00%	25.00%	57.45%
Domestic equity	25.00%	70.00%	75.00%	42.55%
Total	100.00%	100.00%	100.00%	100.00%

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Asset Class	Long-term Expected Rate of Return (Arithmetic Mean)
Cash/fixed income	2.00%
Domestic equity	7.00% - 8.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.25% for both years ended June 30, 2017 and 2016. The projection of cash flows used to determine the discount rate assumed that Hospital contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the total pension liability, plan fiduciary net position and the net pension liability follow.

	2017		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, beginning of year	\$ 194,351,662	\$ 136,103,415	\$ 58,248,247
Changes for the year			
Service cost	3,302,712	-	3,302,712
Interest	14,098,001	-	14,098,001
Experience gains	(165,919)	-	(165,919)
Contributions	-	30,063,476	(30,063,476)
Net investment income	-	18,424,809	(18,424,809)
Benefit payments	(6,398,362)	(6,398,362)	-
Administrative expense	-	(317,168)	317,168
Net changes	10,836,432	41,772,755	(30,936,323)
Balance, end of year	\$ 205,188,094	\$ 177,876,170	\$ 27,311,924

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	2016		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, beginning of year	\$ 182,575,415	\$ 134,753,017	\$ 47,822,398
Changes for the year			
Service cost	3,530,410	-	3,530,410
Interest	13,267,635	-	13,267,635
Experience losses	1,186,135	-	1,186,135
Contributions	-	10,063,476	(10,063,476)
Net investment loss	-	(2,210,133)	2,210,133
Benefit payments	(6,207,933)	(6,207,933)	-
Administrative expense	-	(295,012)	295,012
Net changes	11,776,247	1,350,398	10,425,849
Balance, end of year	<u>\$ 194,351,662</u>	<u>\$ 136,103,415</u>	<u>\$ 58,248,247</u>

The net pension liability of the Hospital has been calculated using a discount rate of 7.25%. The following presents the net pension liability using a discount rate 1% higher and 1% lower than the current rate.

	1% Decrease	Current Discount Rate (7.25%)	1% Increase
Hospital's net pension liability	\$ 56,970,172	\$ 27,311,924	\$ 2,831,713

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Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the years ended September 30, 2017 and 2016, the Hospital recognized pension expense of \$7,682,449 and \$9,350,122, respectively. At September 30, 2017 and 2016, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,317,881	\$ 191,616
Net difference between projected and actual earnings on pension plan investments	987,958	-
Hospital's contributions made subsequent to the measurement date of the net pension liability	2,515,869	-
	<u>\$ 4,821,708</u>	<u>\$ 191,616</u>
	2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,797,589	\$ 93,852
Net difference between projected and actual earnings on pension plan investments	8,965,782	-
Hospital's contributions made subsequent to the measurement date of the net pension liability	2,515,869	-
	<u>\$ 13,279,240</u>	<u>\$ 93,852</u>

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At both September 30, 2017 and 2016, the Hospital reported \$2,515,869 as deferred outflows of resources related to pensions resulting from Hospital contributions subsequent to the measurement date and prior to year-end that will be recognized as a reduction of the net pension liability in future periods. Other amounts reported as deferred outflows of resources and deferred inflows of resources at September 30, 2017, related to pensions will be recognized in pension expense as follows:

2018		\$ 557,891
2019		1,962,943
2020		1,178,123
2021		<u>(1,584,734)</u>
		<u><u>\$ 2,114,223</u></u>

Note 13: Postemployment Health Care Plan

The Hospital contributes to the Forrest County General Hospital Employee Health Benefit Plan (the Health Plan), a single-employer, defined benefit post-retirement health care plan sponsored and administered by the Hospital. The Health Plan provides medical and drug benefits to eligible retirees and their dependents. The Hospital's Board of Trustees is authorized to establish and amend all provisions of the Health Plan. The Hospital does not issue a publicly available financial report that includes financial statements and required supplementary information for the Health Plan.

Funding Policy

The contribution requirements of plan members and the Hospital are established and may be amended by the Hospital's Board of Trustees. Monthly contributions are required by retirees who are eligible for coverage. The Hospital pays for costs in excess of required retiree contributions. For fiscal years 2017 and 2016, the Hospital contributed approximately \$422,000 and \$600,000 to the Health Plan, which represented approximately 34% and 58% of total costs, respectively. The Health Plan retirees receiving benefits contributed approximately \$156,000 and \$197,000 in 2017 and 2016, respectively, through their required contributions. Monthly contributions required by retirees depend on the service period at time of retirement and the type of coverage (single or family). Employees are eligible to retire and receive medical benefits under the plan if their age plus years of service is greater than or equal to 70 (Rule of 70). Qualifying retirees may only participate in the medical plans offered to active employees until the earlier of age 65, or the date the retiree becomes Medicare eligible.

