

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

**Financial Statements
and Supplementary Information**

Years Ended September 30, 2016 and 2015



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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, 2016 and 2015 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, 2016 and 2015, 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 14 and the Schedule of Changes in Net Pension Liability and Related Ratios on page 48 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 49 is presented for purposes of additional analysis and is 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.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated March 24, 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
March 24, 2017**

Management's Discussion and Analysis (Unaudited)

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

Management's Discussion and Analysis (Unaudited)

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"). 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 is organized as a county hospital under provisions of the statutes of the State of Mississippi. The Health System is exempt from federal and state income taxes.

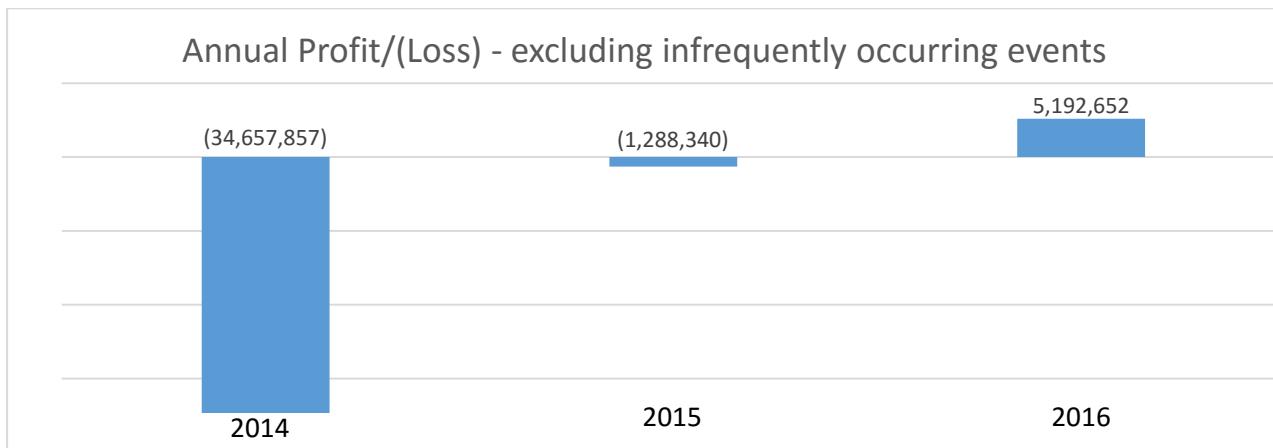
While the County may appropriate money from its general fund and levy property taxes to support the operations of the Health System, the Health System has been self-supporting and receives no County appropriations for its operations, nor has it received any such financial support from the County in over twenty-seven 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, and other outpatient healthcare service entities.

Financial Highlights

- The Health System's net position increased approximately \$20.2 million (14.1%) in fiscal year 2016 compared to an increase of \$60.7 million (29.7%) in 2015 and a decrease of \$34.7 million in 2014. The 2016 and 2015 increases in net position were significantly impacted by non-cash entries related to GASB 68 and GASB 45 accounting standards. Excluding GASB 68 and GASB 45 pension standards, the increase in net position would have been \$22.5 million compared to fiscal year 2015 increase of \$0.7 million. In addition to the effects of GASB 68 and GASB 45 standards, several infrequently occurring items impacted the increase in net position. Excluding these infrequently occurring items, the Health System's net position increased \$5.2 million in fiscal year 2016 compared to a decrease of \$1.3 million in 2015. There were no infrequently occurring items impacting the decrease in net position in 2014.



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

- Total assets and deferred outflows increased approximately \$33.2 million (10.4%) between fiscal year 2015 and 2016. Total assets and deferred outflows decreased approximately \$14.9 million (5.0%) between fiscal year 2014 and fiscal year 2015.
- Long-term debt, including current portion, decreased approximately \$6.4 million (6.8%) in fiscal year 2016 and \$6.3 million (6.3%) in fiscal year 2015. Other liabilities increased approximately \$11.6 million (3.1%) in fiscal year 2016 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 2016 and 2015, the system invested \$2.2 million and \$2.4 million respectively, in space/facility expansion projects, critical information technology, and medical equipment. An additional \$9.5 million during fiscal year 2016 and \$1.5 million in 2015 of grant funds were utilized for an exterior hardening project related to building improvements at Singing River Hospital, this project will continue through 2017 with anticipated \$6.9 million of funds to be expended.

Financial Statements

The Health System's financial statements are prepared on the accrual basis of accounting, that is, 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 (Unaudited)**

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, 2016, 2015 and 2014:

Condensed Statement of Net Position (In Millions)							
	2016	2015	Change	Total Percentage change	2014	Change	Total Percentage change
ASSETS:							
Current assets	112.9	91.9	21.0	22.9%	75.4	16.5	21.9%
Funds held by trustees	18.7	13.0	5.7	43.8%	19.7	(6.7)	-34.0%
Capital assets, net	174.0	185.7	(11.7)	-6.3%	202.2	(16.5)	-8.2%
Other assets	6.0	1.2	4.8	400.0%	1.3	(0.1)	-7.7%
TOTAL ASSETS	311.6	291.8	19.8	6.8%	298.6	(6.8)	-2.3%
DEFERRED OUTFLOWS OF RESOURCES	38.8	25.4	13.4	52.8%	3.7	21.7	586.5%
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	350.4	317.2	33.2	10.5%	302.3	14.9	4.9%
LIABILITIES							
Current liabilities	42.6	43.3	(0.7)	-1.6%	46.4	(3.1)	-6.7%
Long-term debt, excluding current installments	81.1	87.8	(6.7)	-7.6%	94.4	(6.6)	-7.0%
Capital lease obligations, excluding current installments	0.3	1.1	(0.8)	-72.7%	1.3	(0.2)	-15.4%
Other long-term liabilities	342.2	328.7	13.5	4.1%	364.6	(35.9)	-9.8%
TOTAL LIABILITIES	466.2	460.9	5.3	1.1%	506.7	(45.8)	-9.0%
DEFERRED INFLOWS OF RESOURCES	7.7	-	7.7	-	-	-	-
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	473.9	460.9	13.0	2.8%	506.7	(45.8)	-9.0%
NET POSITION							
Invested in capital assets, net of related debt	85.5	88.8	(3.3)	-3.7%	99.4	(10.6)	-10.7%
Restricted - nonexpendable for Minority interest in blended component units	-	0.9	(0.9)	-100.0%	0.9	-	0.0%
Restricted - expendable for debt service	13.2	13.3	(0.1)	-0.8%	13.1	0.2	1.5%
Unrestricted (deficit)	(222.2)	(246.7)	24.5	9.9%	(317.8)	71.1	22.4%
TOTAL NET POSITION	(123.5)	(143.7)	20.2	14.1%	(204.4)	60.7	29.7%
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	350.4	317.2	33.2	10.5%	302.3	14.9	4.9%

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 \$20.2 million in fiscal year 2016, \$60.7 million in fiscal year 2015 and decreased \$34.7 million in fiscal year 2014.

The Health System had \$67 million, \$45 million, and \$27.6 million in total unrestricted cash and investments as of September 30, 2016, 2015 and 2014. The Health System ended FY 2016 with 79 days of consolidated cash on hand, surpassing the bond covenant requirement by 14 days.

Net patient accounts receivable of \$33.2 million at September 30, 2016 remained consistent with the year ended September 30, 2015 with a nominal decrease of \$0.4 million. Net patient accounts receivable of \$33.7 million at September 30, 2015 decreased \$8.7 million (20.5%) in comparison to the year ended September 30, 2014.

Designated funds held by trustees increased by \$5.7 million from 2015 to 2016, primarily related to \$5.2 million held related to pension settlement fund held in an escrow 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. Additionally, the Resolution directed that a new plan be established with modified benefits. Subsequently, that resolution was rescinded and an alternate partial funding plan amendment was

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Management's Discussion and Analysis (Unaudited)**

developed. This plan was affirmed by the district court and has been further appealed to the 5th Circuit Court of Appeals. Oral arguments were heard on January 5th, 2017, and we are currently awaiting the decision of the Court. Six of the Chancery Court cases were brought to prevent the Health System from terminating the Plan via a permanent injunction while the other two Chancery Court actions allege violations of the Mississippi Uniform Trust Act, among other allegations. In addition three putative class action lawsuits were filed in Federal Court against the Health System alleging Breach of Contract and Fiduciary Responsibility. The complaints seek monetary relief and in some instances injunctive relief which could prevent amendment of the Plan. A Bill of Exceptions has also been filed in the Circuit Court, which could potentially impact the Health System. Additionally, there are over 100 actions pending in Circuit Court related to the Plan. It is anticipated these cases will ultimately be dismissed without litigation. However, that will likely not occur until after a ruling by the Fifth Circuit. The ultimate resolutions of the actions pending against the Health System and the Plan cannot be reasonably determined but could have a materially adverse effect on the Health System's financial condition, results of operations and its long-term viability. The Health System's pension cost and actuarial outlook have been negatively impacted by lack of employer funding due to negative cash flow from operations, below industry required employee contributions (e.g., 3 percent versus 9 percent required in the Mississippi State plan), plan design, increased life expectancy, future discount rates, reduced inflow due to a freeze in the plan being offered to new employees, etc.

