

Singing River Health System (A Component Unit of Jackson County, Mississippi)

**Financial Statements
With Government Auditing Standards and
U.S. Office of Management and Budget
Uniform Guidance and Supplementary Schedules**

Years Ended September 30, 2017 and 2016

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Independent Auditors' Report

Board of Trustees
Singing River Health System
Gautier, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of Singing River Health System (the "Health System"), a component unit of Jackson County, Mississippi, which comprise the statements of net position 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.

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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 the Health System as of September 30, 2017 and 2016, and the changes in its financial position and 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 on pages 3 through 13 and the Schedule of Changes in Net Pension Liability and Related Ratios on page 43 be presented to supplement the basic financial statements. Such information,

although not as a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Surety Bonds for Officers and Employees on page 45, and the accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S *Code of Federal Regulations* ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* on page 50, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Surety Bonds for Officers and Employees has not been subjected to the auditing procedures applied in the audit of basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

The information included in the Schedule of Expenditures of Federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated November 29, 2017, on our consideration of the Health System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health System's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Birmingham, Alabama
November 29, 2017

Management's Discussion and Analysis (Unaudited)

Management's Discussion and Analysis

This discussion and analysis provides management's analysis of Singing River Health System (the "Health System") financial performance for the fiscal years ended September 30, 2017 and 2016. Unless otherwise indicated, all financial and statistical information included herein relates to continuing operations. The following analysis should be read in conjunction with the accompanying Financial Statements and Supplementary Information.

Overview of the Financial Statements

This annual report consists of financial statements and notes to the financial statements of Singing River Health System. The Health System is a governmental entity organized and existing pursuant to the applicable statutes of the State of Mississippi, an instrumentality of the County, which operates on a not-for-profit basis and operates two hospitals organized as county hospitals under provisions of the statutes of the State of Mississippi. The Health System is exempt from federal and state income taxes.

While the County may appropriate money from its general fund and levy property taxes to support the operations of the Health System, the Health System has been self-supporting and receives no County appropriations for its operations, nor has it received any such financial support from the County in over twenty-eight years. The legally available mills have been pledged as additional security for the 2009 and 2011 Revenue Bonds, but have not been levied to support these or any other bonds.

The Board of Trustees, appointed by the County Board of Supervisors, is charged with the maintenance, operations, and management of the Health System, its finances and staff. The Health System's primary mission is to provide healthcare services to the citizens of its service area, which includes the County and the surrounding areas, through its acute, primary, and specialty care facilities.

The financial statements include the accounts and transactions of Singing River Health System which includes Singing River Hospital, Ocean Springs Hospital, various outpatient facilities, and its blended component units Anesthesia Services, LLC and SRHS Ambulatory Services, Inc. SRHS Ambulatory Services, Inc. is comprised of its minority interest in Mississippi Coast Endoscopy and Ambulatory Surgical Center, LLC, Ocean Springs Surgical and Endoscopy Center, LLC.

Industry Highlights

Several uncertainties exist as the Healthcare industry contemplates various concepts with the theme of value-based care, which is defined many different ways. National efforts in this regard at healthcare reform and in general will take time to transition as regulatory changes are expected to continue. Singing River Health System will focus on improving health and saving lives, measuring and managing patient outcomes and quality of care, guest satisfaction, measuring and managing cost, spending, and utilization. Some industry items of note:

- The Medicare Access and Chip Reauthorization Act (MACRA) went into effect in 2017, posing immediate implications to all Health Systems' financial performance by imposing a 'value based payment modifier,' theoretically emphasizing the importance of making patient outcomes and quality of care a governmental priority.
- Lower reimbursement rates have been a bi-product of the Affordable Care Act, and Health exchanges have failed to effect positive change and continue to put pressure on hospitals' growth in Net Revenues.
- To offset the financial effects of treating Medicaid and other indigent patients, the system receives additional funding through the MHAP (formerly UPL) and DSH programs administered by the Mississippi Division of Medicaid ("DOM"). Under the Patient Protection and Affordable Care Act of 2010, reductions of DSH allotments are scheduled to begin in 2018 through 2025, reducing the amount of offsets received for treating Medicaid and other indigent patients. Furthermore, the DOM currently unfairly distributes funds, creating a system of winners and losers.

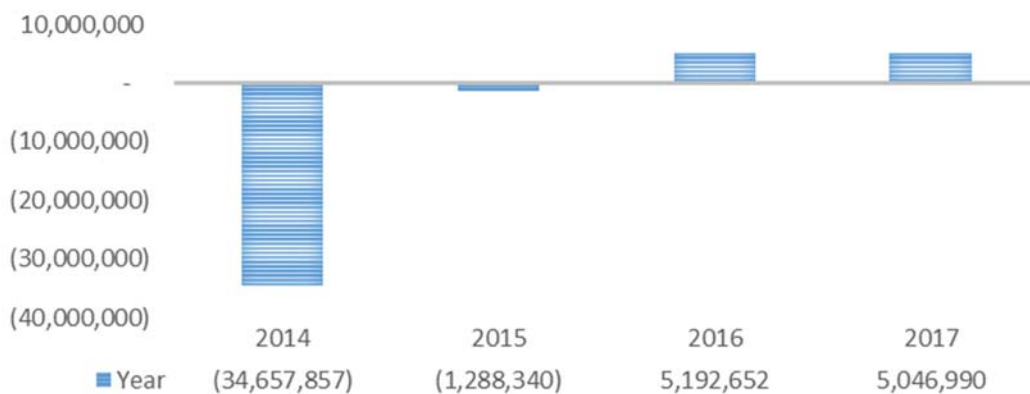
**Singing River Health System (A Component Unit of Jackson County, Mississippi)
Management’s Discussion and Analysis**

- Centers for Medicare and Medicaid Services (CMS) proposed for calendar year 2018 an update to the Outpatient Prospective Payment System (OPPS) to reduce Medicare Part B drug reimbursement program for 340B to the drug’s average sales price (ASP) from plus 6% to ASP minus 22.5% that will increase pharmaceutical expense and create a detrimental financial strain on hospitals currently under the program.
- Commercial insurers migrating to lower Medicare level reimbursement rates are adversely impacting Net Revenues.
- Proliferation of high deductible, catastrophe-only employer insurance plans are creating adverse trends for Net Revenue growth.
- Increasing wages in the industry due to shortage of qualified health care workers is expected to continue.
- Rising drug costs will push operating costs upward.

Financial Highlights

- The Health System’s net position increased by \$4.2 million (3.4%) in fiscal year 2017 compared to an increase of \$20.2 million (14.1%) in 2016 and a decrease of \$60.7 million (29.7%) in 2015. The 2017, 2016 and 2015 changes in net position were significantly impacted by non-cash entries related to GASB 68 and GASB 45 accounting standards. **Excluding accounting entries related to GASB 68 and GASB 45 and other infrequently recurring events, the increase in net position would have been \$5.0 million and \$5.2 million in fiscal year 2017 and fiscal year 2016, respectively.** The current year increase in net position is primarily related to increases in volumes, complemented by improvements in efficiencies that have directly lead to a reduction in expenses. In addition to increases in Surgical Services, two programmatic areas that have grown are Cancer Center visits which have increased by 10% from fiscal year 2016 to fiscal year 2017 and Rheumatology visits which have increased by over 20% from fiscal year 2016 to fiscal year 2017.

**ANNUAL PROFIT/(LOSS) -
EXCLUDING INFREQUENTLY
OCCURRING EVENTS**



Singing River Health System (A Component Unit of Jackson County, Mississippi) Management's Discussion and Analysis

- Total assets and deferred outflows increased approximately \$3.1 million (0.9%) between fiscal year 2016 and 2017 compared to a decrease of approximately \$33.2 million (10.5%) between fiscal year 2015 and fiscal year 2016.
- Long-term debt, excluding current portion, decreased approximately \$7.1 million (8.8%) in fiscal year 2017 and \$6.7 million (7.6%) in fiscal year 2016. Other liabilities decreased approximately \$4.0 million (1.2%) related to GASB 68 adjustments, in fiscal year 2016 other liabilities increased approximately \$13.5 million (4.1%) due to the increase of \$28.5 million in net pension liability related to GASB 68 and offset by \$14.0 million of reduction in the net postemployment benefit obligation related to GASB 45. The additional \$2.9 million offset is related to reduced capital lease obligations and other accrued liabilities.
- During fiscal year 2017 and 2016, the system invested \$14.0 million and \$2.2 million, respectively, in space/facility expansion projects, critical information technology, and medical equipment. An additional \$3.8 million and \$9.5 million during fiscal year 2017 and 2016 of federal grant funds were utilized for an exterior hardening project related to building improvements at Singing River Hospital, this project will continue through 2018 with anticipated \$1.6 million of funds to be expended. The Health System has projected to increase capital expenditures and improvements in the facility over the next five years based on the strategic plan.

Financial Statements

- The Health System's financial statements are prepared on the accrual basis of accounting, based upon when services are provided or obligations are incurred, not when cash is received or bills are paid. The financial statements consist of three statements: (1) statements of net position, (2) statements of revenues, expenses, and changes in net position and (3) statements of cash flows. The statements of net position and the statement of revenues, expenses, and changes in net position reflect the Health System's financial position at the end of the fiscal year and report the net position and changes as a result of the revenues and expenses for the year. The statement of net position presents the assets, deferred outflows, liabilities, deferred inflows, and net position of the Health System as the end of the year. The net position section presents assets plus deferred outflows of resources, less liabilities, less deferred inflows of resources. Increases or decreases in net position are an indicator of whether financial health is improving or deteriorating. Other nonfinancial factors should be considered, however, in evaluating financial health, such as changes in the Health System's patient base, changes in economic conditions, and changes in government legislation. The statement of cash flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing and noncapital/capital financing activities. The statement explains where cash came from, how it was used and the change in cash balance during the year.

Singing River Health System (A Component Unit of Jackson County, Mississippi) Management's Discussion and Analysis

Statement of Net Position

The following table provides a summary of the Health System's total assets, total liabilities and total net position at September 30, 2017, 2016 and 2015:

	2017	2016	Change	Total Percentage change	2015	Change	Total Percentage change
ASSETS:							
Current assets	131.5	112.9	18.6	16.5%	91.9	21.0	22.9%
Funds held by trustees	20.0	18.7	1.3	7.0%	13.0	5.7	43.8%
Capital assets, net	173.8	174.0	(0.2)	-0.1%	185.7	(11.7)	-6.3%
Other assets	5.8	6.0	(0.2)	-3.3%	1.2	4.8	400.0%
TOTAL ASSETS	331.1	311.6	19.5	6.3%	291.8	19.8	6.8%
DEFERRED OUTFLOWS OF RESOURCES							
	22.4	38.8	(16.4)	-42.3%	25.4	13.4	52.8%
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	353.5	350.4	3.1	0.9%	317.2	33.2	10.5%
LIABILITIES							
Current liabilities	45.6	42.6	3.0	7.0%	43.3	(0.7)	-1.6%
Long-term debt, excluding current installments	74.0	81.1	(7.1)	-8.8%	87.8	(6.7)	-7.6%
Capital lease obligations, excluding current installments	0.2	0.3	(0.1)	-33.3%	1.1	(0.8)	-72.7%
Other long-term liabilities	338.2	342.2	(4.0)	-1.2%	328.7	13.5	4.1%
TOTAL LIABILITIES	458.0	466.2	(8.2)	-1.8%	460.9	5.3	1.1%
DEFERRED INFLOWS OF RESOURCES							
	14.8	7.7	7.1	92.2%	-	7.7	
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	472.8	473.9	(1.1)	-0.2%	460.9	13.0	2.8%
NET POSITION							
Invested in capital assets, net of related debt	92.4	85.5	6.9	8.1%	88.8	(3.3)	-3.7%
Restricted - nonexpendable for Minority interest in blended component units	-	-	-	0.0%	0.9	(0.9)	-100.0%
Restricted - expendable for debt service	12.9	13.2	(0.3)	-2.3%	13.3	(0.1)	-0.8%
Unrestricted (deficit)	(224.6)	(222.2)	(2.4)	-1.1%	(246.7)	24.5	9.9%
TOTAL NET POSITION	(119.3)	(123.5)	4.2	3.4%	(143.7)	20.2	14.1%
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	353.5	350.4	3.1	0.9%	317.2	33.2	10.5%

Total net position represents the residual interest in the Health System's assets and deferred outflows after liabilities and deferred inflows are deducted. Net position increased \$4.2 million from fiscal year 2016 to fiscal year 2017 compared to increases of \$20.2 million and \$60.7 million during fiscal years 2016 and 2015, respectively.

The Health System had \$81.4 million, \$67 million, and \$45 million, in total unrestricted cash and investments as of September 30, 2017, 2016 and 2015. The increase in cash resulted in 91 days of consolidated cash on hand at the end of fiscal year 2017, surpassing the bond covenant requirement by 26 days and a 12 day improvement from the 79 days reported at the end of fiscal year 2016.

Net patient accounts receivable of \$37.6 million at September 30, 2017 is an increase of \$4.4 million (13.3%) from the year ended September 30, 2016. This increase is directly correlated to the increase in patient service revenue driven by increases in volumes during the end of fiscal year 2017 as mentioned later in this analysis.