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The following table summarizes the monthly contribution rates for employees retiring on or after January 1, 2017.

Coverage Options	Plan A	Plan B	Plan C
Single	\$ 184	\$ 249	\$ 290
Retiree + 1 child	274	374	445
Retiree + 2 children	333	466	567
Retiree + spouse	321	427	528
Family	368	488	612

Only employees retiring before calendar year 2010 are eligible to receive the reduced retiree rates if they qualify under the Rule of 70. Effective January 1, 2010, only those employees age 59 or older with 30 years of service with the Hospital (the 59 and 30 eligibility requirement) will be offered health coverage at the reduced retiree rates. Retirees that do not meet the 59 and 30 eligibility requirement may participate in the Health Plan, but must pay the COBRA rate.

Annual OPEB Cost and Net OPEB Obligation

The Hospital's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years.

The following table shows the components of the Hospital's annual OPEB cost for the year, the amount actually contributed to the Health Plan and changes in the Hospital's net OPEB obligation.

	2017	2016
Annual required contribution and annual OPEB cost	\$ 1,219,442	\$ 1,040,039
Contributions made	<u>(422,110)</u>	<u>(599,867)</u>
Increase in net OPEB obligation	797,332	440,172
Net OPEB obligation, beginning of year	<u>4,325,705</u>	<u>3,885,533</u>
Net OPEB obligation, end of year	<u><u>\$ 5,123,037</u></u>	<u><u>\$ 4,325,705</u></u>

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Three-year Trend Information

Fiscal Years Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	\$ 1,219,442	34.6%	\$ 5,123,037
2016	1,040,039	57.7%	4,325,705
2015	1,281,340	45.0%	3,885,533

Funded Status and Funding Progress

As of October 1, 2017, the most recent actuarial valuation date, the plan was 18.31% funded. The actuarial accrued liability for 2017 and 2016 for benefits was \$12,126,161 and \$10,409,464, respectively, resulting in an unfunded actuarial accrued liability (UAAL) of \$9,905,594 and \$10,409,464. The covered payroll (annual payroll of active employees covered by the plan) for 2017 and 2016 was \$148,008,275 and \$113,192,167, respectively, and the ratio of UAAL to covered payroll was 6.7% and 9.2%, respectively.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend.

Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress – postemployment health care plan, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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In the October 1, 2017 actuarial valuation, the entry age normal method was used. The actuarial assumptions included a 6% discount rate for both 2017 and 2016 and an annual health care cost trend rate of 8% for both 2017 and 2016, reduced 0.5% each year until it reaches a rate of 5.0%. The UAAL is being amortized over a 30-year period on the level percent of pay method on an annual basis.

Note 14: Concentrations of Credit Risk

The Hospital grants credit to patients, substantially all of whom are Hospital service area residents. The Hospital generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans or policies (*e.g.*, Medicare, Medicaid, Blue Cross and commercial insurance policies).

For the years ended September 30, 2017 and 2016, admissions by physicians employed by a large, multi-specialty physician practice located adjacent to the Hospital accounted for approximately 78% and 75%, respectively, of the Hospital's gross revenues.

The mix of receivables from patients and third-party payers as of each fiscal year-end follows.

	2017		2016	
Medicare	\$ 33,844,502	28.1 %	\$ 32,038,518	23.8 %
Medicaid	12,204,634	10.2	9,350,695	7.0
Other third-party payers	40,081,847	33.3	38,820,063	28.8
Patients	34,086,775	28.4	54,382,497	40.4
	120,217,758	100.0	134,591,773	100.0
Less allowance for uncollectible accounts	68,286,686	56.8	81,139,104	60.3
	\$ 51,931,072	43.2 %	\$ 53,452,669	39.7 %

Note 15: Risk Management

Medical Malpractice and General Liability Risks

Annual estimated provisions are accrued for the self-insured portion of medical malpractice and general liability claims, including an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Effective March 1, 2003, the Hospital became self-insured at its Hattiesburg campus for all medical malpractice claims incurred on or after that date. In accordance with the provisions of Title 11, Chapter 46 of the Mississippi Code, a trust fund was established based on an actuarially determined

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funding level. Effective July 1, 2001, Code 11-46-15 of the Mississippi Code established that the liability for public entities falling under the State Tort Act would not exceed \$500,000 for all single occurrence claims. Effective May 1, 2014, HCH became self-insured under the Hospital's self-insured program.