Capital Assets, Net

The Health System had capital assets, net of accumulated depreciation of \$174.0 million, \$185.7 million, and \$202.2 million at September 30, 2016, 2015 and 2014, decreasing \$11.7 million (6.3%) in 2016 and \$16.5 million (8.2%) in 2015. Depreciation expense was \$19.8 million and capital additions equaled \$11.8 million in 2016, compared to depreciation expense of \$22.0 million and capital additions of \$5.6 million in 2015. The table below outlines increases and decreases in capital assets.

	2016	2015	2014
Buildings and improvements	97,239,079	104,909,968	112,864,208
Moveable equipment	54,504,577	65,164,469	75,945,294
Land and construction in progress	18,219,538	11,128,994	8,509,871
Land improvements	2,008,777	2,259,813	2,471,593
Fixed equipment	1,997,055	2,241,856	2,380,608
Total	173,969,026	185,705,100	202,171,574

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 increased \$13.4 million (52.8%) from \$25.4 million as of September 30, 2015 to \$38.8 million as of September 30, 2016. Deferred outflows of resources increased \$21.7 million (586.5%) from \$3.7 million as of September 30, 2014 to \$25.4 million as of September 30, 2015, due to the adoption of GASB 68.

Total liabilities and deferred inflows of resources increased \$13.0 million (2.8%) and decreased \$45.8 million (9.0%) in fiscal year 2016 and fiscal year 2015, respectively.

- Current liabilities were consistent with a slight decrease of \$0.7 million (1.6%) and \$3.1 million (6.7%) in fiscal year 2016 and fiscal year 2015, respectively.
- Long-term debt decreased \$6.7 million (7.6%) to \$81.1 million and \$6.6 million (7.0%) in fiscal year 2016 and fiscal year 2015, respectively. Decrease in debt is in accordance with scheduled debt service payments.

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

- The Health System's net obligation for the provision of certain post-employment healthcare benefits decreased \$14.0 million related to GASB 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This reduction is the result of the plan being eliminated and liability related to the pension being reduced in accordance with an actuarial report prepared by Transamerica. The net obligation for the provision of certain post-employment healthcare benefits decreased \$1.5 million (10.0%) from September 30, 2014 to September 30, 2015.
- Net pension liability increased \$28.5 million (9.4%) related to actuarial valuation of changes in plan assumptions, discount rates and other variables related to the pension liability in accordance with GASB 68. In fiscal years 2015 and 2014, the net pension liability was approximately \$304 million and approximately \$342 million after audit adjustment, respectively.
- 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 \$7.7 million from fiscal year 2015 to fiscal year 2016.

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. Management has been diligent in strengthening the Health System's cash position, resulting in an increase in DCOH of 28 days to 79 DCOH at September 30, 2016, compared to 51 DCOH at September 30, 2015. The MADS ratio was 3.65 and 2.39 at September 30, 2016 and 2015, respectively. The Health System is in compliance with both bond covenants at September 30, 2016.

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

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, 2016, 2015 and 2014 and the changes in net position during each of those years:

Condensed Summary of Revenues, Expenses and Changes in Net Position (In Millions)							
	2016	2015	Change	Total Percentage Change	2014	Change	Total Percentage Change
Patient service revenues, net of provision for bad debts	334.4	336.7	(2.3)	-0.7%	334.3	2.4	0.7%
Other revenues	22.1	15.2	6.9	45.4%	14.7	0.5	3.4%
Total operating revenues	356.5	351.9	4.6	1.3%	349.0	2.9	0.8%
Operating expenses							
Salaries and benefits	164.4	97.4	67.0	68.8%	187.4	(90.0)	-48.0%
Professional fees	5.8	11.0	(5.2)	-47.3%	17.0	(6.0)	-35.3%
Supplies	70.4	71.4	(1.0)	-1.4%	73.1	(1.7)	-2.3%
Purchased services	44.3	44.1	0.2	0.5%	46.7	(2.6)	-5.6%
Other expenses	30.8	37.3	(6.5)	-17.4%	31.2	6.1	19.6%
Depreciation and amortization	21.6	24.5	(2.9)	-11.8%	24.4	0.1	0.4%
Total operating expenses	337.3	285.7	51.6	18.1%	379.8	(94.1)	-24.8%
Operating Income	19.2	66.2	(47.0)	-71.0%	(30.8)	97.0	314.9%
Non-operating revenues (expenses)							
Investment income	0.4	0.4	-	0.0%	0.4	-	0.0%
Interest expense	(4.7)	(5.0)	0.3	6.0%	(3.5)	(1.5)	-42.9%
Equity method income	0.4	-	0.4	-	-	-	-
Gain on sale of surgery centers	8.3	-	8.3	-	-	-	-
Loss on Impairment	(2.0)	-	(2.0)	-	-	-	-
Total non-operating revenues (expense)	2.4	(4.6)	7.0	152.2%	(3.1)	(1.5)	-48.4%
Excess of revenues over expenses	21.6	61.6	(40.0)	-64.9%	(33.9)	95.5	281.7%
Distributions	(0.4)	(0.9)	0.5	55.6%	(0.8)	(0.1)	-12.5%
Effect of deconsolidation of ASCs	(1.0)	-	(1.0)	-	-	-	-
Increase (decrease) in net position	20.2	60.7	(40.5)	-66.7%	(34.7)	95.4	274.9%
Net position, beginning	(143.7)	(204.4)	60.7	29.7%	(169.7)	(34.7)	-20.4%
Net position, ending	(123.4)	(143.7)	20.3	14.1%	(204.4)	60.7	29.7%

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

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, 2016 and 2015:

Effect of infrequently occurring events				
(In Millions)				
	2016	2015	Change	Total Percentage Change
Increase (decrease) in net position	20.2	60.7	(40.5)	-66.7%
Infrequently occurring events				
Construction grant revenue	(8.2)	(2.0)	(6.2)	-310.0%
GASB 45 retiree health plan elimination	(12.7)	-	(12.7)	
SRHSAS gain on sale of investment	(8.3)	-	(8.3)	
SRHSAS loss on land impairment	2.0	-	2.0	
Workers comp actuarial adjustment	(1.3)	(0.6)	(0.7)	-116.7%
Malpractice claim actuarial adjustment	(1.5)	0.6	(2.1)	-350.0%
GASB 68 pension expense	15.0	(60.0)	75.0	125.0%
Total infrequently occurring events	(15.0)	(62.0)	47.0	75.8%
Normalized increase (decrease) in net position	5.2	(1.3)	6.5	502.1%

During fiscal year 2016, there were a few occurrences outlined above driving a higher than anticipated increase in net position. Construction grant revenue received was \$8.2 million 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 related to reduction of postemployment benefits driven by a reduction of participants on the plan. During the year ended September 30, 2016, the Health System resolved to terminate the plan effective January 1, 2017. Singing River Health System Ambulatory Services (SRSHAS) sold 26.5% of its investment in each of two separate surgery centers and recognized a gain on sale of investment of \$8.3 million. SRHSAS recognized a \$2.0 million loss resulting from a land impairment that was based on a fair market value assessment. Malpractice and workers comp actuarial assessments were received that reduced expense by \$1.3 million and \$1.5 million, respectively. The 2015 employee retirement plan actuarial assessment anticipated \$7.2 million of pension expense amortized through fiscal year 2016. However, based on the 2016 actuarial report, the actual plan expense was \$22.2 million, or \$15 million greater than anticipated. This increase in pension expense is primarily related to an unfavorable reduction in the tax exempt municipal bond rate of 3.93% to 3.27%. Removing all the infrequently occurring events and items related to GASB 45 and GASB 68 listed above from the financials results in a \$5.2 million increase in net position. Fiscal year 2015 decrease in net position equaled \$1.3 million when adjusted to remove the infrequently occurring events.