Designated funds held by trustees increased by \$0.8 million from 2016 to 2017 and \$5.7 million from 2015 to 2016. The increase from 2016 to 2017 is due to an additional funding of \$1.2 million to the pension settlement fund offset by a reduction of \$0.4 million in the funds held by trustee for self-insurance funding account. The increase from 2015 to 2016 is due to the initial funding of a \$5.2 million held related to pension settlement fund held in an escrow

**Singing River Health System (A Component Unit of Jackson County, Mississippi)
Management's Discussion and Analysis**

account and an increase of \$0.5 million for the funds held by trustee for self-insurance funding account. While the pension plan continues to be a significant issue the Health System faces, as further punctuated by the current impact of pension litigation expense, maintaining volume in the midst of cutting costs is a primary operating challenge. On November 20, 2014, the Health System's Board of Trustees resolved to amend the Plan to, among other things, freeze the Plan so that no further contributions will be made by the employees and that no further benefits shall accrue. The Resolution also directed that the Plan be terminated and that assets of the Plan be allocated and benefits funded in accordance with applicable provisions of the Plan. Prior to ensuing litigation, the Health System had intended to modify the plan payouts by converting to a new plan. The United States District Court of the Southern District of Mississippi approved a settlement in a class-action lawsuit related to the Pension Plan in June 2016. That decision was appealed to the Fifth Circuit Court of Appeals and oral arguments were heard on January 5, 2017. On July 27, 2017, the Fifth Circuit Court of Appeals remanded the case to the District Court in an effort to provide additional consideration as it relates to the settlement. On October 30, 2017 the Health System submitted its brief to the District Court and provided the additional Court of Appeals-requested information. The District Court will hold a supplemental fairness hearing on January 22, 2018. The outcome of the District Court's decision could significantly impact the financial statements.

Capital Assets, Net

The Health System had capital assets, net of accumulated depreciation of \$173.8 million, \$174.0 million, and \$185.7 million, at September 30, 2017, 2016 and 2015, decreasing \$0.2 million in 2017 and \$11.7 million (6.3%) in 2016. Depreciation expense was \$17.6 million and capital additions equaled \$17.7 million in 2017, compared to depreciation expense of \$19.8 million and capital additions of \$11.8 million in 2016. The table below outlines increases and decreases in capital assets.

	2017	2016	2015
Buildings and improvements	90,419,448	97,239,079	104,909,968
Moveable equipment	56,263,602	54,504,577	65,164,469
Land and construction in progress	23,545,811	18,219,538	11,128,994
Fixed equipment	1,821,718	1,997,055	2,241,856
Land improvements	1,786,006	2,008,777	2,259,813
Total	<u>173,836,585</u>	<u>173,969,026</u>	<u>185,705,100</u>

Deferred outflows of resources consist of unamortized losses on refunding of debt, and resources related to the Health System's pension plan. Deferred outflows of resources decreased \$16.4 million (42.3%) from \$38.8 million as of September 30, 2016 to \$22.4 million as of September 30, 2017. Deferred inflows of resources increased \$7.1 million (92.2%) from \$7.7 million as of September 30, 2016 to \$14.8 million as of September 30, 2017. The decreases in deferred outflows and increases in deferred inflows are primarily related to favorable experience, improvement of assumptions and greater return on investments than anticipated as these assumptions related to the predicted performance of the plan assets.

Total liabilities and deferred inflows of resources decreased \$1.1 million (0.2%) in fiscal year 2017 and increased \$13.0 million (2.8%) in fiscal year 2016.

- Current liabilities increased \$3.0 million (7.0%) and \$0.7 million (1.6%) in fiscal years 2017 and 2016, respectively.
- Long-term debt decreased \$7.1 million (8.8%) and \$6.7 million (7.6%) in fiscal years 2017 and 2016, respectively. Decrease in debt is in accordance with scheduled debt service payments.
- Net pension liability decreased \$6.6 million (2.0%) in fiscal year 2017 and increased \$28.5 million (9.4%) in fiscal year 2016 related to actuarial valuation of changes in plan assumptions, discount rates and other variables related to the pension liability in accordance with GASB 68.

Singing River Health System (A Component Unit of Jackson County, Mississippi) Management's Discussion and Analysis

- Deferred inflows of resources are differences between actual and projected earnings on plan investments and are effects of actuarial differences and changes in assumptions related to economic or demographic factors. Deferred inflows of resources increased \$7.1 million (92.2%) and \$7.7 million during fiscal year 2017 and 2016, respectively. Prior to fiscal year 2016, there were not any deferred inflows of resources.
- Bond covenants require the Health System to maintain 65 days cash on hand (DCOH) and a maximum annual debt services (MADS) ratio above 1.2. The Health System's focus over the previous years has been in strengthening the Health System's cash position, resulting in an increase in DCOH of 12 days to 91 DCOH at September 30, 2017, compared to 79 DCOH at September 30, 2016, and 51 DCOH at September 30, 2015. The MADS ratio was 2.39, 3.65 and 2.39 at September 30, 2017, 2016 and 2015, respectively. The Health System is in compliance with both bond covenants at September 30, 2017. The primary reason for the decrease related to the MADS ratio is related to the fact that the organization received an offset of expense of \$12.7 million related to annual other postemployment benefit ("OPEB") cost with the parameters of GASB Statement 45 in fiscal year 2016.

Statement of Revenues, Expenses and Changes in Net Position

The following table summarizes the Health System's revenues and expenses for the years ended September 30, 2017, 2016 and 2015 and the changes in net position during each of those years:

**Singing River Health System (A Component Unit of Jackson County, Mississippi)
Management's Discussion and Analysis**

Condensed Summary of Revenues, Expenses and Changes in Net Position
(In Millions)

	2017	2016	Change	Total Percentage Change	2015	Change	Total Percentage Change
Patient service revenues, net of provision for bad debts	341.3	334.4	6.9	2.1%	336.7	(2.3)	-0.7%
Other revenues	11.4	17.7	(6.3)	-35.6%	11.4	6.3	55.3%
Total operating revenues	352.7	352.1	0.6	0.2%	348.1	4.0	1.1%
Operating expenses							
Salaries and benefits	174.9	164.4	10.5	6.4%	97.4	67.0	68.8%
Professional fees	4.4	5.8	(1.4)	-24.1%	11.0	(5.2)	-47.3%
Supplies	71.5	70.4	1.1	1.6%	71.4	(1.0)	-1.4%
Purchased services	39.1	39.9	(0.8)	-2.0%	40.3	(0.4)	-1.0%
Other expenses	36.1	30.8	5.3	17.2%	37.3	(6.5)	-17.4%
Depreciation and amortization	19.1	21.6	(2.5)	-11.6%	24.5	(2.9)	-11.8%
Total operating expenses	345.1	332.9	12.2	3.7%	281.9	51.0	18.1%
Operating income	7.6	19.2	(11.6)	-60.4%	66.2	(47.0)	-71.0%
Non-operating revenues (expenses)							
Investment income	0.5	0.4	0.1	25.0%	0.4	-	0.0%
Interest expense	(4.3)	(4.7)	0.4	8.5%	(5.0)	0.3	6.0%
Equity method income	0.4	0.4	-	0.0%	-	0.4	
Gain on sale of surgery centers	-	8.3	(8.3)	-100.0%	-	8.3	
Loss on impairment	-	(2.0)	2.0	100.0%	-	(2.0)	
Total non-operating revenues (expense)	(3.4)	2.4	(5.8)	-241.7%	(4.6)	7.0	152.2%
Excess of revenues over expenses	4.2	21.6	(17.4)	-80.6%	61.6	(40.0)	-64.9%
Distributions	-	(0.4)	0.4	100.0%	(0.9)	0.5	55.6%
Effect of deconsolidation of ASCs	-	(1.0)	1.0	100.0%	-	(1.0)	
Increase (decrease) in net position	4.2	20.2	(16.0)	-79.2%	60.7	(40.5)	-66.7%
Net position, beginning	(123.5)	(143.7)	20.2	14.1%	(204.4)	60.7	29.7%
Net position, ending	(119.3)	(123.5)	4.2	3.4%	(143.7)	20.2	14.1%

**Singing River Health System (A Component Unit of Jackson County, Mississippi)
Management's Discussion and Analysis**

Net Patient Service Revenue

Net Patient Service Revenue saw an increase of \$6.9 million (2.1%) to approximately \$341.3 million in fiscal year 2017 compared to \$334.4 million in fiscal year 2016 and \$336.7 million in fiscal year 2015. The increase from 2016 to 2017 is due to a large increase in overall volume. The Health System has experienced an increase in admissions, inpatient surgeries, outpatient surgeries, patient days and service line visits.

To offset the financial effects of treating Medicaid and other indigent patients, the system receives additional funding through the MHAP (formerly UPL) and DSH programs administered by the Mississippi Division of Medicaid ("DOM"). Through participation in the MHAP and UPL programs, the Health System has received gross reimbursement of approximately \$16.7 million during 2017, 2016 and 2015. The system received Medicaid DSH payments of approximately \$18.1 million, \$17.1 million, and \$18.0 million for fiscal years 2017, 2016, and 2015, respectively.

To participate in the MHAP and DSH programs the system paid to DOM an annual assessment of \$11.9 million, \$12.3 million, and \$12.4 million, for fiscal years 2017, 2016 and 2015, respectively. The net impact of the MHAP and UPL programs to the system was \$4.8 million, \$4.5 million, and \$4.2 million in fiscal years 2017, 2016 and 2015, respectively.

Other operating revenues were \$11.4 million in 2017 and \$17.7 million in 2016, a decrease of \$6.3 million. The decrease is primarily due to a reduction in grant revenue of \$4.9 million and electronic health record meaningful use funds of \$1.3 million. Grant revenue recognized in fiscal year 2016 exceeded fiscal year 2015 by \$6.2 resulting in the majority of the \$6.3 million increase year over year.

The following table summarizes the Health System's increase (decrease) in net position excluding entries related to infrequently occurring items and GASB 45 and GASB 68 (outlined below) for the years ended September 30, 2017, 2016 and 2015:

Condensed Summary of Revenues, Expenses and Changes in Net Position
(In Millions)

	2017	2016	Change	Total Percentage Change	2015	Change	Total Percentage Change
Increase (decrease) in net position	4.2	20.2	(16.0)	-79.2%	60.7	(40.5)	66.7%
Infrequently occurring events							
Construction grant revenue	(3.3)	(8.2)	4.9	59.8%	(2.0)	(6.2)	310.0%
GASB 45 retiree health plan elimination	-	(12.7)	12.7	-	-	(12.7)	-
SRHSAS gain on sale of investment	-	(8.3)	8.3	-	-	(8.3)	-
SRHSAS loss on land impairment	-	2.0	(2.0)	-	-	2.0	-
Workers comp actuarial adjustment	(0.2)	(1.3)	1.1	84.6%	(0.6)	(0.7)	-116.7%
Professional liability adjustment	0.7	(1.5)	2.2	146.7%	0.6	(2.1)	-350.0%
GASB 68 pension expense	3.6	15.0	(11.4)	-76.0%	(60.0)	75.0	125.0%
Total infrequently occurring events	0.8	(15.0)	15.8	105.3%	(62.0)	47.0	75.8%
Normalized increase (decrease) in net position	5.0	5.2	(0.2)	-3.8%	(1.3)	6.5	500.0%

During fiscal years 2017, 2016 and 2015, there were a few occurrences outlined above driving a higher than anticipated increase in net position. Construction grant revenue received was \$3.3 million and \$8.2 million in fiscal year 2017 and 2016, respectively related to a hardening project to improve the facility at Singing River Hospital. These funds were used to increase capital assets and are currently in construction in progress. GASB 45 resulted in a decrease of post-employment benefit expense of \$12.7 million in fiscal year 2016 related to termination of the post-retirement health plan. Malpractice and workers comp actuarial assessments in addition to inventory of claims

**Singing River Health System (A Component Unit of Jackson County, Mississippi)
Management's Discussion and Analysis**

incurred but not reported based on historical experience increased expense in fiscal year 2017 by \$0.5 million, and reduced expense in fiscal year 2016 by \$2.8 million, respectively. Removing all the infrequently occurring events and items related to GASB 45 and GASB 68 listed above from the financials results in a \$5.0 million increase in net position compared to fiscal year 2016 normalized increase in net position of \$5.2 million. The normalized change in net position removing infrequently occurring events during fiscal year 2015 results in a decrease equal to \$1.3 million.

Statistics

The 2.1% increase in net patient service revenue during fiscal year 2017 is due to increases in several statistics, including admissions, surgeries, and other service line visits.

- Adult Admissions were up 4%
- Total admissions were up 5%
- Outpatient programs visits overall were up 3%
- Outpatient surgeries were up 20%
- Inpatient surgeries were up 5%
- Total days of care were up 2%

The Medicare case mix for hospitals is a measure of Medicare inpatient acuity and has an effect on Medicare inpatient payments. Case mix levels have remained steady in fiscal years 2017, 2016 and 2015.

A summary of Medicare case mix indices follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Singing River Hospital	1.64	1.65	1.60
Ocean Springs Hospital	1.70	1.64	1.67

During fiscal year 2017 and fiscal year 2016, payor class percentages were relatively stable; with mainly an increase in Medicare and self-pay patients offset by decreases in Managed Care and Medicaid.

Below is a chart comparing payor class percentages for fiscal years 2017, 2016 and 2015 based on volume of revenue:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Medicare	50.1%	49.4%	48.9%
Medicaid	12.1%	12.4%	12.2%
Managed care	30.7%	31.5%	31.2%
Self-pay	<u>7.1%</u>	<u>6.7%</u>	<u>7.7%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

Deductions from Revenue

Contractual and other adjustments (excluding charity and bad debts) expressed as a percentage of gross revenues, were 76.2%, 76.4% and 75.6% for fiscal years 2017, 2016, and 2015 respectively.

Bad Debt and Charity Care

Bad debt expense was approximately \$108.2 million, \$89.5 million, and \$111.7 million in fiscal years 2017, 2016, and 2015, respectively. The \$18.7 million increase of bad debt expense in 2017 is primarily related to an increase of self-pay revenue from 6.7% to 7.1% highlighted above related to payor mix. Bad debt expense relates to patients with self-pay balances that do not qualify under the charity guidelines and to those patients of which collection for services cannot be obtained. Charity care is defined as healthcare provided to patients at no cost when they meet

Singing River Health System (A Component Unit of Jackson County, Mississippi) Management's Discussion and Analysis

criteria defined in the charity care policy. Charity care adjustments decreased to \$29.2 million in fiscal year 2017 from \$50.1 million in fiscal year 2016 and \$41.2 million in fiscal year 2015. The primary reason for the reduction in charity care from 2016 to 2017 is an increase in patients qualifying for Medicaid.