The following is a summary of changes in the Hospital's self-insurance liability for professional and general liability costs for fiscal 2017 and 2016.

	2017	2016
Balance, October 1	\$ 4,304,649	\$ 3,213,001
Provisions for claims reported and claims incurred but not reported	412,774	1,479,954
Claims and related expenses paid	(723,947)	(388,306)
Balance, September 30	\$ 3,993,476	\$ 4,304,649

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis for WGH, JDGH, MGH and AAA. GAAP requires a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience at these locations, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Employee Health Insurance

The Hospital has an agreement with a third-party administrator to administer the Hospital's group health plan and to manage employee medical benefits and claims. The Hospital plan is funded by the Hospital and by contributions of employees.

A summary of changes in the Hospital's self-insurance liability for employee health coverage (included in other accrued expenses in the accompanying balance sheets) for fiscal 2017 and 2016, follows.

	2017	2016
Balance, October 1	\$ 1,575,000	\$ 2,105,000
Provisions for claims reported and claims incurred but not reported	13,929,569	14,041,245
Claims paid	(13,712,569)	(14,571,245)
Balance, September 30	\$ 1,792,000	\$ 1,575,000

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Workers' Compensation

The Hospital is self-insured for a workers' compensation plan with a stop loss binder limit of \$325,000.

The following is a summary of changes in the Hospital's self-insurance liability for workers' compensation coverage for fiscal 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Balance, October 1	\$ 1,276,711	\$ 1,255,621
Provisions for claims reported and claims incurred but not reported	1,606,405	596,880
Claims paid	<u>(829,758)</u>	<u>(575,790)</u>
Balance, September 30	<u>\$ 2,053,358</u>	<u>\$ 1,276,711</u>

Note 16: Deferred Compensation

The following is a summary of changes in the Hospital's deferred compensation liability for the 457(f) plan payable to HCPA (see Note 2).

	<u>2017</u>	<u>2016</u>
Balance, October 1	\$ 56,816,453	\$ 50,310,621
Contributions	2,890,452	2,728,606
Investment gain	8,128,366	5,214,679
Withdrawals	<u>(2,792,922)</u>	<u>(1,437,453)</u>
Balance, September 30	<u>\$ 65,042,349</u>	<u>\$ 56,816,453</u>

Note 17: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

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- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall as of September 30, 2017 and 2016.

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2017				
Investments by fair value level				
Money market mutual funds	\$ 8,829,427	\$ 8,829,427	\$ -	\$ -
U.S. agency securities	21,119,708	-	21,119,708	-
U.S. Treasury securities	200,895	-	200,895	-
State municipal securities	20,847,803	-	20,847,803	-
Open-end mutual funds	62,768,292	62,768,292	-	-
Corporate debt securities	37,146,699	-	37,146,699	-
Pooled investments	85,373,001	-	85,373,001	-
	<u>\$ 236,285,825</u>	<u>\$ 71,597,719</u>	<u>\$ 164,688,106</u>	<u>\$ -</u>
Interest rate swap	<u>\$ (102,762)</u>	<u>\$ -</u>	<u>\$ (102,762)</u>	<u>\$ -</u>
September 30, 2016				
Investments by fair value level				
Money market mutual funds	\$ 13,203,366	\$ 13,203,366	\$ -	\$ -
U.S. agency securities	25,085,326	-	25,085,326	-
U.S. Treasury securities	2,485,241	-	2,485,241	-
State municipal securities	16,432,718	-	16,432,718	-
Open-end mutual funds	52,356,694	52,356,694	-	-
Corporate debt securities	33,209,954	-	33,209,954	-
Pooled investments	85,560,039	-	85,560,039	-
	<u>\$ 228,333,338</u>	<u>\$ 65,560,060</u>	<u>\$ 162,773,278</u>	<u>\$ -</u>
Interest rate swap	<u>\$ 79,056</u>	<u>\$ -</u>	<u>\$ 79,056</u>	<u>\$ -</u>

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Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Hospital holds no Level 3 investments.