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Management's Discussion and Analysis (Unaudited)**

The following table summarizes the System's revenues and expenses excluding entries related to GASB 68 and GASB 45 for the years ended September 30, 2016 and 2015 and the changes in net position during each of those years:

Condensed Summary of Revenues, Expenses and Changes in Net Position excluding GASB 68 and GASB 45 (In Millions)				
	2016	2015	Change	Total Percentage Change
Patient service revenues, net of provision for bad debts	334.4	336.7	(2.3)	-0.7%
Other revenues	22.1	15.2	6.9	45.4%
Total operating revenues	356.5	351.9	4.6	1.3%
Operating expenses				
Salaries and benefits	164.4	97.4	67.0	68.8%
Impact of GASB 68 and 45 on salaries and benefits	(2.3)	60.0	(62.3)	-103.8%
Professional fees	5.8	11.0	(5.2)	-47.5%
Supplies	70.4	71.4	(1.0)	-1.4%
Purchased services	44.3	44.1	0.2	0.5%
Other expenses	30.8	37.3	(6.5)	-17.4%
Depreciation and amortization	21.6	24.5	(2.9)	-11.8%
Total operating expenses	335.0	345.7	(10.7)	-3.1%
Operating Income	21.5	6.2	15.3	247.2%
Non-operating revenues (expenses)				
Investment income	0.4	0.4	-	0.0%
Interest expense	(4.7)	(5.0)	0.3	6.0%
Equity method income	0.4	-	0.4	
Gain on sale of surgery centers	8.3	-	8.3	
Loss on Impairment	(2.0)	-	(2.0)	
Total non-operating expense	2.4	(4.6)	7.0	152.2%
Excess of revenues over expenses	23.9	1.6	22.3	1395.5%
Distributions	(0.4)	(0.9)	0.5	
Effect of deconsolidation of ASCs	(1.0)	-	(1.0)	55.6%
Increase (decrease) in net position	22.5	0.7	21.8	3118.2%

Operating income during fiscal year 2016 was \$19.2 million compared to \$66.2 million in fiscal year 2015 and an operating loss of \$30.8 million in fiscal year 2014. Excluding GASB 68 and GASB 45 related items, operating income was \$21.5 million and \$6.2 million for fiscal years 2016 and 2015, respectively. The increase in net position for the year equaled \$20.2 million (14.1%) compared to a fiscal year 2015 increase of \$60.7 million (29.7%) and a decrease of \$34.7 million in fiscal year 2014. Excluding GASB 68 and GASB 45 related items, the increase in net position for fiscal year 2016 was \$22.5 million compared to fiscal year 2015 of \$0.7 million.

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Management's Discussion and Analysis (Unaudited)**

Net Patient Service Revenue

Net Patient Service Revenue saw a nominal decrease from approximately \$334.4 million in fiscal year 2016, \$336.7 million in fiscal year 2015, and \$334.3 million in fiscal year 2014. The decrease from 2015 to 2016 is due to a slight decrease in overall volume. Average length of stay (ALOS) has also decreased and the System has experienced a decrease in inpatient surgeries and an increase in outpatient surgeries.

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 both 2016 and 2015, a decrease of \$1.2 million from the \$17.9 million (6.7%) received in 2014. The system received Medicaid DSH payments of approximately \$17.1 million, \$18.0 million \$18.1 million for fiscal years 2016, 2015, and 2014 respectively.

To participate in the MHAP and DSH programs the system paid to DOM an annual assessment of \$12.3 million, \$12.4 million, and \$11.2 million for fiscal years 2016, 2015 and 2014, respectively. The net impact of the MHAP and UPL programs to the system was \$4.5 million in 2016, \$4.2 million in 2015, and \$6.9 million in 2014.

Other operating revenues were \$22.1 million in 2016 and \$15.2 million in 2015, an increase of \$6.9 million. The increase is primarily related to increased grant revenue of \$6.2 million. Other operating revenues increased \$0.5 million from \$14.7 million as of September 30, 2014 to \$15.2 million as of September 30, 2015.

Statistics

The decrease in net patient service revenue during fiscal year 2016 is due to decreases in several statistics, including admissions, surgeries, ER visits, deliveries and other service line visits. The collection process has continued to improve and limited the decrease in net patient service revenue to 0.7% while statistics continued to trend down.

- Adult Admissions were down 5%.
- Total admissions were down 3%
- Emergency Room visits were down 6%.
- Outpatient programs visits overall were down 2%.
- Inpatient surgeries were down 3%.
- Outpatient surgeries were up 4% primarily in Ocean Springs.
- Deliveries were down 3%.
- Inpatient days were down 4%
- Average length of stay (ALOS) decreased 5%
- Outpatient observation beds decreased 5%

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

A summary of statistics from fiscal year 2016 to fiscal year 2015 are outlined in the chart below:

HOSPITAL OPERATIONS	2016	2015	Variance
Admissions (excludes nursery)			
Adult	11,320	11,901	-4.88%
Pediatric	551	573	-3.84%
Intensive Care Unit	2,667	2,667	0.00%
Comprehensive Rehab	462	532	-13.16%
Behavioral Health	1,027	930	10.43%
Total	16,027	16,603	-3.47%
ER Admissions	12,027	12,618	-4.68%
Discharges	16,271	17,006	-4.32%
Adjusted Discharges	35,128	35,376	-0.70%
Total Days of Care	71,853	74,853	-4.01%
Average Daily Census	196	205	-4.39%
Inpatient Physician Services	56,446	58,174	-2.97%
Deliveries	1,459	1,507	-3.19%
Observation Days	4,421	4,633	-4.58%
Acute ALOS	4.33	4.56	-5.04%
Outpatient Procedures			
ER Visits	102,160	108,350	-5.71%
Radiology Exams	129,924	125,941	3.16%
Laboratory Tests	774,447	793,257	-2.37%
PT/OT/ST Treatments	370,526	361,319	2.55%
Other Service Line Visits	141,344	163,326	-13.46%
Total Outpatient Procedures	1,518,401	1,552,193	-2.18%
Surgeries			
Inpatient	4,702	4,850	-3.05%
Outpatient	3,815	3,659	4.26%
Total Hospital Surgeries	8,517	8,509	0.09%
Ambulatory Surgery Center	9,017	9,669	-6.74%
Total Surgeries	17,534	18,178	-3.54%

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 2016 and 2015.

A summary of Medicare case mix indices follows:

	2016	2015	2014
Singing River Hospital	1.65	1.60	1.60
Ocean Springs Hospital	1.64	1.67	1.69

During fiscal year 2016 and fiscal year 2015, payor class percentages were relatively stable; with mainly a decrease in self pay patients.

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

Below is a chart comparing payor class percentages for fiscal years 2016, 2015 and 2014 based on volume of revenue:

	2016	2015	2014
Medicare	49.4%	48.9%	47.8%
Medicaid	12.4%	12.2%	11.5%
Managed care	31.5%	31.2%	32.0%
Self-pay	6.7%	7.7%	8.7%
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 76.4%, 75.6% and 75.7% for fiscal years 2016, 2015, and 2014 respectively.

Bad Debt and Charity Care

Bad debt expense was approximately \$89.5 million, \$111.7 million, and \$114.3 million in fiscal years 2016, 2015 and 2014 respectively. The \$22.2 million reduction of bad debt expense in 2016 is primarily related to a reduction of self-pay revenue from 7.7% to 6.7% highlighted above related to payor mix which is driven by the strategic initiative of outsourcing billing related to emergency room physicians. 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 adjustments increased to \$50.1 million in fiscal year 2016 from \$41.2 million in fiscal year 2015 and \$42.2 million in fiscal year 2014. The increase of \$8.9 million (21.6%) in fiscal year 2016 is due to more patients qualifying under charity guidelines. Charity care is defined as healthcare provided to patients at no cost when they meet criteria defined in the charity care policy.

Operating Expenses

During the year ended September 30, 2016, total operating expenses increased \$51.6 million compared to the year ended September 30, 2015. During the year ended September 30, 2015, total operating expenses decreased \$94.1 million compared to the year ended September 30, 2014. Excluding the impact of GASB 68 and GASB 45, operating expenses decreased \$10.7 million (3.1%) during the year ended September 30, 2016 compared to the year ended September 30, 2015.

- Excluding GASB 68 and GASB 45, the Health System's salaries, wages and benefits increased \$4.7 million (3.0%), primarily related to an increase in health benefits expense. The Health System reduced FTE's by 9.1 from fiscal year 2016 to fiscal year 2015, a continuation of the decrease of 124 FTE's from fiscal year 2014 to fiscal year 2015 that resulted in a \$30.0 million reduction in salaries and benefits during fiscal year 2015.
- Professional fees decreased \$5.3 million (47.7%), and \$6.0 million (35.3%) in fiscal year 2016 and 2015, respectively. Reduction of professional fees is primarily related to strategic objectives related to eliminating professional services provided by pathology and emergency room physicians, a change that occurred during fiscal year 2015.
- Supplies expense has decreased by \$1 million (1.4%), related to decreased volumes and strategic initiatives related to materials management and group purchasing organization (GPO) in an effort to reduce expenses. Supplies expense decreased approximately \$1.7 million (2.3%) during fiscal year 2015.
- Other expenses have 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

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

performance during fiscal year 2016. Other expenses increased by \$6.1 million (19.6%) from fiscal year 2014 compared to fiscal year 2015, primarily related to legal expenses as mentioned above.

- Depreciation and amortization has decreased \$2.9 million (11.8%) in fiscal year 2016 and increased \$0.1 million (0.4%) in fiscal year 2015. Depreciation is continuing to decrease as capital items begin to hit full maturity while the Health System is attempting to preserve cash and not replacing capital items. This is not a sustainable model, capital purchases will increase in fiscal year 2017 and going forward.