Operating Expenses

During the year ended September 30, 2017 total operating expenses increased \$12.2 million. During the year September 30, 2016, total operating expenses increased \$51.0 million compared to the year ended September 30, 2015. Excluding the impact of GASB 68, operating expenses increased \$10.9 million (3.3%) during fiscal year 2017. Excluding the impact of GASB 68 and GASB 45, operating expenses decreased \$11.3 million (3.3 %) during the year ended September 30, 2016 compared to the year ended September 30, 2015.

- Salaries and benefits increased \$10.5 million (6.4%) from fiscal year 2017 to fiscal year 2016. The primary reason for the increase is related to an increase full time equivalents (FTE's) by 8 from fiscal year 2017 related to volume increases to fiscal year 2016 in addition to a merit increase for all employees during fiscal year 2017.
- Professional fees decreased \$1.4 million (24.1%) and \$5.2 million (47.3%) in fiscal year 2017 and 2016, respectively. The reduction of professional fees is primarily related to strategic objectives related to eliminating the Health System handling professional services provided by pathology that occurred during fiscal year 2016 and and a similar change in structure related to services of emergency room physicians, a change that occurred during fiscal year 2015.
- Supplies expense has increased \$1.1 million (1.6%) during fiscal year 2017 related to increases in surgical volumes. The increase would have been larger related to volumes, however the Health System has maintained its trend related to improving purchasing efficiencies utilizing strategic initiatives related to materials management and group purchasing organizations (GPO's) in an effort to reduce expenses. Supplies expense decreased by \$1 million (1.4%) during fiscal year 2016 related to decreased volumes and the efficiencies referenced above.
- Other expenses have increased by \$5.3 million (17.2%) during fiscal year 2017 related to an increase in legal expenses of \$2.6 million due to professional liability and increases in maintenance expense of \$2.4 million related to additional expenses incurred due to deferred maintenance. As the organization has been working to improve cash and reduce expenses, capital improvements related to infrastructure and other facility improvements have not been implemented timely. This is a trend that is continuing from prior years and the organization is working to focus on improving the facilities buildings and other capital enhancements going forward. In fiscal year 2016, other expenses decreased \$6.5 million (17.4%) primarily related to legal expenses incurred in fiscal year 2015, and reduction of malpractice insurance per an actuarial assessment as the result of favorable performance during fiscal year 2016.
- Depreciation and amortization has decreased \$2.5 million (11.6%), and \$2.9 million (11.8%) in fiscal year 2017 and fiscal year 2016, respectively. Depreciation is continuing to decrease as capital items begin to hit full maturity while The Health System was attempting to preserve cash by minimizing capital additions. Capital purchases began to increase in fiscal year 2017. Construction in progress has increased significantly in 2017 and the related assets will be placed in service in fiscal year 2018. Capital improvements will continue to take place over the next few years related to the organizations strategic initiatives.

Cash Flow

Cash and cash equivalents decreased \$3.3 million and increased \$21.2 million in fiscal years 2017 and 2016, respectively. The decrease in cash and cash equivalents during fiscal year 2017 is related to the net purchase of investments of \$17.9 million with an original maturity greater than three months. While these investments are highly

Singing River Health System (A Component Unit of Jackson County, Mississippi) Management's Discussion and Analysis

liquid and convertible to cash if the system were to require access, the maturity is greater than the requirement to be classified as cash equivalent.

Cash and investments increased by \$14.3 million and \$22.0 million in fiscal year 2017 and fiscal year 2016, respectively. Year-to-date net cash provided by operating activities was approximately \$43.2 million compared to prior year of \$49.0 million.

Year-to-date cash collections in fiscal year 2017 were \$336.7 million compared to \$334.6 million in fiscal year 2016, and increase of \$2.1 million due to increases in volumes. Cash paid to suppliers decreased \$1.9 million from 2016 to 2017 compared to a decrease \$12.1 million from fiscal year 2015 to fiscal year 2016.

Capital expenditures were approximately \$17.7 million in fiscal year 2017, up from \$11.7 million in fiscal year 2016. In 2017 \$3.8 million (21.5%) of capital expenditures during the year were the result of grant projects compared to \$9.5 million (81.2%) of the capital purchases in 2016. Capital improvements will continue to increase as the Health System continues to invest in infrastructure.

Economic conditions and plan for Fiscal year 2018

In planning for fiscal year 2018, the primary concerns are the items noted in the Industry Highlights section and their potential financial and operational impact on the Health System. There are continuing reductions in payments related to DSH and 340b that are outside of the Health System's control that could substantially reduce cash received from third party payors.

In order to continue to improve operations, management is working in accordance with a strategic plan to increase access, improve culture, reduce cost and maximize labor efficiencies, explore mutually beneficial partnerships, explore calculated growth and business development opportunities, and expand population health management.

Singing River Health System
Statements of Net Position
September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS AND DEFERRED OUTFLOWS		
Current assets:		
Cash and cash equivalents	\$ 53,870,370	\$ 57,047,567
Investments	27,514,269	9,992,217
Trusted bond funds - required for current liabilities	2,900,832	3,297,257
Patient accounts receivable, net of allowance for doubtful accounts of \$62,781,169 and \$58,296,464 at September 30, 2017 and 2016, respectively	37,640,186	33,212,382
Other receivables	1,026,893	1,577,792
Due from third-party payors	1,497,924	1,373,592
Inventories	4,738,015	4,213,513
Prepaid expenses	2,314,035	2,148,646
	<u>131,502,524</u>	<u>112,862,966</u>
Total current assets	131,502,524	112,862,966
Trusted bond funds	9,955,434	9,942,926
Held by trustee for self-insurance funding	3,610,184	3,603,539
Held by trustee for pension funding	6,412,044	5,200,100
Capital assets, net	173,836,585	173,969,026
Investment in surgery centers	4,231,409	4,475,659
Other assets	1,528,873	1,480,867
	<u>331,077,053</u>	<u>311,535,083</u>
Total assets	331,077,053	311,535,083
Deferred outflows of resources:		
Pension deferrals	20,659,746	36,506,855
Deferred loss on debt refunding, net	1,768,642	2,330,491
	<u>22,428,388</u>	<u>38,837,346</u>
Total deferred outflows of resources	22,428,388	38,837,346
Total assets and deferred outflows of resources	<u>\$ 353,505,441</u>	<u>\$ 350,372,429</u>

See accompanying notes.

Singing River Health System
Statements of Net Position
September 30, 2017 and 2016

(Continued)

	<u>2017</u>	<u>2016</u>
LIABILITIES, DEFERRED INFLOWS AND NET POSITION		
Current liabilities:		
Current installments of long-term debt	\$ 7,135,000	\$ 6,835,000
Current installments of capital lease obligations	119,997	233,532
Current installments of other long-term liabilities	309,888	289,705
Accounts payable	18,049,069	16,639,670
Accrued payroll and employee benefits	19,018,331	17,523,226
Other accrued expenses	990,973	1,065,798
	<u>45,623,258</u>	<u>42,586,931</u>
Total current liabilities	45,623,258	42,586,931
Long-term debt, excluding current installments	73,950,298	81,131,997
Capital lease obligations, excluding current installments	159,551	279,547
Other long-term liabilities	686,055	995,944
Accrued workers' compensation, professional, and general liability costs	11,150,845	8,194,576
Net pension liability	326,429,747	332,998,088
	<u>457,999,754</u>	<u>466,187,083</u>
Total liabilities	457,999,754	466,187,083
Deferred inflows of resources:		
Pension deferrals	14,769,745	7,696,374
	<u>14,769,745</u>	<u>7,696,374</u>
Total deferred inflows of resources	14,769,745	7,696,374
Net position:		
Net investment in capital assets	92,471,739	85,488,950
Restricted - expendable for debt service	12,856,266	13,240,183
Unrestricted (deficit)	(224,592,063)	(222,240,161)
	<u>(119,264,058)</u>	<u>(123,511,028)</u>
Total net position	(119,264,058)	(123,511,028)
Total liabilities, deferred inflows of resources and net position	<u>\$ 353,505,441</u>	<u>\$ 350,372,429</u>

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

	<u>2017</u>	<u>2016</u>
Patient service revenues, net of provision for bad debts of \$108,238,003 (\$89,514,901 in fiscal year 2016)	\$ 341,243,649	\$ 334,427,792
Other revenues	<u>11,429,720</u>	<u>17,605,964</u>
Total operating revenues	<u>352,673,369</u>	<u>352,033,756</u>
Operating expenses:		
Salaries and wages	131,950,777	130,337,406
Employee benefits	42,956,544	33,986,011
Professional fees	4,459,352	5,772,466
Supplies	71,486,505	70,407,701
Purchased services	39,067,544	39,882,032
Other expenses	36,072,807	30,798,705
Depreciation and amortization	<u>19,098,477</u>	<u>21,612,953</u>
Total operating expenses	<u>345,092,006</u>	<u>332,797,274</u>
Operating income	<u>7,581,363</u>	<u>19,236,482</u>
Total nonoperating revenues (expenses):		
Net investment income	565,948	353,503
Interest expense	(4,285,625)	(4,714,788)
Equity method income	396,872	420,006
Gain on sale of surgery centers	-	8,324,004
Loss on disposal of capital assets	(11,588)	-
Loss on impairment	<u>-</u>	<u>(1,957,979)</u>
Total nonoperating revenues (expenses)	<u>(3,334,393)</u>	<u>2,424,746</u>
Revenues in excess of expenses	4,246,970	21,661,228
Distributions to minority interest	-	(419,178)
Effect of deconsolidation of surgery centers	<u>-</u>	<u>(1,011,384)</u>
Increase in net position	4,246,970	20,230,666
Net position, at beginning of period	<u>(123,511,028)</u>	<u>(143,741,694)</u>
Net position, end of period	<u>\$ (119,264,058)</u>	<u>\$ (123,511,028)</u>

See accompanying notes.

Singing River Health System
Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 336,691,513	\$ 334,631,518
Cash paid to employees	(157,150,077)	(157,884,128)
Cash paid to suppliers	(147,408,910)	(149,270,008)
Cash received from other operating activities	<u>11,067,822</u>	<u>21,476,029</u>
Net cash provided by operating activities	<u>43,200,348</u>	<u>48,953,411</u>
Cash flows from noncapital financing activities:		
Distributions to minority interest	<u>-</u>	<u>(419,178)</u>
Cash flows from capital and related financing activities:		
Proceeds from the sale of capital assets	238,413	-
Capital expenditures	(17,747,616)	(11,725,104)
Repayment of long-term debt	(6,835,000)	(6,550,000)
Repayment of capital lease obligations	(233,531)	(1,271,599)
Repayment of other long-term liabilities	(289,706)	(784,834)
Interest paid on long-term debt and capital lease obligations	<u>(4,360,450)</u>	<u>(4,786,017)</u>
Net cash used in capital and related financing activities	<u>(29,227,890)</u>	<u>(25,117,554)</u>
Cash flows from investing activities:		
Net purchase of investments	(17,942,975)	(6,677,052)
Distributions from equity method investment	641,122	-
Net cash inflow from deconsolidation of surgery centers	<u>-</u>	<u>4,507,428</u>
Net cash used by investing activities	<u>(17,301,853)</u>	<u>(2,169,624)</u>
Net (decrease) increase in cash and cash equivalents	<u>(3,329,395)</u>	<u>21,247,055</u>
Cash and cash equivalents, beginning of year	<u>76,464,052</u>	<u>55,216,997</u>
Cash and cash equivalents, end of year	<u>\$ 73,134,657</u>	<u>\$ 76,464,052</u>

See accompanying notes.

Singing River Health System
Statements of Cash Flows
Years Ended September 30, 2017 and 2016

(Continued)

	<u>2017</u>	<u>2016</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 7,581,363	\$ 19,236,482
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	19,098,477	21,612,953
Provision for bad debts	108,238,003	89,514,901
Changes in:		
Patient receivables	(112,665,807)	(89,928,856)
Estimated third-party payor settlements	(124,332)	617,681
Inventories and other current assets	(1,140,268)	(762,819)
Net pension liability	(6,568,341)	36,239,161
Pension deferrals	22,920,480	(14,069,766)
Net post employment benefit obligation	-	(13,977,882)
Accounts payable and other accrued expenses	2,904,504	1,094,662
Accrued workers' compensation, professional, and general liability costs	2,956,269	(623,106)
Net cash provided by operating activities	<u>\$ 43,200,348</u>	<u>\$ 48,953,411</u>
Reconciliation of cash and cash equivalents to:		
Cash and cash equivalents in current assets	\$ 53,870,370	\$ 57,047,567
Cash and cash equivalents in investments	1,329,263	2,967,467
Cash and cash equivalents in trusteed bond funds	7,912,796	7,645,379
Cash and cash equivalents in trustee for self-insurance funding	3,610,184	3,603,539
Cash and cash equivalents in trustee for pension funding	6,412,044	5,200,100
	<u>\$ 73,134,657</u>	<u>\$ 76,464,052</u>
Supplemental disclosure of noncash investing and capital and related financing activities:		
Capital assets acquired through capital lease obligations	<u>\$ -</u>	<u>\$ 78,375</u>

Notes to Financial Statements

1. Nature of Operations, Reporting Entity and Summary of Significant Accounting Policies

Nature of operations and reporting entity

Singing River Health System (the "Health System") is a multidimensional healthcare system consisting of:

- Singing River Hospital, a 435-bed hospital and related outpatient care and other facilities principally in Pascagoula, Mississippi.
- Ocean Springs Hospital, a 136-bed hospital and related outpatient care and other facilities principally located in Ocean Springs, Mississippi.
- Singing River Medical Park and Ocean Springs Medical Park, state-of-the-art outpatient services facilities designed to meet the specific needs of patients outside of the hospital setting. These buildings house radiology and imaging services, cardiac rehabilitation, physical therapy, neurosciences, a branch of The Regional Cancer Center, and the Health System's Healthplex.
- The Heart Center, which offers the most comprehensive cardiology program in the region.
- The Regional Cancer Center, which offers a comprehensive and integrated approach to cancer care comprised of expert medical and radiation oncologists, surgeons, radiologists, pharmacists, nurses and dietitians.
- Five primary care clinics located along the Mississippi Gulf Coast in Hurley, Pascagoula (two), Vancleave, Ocean Springs.