Interest Rate Swap Agreement

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy

Note 18: Future Change in Accounting Principle

In 2016, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension* (GASB 75). GASB 75 replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB 75 requires governments to report a liability in accordance with the new statement and requires more extensive note disclosures and supplementary information about the OPEB liabilities. It is effective for fiscal years beginning after June 15, 2017, and requires restatement of any prior years presented, if practical.

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Note 19: Condensed Combining Information

The following tables include condensed balance sheet information for the Hospital and its blended component units as of September 30, 2017 and 2016.

	September 30, 2017								
	Forrest County General Hospital	South Mississippi Health Services, Inc.	Forrest General Health Services, Inc.	Clean Earth, Inc.	Forrest General Managed Care Services, Inc.	AAA Ambulance Service, Inc.	Forrest General Healthcare Foundation, Inc.	Eliminations	Total
Assets and Deferred Outflows of Resources									
Current assets	\$ 182,453,412	\$ 317,203	\$ 14,440	\$ 788,688	\$ -	\$ 5,430,602	\$ 2,392,939	\$ -	\$ 191,397,284
Noncurrent cash and investments	242,236,265	-	-	-	-	4,066,285	-	-	246,302,550
Capital assets, net	309,238,020	4,296,519	35,275	782,462	-	5,780,333	3,691	-	320,136,300
Other assets	142,636,304	-	9,261,762	-	779,876	12,035	-	(145,874,790)	6,815,187
Deferred outflows of resources	8,087,568	-	-	-	-	-	-	-	8,087,568
Total assets and deferred outflows of resources	<u>\$ 884,651,569</u>	<u>\$ 4,613,722</u>	<u>\$ 9,311,477</u>	<u>\$ 1,571,150</u>	<u>\$ 779,876</u>	<u>\$ 15,289,255</u>	<u>\$ 2,396,630</u>	<u>\$ (145,874,790)</u>	<u>\$ 772,738,889</u>
Liabilities and Deferred Inflows of Resources									
Current liabilities	\$ 190,958,249	\$ 6,949,627	\$ 9,049,679	\$ 4,399,904	\$ -	\$ 1,959,868	\$ -	\$ (145,874,790)	\$ 67,442,537
Long-term liabilities	256,853,516	-	-	-	-	558,419	-	-	257,411,935
Deferred inflows of resources	2,977,157	-	-	-	-	-	-	-	2,977,157
Total liabilities and deferred inflows of resources	<u>450,788,922</u>	<u>6,949,627</u>	<u>9,049,679</u>	<u>4,399,904</u>	<u>-</u>	<u>2,518,287</u>	<u>-</u>	<u>(145,874,790)</u>	<u>327,831,629</u>
Net Position									
Net investment in capital assets	148,788,977	4,296,519	35,275	782,462	-	4,434,897	3,691	-	158,341,821
Unrestricted	285,073,670	(6,632,424)	226,523	(3,611,216)	779,876	8,336,071	2,392,939	-	286,565,439
Total net position	<u>433,862,647</u>	<u>(2,335,905)</u>	<u>261,798</u>	<u>(2,828,754)</u>	<u>779,876</u>	<u>12,770,968</u>	<u>2,396,630</u>	<u>-</u>	<u>444,907,260</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 884,651,569</u>	<u>\$ 4,613,722</u>	<u>\$ 9,311,477</u>	<u>\$ 1,571,150</u>	<u>\$ 779,876</u>	<u>\$ 15,289,255</u>	<u>\$ 2,396,630</u>	<u>\$ (145,874,790)</u>	<u>\$ 772,738,889</u>