Cash Flow

Cash and investments increased by \$22.0 million in fiscal year 2016 compared to fiscal year 2015. Year-to-date net cash provided by operating activities was approximately \$49.0 million, versus a prior year amount of approximately \$36.3 million. Cash and investments increased by \$17.4 million in fiscal year 2015 compared to fiscal year 2014.

Year-to-date cash collections in 2016 were \$334.6 million, \$9.5 million lower than 2015 due to reduction in volumes. Cash paid for labor, supplies and purchased services decreased substantially in 2016, down by approximately \$15.3 million compared to 2015. Fiscal year 2015 cash collections of \$344.1 million were \$4.3 million more than prior year in spite of volume in some of the higher paying services being down. Cash paid for labor decreased \$10.7 million from fiscal year 2014 to fiscal year 2015.

Capital expenditures were approximately \$11.7 million, \$9.6 million of which is the result of grant projects, \$7.8 million higher than prior year. Capital expenditures were approximately \$3.9 million for the hospitals during fiscal year 2015, approximately \$13.1 million or 76.9% less than fiscal year 2014. Capital improvements will continue to increase as the Health System continues to invest in the hospitals.

Economic conditions and plan for Fiscal year 2017.

In planning for fiscal year 2017, the primary concerns are the same as prior year – the uncertain status of the economy at both the federal and state funding levels and the uncertainty of federal healthcare reform efforts and their potential financial and operational impact on the Health System. Issues that need to be monitored on an ongoing basis throughout the year include the following:

In order to continue to improve operations, management is working in accordance with their 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 our population health management.

The Health System anticipates increasing affiliations related to employer group management as a way to increase access with same day appointments. With respect to operation expense, the management team continues focusing on efforts to improve processes related to labor management, which has been seen with positive results. The Health System continues to focus ad campaigns and marketing efforts with our existing partners to help drive business growth and brand recognition. Additionally, the Health System is rebranding with a new tagline and improving facility appearance in entry areas and key impression points at each facility. The Health System is also focusing on employee wellness through improving our Healthy Lifestyle Discount Plan and plan management. While all initiatives will be centered on clinical quality as the foundation, it is management's intent for these operational strategies to return the Health System to a positive margin.

Singing River Health System
Statements of Net Position
September 30, 2016 and 2015

	2016	2015
ASSETS AND DEFERRED OUTFLOWS		
Current assets:		
Cash and cash equivalents	\$ 57,047,567	\$ 45,033,845
Investments	9,992,217	-
Trusteed bond funds - required for current liabilities	3,297,257	2,774,860
Patient accounts receivable, net of allowance for doubtful accounts of \$58,296,464 and \$60,150,060 at September 30, 2016 and 2015, respectively	33,212,382	33,713,001
Other receivables	1,577,792	2,014,681
Due from third-party payors	1,373,592	1,991,273
Inventories	4,213,513	4,795,052
Prepaid expenses	<u>2,148,646</u>	<u>1,598,494</u>
Total current assets	112,862,966	91,921,206
Trusteed bond funds	9,942,926	10,486,958
Held by trustee for self-insurance funding	3,603,539	2,510,332
Held by trustee for pension funding	5,200,100	-
Capital assets, net	<u>173,969,026</u>	185,705,100
Investment in surgery centers	4,475,659	-
Other assets	<u>1,480,867</u>	<u>1,180,777</u>
Total assets	311,535,083	291,804,373
Deferred outflows of resources:		
Pension deferrals	36,506,855	22,437,089
Deferred loss on debt refunding, net	<u>2,330,491</u>	<u>2,961,005</u>
Total deferred outflows of resources	38,837,346	25,398,094
Total assets and deferred outflows of resources	\$ 350,372,429	\$ 317,202,467

**Singing River Health System
Statements of Net Position
September 30, 2016 and 2015**

(Continued)

	2016	2015
LIABILITIES, DEFERRED INFLOWS AND NET POSITION		
Current liabilities:		
Current installments of long-term debt	\$ 6,835,000	\$ 6,550,000
Current installments of capital lease obligations	233,532	1,360,225
Current installments of other long-term liabilities	289,705	702,960
Accounts payable	16,639,670	14,695,131
Accrued payroll and employee benefits	17,523,226	18,832,229
Other accrued expenses	<u>1,065,798</u>	<u>1,137,027</u>
Total current liabilities	42,586,931	43,277,572
Long-term debt, excluding current installments	81,131,997	87,809,851
Capital lease obligations, excluding current installments	279,547	1,135,077
Other long-term liabilities	995,944	1,470,796
Accrued workers' compensation, professional, and general liability costs	8,194,576	8,817,682
Net pension liability	<u>332,998,088</u>	<u>304,455,301</u>
Net postemployment benefit obligation	<u>-</u>	<u>13,977,882</u>
Total liabilities	466,187,083	460,944,161
Deferred inflows of resources:		
Pension deferrals	<u>7,696,374</u>	<u>-</u>
Total deferred inflows of resources	7,696,374	-
Net position:		
Net investment in capital assets	85,488,950	88,849,947
Restricted - nonexpendable for minority interest in blended component unit	<u>-</u>	<u>869,840</u>
Restricted - expendable for debt service	<u>13,240,183</u>	<u>13,261,818</u>
Unrestricted (deficit)	<u>(222,240,161)</u>	<u>(246,723,299)</u>
Total net position	(123,511,028)	(143,741,694)
Total liabilities, deferred inflows of resources and net position	\$ 350,372,429	\$ 317,202,467

Singing River Health System

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended September 30, 2016 and 2015

	2016	2015
Patient service revenues, net of provision for bad debts of \$89,514,901 (\$111,699,602 in fiscal year 2015)	\$ 334,427,792	\$ 336,685,603
Other revenues	22,047,056	15,239,120
 Total operating revenues	 356,474,848	351,924,723
 Operating expenses:		
Salaries and wages	130,337,406	133,325,340
Employee benefits	33,986,011	(35,931,074)
Professional fees	5,772,466	11,039,444
Supplies	70,407,701	71,391,958
Purchased services	44,323,124	44,103,034
Other expenses	30,798,705	37,254,090
Depreciation and amortization	21,612,953	24,504,012
 Total operating expenses	 337,238,366	285,686,804
 Operating income	 19,236,482	66,237,919
 Total nonoperating revenues (expenses):		
Net investment income	353,503	322,486
Interest expense	(4,714,788)	(4,986,420)
Equity method income	420,006	-
Gain on sale of surgery centers	8,324,004	-
Loss on impairment	(1,957,979)	-
 Total nonoperating revenues (expenses)	 2,424,746	(4,663,934)
 Revenues in excess of expenses	21,661,228	61,573,985
Distributions to minority interest	(419,178)	(910,028)
Effect of deconsolidation of surgery centers	(1,011,384)	-
 Increase in net position	 20,230,666	60,663,957
 Net position, at beginning of period	 (143,741,694)	(204,405,651)
 Net position, end of period	 \$ (123,511,028)	\$ (143,741,694)

Singing River Health System
Statements of Cash Flows
Years Ended September 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 334,631,518	\$ 344,116,550
Cash paid to employees	(157,884,128)	(161,074,614)
Cash paid to suppliers	(149,270,008)	(161,343,769)
Cash received from other operating activities	<u>21,476,029</u>	<u>14,565,164</u>
Net cash provided by operating activities	48,953,411	36,263,331
Cash flows from noncapital financing activities:		
Distributions to minority interest	<u>(419,178)</u>	<u>(910,028)</u>
Cash flows from capital and related financing activities:		
Capital expenditures	(11,725,104)	(3,929,701)
Repayment of long-term debt	(6,550,000)	(6,280,000)
Repayment of capital lease obligations	(1,271,599)	(1,227,417)
Repayment of other long-term liabilities	(784,834)	(1,068,900)
Interest paid on long-term debt and capital lease obligations	<u>(4,786,017)</u>	<u>(5,079,218)</u>
Net cash used in capital and related financing activities	(25,117,554)	(17,585,236)
Cash flows from investing activities:		
Net (purchase) sale of investments	(6,677,052)	8,237,016
Net cash inflow from deconsolidation of surgery centers	<u>4,507,428</u>	<u>-</u>
Net cash (used) provided by investing activities	(2,169,624)	8,237,016
Net increase in cash and cash equivalents	21,247,055	26,005,083
Cash and cash equivalents, beginning of year	55,216,997	29,211,914
Cash and cash equivalents, end of year	\$ 76,464,052	\$ 55,216,997

Singing River Health System
Statements of Cash Flows
Years Ended September 30, 2016 and 2015

(Continued)