The Health System is a component unit of Jackson County, Mississippi, as defined by the Governmental Accounting Standards Board ("GASB"). The Health System's component unit relationship to the County is principally due to financial accountability as defined by the GASB. The Health System is operated by a nine-member Board of Trustees, seven of whom are appointed by the Board of Supervisors of Jackson County, Mississippi. Additionally, the chief-of-staff of the Health System serves on the Board.

Blended component units

SRHS Ambulatory Services, Inc. ("SRHSAS") is a component unit of the Health System and is presented as a blended component unit as of September 30, 2017 and 2016 in the Health System's financial statements. As the sole member of this not-for-profit organization, the Health System exerts control and has a financial benefit relationship. SRHSAS is operated by a Board of Directors, all of whom are appointed by the Health System's Board. As of September 30, 2017 and 2016, SRHSAS holds a non-controlling 24.5% ownership interest in two ambulatory surgery centers, Mississippi Coast Endoscopy and Ambulatory Surgery Center, LLC ("MCEASC") and Ocean Springs Surgical and Endoscopy Center, LLC ("OSSEC"). Prior to a sale of controlling interest in the year ended September 30, 2016, SRHSAS was the 51% owner of MCEASC and OSSEC, both of which were consolidated subsidiaries of SRHSAS. See further discussion of the sale of controlling interest and deconsolidation of MCEASC and OSSEC at Note 15. All significant intercompany transactions have been eliminated.

Anesthesia Services, LLC, is a component unit of the Health System and is presented as a blended component unit as of September 30, 2017 in the Health System's financial statements. Anesthesia Services, LLC is a wholly owned subsidiary of the Health System, which provides management, scheduling and billing and collection services to certified registered nurse anesthetists. All significant intercompany transactions have been eliminated.

Singing River Health System Notes to Financial Statements

Budgetary information

The Health System is required by statute of the State of Mississippi to prepare a non-appropriated annual budget. The budget is not subject to appropriation and is therefore not required to be presented as supplementary information.

Basis of accounting

The Health System prepares its financial statements as a business-type activity in conformity with the applicable pronouncements of the GASB. The accompanying financial statements of the Health System have been prepared on the accrual basis of accounting using the economic resources measurement focus.

Use of estimates

The accounting estimates used in the preparation of the financial statements will change as new events occur, as more experience is acquired and as additional information is obtained. Future events and their effects cannot be predicted with certainty; accordingly, our accounting estimates require the exercise of judgment. In particular, laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates related to these programs will change by a material amount in the near term.

Cash and cash equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less when purchased.

Investments and investment income

Investments are carried at fair value, principally based on quoted market prices. Investment income from investments is reported as nonoperating revenue.

Patient accounts receivable

Patient accounts receivable are reported at net realizable value, after deduction of allowances for estimated uncollectible accounts and third-party contractual discounts. The allowance for uncollectible accounts is based on historical allowances and an analysis of currently outstanding amounts. This account is generally increased by charges to a provision for uncollectible accounts, and decreased by write-offs of accounts determined by management to be uncollectible. The allowances for third-party discounts are based on the estimated differences between the Health System's established rates and the actual amounts to be received under each contract. Changes in estimates by material amounts are reasonably possible in the near term.

Inventories

Inventories of drugs and other supplies are recorded at cost, using the first-in, first-out method, which is not in excess of market.

Funds held by trustees

Funds held by trustees include funds held for debt service, self-insurance funding, and pension funding.

Funds held by trustees for debt service under debt agreements that are required for obligations classified as current liabilities are reported as current assets.

**Singing River Health System
Notes to Financial Statements**

Capital assets, net

Capital assets are recorded at cost or, if donated, at fair value at the date of receipt. Depreciation is provided over the 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. Major renewals and renovations 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 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	5 - 25 years
Buildings and improvements	10 - 40 years
Fixed equipment	5 - 25 years
Movable equipment	3 - 20 years

Capital assets are reviewed for impairment when service utility has declined significantly and unexpectedly. 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 a historical cost approach method that best reflects the diminished service utility of the capital asset. An impairment loss of \$1,957,979 was recognized during the year ended September 30, 2016.

Cost of borrowing

Bond issuance costs are expensed as incurred. Deferred loss on refunding, and bond discounts and premiums are being amortized over the terms of the related indebtedness using the interest method.

Interest cost is capitalized on qualified construction expenditures as a component of the cost of the related projects. No interest cost was capitalized in 2017 and 2016.

Compensated absences

The Health System's employees accumulate paid time off, such as 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 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 is included in accrued payroll and employee benefits.

Deferred outflows and inflows of resources

Deferred outflows and inflows of resources represent the consumption and acquisition, respectively, of net position that applies to future periods.

Net position

Net position of the Health System is classified into the following components:

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. To the extent debt has been incurred but not yet expended for capital assets, such debt is excluded from the calculation of net investment in capital assets.

Net position restricted for debt service is amounts deposited with trustees as required by bond indentures or debt agreements.

Singing River Health System Notes to Financial Statements

Unrestricted net position is remaining net position that does not meet the definition of invested in capital assets, net of related debt or restricted.

Patient service revenues

The Health System has agreements with third-party payors that provide for payments to the Health System at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per-diem payments. Patient service revenue is reported at estimated net realizable amounts from patients, third-party payors and others for services rendered, and includes estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are considered in the recognition and accrual of revenue on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Charity care

The Health System provides medical care without charge or at a reduced charge to patients who meet certain criteria under its charity care policy. Because the Health System does not pursue collection of amounts determined to qualify as charity care, these charges are not reported as net patient service revenue and are written off as charity care.

Electronic health record incentive payments

The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments beginning in 2011 for eligible hospitals and professionals that adopt and meaningfully use certified electronic health record ("EHR") technology. The Health System must also attest to certain criteria in order to qualify to receive the incentive payments. The amount of the incentive payments are calculated using predetermined formulas based on available information, primarily related to discharges and patient days. The Health System recognizes revenues related to Medicare incentive payments ratably over each EHR reporting period (October 1 to September 30) when it has demonstrated meaningful use requirements of certified EHR technology for the EHR reporting period. The Health System recognizes Medicaid incentive payments in the period that it qualifies for the funds based on the provisions of the Division of Medicaid ("DOM").

The Health System recognized approximately \$1,118,000 of revenues related to the Medicare incentive program for the year ended September 30, 2016. This revenue is reflected in other revenues on the accompanying statement of revenues, expenses and changes in net position.

The Health System's attestation of demonstrating meaningful use is also subject to review by the appropriate government authorities. The amount of revenue recognized is based on management's best estimate, which is subject to change. Such changes would be reflected in the period in which changes occur.

Statements of revenues, expenses and changes in net position

For purposes of presentation, transactions deemed by management to be ongoing, major or central to the provision of healthcare services, other than financing costs, are reported as operating revenues and operating expenses. Peripheral or incidental transactions, such as net investment income, interest expense, minority interests, grants from others and gain (loss) on disposal of capital assets, are reported as nonoperating revenues and expenses.

Income taxes

The Health System is a not-for-profit entity as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Code. The Health System is also a political subdivision of Jackson County, Mississippi and is operated as a community hospital under related statutes of the State of Mississippi.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements included herein to conform to the 2017 presentation.

Subsequent Events

The Health System evaluated all events and transactions that occurred after September 30, 2017 through November 29, 2017, the date that the financial statements were available to be issued. During this period, the Health System did not have any material recognizable subsequent events.

2. Patient Service Revenue

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

- Medicare – Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to the patient classification system that is based on clinical, diagnostic and other factors. Inpatient services are paid under the traditional Part A plan or managed care (Medicare Advantage) negotiated rates under Part C. Outpatient services related to Medicare beneficiaries are reimbursed through a prospective payment system commonly known as Ambulatory Payment Classification ("APC"). Under the APC system, certain medical devices and drugs are reimbursed at cost or average wholesale price. Long-term care services are reimbursed under a prospective payment system that considers the Medicare beneficiaries' severity of illness among other clinical factors. Inpatient non-acute services are paid based on a prospective payment system. The Health System is reimbursed for cost-reimbursable items at a tentative rate, with final settlement determined after submission and review by the fiscal intermediary of annual cost reports. Revenue from the Medicare program accounted for approximately 50 and 49 percent of the Health System's net patient service revenue for the years ended September 30, 2017 and 2016, respectively.
- Medicaid – Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a prospective reimbursement methodology. The Health System is reimbursed at a prospective rate, which is adjusted annually based on published market basket update. Revenue from the Medicaid program accounted for approximately 12 percent of the Health System's net patient service revenue for years ended September 30, 2017 and 2016, respectively.

The Health System participates in the Mississippi Intergovernmental Transfer Program as a Medicaid Disproportionate Share Hospital ("DSH") and in the Mississippi Hospital Access Payment Program ("MHAP"). DSH funds are distributed in December, March and June. Under MHAP, taxes are assessed and funds are distributed on a monthly basis.

Under these programs, the Health System receives enhanced reimbursement through a matching mechanism. For the years ended September 30, 2017 and 2016, the Health System received approximately \$18,111,000 and \$17,090,000, respectively, in enhanced reimbursement through the DSH program. DSH amounts are recorded as a reduction of contractual adjustments. The net benefit to the Health System associated with participation in the MHAP program was approximately \$4,800,000 and \$4,459,000 for the years ended September 30, 2017 and 2016, respectively. MHAP amounts, net of related tax assessments of approximately \$11,912,000 and \$12,253,000 for the years ended September 30, 2017 and 2016, respectively, are also shown as a reduction of contractual adjustments. There can be no assurance that the Health System will continue to qualify for future participation in these programs or that the programs will not ultimately be discontinued or materially modified.

Singing River Health System
Notes to Financial Statements

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Health System recorded an increase of approximately \$14,000 and a decrease of approximately \$(988,000) to net patient service revenue for the fiscal years ended September 30, 2017 and 2016, respectively, as a result of changes of prior fiscal year estimates of cost report settlements. The Health System has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Health System under these agreements includes prospectively determined rates and discounts from established charges and prospectively determined per diem rates.

The composition of net patient service revenue are as follows for the years ended September 30:

	<u>2017</u>	<u>2016</u>
Gross patient service revenue	\$1,893,070,188	\$1,800,796,641
Less provision for contractual and other adjustments	(1,443,588,536)	(1,376,853,948)
Less provision for bad debts	(108,238,003)	(89,514,901)
Net patient service revenue	<u>\$ 341,243,649</u>	<u>\$ 334,427,792</u>

3. Charity Care

The Health System 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 costs of these services and supplies, and equivalent service statistics. Charges foregone, based on established rates, were approximately \$29,222,000 and \$50,094,000 for the years ended September 30, 2017 and 2016, respectively. The estimated costs and expenses incurred to provide charity care were approximately \$11,664,000 and \$19,882,000 for the years ended September 30, 2017 and 2016, respectively.

**Singing River Health System
Notes to Financial Statements**

4. Capital Assets

Capital assets and related activity consisted of the following for the year ended September 30, 2017:

	Balance September 30, 2016	Additions	Retirements/ Transfers and Impairment	Balance September 30, 2017
Capital assets not being depreciated:				
Land	\$ 5,597,289	\$ -	\$ -	\$ 5,597,289
Construction in progress	<u>12,622,249</u>	<u>11,230,629</u>	<u>(5,904,356)</u>	<u>17,948,522</u>
Total capital assets not being depreciated	<u>18,219,538</u>	<u>11,230,629</u>	<u>(5,904,356)</u>	<u>23,545,811</u>
Capital assets being depreciated:				
Land improvements	6,363,671	26,417	-	6,390,088
Buildings and improvements	204,561,448	929,960	(250,000)	205,241,408
Fixed equipment	13,946,381	-	-	13,946,381
Movable equipment	<u>233,676,991</u>	<u>11,464,966</u>	<u>(1,915,136)</u>	<u>243,226,821</u>
Total capital assets being depreciated	<u>458,548,491</u>	<u>12,421,343</u>	<u>(2,165,136)</u>	<u>468,804,698</u>
Less accumulated depreciation for:				
Land improvements	4,354,894	249,188	-	4,604,082
Buildings and improvements	107,322,369	7,499,591	-	114,821,960
Fixed equipment	11,949,326	175,337	-	12,124,663
Movable equipment	<u>179,172,414</u>	<u>9,705,941</u>	<u>(1,915,136)</u>	<u>186,963,219</u>
Total accumulated depreciation	<u>302,799,003</u>	<u>17,630,057</u>	<u>(1,915,136)</u>	<u>318,513,924</u>
Capital assets being depreciated, net	<u>155,749,488</u>	<u>(5,208,714)</u>	<u>(250,000)</u>	<u>150,290,774</u>
Capital assets, net	<u>\$ 173,969,026</u>	<u>\$ 6,021,915</u>	<u>\$ (6,154,356)</u>	<u>\$ 173,836,585</u>

Singing River Health System
Notes to Financial Statements

Capital assets and related activity consisted of the following for the year ended September 30, 2016:

	<u>Balance September 30, 2015</u>	<u>Additions</u>	<u>Retirements/ Transfers and Impairment</u>	<u>Deconsolidation of Surgery Centers</u>	<u>Balance September 30, 2016</u>
Capital assets not being depreciated:					
Land	\$ 7,461,539	\$ -	\$ (1,864,250)	\$ -	\$ 5,597,289
Construction in progress	<u>3,667,455</u>	<u>10,652,527</u>	<u>(1,697,733)</u>	<u>-</u>	<u>12,622,249</u>
Total capital assets not being depreciated	<u>11,128,994</u>	<u>10,652,527</u>	<u>(3,561,983)</u>	<u>-</u>	<u>18,219,538</u>
Capital assets being depreciated:					
Land improvements	6,363,671	-	-	-	6,363,671
Buildings and improvements	212,741,738	423,610	(93,729)	(8,510,171)	204,561,448
Fixed equipment	14,511,199	13,161	-	(577,979)	13,946,381
Movable equipment	<u>240,689,051</u>	<u>2,411,913</u>	<u>(1,574,700)</u>	<u>(7,849,273)</u>	<u>233,676,991</u>
Total capital assets being depreciated	<u>474,305,659</u>	<u>2,848,684</u>	<u>(1,668,429)</u>	<u>(16,937,423)</u>	<u>458,548,491</u>
Less accumulated depreciation for:					
Land improvements	4,103,858	251,036	-	-	4,354,894
Buildings and improvements	107,831,770	7,799,623	-	(8,309,024)	107,322,369
Fixed equipment	12,269,343	194,181	-	(514,198)	11,949,326
Movable equipment	<u>175,524,582</u>	<u>11,532,800</u>	<u>(1,574,449)</u>	<u>(6,310,519)</u>	<u>179,172,414</u>
Total accumulated depreciation	<u>299,729,553</u>	<u>19,777,640</u>	<u>(1,574,449)</u>	<u>(15,133,741)</u>	<u>302,799,003</u>
Capital assets being depreciated, net	<u>174,576,106</u>	<u>(16,928,956)</u>	<u>(93,980)</u>	<u>(1,803,682)</u>	<u>155,749,488</u>
Capital assets, net	<u>\$ 185,705,100</u>	<u>\$ (6,276,429)</u>	<u>\$ (3,655,963)</u>	<u>\$ (1,803,682)</u>	<u>\$ 173,969,026</u>

Construction in progress as of September 30, 2017 consisted primarily of expenditures associated with the Singing River Hospital ("SRH") and Ocean Springs Hospital ("OSH") window and roof replacements that are part of the Mississippi Emergency Management Agency ("MEMA") grant, renovations to patient care areas, and replacement of the SRH cooling tower system and related infrastructure. The Health System has associated purchase commitments totaling approximately \$2,005,000 at September 30, 2017, which will be funded through grant proceeds and designated funds. All projects are expected to be completed in the year ended September 30, 2018.