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	September 30, 2016								
	Forrest County General Hospital	South Mississippi Health Services, Inc.	Forrest General Health Services, Inc.	Clean Earth, Inc.	Forrest General Managed Care Services, Inc.	AAA Ambulance Service, Inc.	Forrest General Healthcare Foundation, Inc.	Eliminations	Total
Assets and Deferred Outflows of Resources									
Current assets	\$ 187,551,878	\$ 228,768	\$ 14,493	\$ 628,290	\$ -	\$ 7,114,440	\$ 2,033,895	\$ -	\$ 197,571,764
Noncurrent cash and investments	232,476,907	-	-	-	-	2,054,953	-	-	234,531,860
Capital assets, net	325,994,801	4,517,820	51,577	708,705	-	5,130,630	17,014	-	336,420,547
Other assets	118,847,653	-	9,265,707	-	691,273	12,035	-	(126,038,649)	2,778,019
Deferred outflows of resources	17,024,731	-	-	-	-	-	-	-	17,024,731
	<u>\$ 881,895,970</u>	<u>\$ 4,746,588</u>	<u>\$ 9,331,777</u>	<u>\$ 1,336,995</u>	<u>\$ 691,273</u>	<u>\$ 14,312,058</u>	<u>\$ 2,050,909</u>	<u>\$ (126,038,649)</u>	<u>\$ 788,326,921</u>
Liabilities and Deferred Inflows of Resources									
Current liabilities	\$ 175,882,440	\$ 7,029,749	\$ 9,050,053	\$ 4,054,183	\$ -	\$ 1,149,179	\$ -	\$ (126,038,649)	\$ 71,126,955
Long-term liabilities	285,610,608	-	-	-	-	1,201,011	-	-	286,811,619
Deferred inflows of resources	3,288,483	-	-	-	-	-	-	-	3,288,483
	<u>464,781,531</u>	<u>7,029,749</u>	<u>9,050,053</u>	<u>4,054,183</u>	<u>-</u>	<u>2,350,190</u>	<u>-</u>	<u>(126,038,649)</u>	<u>361,227,057</u>
Net Position									
Net investment in capital assets	157,388,080	4,517,820	51,577	708,705	-	3,655,676	17,014	-	166,338,872
Unrestricted	259,726,359	(6,800,981)	230,147	(3,425,893)	691,273	8,306,192	2,033,895	-	260,760,992
	<u>417,114,439</u>	<u>(2,283,161)</u>	<u>281,724</u>	<u>(2,717,188)</u>	<u>691,273</u>	<u>11,961,868</u>	<u>2,050,909</u>	<u>-</u>	<u>427,099,864</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 881,895,970</u>	<u>\$ 4,746,588</u>	<u>\$ 9,331,777</u>	<u>\$ 1,336,995</u>	<u>\$ 691,273</u>	<u>\$ 14,312,058</u>	<u>\$ 2,050,909</u>	<u>\$ (126,038,649)</u>	<u>\$ 788,326,921</u>

Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)

Notes to Financial Statements September 30, 2017 and 2016

The following tables include condensed combining statements of revenues, expenses and changes in net position information for the Hospital and its blended component units for the years ended September 30, 2017 and 2016.

	September 30, 2017								
	Forrest County General Hospital	South Mississippi Health Services, Inc.	Forrest General Health Services, Inc.	Clean Earth, Inc.	Forrest General Managed Care Services, Inc.	AAA Ambulance Service, Inc.	Forrest General Healthcare Foundation, Inc.	Eliminations	Total
Operating Revenues									
Net patient service revenue	\$ 519,039,079	\$ -	\$ -	\$ -	\$ -	\$ 15,389,996	\$ -	\$ (613,740)	\$ 533,815,335
Other	14,986,030	554,458	-	1,226,691	-	1,880,040	1,231,944	(3,509,432)	16,369,731
Total operating revenues	534,025,109	554,458	-	1,226,691	-	17,270,036	1,231,944	(4,123,172)	550,185,066
Operating Expenses									
Other operating expenses	476,971,208	114,269	3,623	1,221,919	38,677	15,728,528	885,812	(4,123,172)	490,840,864
Depreciation and amortization	33,289,188	234,217	16,303	116,338	-	768,267	1,450	-	34,425,763
Total operating expenses	510,260,396	348,486	19,926	1,338,257	38,677	16,496,795	887,262	(4,123,172)	525,266,627
Operating Income (Loss)	23,764,713	205,972	(19,926)	(111,566)	(38,677)	773,241	344,682	-	24,918,439
Nonoperating Revenues (Expenses)									
Net investment income	802,823	-	-	-	-	17,712	1,039	-	821,574
Interest expense	(7,492,290)	-	-	-	-	(42,320)	-	-	(7,534,610)
Other	(327,038)	(258,716)	-	-	127,280	60,467	-	-	(398,007)
Total nonoperating revenues (expenses)	(7,016,505)	(258,716)	-	-	127,280	35,859	1,039	-	(7,111,043)
Increase (Decrease) in Net Position	16,748,208	(52,744)	(19,926)	(111,566)	88,603	809,100	345,721	-	17,807,396
Net Position, Beginning of Year	417,114,439	(2,283,161)	281,724	(2,717,188)	691,273	11,961,868	2,050,909	-	427,099,864
Net Position, End of Year	\$ 433,862,647	\$ (2,335,905)	\$ 261,798	\$ (2,828,754)	\$ 779,876	\$ 12,770,968	\$ 2,396,630	\$ -	\$ 444,907,260

