

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

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

Years Ended September 30, 2018 and 2017

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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, 2018 and 2017 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 *Government 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, 2018 and 2017, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 13 and the Schedule of Changes in Net Pension Liability and Related Ratios on page 44 be presented to supplement the basic financial statements. Such information,

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

Other Supplementary Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2018, on our consideration of the Health System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health System's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

**Birmingham, Alabama
November 15, 2018**

Management's Discussion and Analysis (Unaudited)

Management's Discussion and Analysis

This discussion and analysis provides management's analysis of Singing River Health System (the "Health System") financial performance for the fiscal years ended September 30, 2018 and 2017. Unless otherwise indicated, all financial and statistical information included herein relates to continuing operations. The following analysis should be read in conjunction with the accompanying Financial Statements and Supplementary Information.

Overview of the financial statements

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

While the County may appropriate money from its general fund and levy property taxes to support the operations of the Health System, the Health System has been self-supporting and receives no County appropriations for its operations, nor has it received any such financial support from the County in over twenty-nine 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 improve health and save lives through the healthcare services it provides 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, and Ocean Springs Surgical and Endoscopy Center, LLC.

Industry highlights

Several uncertainties exist as the healthcare industry contemplates various concepts with changes in the industry. National efforts in this regard at healthcare reform and in general will take time to transition as regulatory changes are expected to continue, resulting in payment reductions. The Health System will continue its successful strategy of improving access, maximizing proficiency, with high quality, low cost care, growing in areas of core clinical competency and marketing its leading services. These efforts will allow Singing River to maintain financial stability. Some industry items of note:

- The Centers for Medicare and Medicaid Services (CMS) finalized their proposal to reduce Medicare reimbursement for separately payable Part B drugs purchased via the 340B program from average sales price (ASP) plus 6% to ASP minus 22.5%. The close to 30% reduction went into effect January 2018 and while there have been legal challenges filed to reverse the cuts, they remain in place. The lower drug reimbursement was partially offset by a corresponding 3% increase in the Medicare Outpatient Prospective Payment (OPPS) rates to attempt to make the cuts budget neutral for CMS.
- The Trump Administration continues to explore avenues to reduce drug expenditures for the federal government and Medicare beneficiaries. During October 2018, CMS published an Advanced Notice of Proposed Rulemaking outlining their plan to create an International Pricing Index (IPI) for Part B drugs. The IPI would require third party vendors to purchase separately payable Part B drugs for which they, and not the hospital, would be reimbursed by Medicare based on prices paid in other designated countries. Hospitals would no longer purchase or hold title to these drugs and would receive an administration fee and

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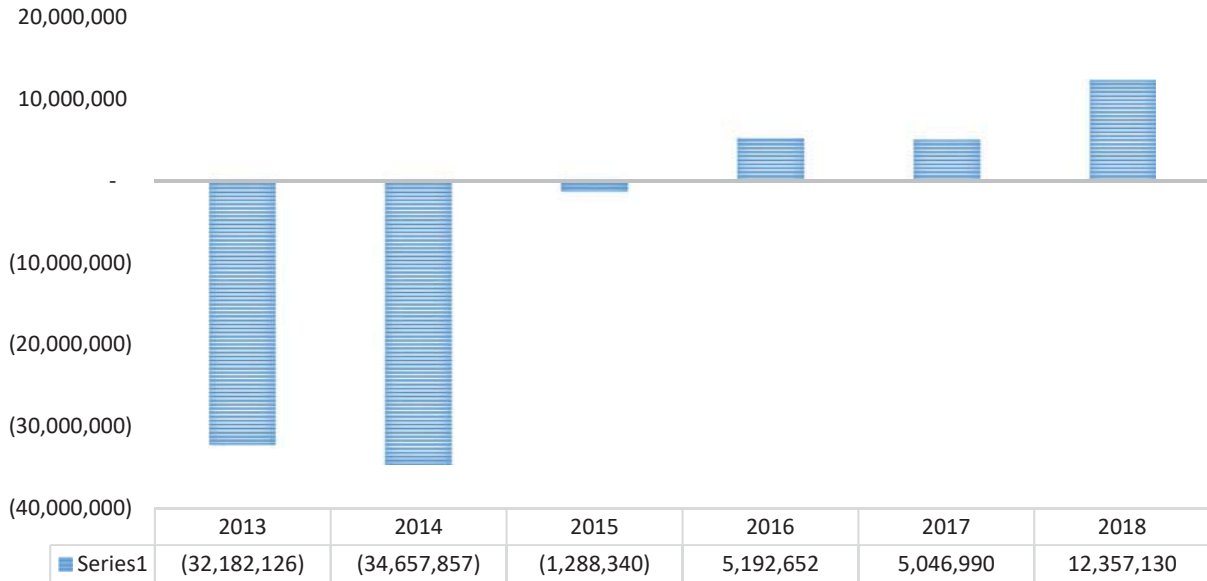
a drug add-on to compensate the hospital for administering the drugs to patients. The current proposal would only be mandatory in yet to be determined geographic areas and is subject to revision or withdrawal after public comments are received. It is too early to know whether we will be selected to participate, or to quantify the impact the IPI program would have on our health system. However, we will be monitoring this closely.