	2016	2015
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 19,236,482	\$ 66,237,919
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	21,612,953	24,504,012
Provision for bad debts	89,514,901	111,699,602
Changes in:		
Patient receivables	(89,928,856)	(102,696,026)
Estimated third-party payor settlements	617,681	(1,572,629)
Inventories and other current assets	(762,819)	(329,325)
Net pension liability	36,239,161	(37,537,663)
Pension deferrals	(14,069,766)	(22,437,089)
Net post employment benefit obligation	(13,977,882)	(1,554,619)
Accounts payable and other accrued expenses	1,094,662	(1,534,454)
Accrued workers' compensation, professional, and general liability costs	<u>(623,106)</u>	<u>1,483,603</u>
Net cash provided by operating activities	<u>\$ 48,953,411</u>	<u>\$ 36,263,331</u>
Reconciliation of cash and cash equivalents to:		
Cash and cash equivalents in current assets	\$ 57,047,567	\$ 45,033,845
Cash and cash equivalents in investments	2,967,467	-
Cash and cash equivalents in trustee bond funds	7,645,379	7,672,820
Cash and cash equivalents in trustee for self-insurance funding	3,603,539	2,510,332
Cash and cash equivalents in trustee for pension funding	5,200,100	-
	<u>\$ 76,464,052</u>	<u>\$ 55,216,997</u>
Supplemental disclosure of noncash investing and capital and related financing activities:		
Capital assets acquired through capital lease obligations	<u>\$ 78,375</u>	<u>\$ 1,590,542</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, 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, 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 at September 30, 2015. See further discussion of the sale of controlling interest and deconsolidation of MCEASC and OSSEC at Note 16. 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, 2016 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, consisting principally of medical supplies and pharmaceuticals, are stated at the lower of cost (first-in, first-out) or replacement 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 2016 and 2015.

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 and \$303,000, respectively, of revenues related to the Medicare incentive program for the years ended September 30, 2016 and 2015, respectively. 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.

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

Reclassifications

Certain reclassifications have been made to the 2015 financial statements included herein to conform to the 2016 presentation.

2. Adoption of New Accounting Policies

During the year ended September 30, 2016, the System implemented Governmental Accounting Standards Board ("GASB") Statement No. 72, *Fair Value Measurement and Application*, which, among other things, provides guidance for determining a fair value measurement for financial reporting purposes, guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

As a result of the retroactive application of this guidance, additional disclosures have been presented related to amounts previously reported as of and for the year ended September 30, 2015. See additional disclosures in Note 17.

3. 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 49 and 50 percent of the Health System's net patient service revenue for the years ended September 30, 2016 and 2015, 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, 2016 and 2015.

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. Prior to the year ended September 30, 2016, the Health System participated in the DSH and in the Medicaid Upper Payment Limit Program ("UPL") under which the Division of Medicaid (DOM) had combined

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

the disproportionate share, upper payment limit and the general assessment taxes used for the DSH/UPL model, determined an overall tax assessment, collected the tax and distributed the funds in December, March and June.

Under these programs, the Health System receives enhanced reimbursement through a matching mechanism. For the years ended September 30, 2016 and 2015, the Health System received approximately \$17,090,000 and \$17,957,000, 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/UPL program was approximately \$4,459,000 and \$4,249,000 for the years ended September 30, 2016 and 2015, respectively. MHAP/UPL amounts, net of related tax assessments of approximately \$12,253,000 and \$12,440,000 for the years ended September 30, 2016 and 2015, 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.

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 a decrease of approximately \$(988,000) and an increase of \$1,654,000 to net patient service revenue for the fiscal years ended September 30, 2016 and 2015, 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:

	2016	2015
Gross patient service revenue	\$ 1,800,796,641	\$ 1,840,897,730
Less provision for contractual and other adjustments	(1,376,853,948)	(1,392,512,525)
Less provision for bad debts	<u>(89,514,901)</u>	<u>(111,699,602)</u>
Net patient service revenue	<u>\$ 334,427,792</u>	<u>\$ 336,685,603</u>

4. 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 \$50,094,000 and \$41,209,000 for the years ended September 30, 2016 and 2015, respectively. The estimated costs and expenses incurred to provide charity care were approximately \$19,882,000 and \$16,346,000 for the years ended September 30, 2016 and 2015, respectively.

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

5. Capital Assets

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	11,128,994	10,652,527	(3,561,983)	-	18,219,538
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	474,305,659	2,848,684	(1,668,429)	(16,937,423)	458,548,491
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	299,729,553	19,777,640	(1,574,449)	(15,133,741)	302,799,003
Capital assets being depreciated, net	174,576,106	(16,928,956)	(93,980)	(1,803,682)	155,749,488
Capital assets, net	\$ 185,705,100	\$ (6,276,429)	\$ (3,655,963)	\$ (1,803,682)	\$ 173,969,026

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

Capital assets and related activity consisted of the following for the year ended September 30, 2015:

	<u>Balance September 30, 2014</u>	<u>Additions</u>	<u>Retirements/ Transfers</u>	<u>Balance September 30, 2015</u>
Capital assets not being depreciated:				
Land	\$ 7,461,539	\$ -	\$ -	\$ 7,461,539
Construction in progress	1,048,332	3,670,261	(1,051,138)	3,667,455
Total capital assets not being depreciated	8,509,871	3,670,261	(1,051,138)	11,128,994
Capital assets being depreciated:				
Land improvements	6,328,701	56,630	(21,660)	6,363,671
Buildings and improvements	212,454,456	299,804	(12,522)	212,741,738
Fixed equipment	14,446,299	213,910	(149,010)	14,511,199
Movable equipment	244,600,282	2,385,423	(6,296,654)	240,689,051
Total capital assets being depreciated	477,829,738	2,955,767	(6,479,846)	474,305,659
Less accumulated depreciation for:				
Land improvements	3,857,108	268,410	(21,660)	4,103,858
Buildings and improvements	99,590,248	8,254,045	(12,523)	107,831,770
Fixed equipment	12,065,691	352,662	(149,010)	12,269,343
Movable equipment	168,654,988	13,125,022	(6,255,428)	175,524,582
Total accumulated depreciation	284,168,035	22,000,139	(6,438,621)	299,729,553
Capital assets being depreciated, net	193,661,703	(19,044,372)	(41,225)	174,576,106
Capital assets, net	\$ 202,171,574	\$ (15,374,111)	\$ (1,092,363)	\$ 185,705,100

Construction in progress as of September 30, 2016 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, replacement of the SRH cooling tower system and OSH boiler replacement. The Health System has associated purchase commitments totaling approximately \$6,949,000 at September 30, 2016, which will be funded through grant proceeds and designated funds. All projects are expected to be completed in the year ended September 30, 2017.

6. Leases

The Health System was obligated under several capital leases at September 30, 2016. Scheduled future payments on capital lease obligations are as follows:

	<u>Principal</u>	<u>Interest</u>
2017	\$ 233,532	\$ 17,867
2018	130,678	9,697
2019	136,276	4,099
2020	12,593	123
2021	-	-
Total	\$ 513,079	\$ 31,786

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, 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	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	<u>178,764</u>		(88,066)	-	<u>90,698</u>	<u>90,698</u>
			\$2,495,302	\$ 78,375	\$ (1,271,598)	\$ (789,000)	\$ 513,079	\$ 233,532

A schedule of changes in the Health System's capital lease obligation balances for the year ended September 30, 2015 follows:

Description	Rate	Date of Issuance	Balance October 1, 2014	Additions	Retired	Balance September 30, 2015	Due Within One Year
Subsidiary equipment leases							
Facility Development, LLC							
Facility Development, LLC	7.71%	10/1/2001	\$ 1,014,587	\$ -	\$ (462,896)	\$ 551,691	\$ 551,691
Hancock Bank	6.00%	3/10/2010	23,007	-	(23,007)	-	-
Hancock Bank	5.25%	5/20/2011	6,576	-	(6,576)	-	-
Hancock Bank	5.25%	4/10/2011	18,439	-	(18,439)	-	-
Hancock Bank	5.25%	12/10/2011	14,301		(10,954)	3,347	3,347
Hancock Bank	5.50%	4/10/2012	64,068	-	(39,881)	24,187	24,187
Hancock Bank	5.50%	4/20/2012	35,898	-	(22,368)	13,530	13,530
Hancock Bank	5.25%	12/10/2011	22,980	-	(19,633)	3,347	3,347
Hancock Bank	5.55%	4/10/2012	59,003	-	(54,454)	4,549	4,549
Hancock Bank	5.00%	11/30/2013	334,758	-	(71,736)	263,022	78,641
Hancock Bank	4.50%	2/10/2014	21,294	-	(15,847)	5,447	5,447
Hancock Bank	4.50%	6/20/2014	21,505	-	(12,700)	8,805	8,805
Hancock Bank	5.25%	9/10/2014	139,498	-	(25,265)	114,233	26,517
Hancock Bank	5.00%	12/30/2013	334,758	-	(71,736)	263,022	78,641
Hancock Bank	4.50%	6/20/2014	21,505	-	(12,700)	8,805	8,805
Hancock Bank	5.50%	11/10/2014	-	12,491	(3,133)	9,358	4,357
Hancock Bank	4.25%	5/20/2015	-	20,209	(8,323)	11,886	11,886
Hancock Bank	5.50%	12/17/2014	-	261,680	(35,285)	226,395	49,195
Hancock Bank	4.25%	2/20/2015	-	20,637	(13,667)	6,970	6,970
Hospital equipment leases							
GE Capital	4.20%	12/17/2014	-	663,335	(137,454)	525,881	120,164
GE Capital	4.20%	12/17/2014	-	340,034	(67,971)	272,063	272,063
IBM	2.93%	2/20/2015	<u>-</u>	<u>272,156</u>	<u>(93,392)</u>	<u>178,764</u>	<u>88,083</u>
			\$ 2,132,177	\$ 1,590,542	\$ (1,227,417)	\$ 2,495,302	\$ 1,360,225

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

Capital assets totaling approximately \$1,353,900 and \$9,071,067 are related to the above capital lease obligations at September 30, 2016 and 2015, respectively. Related accumulated amortization was approximately \$830,576 and \$6,229,169 at September 30, 2016 and 2015, respectively.