Forrest County General Hospital

(A Component Unit of Forrest County, Mississippi)

Notes to Financial Statements

September 30, 2017 and 2016

	September 30, 2016								
	Forrest County General Hospital	South Mississippi Health Services, Inc.	Forrest General Health Services, Inc.	Clean Earth, Inc.	Forrest General Managed Care Services, Inc.	AAA Ambulance Service, Inc.	Forrest General Healthcare Foundation, Inc.	Eliminations	Total
Operating Revenues									
Net patient service revenue	\$ 506,589,183	\$ -	\$ -	\$ -	\$ -	\$ 14,367,904	\$ -	\$ (690,870)	\$ 520,266,217
Other	15,806,902	602,894	-	1,001,590	-	1,746,358	1,243,088	(3,530,161)	16,870,671
Total operating revenues	<u>522,396,085</u>	<u>602,894</u>	<u>-</u>	<u>1,001,590</u>	<u>-</u>	<u>16,114,262</u>	<u>1,243,088</u>	<u>(4,221,031)</u>	<u>537,136,888</u>
Operating Expenses									
Other operating expenses	448,107,381	108,573	140,483	1,109,149	31,987	14,574,200	4,882,487	(4,221,031)	464,733,229
Depreciation and amortization	31,839,741	232,280	7,915	89,766	-	691,090	2,374	-	32,863,166
Total operating expenses	<u>479,947,122</u>	<u>340,853</u>	<u>148,398</u>	<u>1,198,915</u>	<u>31,987</u>	<u>15,265,290</u>	<u>4,884,861</u>	<u>(4,221,031)</u>	<u>497,596,395</u>
Operating Income (Loss)	<u>42,448,963</u>	<u>262,041</u>	<u>(148,398)</u>	<u>(197,325)</u>	<u>(31,987)</u>	<u>848,972</u>	<u>(3,641,773)</u>	<u>-</u>	<u>39,540,493</u>
Nonoperating Revenues (Expenses)									
Net investment income	4,743,931	-	-	-	-	54,517	3,272	-	4,801,720
Interest expense	(7,502,272)	-	-	-	-	(43,340)	-	-	(7,545,612)
Other	(158,888)	(263,921)	-	-	126,219	245,707	-	-	(50,883)
Total nonoperating revenues (expenses)	<u>(2,917,229)</u>	<u>(263,921)</u>	<u>-</u>	<u>-</u>	<u>126,219</u>	<u>256,884</u>	<u>3,272</u>	<u>-</u>	<u>(2,794,775)</u>
Increase (Decrease) in Net Position	39,531,734	(1,880)	(148,398)	(197,325)	94,232	1,105,856	(3,638,501)	-	36,745,718
Net Position, Beginning of Year	<u>377,582,705</u>	<u>(2,281,281)</u>	<u>430,122</u>	<u>(2,519,863)</u>	<u>597,041</u>	<u>10,856,012</u>	<u>5,689,410</u>	<u>-</u>	<u>390,354,146</u>
Net Position, End of Year	<u>\$ 417,114,439</u>	<u>\$ (2,283,161)</u>	<u>\$ 281,724</u>	<u>\$ (2,717,188)</u>	<u>\$ 691,273</u>	<u>\$ 11,961,868</u>	<u>\$ 2,050,909</u>	<u>\$ -</u>	<u>\$ 427,099,864</u>

Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)

Notes to Financial Statements

September 30, 2017 and 2016

The following tables include condensed combining statements of cash flows information for the Hospital and its blended component units for the years ended September 30, 2017 and 2016.