5. Leases

The Health System was obligated under several capital leases at September 30, 2017. Scheduled future payments on capital lease obligations are as follows:

	<u>Principal</u>	<u>Interest</u>
2018	\$ 119,997	9,697
2019	136,276	4,099
2020	<u>23,275</u>	<u>122</u>
Total	<u>\$ 279,548</u>	<u>\$ 13,918</u>

**Singing River Health System
Notes to Financial Statements**

A schedule of changes in the Health System's capital lease obligation balances for the year ended September 30, 2017 follows:

Description	Rate	Date of Issuance	Balance October 1, 2016	Additions	Retired	Balance September 30, 2017	Due Within One Year
Hospital equipment leases							
GE Capital	4.20%	12/17/2014	\$ 405,295	\$ -	\$ (125,747)	\$ 279,548	\$ 119,997
Key Government	6.37%	10/01/2015	17,086	-	(17,086)	-	-
IBM	2.93%	2/20/2015	90,698	-	(90,698)	-	-
			<u>\$ 513,079</u>	<u>\$ -</u>	<u>\$ (233,531)</u>	<u>\$ 279,548</u>	<u>\$ 119,997</u>

A schedule of changes in the Health System's capital lease obligation balances for the year ended September 30, 2016 follows:

Description	Rate	Date of Issuance	Balance October 1, 2015	Additions	Retired	Deconsolidation of Surgery Centers	Balance September 30, 2016	Due Within One Year
Subsidiary equipment leases								
Facility Development, LLC								
Hancock Bank	7.71%	10/1/2001	\$ 551,691	\$ -	\$ (459,743)	\$ (91,948)	\$ -	-
Hancock Bank	5.25%	12/10/2011	3,347	-	(2,789)	(558)	-	-
Hancock Bank	5.50%	4/10/2012	24,187	-	(20,156)	(4,031)	-	-
Hancock Bank	5.50%	4/20/2012	13,530	-	(11,275)	(2,255)	-	-
Hancock Bank	5.25%	12/10/2011	3,347	-	(2,789)	(558)	-	-
Hancock Bank	5.55%	4/10/2012	4,549	-	(3,791)	(758)	-	-
Hancock Bank	5.00%	11/30/2013	263,022	-	(65,534)	(197,488)	-	-
Hancock Bank	4.50%	2/10/2014	5,447	-	(4,539)	(908)	-	-
Hancock Bank	4.50%	6/20/2014	8,805	-	(7,338)	(1,467)	-	-
Hancock Bank	5.25%	9/10/2014	114,233	-	(18,429)	(95,804)	-	-
Hancock Bank	5.00%	12/30/2013	263,022	-	(65,534)	(197,488)	-	-
Hancock Bank	4.50%	6/20/2014	8,805	-	(7,337)	(1,468)	-	-
Hancock Bank	5.50%	11/10/2014	9,358	-	(3,631)	(5,727)	-	-
Hancock Bank	4.25%	5/20/2015	11,886	-	(9,905)	(1,981)	-	-
Hancock Bank	5.50%	12/17/2014	226,395	-	(40,996)	(185,399)	-	-
Hancock Bank	4.25%	2/20/2015	6,970	-	(5,808)	(1,162)	-	-
Hospital equipment leases								
GE Capital	4.20%	12/17/2014	525,881	-	(120,586)	-	405,295	125,748
GE Capital	4.20%	12/17/2014	272,063	-	(272,063)	-	-	-
Key Government	6.37%	10/01/2015	-	78,375	(61,289)	-	17,086	17,086
IBM	2.93%	2/20/2015	178,764	-	(88,066)	-	90,698	90,698
			<u>\$2,495,302</u>	<u>\$ 78,375</u>	<u>\$(1,271,598)</u>	<u>\$ (789,000)</u>	<u>\$ 513,079</u>	<u>\$ 233,532</u>

Capital assets totaling approximately \$663,300 and \$1,353,900 are related to the above capital lease obligations at September 30, 2017 and 2016, respectively. Related accumulated amortization was approximately \$383,800 and \$830,600 at September 30, 2017 and 2016, respectively.

Rental expense for all operating leases was approximately \$6,061,000 and \$5,836,000 for the years ended September 30, 2017 and 2016, respectively. There are no significant noncancelable operating leases at September 30, 2017. Management expects that most lease agreements will be replaced, as they expire, with similar agreements.

Singing River Health System
Notes to Financial Statements

6. Cash, Cash Equivalents and Investments

The Health System's bank balances are as follows at September 30:

	<u>2017</u>	<u>2016</u>
Deposits insured by the FDIC	\$ 500,000	\$ 783,090
Deposits uninsured, uncollateralized, or collateralized by securities held by the pledging institution or by its trust department or agent in other than the Health System's name	<u>77,621,832</u>	<u>77,981,515</u>
Total	<u>\$ 78,121,832</u>	<u>\$ 78,764,605</u>
Carrying amount (cash and cash equivalents)	<u>\$ 73,134,657</u>	<u>\$ 76,464,052</u>

The Health System owns certain investments recorded in investments, trustee bond funds, held by trustee for self-insurance funding and held by trustee for pension funding on the statement of net position. A summary of these investments follows for September 30:

	<u>2017</u>	<u>2016</u>
Money market investments	\$ 3,610,184	\$ 3,603,539
Money market funds	15,019,762	15,812,945
U.S. Government obligations	11,858,902	6,963,647
Municipal obligations	2,039,183	823,247
Collateralized mortgage obligations	11,299,172	-
Mortgage backed securities	3,420,400	1,687,501
Guaranteed contracts	<u>3,145,160</u>	<u>3,145,160</u>
	<u>\$ 50,392,763</u>	<u>\$ 32,036,039</u>

Investment securities are exposed to various risks such as interest rate, market, and credit risks. The Health System has implemented a formal investment policy to limit exposure to these risks. The goals of the investment policy are (1) safety of principal, (2) liquidity, and (3) yield. The investment policy calls sets the following guidelines:

1. Maturity – the maximum effective average maturity of the overall portfolio shall be 3 years and no single security shall have an effective maturity greater than 5 years.
2. Quality – securities shall at time of purchase be rated “A” or better by either S&P or Moody's rating service.
3. Diversification – investments in non-Treasury or Agency issuers shall be limited to a maximum of 5 percent.

**Singing River Health System
Notes to Financial Statements**

Interest rate risk

In accordance with its investment policy, the Health System manages its exposure to declines in fair value by limiting the maximum effective maturity of its investment portfolio to less than 3 years. As of September 30, 2017, the Health System's investments had the following maturities:

<u>Investment Type</u>	<u>Fair or Contract Value</u>	<u>< 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>> 10</u>
Money market investments	\$ 3,610,184	\$ 3,610,184	\$ -	\$ -	\$ -
Money market funds	15,019,762	15,019,762	-	-	-
U.S. Government obligations	11,858,902	4,925,652	6,933,250	-	-
Municipal obligations	2,039,183	765,141	1,274,042	-	-
Collateralized mortgage obligations	11,299,172	204,536	-	3,001,601	8,093,035
Mortgage-backed securities	3,420,400	1,266,696	-	368,609	1,785,095
Guaranteed contracts	<u>3,145,160</u>	<u>-</u>	<u>3,145,160</u>	<u>-</u>	<u>-</u>
	<u>\$ 50,392,763</u>	<u>\$ 25,791,971</u>	<u>\$ 11,352,452</u>	<u>\$ 3,370,210</u>	<u>\$ 9,878,130</u>

Custodial credit risk

Custodial credit risk is the risk that, in the event of a bank failure, an organization's deposits may not be returned. The Health System has a deposit policy for custodial credit risk that requires deposits to be collateralized by securities held by the pledging institution or its trust department or agent in other than the Health System's name.

Credit risk

The Health System's investment policy limits investments to those rated "A" or better by either S&P or Moody's at the time of purchase. Credit quality distributions for investments, with credit exposure as a percentage of total investments are as follows at year end:

<u>Investment Type</u>	<u>Rating</u>	<u>Percentage</u>
Money market investments	Not rated	7%
Money market funds	Not rated	30%
U.S. Government obligations	*	24%
Municipal obligations	Aa3	4%
Collateralized mortgage obligations	Aaa	22%
Mortgage-back securities	Aaa	7%
Guaranteed investment contract	Not rated	6%

*Guaranteed by the full faith and credit of the United States Government

Singing River Health System
Notes to Financial Statements

Various funds were established in accordance with the requirements of the indentures related to the Series 2009A, Series 2009B and Series 2011 Bonds discussed in Note 7. A summary of the funds are as follows for September 30:

	<u>2017</u>	<u>2016</u>
Reserve funds – long-term	\$ 7,171,171	\$ 7,153,988
Principal and interest funds – current	2,900,832	3,297,257
Capital improvement funds – long-term	<u>2,784,263</u>	<u>2,788,938</u>
	<u>\$ 12,856,266</u>	<u>\$ 13,240,183</u>

The reserve funds are generally equal to the maximum annual principal and interest requirements (as defined) for the revenue bonds. The principal and interest funds are for the annual debt service of the revenue bonds. The capital improvement funds represent proceeds of the revenue bonds to be used to fund costs of construction and installation of equipment and facilities. Deposits classified as current assets represent funds to be used to pay debt service and cost of issuance amounts classified as current liabilities at September 30, 2017 and 2016.

Investment income is comprised of the following at September 30:

	<u>2017</u>	<u>2016</u>
Dividend and interest income	\$ 177,870	\$ 152,284
Net increase in the fair value of investments	<u>388,078</u>	<u>201,219</u>
	<u>\$ 565,948</u>	<u>\$ 353,503</u>

7. Long-Term Debt

A summary of long-term debt based on contractual requirements is as follows at September 30:

	<u>2017</u>	<u>2016</u>
Mississippi Development Bank Special Obligation Bonds – Series 2011	\$ 26,640,000	\$ 29,230,000
Plus unamortized bond premium	<u>759,068</u>	<u>876,638</u>
	<u>27,399,068</u>	<u>30,106,638</u>
Mississippi Development Bank Special Obligation Bonds – Series 2009A	30,120,000	\$ 30,865,000
Unamortized bond discount	<u>(687,511)</u>	<u>(737,856)</u>
	<u>29,432,489</u>	<u>30,127,144</u>
Mississippi Development Bank Special Obligation Refunding Bonds – Series 2009B	24,320,000	\$ 27,820,000
Unamortized bond discount	<u>(66,259)</u>	<u>(86,785)</u>
	<u>24,253,741</u>	<u>27,733,215</u>
	81,085,298	87,966,997
Current installments, based on contractual terms	<u>(7,135,000)</u>	<u>(6,835,000)</u>
Long-term debt, excluding current contractual installments	<u>\$ 73,950,298</u>	<u>\$ 81,131,997</u>

Singing River Health System Notes to Financial Statements

On April 2, 2009, the Health System issued \$35,000,000 of Special Obligation Bonds (the Series 2009A Bonds) through Mississippi Development Bank (“MDB”). The purpose of the bonds was to provide funding for constructing, remodeling, adding to, equipping and furnishing an addition to and expansion of the Health System, funding a debt service reserve fund for the Series 2009A bonds and paying cost of issuance on the Series 2009A bonds. The bonds consist of \$6,455,000 of serial bonds and \$28,545,000 term bonds bearing fixed rates ranging from 3.0 percent to 5.625 percent secured by a bond insurance policy provided by Assured Guaranty.

On October 27, 2009 the Health System refunded the Series 2008A bonds, outstanding in the amount of \$44,000,000, with the Series 2009 B-1 and 2009 B-2 bonds. The Series 2009 B-1 and 2009 B-2 bonds bearing fixed rates ranging from 2.0 percent to 5.0 percent secured by a bond insurance policy provided by Assured Guaranty and a five mill pledge of the assessed real and personal property by Jackson County.

The Series 2009 B-1 and B-2 Bonds were issued by the MDB as fixed interest rate securities and pay interest semiannually (January 1 and July 1) and principal annually (July 1 with the exception of the 2023 payment which is March 1). The Series 2009 B-1 Bonds of \$48,340,000 mature on March 1, 2023 and the Series 2009 B-2 Bonds of \$2,395,000 matured on July 1, 2012.