Rental expense for all operating leases was approximately \$5,836,000 and \$6,195,000 for the years ended September 30, 2016 and 2015, respectively. There are no significant noncancelable operating leases at September 30, 2016. Management expects that most lease agreements will be replaced, as they expire, with similar agreements.

7. Cash, Cash Equivalents and Investments

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

	2016	2015
Deposits insured by the FDIC	\$ 783,090	\$ 1,000,000
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>77,981,515</u>	<u>59,917,315</u>
Total	<u>\$ 78,764,605</u>	<u>\$ 60,917,315</u>
Carrying amount (cash and cash equivalents)	<u>\$ 76,464,052</u>	<u>\$ 55,216,997</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:

	2016	2015
Money market investments	\$ 3,603,539	\$ 2,510,332
Money market funds	15,812,945	7,672,905
U.S. Government obligations	6,963,647	2,443,753
Municipal obligations	823,247	-
Mortgage backed securities	1,687,501	-
Guaranteed contracts	<u>3,145,160</u>	<u>3,145,160</u>
	<u>\$ 32,036,039</u>	<u>\$ 15,772,150</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, 2016, the Health System's investments had the following maturities:

Investment Type	Fair or Contract Value	< 1	1 – 5	6 – 10	> 10
Money market investments	\$ 3,603,539	\$ 3,603,539	\$ -	\$ -	\$ -
Money market funds	15,812,945	15,812,945	-	-	-
U.S. Government obligations	6,963,647	505,900	6,457,747	-	-
Municipal obligations	823,247	-	823,247	-	-
Mortgage-backed securities	1,687,501	-	557,175	523,182	607,144
Guaranteed contracts	3,145,160	-	-	3,145,160	-
	<u>\$ 32,036,039</u>	<u>\$ 19,922,384</u>	<u>\$ 7,838,169</u>	<u>\$ 3,668,342</u>	<u>\$ 607,144</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:

Investment Type	Rating	Percentage
Money market investments	Not rated	11%
Money market funds	Aaa	49%
U.S. Government obligations	*	22%
Municipal obligations	Aa2	3%
Mortgage-back securities	Aaa	5%
Guaranteed investment contract	A2	10%

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

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 8. A summary of the funds are as follows for September 30:

	2016	2015
Reserve funds – long term	\$ 7,153,988	\$ 7,701,820
Principal and interest funds – current	3,297,257	2,774,860
Capital improvement funds – long term	2,788,938	2,785,138
	<u>\$ 13,240,183</u>	<u>\$ 13,261,818</u>

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Notes to Financial Statements**

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, 2016.

Investment income is comprised of the following at September 30:

	2016	2015
Dividend and interest income	\$ 152,284	\$ 142,537
Net increase in the fair value of investments	<u>201,219</u>	<u>179,949</u>
	<u>\$ 353,503</u>	<u>\$ 322,486</u>

8. Long-Term Debt

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

	2016	2015
Mississippi Development Bank Special Obligation Bonds – Series 2011	\$ 29,230,000	\$ 31,700,000
Plus unamortized bond premium	<u>876,638</u>	<u>793,486</u>
	<u>30,106,638</u>	<u>32,493,486</u>
Mississippi Development Bank Special Obligation Bonds – Series 2009A	<u>30,865,000</u>	<u>\$ 31,580,000</u>
Less unamortized bond discount	<u>(737,856)</u>	<u>(789,018)</u>
	<u>30,127,144</u>	<u>30,790,982</u>
Mississippi Development Bank Special Obligation Refunding Bonds – Series 2009B	<u>27,820,000</u>	<u>\$ 31,185,000</u>
Less unamortized bond discount	<u>(86,785)</u>	<u>(109,617)</u>
	<u>27,733,215</u>	<u>31,075,383</u>
Less current installments, based on contractual terms	<u>87,966,997</u>	<u>94,359,851</u>
Long-term debt, excluding current contractual installments	<u>6,835,000</u>	<u>6,550,000</u>
	<u>\$ 81,131,997</u>	<u>\$ 87,809,851</u>

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

**Singing River Health System
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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, with expected completion in April. The cooling tower is on order, with bids being advertised for installation of same in two and half weeks for expected completion in September. The chiller plant will be bid in the fall for estimated completion 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, 2016.

**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, 2016:

	Principal	Interest	Total
2017	\$ 6,835,000	\$ 4,263,194	\$ 11,098,194
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 – 2026	22,095,000	10,000,477	32,095,477
2027 – 2031	9,620,000	6,859,613	16,479,613
2032 – 2036	12,520,000	3,967,438	16,487,438
2037 – 2041	6,440,000	737,717	7,177,717
	\$ 87,915,000	\$ 40,577,902	\$ 128,492,902

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>(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>

At September 30, 2015, long-term debt, including additions and reductions, consisted of the following:

<u>Description</u>	<u>Date of Issuance</u>	<u>Balance October 1, 2014</u>	<u>Additions</u>	<u>Retired</u>	<u>Balance September 30, 2015</u>	<u>Due Within One Year</u>
Series 2009B	10/27/2009	34,420,000	-	(3,235,000)	31,185,000	3,365,000
Series 2009A	4/2/2009	32,270,000	-	(690,000)	31,580,000	715,000
Series 2011	7/27/2011	<u>34,055,000</u>	-	<u>(2,355,000)</u>	<u>31,700,000</u>	<u>2,470,000</u>
		<u>\$ 100,745,000</u>	<u>\$ _____</u>	<u>\$ (6,280,000)</u>	<u>\$ 94,465,000</u>	<u>\$ 6,550,000</u>

9. 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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Notes to Financial Statements**

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, 2016 and 2015, the following employees were covered by the benefit terms:

	2016	2015
Inactive employees or beneficiaries currently receiving benefits	688	618
Inactive employees entitled to but not yet receiving benefits	156	147
Inactive employees not entitled to benefits but with employee contributions	947	949
Active employees	<u>1,154</u>	<u>1,429</u>
	<u>2,945</u>	<u>3,143</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, 2016 and 2015.

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, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2015.

Actuarial assumptions. The total pension liability in the October 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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Cost of living increases	1.25%
Salary increases	-%
Investment rate of return	6.5%

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, 2016 was 3.27 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 6.5 percent and the twenty-year general obligation Federal Reserve Bond Buyer Index rate ("Muni Bond Rate") of 3.06 percent was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate changed from the rate of 3.93 percent used at the previous measurement date at September 30, 2015 due to changes in the Muni Bond Rate.

Changes in the net pension liability

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><u>\$463,629,088</u></u>	<u><u>\$130,631,000</u></u>	<u><u>\$332,998,088</u></u>

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The following represents the changes in the net pension liability as of September 30, 2015:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Service cost	\$ 1,636,685	\$ -	\$ 1,636,685
Interest	17,939,427	-	17,939,427
Changes in benefit terms	(77,583,377)	-	(77,583,377)
Differences between expected and actual experience	-	-	-
Contributions - employer	-	-	-
Contributions - employee	-	395,038	(395,038)
Net investment income	-	1,750,750	(1,750,750)
Changes of assumptions	22,058,366	-	22,058,366
Benefit payments, including refunds of employee contributions	(14,368,870)	(14,368,870)	-
Administrative expense	-	(557,024)	557,024
Net change	(50,317,769)	(12,780,106)	(37,537,663)
Balance at October 1, 2014	<u>492,186,069</u>	<u>150,193,105</u>	<u>341,992,964</u>
Balance at September 30, 2015	<u><u>\$441,868,300</u></u>	<u><u>\$137,412,999</u></u>	<u><u>\$304,455,301</u></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 3.27 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:

<u>Sensitivity</u>	<u>Discount Rate</u>	<u>Net Pension Liability</u>
Current discount rate	3.27%	\$ 332,998,088
1% decrease in discount rate	2.27%	\$ 416,171,043
1% increase in discount rate	4.27%	\$ 268,149,542

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, 2016 and 2015, the Health System recognized (contra) pension expense of approximately \$22,169,000 and (\$59,975,000), respectively. (Contra) pension expense for the year ended September 30, 2015 includes the effect of the benefit accrual freeze of approximately \$77,583,000. Excluding the effect of this curtailment, pension expense totaled approximately \$17,608,000.