	September 30, 2017								
	Forrest County General Hospital	South Mississippi Health Services, Inc.	Forrest General Health Services, Inc.	Clean Earth, Inc.	Forrest General Managed Care Services, Inc.	AAA Ambulance Service, Inc.	Forrest General Healthcare Foundation, Inc.	Eliminations	Total
Net Cash Provided by (Used in) Operating Activities	\$ 27,474,109	\$ 360,067	\$ (52)	\$ 315,860	\$ (127,280)	\$ 1,688,539	\$ 346,132	\$ -	\$ 30,057,375
Net Cash Provided by (Used in) Noncapital Financing Activities	(283,753)	-	-	-	-	-	45,976	-	(237,777)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(32,516,657)	(12,916)	(1)	(190,095)	-	(1,548,362)	11,873	-	(34,256,158)
Net Cash Provided by (Used in) Investing Activities	(3,128,738)	(258,716)	-	-	127,280	34,291	1,039	-	(3,224,844)
Increase (Decrease) in Cash and Cash Equivalents	(8,455,039)	88,435	(53)	125,765	-	174,468	405,020	-	(7,661,404)
Cash and Cash Equivalents, Beginning of Year	137,084,079	228,768	14,493	404,538	-	4,934,744	1,935,151	-	144,601,773
Cash and Cash Equivalents, End of Year	\$ 128,629,040	\$ 317,203	\$ 14,440	\$ 530,303	\$ -	\$ 5,109,212	\$ 2,340,171	\$ -	\$ 136,940,369

Forrest County General Hospital (A Component Unit of Forrest County, Mississippi)

Notes to Financial Statements September 30, 2017 and 2016

	September 30, 2016								
	Forrest County General Hospital	South Mississippi Health Services, Inc.	Forrest General Health Services, Inc.	Clean Earth, Inc.	Forrest General Managed Care Services, Inc.	AAA Ambulance Service, Inc.	Forrest General Healthcare Foundation, Inc.	Eliminations	Total
Net Cash Provided by (Used in) Operating Activities	\$ 72,605,545	\$ 455,790	\$ 52,428	\$ 102,914	\$ (31,987)	\$ 1,329,142	\$ (3,500,936)	\$ -	\$ 71,012,896
Net Cash Provided by (Used in) Noncapital Financing Activities	(627,619)	-	-	-	-	245,707	-	-	(381,912)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(48,108,938)	(263,921)	(40,260)	(361,588)	-	(857,723)	-	-	(49,632,430)
Net Cash Provided by (Used in) Investing Activities	(14,000,287)	-	-	-	31,987	6,309	35,646	-	(13,926,345)
Increase (Decrease) in Cash and Cash Equivalents	9,868,701	191,869	12,168	(258,674)	-	723,435	(3,465,290)	-	7,072,209
Cash and Cash Equivalents, Beginning of Year	127,215,378	36,899	2,325	663,212	-	4,211,309	5,400,441	-	137,529,564
Cash and Cash Equivalents, End of Year	\$ 137,084,079	\$ 228,768	\$ 14,493	\$ 404,538	\$ -	\$ 4,934,744	\$ 1,935,151	\$ -	\$ 144,601,773

Required Supplementary Information

Forrest County General Hospital
(A Component Unit of Forrest County, Mississippi)
Schedule of Changes in the Hospital's Net Pension Liability and Related Ratios

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability			
Service cost	\$ 3,302,712	\$ 3,530,410	\$ 3,740,713
Interest	14,098,001	13,267,635	12,440,681
Differences between expected and actual experience	(165,919)	1,186,135	1,333,643
Benefit payments	<u>(6,398,362)</u>	<u>(6,207,933)</u>	<u>(5,589,011)</u>
Net change in total pension liability	10,836,432	11,776,247	11,926,026
Total pension liability - beginning	<u>194,351,662</u>	<u>182,575,415</u>	<u>170,649,389</u>
Total pension liability - ending (a)	<u>\$ 205,188,094</u>	<u>\$ 194,351,662</u>	<u>\$ 182,575,415</u>
Plan Fiduciary Net Position			
Contributions	\$ 30,063,476	\$ 10,063,476	\$ 9,782,490
Net investment income (expense)	18,424,809	(2,210,133)	5,766,222
Benefit payments	(6,398,362)	(6,207,933)	(5,589,011)
Administrative expense	<u>(317,168)</u>	<u>(295,012)</u>	<u>(338,826)</u>
Net change in plan fiduciary net position	41,772,755	1,350,398	9,620,875
Plan fiduciary net position - beginning	<u>136,103,415</u>	<u>134,753,017</u>	<u>125,132,142</u>
Plan fiduciary net position - ending (b)	<u>\$ 177,876,170</u>	<u>\$ 136,103,415</u>	<u>\$ 134,753,017</u>
Net pension liability - ending (a) - (b)	\$ 27,311,924	\$ 58,248,247	\$ 47,822,398
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87%	70%	74%
Covered Payroll	\$ 76,926,859	\$ 80,727,008	\$ 84,626,337
Net Pension Liability as a Percentage of Covered Payroll	36%	72%	57%

Note to Schedule:

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

Forrest County General Hospital
(A Component Unit of Forrest County, Mississippi)
Schedule of Hospital Contributions

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 7,986,740	\$ 8,551,127	\$ 8,845,316
Contributions in relation to the actuarially determined contribution	<u>30,063,476</u>	<u>10,063,476</u>	<u>10,063,464</u>
Contribution excess	<u>\$ (22,076,736)</u>	<u>\$ (1,512,349)</u>	<u>\$ (1,218,148)</u>
Covered payroll	\$ 76,926,859	\$ 80,727,008	\$ 84,626,337
Contributions as a percentage of covered payroll	39%	12%	12%

Methods and assumptions used to determine contribution rates:

Actuarial cost method: Entry age normal method (level percentage of pay)

Amortization method: Level dollar amount, closed method

Remaining amortization period: 17 years

Asset valuation method: 3-year smoothing method based on fair market value as of the valuation date

Inflation: 2.5%

Salary increases: 2.0% - 4.5%, based on age, including inflation

Investment rate of return: 7.25%, net of pension plan investment expense, including inflation

Retirement age: 65

Mortality: RP-2000 Combined Healthy Mortality Table projected using scale AA

Other information: Plan is frozen to new participants effective July 1, 2011

Note to Schedule:

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

Forrest County General Hospital
(A Component Unit of Forrest County, Mississippi)
Schedule of Funding Progress – Postemployment Health Care Plan
September 30, 2017

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Plan Assets Less Than AAL	Funded Ratio	Covered Payroll	Plan Assets Less Than AAL as a Percent of Covered Payroll
10/1/17	2,220,567	\$ 12,126,161	\$ 9,905,594	18.3%	\$ 148,008,275	6.7%
10/1/16	-	10,409,464	10,409,464	0.0%	113,192,167	9.2%
10/1/15	-	14,386,780	14,386,780	0.0%	111,661,758	12.9%

Other Information

Forrest County General Hospital
(A Component Unit of Forrest County, Mississippi)
Surety Bonds for Officials and Employees
September 30, 2017

Name	Position	Company	Amount of Bond
Richard W. Preusch	Board Chairman	Travelers Casualty & Surety	\$ 100,000
John M. Keene	Board Vice Chairman	Travelers Casualty & Surety	100,000
Eric Steele	Board Secretary	Travelers Casualty & Surety	100,000
James L. Cartlidge	Board Member	Travelers Casualty & Surety	100,000
Dr. Marcus L. Hogan	Board Member	Travelers Casualty & Surety	100,000
Amy Arrington	Board Member	Travelers Casualty & Surety	100,000
Dr. Kate N. Aseme Winborne	Board Member	Travelers Casualty & Surety	100,000
Employee Blanket Bond	All Others	Travelers Casualty & Surety	100,000

**Forrest County General Hospital
(A Component Unit of Forrest County, Mississippi)**

**Balance Sheets – Pointe Properties, LLC
September 30, 2017 and 2016**

	2017	2016
Current Assets		
Cash and cash equivalents	\$ 914,897	\$ 641,760
Capital Assets, Net	36,712,443	37,766,389
Total assets	\$ 37,627,340	\$ 38,408,149
Current Liabilities		
Current installments of long-term debt	\$ 897,773	\$ 673,640
Accrued interest	83,864	85,459
Accounts payable	7,904	5,482
Total current liabilities	989,541	764,581
Long-term debt	27,451,077	28,348,850
Total liabilities	28,440,618	29,113,431
Total net position	9,186,722	9,294,718
Total liabilities and net position	\$ 37,627,340	\$ 38,408,149

Forrest County General Hospital
(A Component Unit of Forrest County, Mississippi)
Statements of Revenue, Expenses and Changes in Net Position –
Pointe Properties, LLC
Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenue		
Rental income	\$ 2,300,004	\$ 2,300,004
Total operating revenue	<u>2,300,004</u>	<u>2,300,004</u>
Expenses		
Interest expense	1,181,144	1,337,329
Depreciation and amortization	1,053,946	1,053,946
Other	<u>172,910</u>	<u>170,970</u>
Total operating expenses	<u>2,408,000</u>	<u>2,562,245</u>
Decrease in Net Position	(107,996)	(262,241)
Net Position, Beginning of Year	<u>9,294,718</u>	<u>9,556,959</u>
Net Position, End of Year	<u><u>\$ 9,186,722</u></u>	<u><u>\$ 9,294,718</u></u>