On July 27, 2011, the Health System issued \$36,610,000 of Special Obligation Bonds (the Series 2011 Bonds). The purpose of the 2011 Bonds was to provide funding for an electronic medical record system, constructing, remodeling, adding to, equipping and furnishing an addition to and expansion of the Health System, funding a debt service reserve fund, paying capitalized interest and paying costs of issuance on the Series 2011 Bonds. The bonds are fixed rate bonds secured by a bond insurance policy provided by Assured Guaranty and a five mill pledge of the assessed real and personal property by Jackson County. The Series 2011 Bonds were issued by the MDB and pay interest semiannually (January 1 and July 1) and principal annually (July 1). The bonds consist of \$28,255,000 Serial Bonds maturing on July 1, 2023, \$4,490,000 of Term Bonds maturing on July 1, 2031 and \$3,865,000 of Term Bonds maturing on July 1, 2036 and are at fixed rates ranging from 3.0 percent to 5.375 percent.

With respect to the 2011 Bond projects, one of the projects, a “Chiller/Electrical Plant” at Singing River Hospital in Pascagoula, for which the financing was obtained, was not completed. Some of the proceeds were used for other capital projects that management at the time apparently deemed more critical, including electrical upgrades, switchgear, and other improvements. The Chiller/Electrical Plant at the Pascagoula hospital is currently under construction with estimated full completion in 2018. Some components of the project have been completed as of this date, including architectural and engineering, bulk oxygen facility, emergency power switchgear, life safety generators, automatic transfer switches, some normal power electrical switch and control work, and piping for the chilled and condenser water. The full bid has been released for the completion of normal power switchgear. The cooling tower was completed in 2017. The chiller plant will be completed in 2018.

As the Health System is a political subdivision of the State of Mississippi and is owned by Jackson County, Mississippi (the “County”), legally available mills have been pledged by the County as additional security for the 2009 and 2011 Revenue Bonds. To date, no such mills have been levied to support these or any other borrowings of the Health System.

Under the terms of the respective loan agreements in connection with the Series 2009 Bonds and Series 2011 Bonds, the Health System is obligated to meet certain financial covenants on March 31st and September 30th of each year, including availability of cash, debt service coverage and limitations on additional debt. On July 15, 2014, the loan agreements were amended to state that a failure to comply with the financial covenants set forth in the bond agreements are not events of default. Rather, the amendments provide that the Bond Insurer may determine, at their sole discretion, whether a financial covenant violation constitutes an event of default. The Health System was in compliance with required days cash on hand and minimum debt service coverage financial covenants at September 30, 2017.

**Singing River Health System
Notes to Financial Statements**

Debt service requirements associated with the Health System's long-term debt are as follows at September 30, 2017:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 7,135,000	4,033,894	11,168,894
2019	7,420,000	3,823,131	11,243,131
2020	7,745,000	3,576,619	11,321,619
2021	8,105,000	3,315,819	11,420,819
2022	8,450,000	3,071,519	11,521,519
2023 – 2027	15,380,000	9,122,993	24,502,993
2028 – 2032	10,130,000	6,350,238	16,480,238
2033 – 2037	12,305,000	3,274,788	15,579,788
2038 – 2042	<u>4,410,000</u>	<u>375,469</u>	<u>4,785,469</u>
	<u>\$ 81,080,000</u>	<u>\$ 36,944,470</u>	<u>\$118,024,470</u>

At September 30, 2017, long-term debt, including additions and reductions, consisted of the following:

<u>Description</u>	<u>Date of Issuance</u>	<u>Balance October 1, 2016</u>	<u>Additions</u>	<u>Retired</u>	<u>Balance September 30, 2017</u>	<u>Due Within One Year</u>
Series 2009B	10/27/2009	27,820,000	-	(3,500,000)	24,320,000	3,640,000
Series 2009A	4/2/2009	30,865,000	-	(745,000)	30,120,000	770,000
Series 2011	7/27/2011	<u>29,230,000</u>	<u>-</u>	<u>(2,590,000)</u>	<u>26,640,000</u>	<u>2,725,000</u>
		<u>\$ 87,915,000</u>	<u>\$ -</u>	<u>\$ (6,835,000)</u>	<u>\$81,080,000</u>	<u>\$ 7,135,000</u>

At September 30, 2016, long-term debt, including additions and reductions, consisted of the following:

<u>Description</u>	<u>Date of Issuance</u>	<u>Balance October 1, 2015</u>	<u>Additions</u>	<u>Retired</u>	<u>Balance September 30, 2016</u>	<u>Due Within One Year</u>
Series 2009B	10/27/2009	31,185,000	-	(3,365,000)	27,820,000	3,500,000
Series 2009A	4/2/2009	31,580,000	-	(715,000)	30,865,000	745,000
Series 2011	7/27/2011	<u>31,700,000</u>	<u>-</u>	<u>(2,470,000)</u>	<u>29,230,000</u>	<u>2,590,000</u>
		<u>\$ 94,465,000</u>	<u>\$ -</u>	<u>\$ (6,550,000)</u>	<u>\$87,915,000</u>	<u>\$ 6,835,000</u>

8. Pension Plan

General information about the pension plan

Plan description. The Health System's defined benefit pension plan, Singing River Health System Employees' Retirement Plan and Trust (the "Pension Plan"), provides pensions for certain full-time employees of the Health System that were employed prior to October 1, 2011. The Pension Plan is a single-employer defined benefit pension plan administered by the Health System.

Benefits provided. The Pension Plan provides retirement, disability, and death benefits. Retirement benefits are calculated as a percentage of the employee's highest average monthly salary during any nineteen consecutive quarters of compensation during the forty consecutive quarters of employment immediately preceding the date of termination, plus the last quarter of employment compensation ("Average Monthly Compensation"). Normal retirement benefits are calculated as the sum of a) 1.625 percent of Average Monthly Compensation multiplied by

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years of credited service, up to twenty years, b) 1.75 percent of Average Monthly Compensation multiplied by years of credited service in excess of twenty years, up to thirty years, c) 2 percent of Average Monthly Compensation multiplied by years of credited service in excess of thirty years. Average Monthly Compensation is reduced by 50 percent in calculating benefits for participants with less than twenty years of service. In no case is the amount of normal retirement benefit to be less than years of credited service multiplied by five dollars.

Employees with ten years of credited service are eligible for normal retirement at age 65, or early retirement at age 60. The amount of early retirement benefit is equal to normal retirement benefit, reduced by 3 percent for each year that commencement precedes the normal retirement date. A participant with thirty years or more of credited service may commence early retirement without any reductions. Employees are eligible for disability benefits after 10 years of service if they are eligible for Social Security Disability. Disability retirement benefits are determined using final average earnings at the date of disability and the amount of service that would have been accrued if the participants worked to the later of the age of sixty or the date of disability, reduced 3 percent for each year that commencement precedes the normal retirement date, up to 15 percent. Death benefits equal the amount that would have been paid had the participant separated from service on the date of death and retired with a 100 percent qualified joint and survivor annuity, reduced 3 percent for each year the date of death precedes the normal retirement date. An employee who terminates service may withdraw his or her contributions, plus any accumulated interest.

Benefit terms provide for annual cost-of-living adjustments subsequent to the employee's retirement date. The annual adjustments are one-half of the change in the Consumer Price Index, limited to a maximum increase in retirement allowance of 2.5 percent

Employees covered by benefit terms. At September 30, 2017 and 2016, the following employees were covered by the benefit terms:

	<u>2017</u>	<u>2016</u>
Inactive employees or beneficiaries currently receiving benefits	724	688
Inactive employees entitled to but not yet receiving benefits	162	156
Inactive employees not entitled to benefits	919	947
but with employee contributions		
Active employees	<u>1,020</u>	<u>1,154</u>
	<u>2,825</u>	<u>2,945</u>

Effective October 1, 2011, the Pension Plan was amended to freeze entry to new participants. Effective November 20, 2014, the Health System froze benefit accruals for all Pension Plan participants.

Contributions. As a governmental entity, the Health System is exempt from the requirements of the Employee Retirement Income Security Act of 1974, and is otherwise not required by law or statute to make annual contributions to the Plan. The Health System did not make any contributions to the Pension Plan during the years ended September 30, 2017 and 2016.

Through November 2014, active participants were required to contribute 3 percent of annual pay to the Pension Plan. Effective November 20, 2014, the Pension Plan was amended whereby employee contributions ceased subsequent to the first payroll period paid in December 2014.

Net pension liability

The Health System's net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2016.

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Actuarial assumptions. The total pension liability in the October 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Cost of living increases	1.25%
Salary increases	-%
Investment rate of return	6%

Mortality rates were based on the RP-2014 Employee and Healthy Annuitant Mortality Tables adjusted back to 2006, then projected forward with Scale MP-2016 for all years.

The long-term expected rate of return on pension plan investments was determined based on input provided by the investment advisor regarding expected returns and standard deviations by asset class and a decision by the plan sponsor to select a conservative expected return within that model.

Discount rate. The discount rate used to measure the total pension liability at September 30, 2017 was 3.49 percent. The projection of cash flows used to determine the discount rate assumes that employee contributions will not be made in the future and that Health System contributions will be made at actuarially determined rates. Based on those assumptions, the pension plan's fiduciary net position was projected not to be available to make all projected future benefit payments of current active and inactive employees. Therefore, a blended rate of that utilizes the long-term expected rate of return on the Pension Plan investments of 6.0 percent and the twenty-year general obligation Federal Reserve Bond Buyer Index rate ("Muni Bond Rate") of 3.35 percent was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate changed from the rate of 3.27 percent used at the previous measurement date at September 30, 2016 due to changes in the expected long-term rate of return on investments and the Muni Bond Rate.

Changes in the net pension liability

The following represents the changes in the net pension liability as of September 30, 2017:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Interest	\$ 14,893,889	\$ -	\$ 14,893,889
Differences between expected and actual experience	4,496,222	-	4,496,222
Net investment income	-	11,369,590	(11,369,590)
Changes of assumptions	(15,273,971)	-	(15,273,971)
Benefit payments, including refunds of employee contributions	(16,304,500)	(16,304,500)	-
Administrative expense	-	(685,109)	685,109
Net change	(12,188,360)	(5,620,019)	(6,568,341)
Balance at October 1, 2016	<u>463,629,088</u>	<u>130,631,000</u>	<u>332,998,088</u>
Balance at September 30, 2017	<u>\$451,440,728</u>	<u>\$125,010,981</u>	<u>\$326,429,747</u>

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The following represents the changes in the net pension liability as of September 30, 2016:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Interest	\$ 17,011,106	\$ -	\$ 17,011,106
Differences between expected and actual experience	(10,199,979)	-	(10,199,979)
Net investment income	-	8,918,860	(8,918,860)
Changes of assumptions	29,972,888	-	29,972,888
Benefit payments, including refunds of employee contributions	(15,023,227)	(15,023,227)	-
Administrative expense	-	(677,633)	677,633
Net change	21,760,788	(6,782,000)	28,542,788
Balance at October 1, 2015	<u>441,868,300</u>	<u>137,413,000</u>	<u>304,455,300</u>
Balance at September 30, 2016	<u>\$463,629,088</u>	<u>\$130,631,000</u>	<u>\$332,998,088</u>

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the Health System, calculated using the discount rate of 3.49 percent, as well as what the Health System's net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

Sensitivity	Discount Rate	Net Pension Liability
Current discount rate	3.49%	\$ 326,429,747
1% decrease in discount rate	2.49%	\$ 403,010,896
1% increase in discount rate	4.49%	\$ 266,152,784

Pension plan fiduciary net position. Detailed information about the Pension Plan's fiduciary net position is available in the separately issued financial report.

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 Health System recognized pension expense of approximately \$16,352,000 and \$22,169,000, respectively.

At September 30, 2017, the Health System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 3,073,367	\$ 4,252,469
Changes of other assumptions or other inputs	17,586,379	10,440,436
Net difference between projected and actual earnings on pension plan investments	-	76,840
	<u>\$ 20,659,746</u>	<u>\$ 14,769,745</u>

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At September 30, 2016, the Health System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 7,226,224
Changes of other assumptions or other inputs	31,980,821	-
Net difference between projected and actual earnings on pension plan investments	<u>4,526,034</u>	<u>470,150</u>
	<u>\$ 36,506,855</u>	<u>\$ 7,696,374</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pension Plan will be recognized in pension expense as follows:

<u>Year ended September 30:</u>	
2018	\$ 8,150,154
2019	(226,117)
2020	(1,348,641)
2021	(685,395)
Thereafter	<u>-</u>
	<u>\$ 5,890,001</u>

9. Postemployment Healthcare Plan

Singing River Health System Postretirement Medical Plan (the "Health Plan") was a single-employer defined benefit healthcare plan sponsored and administered by the Health System. The Health Plan provided medical and drug benefits to eligible retirees and their spouses. The Health System's Board of Trustees was authorized to establish and amend all provisions. The Health System did not issue a publicly available financial report that included financial statements and required supplementary information for the Health Plan.

During the year ended September 30, 2016, the Health System Board resolved to terminate the Health Plan effective January 1, 2017. As no participants remained in the Health Plan at September 30, 2016, the net postemployment benefit obligation is \$0.

Annual OPEB cost and net OPEB obligation

The Health System's annual other postemployment benefit ("OPEB") cost (benefit) was calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represented a level of funding that, if paid on an ongoing basis, was projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 6.678 years. The following table shows the components of the Health System's annual OPEB cost for the previous years, the amount actually contributed to the Health Plan and changes in the Health System's net OPEB obligation:

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	<u>2017</u>	<u>2016</u>
Annual OPEB cost (benefit)	\$ -	\$ (13,977,882)
Contributions	-	-
Decrease in net OPEB obligation	-	(13,977,882)
Net OPEB obligation, beginning of year	-	(13,977,882)
Net OPEB obligation, end of year	<u>\$ -</u>	<u>\$ -</u>

Three-year trend information

<u>Fiscal Year Ended</u>	<u>Annual OPEB cost (Benefit)</u>	<u>Percentage of Annual OPEB cost Contributed</u>	<u>Net OPEB Obligation</u>
September 30, 2015	\$ (1,331,158)	(17)	13,977,882
September 30, 2016	(13,977,882)	-	-
September 30, 2017	-	-	-

10. Business and Credit Concentrations

The Health System grants credit to patients, substantially all of whom are local area residents. The Health System 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).