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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	<u>31,980,821</u>	-
Net difference between projected and actual earnings on pension plan investments	<u>4,526,034</u>	<u>470,150</u>
	<u><u>\$ 36,506,855</u></u>	<u><u>\$ 7,696,374</u></u>

At September 30, 2015, 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>
Changes of assumptions	\$ 16,402,375
Net difference between projected and actual earnings on investments	<u>6,034,714</u>
Total	<u><u>\$ 22,437,089</u></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:

**Year ended
September 30:**

2017	\$ 12,811,828
2018	12,246,230
2019	3,869,959
2020	(117,536)
2021	-
Thereafter	-

10. Postemployment Healthcare Plan

Singing River Health System Postretirement Medical Plan (the "Health Plan") is a single-employer defined benefit healthcare plan sponsored and administered by the Health System. The Health Plan provides medical and drug benefits to eligible retirees and their spouses. The Health System's Board of Trustees is authorized to establish and amend all provisions. The Health System does not issue a publicly available financial report that includes 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.

Singing River Health System Notes to Financial Statements

Funding policy

The contribution requirements of employees and the Health System are established and may be amended by the Health System's Board of Trustees. Monthly contributions are required by retirees who are eligible for coverage. The Health System pays for costs in excess of required retiree contributions. The required contribution for the Health Plan is based on projected pay-as-you-go financing requirements. During fiscal year 2016 there were no contributions from the Health System or Health Plan members to the Health Plan.

Monthly contributions required by retirees depend on the service period at time of retirement (less than 20 years vs. 20 years or more) and the type of coverage (single or family). Contributions equal the full blended premium rates developed by the Health System. As there were no Health Plan members, no contributions were made in 2016.

Annual OPEB cost and net OPEB obligation

The Health System's annual other postemployment benefit ("OPEB") cost (benefit) is 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 represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 6.678 years. The following table shows the components of the Health System's annual OPEB cost for the year, the amount actually contributed to the Health Plan and changes in the Health System's net OPEB obligation:

	2016	2015
Annual OPEB cost (benefit)	\$ (13,977,882)	\$ (1,331,158)
Contributions	-	(223,461)
Decrease in net OPEB obligation	<u>(13,977,882)</u>	<u>(1,554,619)</u>
Net OPEB obligation, beginning of year	<u><u>13,977,882</u></u>	<u><u>15,532,501</u></u>
Net OPEB obligation, end of year	<u><u>\$ -</u></u>	<u><u>\$ 13,977,882</u></u>

Three-year trend information

<u>Fiscal Year Ended</u>	Annual OPEB cost (Benefit)	Percentage of Annual OPEB cost Contributed	Net OPEB Obligation
September 30, 2014	\$ (2,245,307)	(15)	15,532,501
September 30, 2015	(1,331,158)	(17)	13,977,882
September 30, 2016	(13,977,882)	-	-

Funded status and funding progress

As of October 1, 2014, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$0, resulting in an unfunded actuarial accrued liability ("UAAL") of \$0. The UAAL was significantly different from the recorded net OPEB obligation at September 30, 2015 due to the increase in retiree premiums and reduction in participants. The net OPEB obligation was being amortized over the expected remaining life of the Health Plan. Upon the resolution of the Board to terminate, the net OPEB obligation was reduced to \$0.

Prior year actuarial methods and assumptions

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

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In the October 1, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses), which is a long-term rate of return on general account assets, and retiree premiums are assumed to be equal to gross medical costs with no cost to the Health System. The initial UAAL was being amortized over a ten-year period on the level dollar method on an open basis.

11. 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:

	2016	2015
Medicare	36%	32%
Commercial insurance	18%	18%
Patients	26%	30%
Blue Cross	10%	11%
Medicaid	10%	9%
	<u>100%</u>	<u>100%</u>

12. 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 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.

Singing River Health System
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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 2016 and 2015:

	2016	2015
Balance at October 1	\$ 6,227,682	\$ 4,444,000
Provisions for claims reported and claims incurred but not reported	56,894	2,095,682
Claims paid	-	(312,000)
Balance at September 30	<u>\$ 6,284,576</u>	<u>\$ 6,227,682</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, 2016 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 2016 and 2015:

	2016	2015
Balance at October 1	\$ 2,590,000	\$ 2,890,000
Provisions for claims reported and claims incurred but not reported	(232,105)	504,904
Claims paid	(447,895)	(804,904)
Balance at September 30	<u>\$ 1,910,000</u>	<u>\$ 2,590,000</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 2016 and 2015:

	2016	2015
Balance at October 1	\$ 2,892,571	\$ 3,314,781
Provisions for claims reported and claims incurred but not reported	20,672,073	23,939,102
Claims paid	(21,334,059)	(24,361,312)
Balance at September 30	<u>\$ 2,230,585</u>	<u>\$ 2,892,571</u>

Singing River Health System
Notes to Financial Statements

13. 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, 2016 and 2015, are detailed below:

Condensed Combining Statement of Net Positon, 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	<u>35,230,547</u>	<u>4,475,659</u>	<u>-</u>	<u>(15,003,115)</u>	<u>24,703,091</u>
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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Notes to Financial Statements

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>22,047,056</u>	<u>-</u>	<u>4,037,592</u>	<u>(4,037,592)</u>	<u>22,047,056</u>
Total revenues	<u>346,234,768</u>	<u>7,845,817</u>	<u>6,431,855</u>	<u>(4,037,592)</u>	<u>356,474,848</u>
Depreciation	20,742,453	870,500	-	-	21,612,953
Other operating expenses	<u>307,334,272</u>	<u>5,837,163</u>	<u>6,396,589</u>	<u>(3,942,611)</u>	<u>315,625,413</u>
Total operating expenses	<u>328,076,725</u>	<u>6,707,663</u>	<u>6,396,589</u>	<u>(3,942,611)</u>	<u>337,238,366</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	-	(1,011,384)	-	-	(1,011,384)
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><u>\$ (123,715,352)</u></u>	<u><u>\$ 14,996,772</u></u>	<u><u>\$ 282,939</u></u>	<u><u>\$ (15,075,387)</u></u>	<u><u>\$ (123,511,028)</u></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><u>\$ 70,767,821</u></u>	<u><u>\$ 4,759,118</u></u>	<u><u>\$ 937,113</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 76,464,052</u></u>

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Condensed Combining Statement of Net Position, September 30, 2015:

	<u>SRHS</u>	<u>SRHSAS</u>	<u>Anesthesia Services, LLC</u>	<u>Eliminations</u>	<u>Combined</u>
Assets:					
Current assets	\$ 84,986,264	\$ 6,679,113	\$ 1,272,764	\$ (1,016,935)	\$ 91,921,206
Capital assets	175,377,834	10,327,266	-	-	185,705,100
Other assets	<u>28,360,930</u>	<u>-</u>	<u>-</u>	<u>(14,182,863)</u>	<u>14,178,067</u>
Total assets	288,725,028	17,006,379	1,272,764	(15,199,798)	291,804,373
Total deferred outflows of resources	<u>25,398,094</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,398,094</u>
Total assets and deferred outflows	<u>\$ 314,123,122</u>	<u>\$ 17,006,379</u>	<u>\$ 1,272,764</u>	<u>\$ (15,199,798)</u>	<u>\$ 317,202,467</u>
Current liabilities	\$ 41,767,053	\$ 1,929,393	\$ 1,025,091	\$ (1,443,965)	\$ 43,277,572
Long-term liabilities	<u>416,842,764</u>	<u>1,108,453</u>	<u>-</u>	<u>(284,628)</u>	<u>417,666,589</u>
Total liabilities	458,609,817	3,037,846	1,025,091	(1,728,593)	460,944,161
Net position:					
Net investment capital assets	80,041,276	8,097,013	-	711,658	88,849,947
Restricted	13,261,818	869,840	-	-	14,131,658
Unrestricted	<u>(237,789,789)</u>	<u>5,001,680</u>	<u>247,673</u>	<u>(14,182,863)</u>	<u>(246,723,299)</u>
Total liabilities and net position	<u>\$ 314,123,122</u>	<u>\$ 17,006,379</u>	<u>\$ 1,272,764</u>	<u>\$ (15,199,798)</u>	<u>\$ 317,202,467</u>

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

Condensed Combining Statement of Revenues, Expenses, and Changes in Net Position, September 30, 2015:

	<u>SRHS</u>	<u>SRHSAS</u>	<u>Anesthesia Services, LLC</u>	<u>Eliminations</u>	<u>Combined</u>
Net patient service revenue, net	\$ 324,688,041	\$ 9,639,235	\$ 2,358,327	\$ -	\$ 336,685,603
Other revenues	<u>15,460,077</u>	<u>(8,959)</u>	<u>4,039,740</u>	<u>(4,251,738)</u>	<u>15,239,120</u>
Total revenues	<u>340,148,118</u>	<u>9,630,276</u>	<u>6,398,067</u>	<u>(4,251,738)</u>	<u>351,924,723</u>
Depreciation	23,436,695	1,067,317	-	-	24,504,012
Other operating expenses	<u>252,299,797</u>	<u>6,486,597</u>	<u>6,436,862</u>	<u>(4,040,464)</u>	<u>261,182,792</u>
Total operating expenses	<u>275,736,492</u>	<u>7,553,914</u>	<u>6,436,862</u>	<u>(4,040,464)</u>	<u>285,686,804</u>
Operating income	64,411,626	2,076,362	(38,795)	(211,274)	66,237,919
Nonoperating revenues (expenses)	(3,618,376)	(342,043)	-	(703,515)	(4,663,934)
Distributions to minority interest	-	(910,028)	-	-	(910,028)
Change in net position	60,793,250	824,291	(38,795)	(914,789)	60,663,957
Net position, beginning of period	<u>(205,279,945)</u>	<u>13,144,242</u>	<u>286,468</u>	<u>(12,556,416)</u>	<u>(204,405,651)</u>
Net position, end 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>

Condensed Combining Statement of Cash Flows, September 30, 2015:

	<u>SRHS</u>	<u>SRHSAS</u>	<u>Anesthesia Services, LLC</u>	<u>Eliminations</u>	<u>Combined</u>
Net cash provided (used) by operating activities	\$ 32,944,715	\$ 3,401,711	\$ 450,774	\$ (533,869)	\$ 36,263,331
Net cash used by noncapital financing activities	-	(910,028)	-	-	(910,028)
Net cash provided (used) by capital and related financing activities	(16,448,762)	(1,670,343)	-	533,869	(17,585,236)
Net cash provided by investing activities	<u>8,237,016</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,237,016</u>
Net increase in cash and cash equivalents	24,732,969	821,340	450,774	-	26,005,083
Cash and cash equivalents, beginning of year	<u>24,258,103</u>	<u>4,387,906</u>	<u>565,905</u>	<u>-</u>	<u>29,211,914</u>
Cash and cash equivalents, end of year	<u>\$ 48,991,072</u>	<u>\$ 5,209,246</u>	<u>\$ 1,016,679</u>	<u>\$ -</u>	<u>\$ 55,216,997</u>

14. Recent Reporting and Disclosure Developments

Accounting pronouncements issued not yet adopted

The Health System will adopt GASB No. 82, *Pension Issues* in fiscal year 2017. This statement addresses certain issues raised in GASB No. 68, *Accounting and Financial Reporting for Pensions* and other previously issued

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

accounting pronouncements related to (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

15. 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 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. As of the report date, the Fifth Circuit Court of Appeals has not yet ruled on the appeal. The outcome of the ruling 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 not received any claims related to this matter.

There is a recent finding from the Fifth Circuit Court of Appeals ruling in favor of Federal Insurance on the duty to pay issue. Federal has recently stated that it is now reserving a right to seek reimbursement of approximately \$2,400,000 in defense fees paid on behalf of SRHS and all other insureds, the amount paid exceeding the Fiduciary coverage liability limit of \$1,000,000. Neither the general law, the policy language, nor Mississippi law recognize such a right unless a prior agreement to that effect has been entered with an insured.

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

Singing River Health System Notes to Financial Statements

adverse effect on the Health System's future financial position or the results of its future operations, to the extent determinable.

16. 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.

17. 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.

For assets carried at fair value, the following table provides fair value information as of September 30, 2016 and 2015:

	Fair value measurements at September 30, 2016 using			
	Fair value at <u>September 30,</u>	Quoted prices in active markets for identical assets and liabilities	Quoted prices for similar assets and liabilities	Significant unobservable inputs
		<u>2016</u>	<u>(Level 1)</u>	<u>(Level 2)</u>
<u>Investments by fair value level</u>				
Money market funds	\$ 15,812,945	\$ -	\$ 15,812,945	\$ -
U.S. Government obligations	6,963,647	6,963,647	-	-
Municipal obligations	823,247	-	823,247	-
Mortgage-backed securities	1,687,501	-	1,687,501	-
Total investments by level	\$ 25,287,340	\$ 6,963,647	\$ 18,323,693	\$ -

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

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

	Fair value measurements at September 30, 2015 using			
	Fair value at <u>September 30,</u> <u>2015</u>	Quoted prices in active markets for identical assets and liabilities	Quoted prices for similar assets and liabilities	Significant unobservable inputs
		(Level 1)	(Level 2)	(Level 3)
<i>Investments by fair value level</i>				
Money market funds	\$ 7,672,905	\$ -	\$ 7,672,905	\$ -
U.S. Government obligations	<u>2,443,753</u>	<u>2,443,753</u>	<u>-</u>	<u>-</u>
Total investments by level	<u>\$ 10,116,658</u>	<u>\$ 2,443,753</u>	<u>\$ 7,672,905</u>	<u>\$ -</u>

The above schedule excludes guaranteed contracts measured at contract value of \$3,145,160 and money market investments of \$2,510,332.

Money market funds are open-ended mutual funds that comply with Securities and Exchange Commission Rule 2a7 and transact with investors based on a floating net asset value per share. Money market funds are classified in Level 2 of the fair value hierarchy as fair value is measured based on an observable published share price of \$1.

Municipal obligations and mortgage-back 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.

18. 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 \$4,475,659 at September 30, 2016. Prior to the year ended September 30, 2016, MCEASC and OSSEC were included in the financial statements as blended component units of SRHSAS, as SRHSAS held a controlling interest in the entities. See Deconsolidation information in Note 16.

Supplementary Information

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

	September 30		
	2016	2015	2014
Total pension liability:			
Service cost	\$ -	\$ 1,636,685	\$ 9,301,301
Interest	17,011,106	17,939,427	19,601,873
Changes in benefit terms	-	(77,583,377)	-
Differences between expected and actual experience	(10,199,979)	-	(10,574,128)
Changes of assumptions	29,972,888	22,058,366	70,788,607
Benefit payments, including refunds of employee contributions	(15,023,227)	(14,368,870)	(12,507,174)
Net change in total pension liability	21,760,788	(50,317,769)	76,610,479
Total pension liability - beginning of year	441,868,300	492,186,069	415,576,590
Total pension liability - end of year	463,629,088	441,868,300	492,187,069
Plan fiduciary net position:			
Contributions - employer	-	-	-
Contributions - employee	-	395,038	3,158,856
Net investment income	8,918,860	1,750,750	14,796,956
Benefit payments, including refunds of employee contributions	(15,023,227)	(14,368,870)	(12,508,174)
Administrative expense	(677,632)	(557,024)	(370,020)
Other		-	-
Net change in plan fiduciary net position	(6,781,999)	(12,780,106)	5,077,618
Plan fiduciary net position - beginning of year	137,412,999	150,193,105	145,115,487
Plan fiduciary net position - end of year	130,631,000	137,412,999	150,193,105
Net pension liability - end of year	\$ 332,998,088	\$ 304,455,301	\$ 341,993,964
Plan fiduciary net position as a percentage of total pension liability	28.2%	31.1%	30.5%
Covered-employee payroll	N/A	86,061,783	86,397,101
Net pension liability as a percentage of covered-employee payroll	N/A	353.8%	395.8%

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, 2016

Name	Position	Company	Amount of Bond
Steven L. Ates	Trustee	Western Surety Company	\$ 10,000
Don F. Barron	Trustee	Western Surety Company	\$ 10,000
Jeffery B. Belk	Trustee	Western Surety Company	\$ 10,000
Lawrence H. Cosper	Trustee	Western Surety Company	\$ 10,000
James M. Epting Jr.	Trustee	Western Surety Company	\$ 10,000
Bonnie T. Granger	Trustee	Western Surety Company	\$ 10,000
John S. Weldon	Trustee	Western Surety Company	\$ 10,000
Kevin Holland	Chief Executive Officer	Western Surety Company	\$ 10,000
Brian Argo	Chief Financial Officer	Western Surety Company	\$ 10,000
Dr. Steven Demotropolis	Chief of Staff	Western Surety Company	\$ 10,000

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, 2016 and 2015, 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 March 24, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Health System's internal control to be significant deficiencies:

- Anesthesia Services, LLC does not record patient accounts receivable and revenues on an accrual basis. Receivables/payables to intercompany entities are recorded when cash is received. DHG recommends implementing procedures to either (1) record receivables/revenues on accrual basis each month, or (2) calculate the appropriate period

ending receivables/revenues and make a top-side entry to convert the entity to the accrual basis prior to consolidation.

- The firm engaged to perform bookkeeping services for Anesthesia Services, LLC also has ownership of billing and collection processes for the entity. This design results in the lack of segregation of duties. DHG recommends designing internal controls to appropriately segregate collection and bookkeeping functions.

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.