The mix of receivables from patients and third-party payors follows at September 30:

	<u>2017</u>	<u>2016</u>
Medicare	36%	36%
Commercial insurance	19%	18%
Patients	25%	26%
Blue Cross	10%	10%
Medicaid	10%	10%
	<u>100%</u>	<u>100%</u>

11. Risk Management

Effective October 1, 2003, the Health System implemented a self-insurance program for professional and general liability risks, both with respect to claims incurred after the effective date of the program and claims incurred but not reported prior to that date. The Health System does not maintain any excess coverage for its self-insurance because the Health System is a community hospital organized in accordance with the community statutes of the State of Mississippi and, as such, is afforded sovereign immunity in accordance with the Mississippi Tort Claims Act. Presently, sovereign immunity limits losses to \$500,000 per claim. Prior to October 1, 2003, the Health System's insurance coverages for professional and general liability risks were provided under claims-made policies.

Incurred losses identified through the Health System's incident reporting system and incurred but not reported losses are accrued based on estimates that incorporate the Health System's current inventory of reported claims and historical experience, as well as considerations such as the nature of each claim or incident, relevant trend

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factors and advice from consulting actuaries. The Health System has established a self-insurance trust fund for payment of liability claims and makes deposits to the fund in amounts determined by consulting actuaries.

The self-insurance liability for professional and general liability is included in the accrued workers' compensation, professional, and general liability costs line item on the statement of net position. The following is a summary of changes in the Health System's self-insurance liability for professional and general liability costs for fiscal years 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Balance at October 1	\$ 6,284,576	\$ 6,227,682
Provisions for claims reported and claims incurred but not reported	3,046,269	56,894
Claims paid	<u>-</u>	<u>-</u>
Balance at September 30	<u>\$ 9,330,845</u>	<u>\$ 6,284,576</u>

Like many other businesses, the Health System is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illness; natural disasters and professional and general liability claims and judgments. Commercial insurance coverage is purchased for most claims arising from such matters. Claims settled through September 30, 2017 have not exceeded this commercial coverage in any of the three preceding years.

Prior to 2003, the Health System purchased insurance to cover workers' compensation claims. During 2003, the Health System purchased high-deductible workers' compensation insurance, which had the effect that the Health System is largely self-insured.

The self-insurance liability for workers' compensation claims is included in the accrued workers' compensation, professional, and general liability costs line item on the statement of net position. The following is a summary of changes in the Health System's self-insurance liability for worker's compensation coverages for fiscal years 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Balance at October 1	\$ 1,910,000	\$ 2,590,000
Provisions for claims reported and claims incurred but not reported	493,594	(232,105)
Claims paid	<u>(583,594)</u>	<u>(447,895)</u>
Balance at September 30	<u>\$ 1,820,000</u>	<u>\$ 1,910,000</u>

The Health System is self-insured for employee health coverage up to a limit of \$500,000 per individual claim. The Health System maintains coverage with a third-party carrier for excess losses up to \$1 million (specific lifetime reimbursement per covered person).

The self-insurance liability for employee health coverage is included in the accrued payroll and employee benefits line item on the statement of net position. The following is a summary of changes in the Health System's self-insurance liability for employee health coverage for fiscal years 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Balance at October 1	\$ 2,230,585	\$ 2,892,571
Provisions for claims reported and claims incurred but not reported	18,650,074	20,672,073
Claims paid	<u>(18,491,912)</u>	<u>(21,334,059)</u>
Balance at September 30	<u>\$ 2,388,747</u>	<u>\$ 2,230,585</u>

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12. Blended Component Unit Reporting

The Condensed Combining Statement of Net Position, Condensed Combining Statement of Revenue, Expenses and Changes in Net Position and the Condensed Combining Statement of Cash Flows as of and for the years ended September 30, 2017 and 2016, are detailed below:

Condensed Combining Statement of Net Position, September 30, 2017:

	<u>SRHS</u>	<u>SRHSAS</u>	<u>Anesthesia Services, LLC</u>	<u>Eliminations</u>	<u>Combined</u>
Assets:					
Current assets	\$ 125,754,736	\$ 5,483,666	\$ 2,240,871	\$ (1,976,749)	\$ 131,502,524
Capital assets	170,624,836	3,211,749	-	-	173,836,585
Other assets	<u>34,677,607</u>	<u>4,231,409</u>	-	<u>(13,171,072)</u>	<u>25,737,944</u>
Total assets	331,057,179	12,926,824	2,240,871	(15,147,821)	331,077,053
Total deferred outflows of resources	<u>22,428,388</u>	-	-	-	<u>22,428,388</u>
Total assets and deferred outflows	<u>\$ 353,485,567</u>	<u>\$ 12,926,824</u>	<u>\$ 2,240,871</u>	<u>\$ (15,147,821)</u>	<u>\$ 353,505,441</u>
Current liabilities	\$ 45,520,594	\$ 90,000	\$ 1,191,704	\$ (1,179,040)	\$ 45,623,258
Long-term liabilities	<u>412,376,496</u>	-	-	-	<u>412,376,496</u>
Total liabilities	<u>457,897,090</u>	<u>90,000</u>	<u>1,191,704</u>	<u>(1,179,040)</u>	<u>457,999,754</u>
Total deferred inflows of resources	<u>14,769,745</u>	-	-	-	<u>14,769,745</u>
Net position:					
Net investment capital assets	89,259,990	3,211,749	-	-	92,471,739
Restricted	12,856,266	-	-	-	12,856,266
Unrestricted	<u>(221,297,524)</u>	<u>9,625,075</u>	<u>1,049,167</u>	<u>(13,968,781)</u>	<u>(224,592,063)</u>
Total liabilities, deferred inflows and net position	<u>\$ 353,485,567</u>	<u>\$ 12,926,824</u>	<u>\$ 2,240,871</u>	<u>\$ (15,147,821)</u>	<u>\$ 353,505,441</u>

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Condensed Combining Statement of Revenues, Expenses, and Changes in Net Position, September 30, 2017:

	<u>SRHS</u>	<u>SRHSAS</u>	<u>Anesthesia Services, LLC</u>	<u>Eliminations</u>	<u>Combined</u>
Net patient service revenue, net	\$ 339,168,173	\$ -	\$ 2,075,476	\$ -	\$ 341,243,649
Other revenues	<u>11,487,957</u>	<u>-</u>	<u>2,071,401</u>	<u>(2,129,638)</u>	<u>11,429,720</u>
Total revenues	<u>350,656,130</u>	<u>-</u>	<u>4,146,877</u>	<u>(2,129,638)</u>	<u>352,673,369</u>
Depreciation	18,816,547	281,930	-	-	19,098,477
Other operating expenses	<u>324,549,011</u>	<u>234,288</u>	<u>3,380,649</u>	<u>(2,170,419)</u>	<u>325,993,529</u>
Total operating expenses	<u>343,365,558</u>	<u>516,218</u>	<u>3,380,649</u>	<u>(2,170,419)</u>	<u>345,092,006</u>
Operating income	7,290,572	(516,218)	766,228	40,781	7,581,363
Nonoperating revenues (expenses)	<u>(2,756,488)</u>	<u>(1,643,730)</u>	<u>-</u>	<u>1,065,825</u>	<u>(3,334,393)</u>
Change in net position	4,534,084	(2,159,948)	766,228	1,106,606	4,246,970
Net position, beginning of period	<u>(123,715,352)</u>	<u>14,996,772</u>	<u>282,939</u>	<u>(15,075,387)</u>	<u>(123,511,028)</u>
Net position, end of period	<u>\$ (119,181,268)</u>	<u>\$ 12,836,824</u>	<u>\$ 1,049,167</u>	<u>\$ (13,968,781)</u>	<u>\$ (119,264,058)</u>

Condensed Combining Statement of Cash Flows, September 30, 2017:

	<u>SRHS</u>	<u>SRHSAS</u>	<u>Anesthesia Services, LLC</u>	<u>Eliminations</u>	<u>Combined</u>
Net cash provided (used) by operating activities	\$ 42,337,735	\$ (144,288)	\$ 1,006,901	\$ -	\$ 43,200,348
Net cash provided (used) by capital and related financing activities	(29,455,606)	227,716	-	-	(29,227,890)
Net cash used by investing activities	<u>(17,942,975)</u>	<u>641,122</u>	<u>-</u>	<u>-</u>	<u>(17,301,853)</u>
Net increase (decrease) in cash and cash equivalents	(5,060,846)	724,550	1,006,901	-	(3,329,395)
Cash and cash equivalents, beginning of year	<u>70,767,821</u>	<u>4,759,118</u>	<u>937,113</u>	<u>-</u>	<u>76,464,052</u>
Cash and cash equivalents end of year	<u>\$ 65,706,975</u>	<u>\$ 5,483,668</u>	<u>\$ 1,944,014</u>	<u>\$ -</u>	<u>\$ 73,134,657</u>

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Condensed Combining Statement of Net Position, September 30, 2016:

	<u>SRHS</u>	<u>SRHSAS</u>	<u>Anesthesia Services, LLC</u>	<u>Eliminations</u>	<u>Combined</u>
Assets:					
Current assets	\$ 107,886,546	\$ 4,759,118	\$ 1,225,340	\$ (1,008,038)	\$ 112,862,966
Capital assets	168,207,031	5,761,995	-	-	173,969,026
Other assets	35,230,547	4,475,659	-	(15,003,115)	24,703,091
Total assets	<u>311,324,124</u>	<u>14,996,772</u>	<u>1,225,340</u>	<u>(16,011,153)</u>	<u>311,535,083</u>
Total deferred outflows of resources	<u>38,837,346</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,837,346</u>
Total assets and deferred outflows	<u>\$ 350,161,470</u>	<u>\$ 14,996,772</u>	<u>\$ 1,225,340</u>	<u>\$ (16,011,153)</u>	<u>\$ 350,372,429</u>
Current liabilities	\$ 42,580,296	\$ -	\$ 942,401	\$ (935,766)	\$ 42,586,931
Long-term liabilities	<u>423,600,152</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>423,600,152</u>
Total liabilities	<u>466,180,448</u>	<u>-</u>	<u>942,401</u>	<u>(935,766)</u>	<u>466,187,083</u>
Total deferred inflows of resources	<u>7,696,374</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,696,374</u>
Net position:					
Net investment capital assets	79,726,955	5,761,995	-	-	85,488,950
Restricted	13,240,183	-	-	-	13,240,183
Unrestricted	<u>(216,682,490)</u>	<u>9,234,777</u>	<u>282,939</u>	<u>(15,075,387)</u>	<u>(222,240,161)</u>
Total liabilities, deferred inflows and net position	<u>\$ 350,161,470</u>	<u>\$ 14,996,772</u>	<u>\$ 1,225,340</u>	<u>\$ (16,011,153)</u>	<u>\$ 350,372,429</u>

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Condensed Combining Statement of Revenues, Expenses, and Changes in Net Position, September 30, 2016:

	<u>SRHS</u>	<u>SRHSAS</u>	<u>Anesthesia Services, LLC</u>	<u>Eliminations</u>	<u>Combined</u>
Net patient service revenue, net	\$ 324,187,712	\$ 7,845,817	\$ 2,394,263	\$ -	\$ 334,427,792
Other revenues	<u>17,605,964</u>	<u>-</u>	<u>4,037,592</u>	<u>(4,037,592)</u>	<u>17,605,964</u>
Total revenues	<u>341,793,676</u>	<u>7,845,817</u>	<u>6,431,855</u>	<u>(4,037,592)</u>	<u>352,033,756</u>
Depreciation	20,742,453	870,500	-	-	21,612,953
Other operating expenses	<u>302,893,180</u>	<u>5,837,163</u>	<u>6,396,589</u>	<u>(3,942,611)</u>	<u>311,184,321</u>
Total operating expenses	<u>323,635,633</u>	<u>6,707,663</u>	<u>6,396,589</u>	<u>(3,942,611)</u>	<u>332,797,274</u>
Operating income	18,158,043	1,138,154	35,266	(94,981)	19,236,482
Nonoperating revenues (expenses)	2,613,300	6,311,817	-	(6,500,371)	2,424,746
Distributions to minority interest	-	(5,410,348)	-	4,991,170	(419,178)
Impact of deconsolidation of surgery centers	<u>-</u>	<u>(1,011,384)</u>	<u>-</u>	<u>-</u>	<u>(1,011,384)</u>
Change in net position	20,771,343	1,028,239	35,266	(1,604,182)	20,230,666
Net position, beginning of period	<u>(144,486,695)</u>	<u>13,968,533</u>	<u>247,673</u>	<u>(13,471,205)</u>	<u>(143,741,694)</u>
Net position, end of period	<u>\$ (123,715,352)</u>	<u>\$ 14,996,772</u>	<u>\$ 282,939</u>	<u>\$ (15,075,387)</u>	<u>\$ (123,511,028)</u>

Condensed Combining Statement of Cash Flows, September 30, 2016:

	<u>SRHS</u>	<u>SRHSAS</u>	<u>Anesthesia Services, LLC</u>	<u>Eliminations</u>	<u>Combined</u>
Net cash provided (used) by operating activities	\$ 47,932,910	\$ 1,811,726	\$ (79,566)	\$ (711,659)	\$ 48,953,411
Net cash provided (used) by noncapital financing activities	4,991,170	(5,410,348)	-	-	(419,178)
Net cash provided (used) by capital and related financing activities	(24,130,189)	(1,699,024)	-	711,659	(25,117,554)
Net cash used by investing activities	<u>(7,017,142)</u>	<u>4,847,518</u>	<u>-</u>	<u>-</u>	<u>(2,169,624)</u>
Net increase (decrease) in cash and cash equivalents	21,776,749	(450,128)	(79,566)	-	21,247,055
Cash and cash equivalents, beginning of year	<u>48,991,072</u>	<u>5,209,246</u>	<u>1,016,679</u>	<u>-</u>	<u>55,216,997</u>
Cash and cash equivalents end of year	<u>\$ 70,767,821</u>	<u>\$ 4,759,118</u>	<u>\$ 937,113</u>	<u>\$ -</u>	<u>\$ 76,464,052</u>

13. Recent Reporting and Disclosure Developments

Accounting pronouncements issued not yet adopted

The Health System will adopt GASB No. 84, *Fiduciary Activities* in fiscal year 2020. This statement establishes criteria for identifying fiduciary activities of all state and local governments. Governments with activities meeting this criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. Fiduciary funds which should be reported include (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds.

The Health System will adopt GASB No. 87, *Leases* in fiscal year 2021. This statement will require recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It will establish a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee will be required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor will be required to recognize a lease receivable and deferred inflow of resources.

14. Risks and Uncertainties

Current economic and regulatory conditions

The current economic environment continues to present hospitals with unprecedented circumstances and challenges. These conditions, including factors such as the unemployment rate, have made it difficult for certain of the Health System's patients to pay for services rendered. As employers make adjustments to health insurance plans putting more of the burden for the cost of health care on employees, or as more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Health System's future operating results. Other factors such as the Health System's responsibility to absorb the costs of care for indigent and uninsured, increases in labor and supply costs, heightened competition, specialist shortages, and rising insurance costs could also have an impact.

The effect of regulatory changes, including programs like the Centers for Medicare and Medicaid Services ("CMS") Value Based Purchasing Program, lack of Medicaid expansion in Mississippi, reductions in Disproportionate Share Hospital (DSH) payments to states like Mississippi under the Patient Protection and Affordable Care Act and the Health System (PPACA), Health Insurance Exchanges under the PPACA shifting more beneficiaries into lower-paying plans with plan reimbursement rates that are significantly lower than traditional employer-sponsored plans, the Readmissions Reduction Program established by the PPACA which cut Medicare reimbursement by up to two percent, the Federal Recovery Audit Contract ("RAC") program which subjects hospitals to long cumbersome appeal processes for perfectly valid claims, Value Based Payment Program reductions implemented by Medicare, Medicaid, and certain insurers to put payments to providers at varying levels of risk, Bundled Payments reductions where certain costs like lab costs are associated with other procedures in the overall encounter must be absorbed by the hospital with no separate credit given for those services, Sequestration Reductions which reduce Medicare payments by two percent, and other regulatory changes could have an adverse impact on the Health System's future operating results. The accompanying financial statements have been prepared using values and information currently available to the Health System.

Other uncertainties

The United States District Court of the Southern District of Mississippi ("District Court") approved a settlement in a class-action lawsuit related to the Pension Plan in June 2016. That decision was appealed to the Fifth Circuit Court of Appeals and oral arguments were heard on January 5, 2017. On July 27, 2017, the Fifth Circuit Court of Appeals remanded the case to the District Court in an effort to provide additional consideration as it relates to the settlement. On October 30, 2017 the Health System submitted its brief to the District Court and provided the additional Court

Singing River Health System Notes to Financial Statements

of Appeals-requested information. The District Court will hold a supplemental fairness hearing on January 22, 2018. The outcome of the District Court's decision could significantly impact the financial statements.

The Health System acknowledges, in the summer of 2016, questions were raised as to how an employed neurologist diagnosed the existence of multiple sclerosis, and how that physician treated those patients. The review of this matter is ongoing; however, this has resulted in the physician no longer being employed by the Health System. The Health System has notified the physician's patients and all other entities requiring notification. The Health System has received a limited number of claims and appropriate reserves are included in the financial statements related to this matter.

The Health System is also involved in various other litigation arising in the normal course of business. Based on consultations with legal counsel, management is of the opinion that these matters will be resolved without material adverse effect on the Health System's future financial position or the results of its future operations, to the extent determinable.

15. Deconsolidation

The Health System, through its fully blended component unit, SRHSAS held a 51% ownership interest in two ambulatory surgery centers, Mississippi Coast Endoscopy and Ambulatory Surgery Center, LLC ("MCEASC") and Ocean Springs Surgical and Endoscopy Center, LLC ("OSSEC"). On August 1, 2016, the Company sold 26.5% of its ownership interest resulting in a gain of \$8,324,004. Through the sale, SRHSAS no longer holds controlling interest in MCEASC and OSSEC; accordingly, the Health System derecognized related assets, liabilities and minority interest of MCEASC and OSSEC. The Health System determined that on the date of sale, the fair market value of its retained interest in MCEASC and OSSEC was \$4,385,300. The net cash inflow arising from the deconsolidation of the surgery centers was \$4,507,428 (\$4,991,169 in cash consideration received less \$483,471 in cash deconsolidated upon the loss of control). The total impact on the Health System financial statements of the deconsolidation of net position was \$1,011,384.

16. Fair Value Measurements

GASB Statement No. 72, *Fair Value Measurements and Application*, addresses accounting and financial reporting issues related to fair value measurements. The standard describes fair value as an exit price. The definition of 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. This standard provides guidance for determining a fair value measurement for financial reporting purposes. This standard also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The standard establishes a three-level hierarchy of inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets or liabilities, inputs that are observable for the asset or liability, and market-corroborated inputs. Level 3 inputs are unobservable inputs and take into account all information about market participant assumptions that are reasonably available. The System categorizes its fair value measurements within the fair value hierarchy established by this standard.

**Singing River Health System
Notes to Financial Statements**

For assets carried at fair value, the following table provides fair value information as of September 30, 2017 and 2016:

	<u>Fair value measurements at September 30, 2017 using</u>			
	<u>Fair value at September 30, 2017</u>	<u>Quoted prices in active markets for identical assets and liabilities</u>	<u>Quoted prices for similar assets and liabilities</u>	<u>Significant unobservable inputs</u>
		<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
<u>Investments by fair value level</u>				
U.S. Government obligations	\$ 11,858,902	\$ 11,858,902	\$ -	\$ -
Municipal obligations	2,039,183	-	2,039,183	-
Collateralized mortgage obligations	11,299,172	-	11,299,172	-
Mortgage-backed securities	<u>3,420,400</u>	<u>-</u>	<u>3,420,400</u>	<u>-</u>
Total investments by level	<u>\$ 28,617,657</u>	<u>\$ 11,858,902</u>	<u>\$ 16,758,755</u>	<u>\$ -</u>

The above schedule excludes guaranteed contracts measured at contract value of \$3,145,160, money market funds of \$15,019,762 and money market investments of \$3,610,184.

	<u>Fair value measurements at September 30, 2016 using</u>			
	<u>Fair value at September 30, 2016</u>	<u>Quoted prices in active markets for identical assets and liabilities</u>	<u>Quoted prices for similar assets and liabilities</u>	<u>Significant unobservable inputs</u>
		<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
<u>Investments by fair value level</u>				
U.S. Government obligations	\$ 6,963,647	\$ 6,963,647	\$ -	\$ -
Municipal obligations	823,247	-	823,247	-
Mortgage-backed securities	<u>1,687,501</u>	<u>-</u>	<u>1,687,501</u>	<u>-</u>
Total investments by level	<u>\$ 9,474,395</u>	<u>\$ 6,963,647</u>	<u>\$ 2,510,748</u>	<u>\$ -</u>

The above schedule excludes guaranteed contracts measured at contract value of \$3,145,160, money market funds of \$15,812,945 and money market investments of \$3,603,539.

Municipal obligations, collateralized mortgage obligations and mortgage-backed securities classified in Level 2 of the fair value hierarchy are valued using techniques which reflect market participants' assumptions and maximize the use of relevant observable inputs included quoted prices for similar assets, benchmark yield curves, and market corroborated inputs.

17. Investments in Uncombined Entities

SRHSAS holds a non-controlling 24.5% ownership interest in two ambulatory surgery centers, Mississippi Coast Endoscopy and Ambulatory Surgery Center, LLC ("MCEASC") and Ocean Springs Surgical and Endoscopy Center, LLC ("OSSEC"). SRHSAS accounts for the investments in uncombined entities using the equity method of accounting. SRHAS' investment in the uncombined entities was \$4,231,409 and \$4,475,659 at September 30, 2017 and 2016, respectively.

Supplementary Information

Singing River Health System
Schedule of Changes in Net Pension Liability and Related Ratios

	September 30	
	2017	2016
Total pension liability:		
Service cost	\$ -	\$ -
Interest	14,893,889	17,011,106
Changes in benefit terms		-
Differences between expected and actual experience	4,496,222	(10,199,979)
Changes of assumptions	(15,273,971)	29,972,888
Benefit payments, including refunds of employee contributions	(16,304,500)	(15,023,227)
Net change in total pension liability	(12,188,360)	21,760,788
Total pension liability - beginning of year	463,629,088	441,868,300
Total pension liability - end of year	451,440,728	463,629,088
Plan fiduciary net position:		
Contributions - employer	-	-
Contributions - employee	-	-
Net investment income	11,369,590	8,918,860
Benefit payments, including refunds of employee contributions	(16,304,500)	(15,023,227)
Administrative expense	(685,109)	(677,632)
Other		
Net change in plan fiduciary net position	(5,620,019)	(6,781,999)
Plan fiduciary net position - beginning of year	130,631,000	137,412,999
Plan fiduciary net position - end of year	125,010,981	130,631,000
Net pension liability - end of year	\$ 326,429,747	\$ 332,998,088
Plan fiduciary net position as a percentage of total pension liability	27.7%	28.2%
Covered-employee payroll	N/A	N/A
Net pension liability as a percentage of covered-employee payroll	N/A	N/A

Notes to Schedule:

Benefit changes - In November 2014, benefit terms were modified to freeze benefit accruals for all participants.

Changes of assumptions - In fiscal 2015, amounts reported as changes in assumptions resulted primarily from changes in the discount rate, due to changes in benchmark municipal bond index rates.

Singing River Health System
Schedule of Surety Bonds for Officers and Employees
September 30, 2017

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Amount of Bond</u>
Jeffery Belk	Trustee	Western Surety Company	\$50,000
Dr. Auwilda Polk	Trustee	Western Surety Company	\$50,000
Don Barron	Trustee	Western Surety Company	\$50,000
Randall Doyle	Trustee	Western Surety Company	\$50,000
Steven Ates	Trustee	Western Surety Company	\$50,000
James Epting	Trustee	Western Surety Company	\$50,000
Bonnie Granger	Trustee	Western Surety Company	\$50,000
Kevin Holland	Chief Executive Officer	Western Surety Company	\$50,000
Lee Bond	Chief Operating Officer	Western Surety Company	\$50,000
Dr. John Weldon	Chief of Staff	Western Surety Company	\$50,000
Dr. William Descher	Chief of Staff - Elect	Western Surety Company	\$50,000

Compliance Reports

Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

Board of Trustees
Singing River Health System
Gautier, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business-type activities of Singing River Health System (the "Health System"), as of and for the years ended September 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Health System's basic financial statements, and have issued our report thereon dated November 29, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements of Health System we considered the Health System's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Health System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dixon Hughes Goodman LLP

**Birmingham, Alabama
November 29, 2017**

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

Board of Trustees
Singing River Health System
Gautier, Mississippi

Report on Compliance for the Major Federal Program

We have audited Singing River Health System's (the "Health System") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Compliance Supplement* that could have a direct and material effect on its major federal programs for the year ended September 30, 2017. The Health System's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance on each of the Health System's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Health System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Health System's compliance.

Opinion on the Major Federal Program

In our opinion, the Health System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended September 30, 2017.

Report on Internal Control over Compliance

Management of the Health System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Health System's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Health System's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Dixon Hughes Goodman LLP

Birmingham, Alabama
November 29, 2017

**Singing River Health System
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2017**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Federal Grantor / Pass-Through Federal Grantor / Program Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Homeland Security			
<i>Passed through Mississippi Emergency Management Agency</i>			
Federal Emergency Management Agency:			
Hazard Mitigation Grant Program	97.039	1604-0498	<u>\$ 3,316,527</u>
U.S. Department of Transportation			
<i>Passed through Mississippi Department of Transportation</i>			
Federal Transit Administration – Federal Transit Cluster:			
Section 5339 Bus and Bus Facilities Formula Program	20.526	76-0016-15-904	249,710
U.S. Department of Transportation			
<i>Passed through Mississippi Department of Transportation</i>			
Federal Transit Administration – Transit Services Program:			
Section 5310 Enhanced Mobility of Seniors	20.513	76-0016-16-800	<u>29,250</u>
Total U.S Department of Transportation			<u>\$ 278,960</u>
U.S. Department of Housing and Urban Development			
<i>Passed through City of Pascagoula</i>			
Community Development Block Grant	14.218	1602	<u>\$ 6,500</u>
Total Expenditures of Federal Awards			<u>\$ 3,601,987</u>

**Singing River Health System
Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2017**

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Singing River Health System (the "Health System") under programs of the federal government for the year ended September 30, 2017. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the schedule presents only a selected portion of the operations of the Health System, it is not intended to and does not present the financial position, changes in net position or cash flows of the Health System.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited to reimbursement.

The Health System has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

3. Contingencies

The Health System's federal programs are subject to financial and compliance audits by grantor agencies which, if instances of material noncompliance are found, may result in disallowed expenditures and affect its continued participation in specific programs. The amount, if any, of expenditures, which may be disallowed by the grantor agencies, cannot be determined at this time. However, the Health System expects such amounts, if any, to be immaterial.

**Singing River Health System
 Schedule of Findings and Questioned Costs
 Year Ended September 30, 2017**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report on whether the audited combined financial statements were prepared in accordance with GAAP: **Unmodified**

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Any significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes X none reported
- Non-compliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Any significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes X none reported

Type of auditors’ report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? _____ yes X no

Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
97.039	Hazard Mitigation Grant Program
20.526	Bus and Bus Facilities Formula Program

Dollar threshold used to distinguish between Type A and Type B programs: **\$ 750,000**

Auditee qualified as low-risk auditee? X yes _____ no

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None



SINGING RIVER
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**Singing River Health System
Summary Schedule of Prior Audit Findings Year Ended September 30, 2017**

Finding: 2016-001

Status: Corrected

Finding: 2016-002

Status: Corrected