- The Medicare Access and Chip Reauthorization Act (MACRA) went into effect in 2017, posing immediate implications to all Health Systems' financial performance by imposing a 'value based payment modifier,' theoretically emphasizing the importance of making patient outcomes and quality of care a governmental priority. The law provides greater flexibility to the Secretary of the Department of Health and Human Services in the timing of the implementation of the Merit-based Incentive Payment System (MIPS) under MACRA's Quality Payment Program (QPP). The new law modifies provisions of MACRA so that MIPS payment adjustments will apply only to services billed to Part B, thereby excluding payments for Part B drugs from MIPS payment adjustments.
- Medicare sequestration cuts, previously slated to expire in 2021, have been extended three times through 2027.
- To offset the financial effects of treating Medicaid and other indigent patients, the system receives additional funding through the Mississippi Hospital Access Program (MHAP) formerly Upper Payment Limit (UPL) and Disproportionate Share Hospital (DSH) programs administered by the Mississippi Division of Medicaid ("DOM"). Under the Patient Protection and Affordable Care Act of 2010, reductions of DSH allotments are scheduled to continue through 2025, reducing the amount of funds received for treating Medicaid and other indigent patients. In the past, the state Division of Medicaid unfairly distributed funds, creating a system on winners and losers with respect to DSH funds.
- Increasing wages in the industry due to shortage of qualified health care workers is expected to continue.
- Increased costs in medical supplies and pharmaceuticals continue to adversely impact net margin in the healthcare industry.

Financial highlights

- The Health System's net position increased by \$263.0 million (220.5%) in fiscal year 2018 compared to an increase of \$4.2 million (3.4%) in 2017 and an increase of \$20.2 million (14.1%) in 2016. The 2018, 2017 and 2016 changes in net position were significantly impacted by non-cash entries related to GASB 68 and GASB 45 accounting standards. Excluding accounting entries related to GASB 68 and GASB 45 and other infrequently recurring events, the increase in net position would have been \$12.4 million and \$5.0 million in fiscal year 2018 and fiscal year 2017, respectively. After removing the increase to net position related to the GASB 68 entries, the current year increase in net position is primarily related to increases in volumes, complemented by improvements in efficiencies that have directly resulted in a reduction in expenses. Surgical services have increased 4.4% in comparison to fiscal year 2018, Cancer Center visits which have increased by 11.6% and 10% during fiscal year 2018 and fiscal year 2017, respectively. Rheumatology visits have increased by 58.2% and 20.3% during fiscal year 2018 and fiscal year 2017, respectively. Both of the latter service lines were a direct result of strategic growth of providers in those areas.

ANNUAL PROFIT/(LOSS) - EXCLUDING INFREQUENTLY OCCURRING EVENTS



- Total assets and deferred outflows decreased approximately \$1.4 million (0.4%) in fiscal year 2018 and approximately \$3.1 million (0.9%) in fiscal year 2017.
- Long-term debt, excluding current portion, decreased approximately \$7.5 million (10.1%) in fiscal year 2018 and \$7.1 million (8.8%) in fiscal year 2017. Other long-term liabilities decreased approximately \$256.3 million (75.8%) and \$4.0 million (1.2%) related to GASB 68 adjustments, in fiscal year 2018 and fiscal year 2017, respectively. The significant reduction in other liabilities related to GASB 68 adjustments are reflections of court settlement upholding the pension settlement and changes to term benefits made by the Court Appointed Special Fiduciary.
- During fiscal year 2018 and 2017, the system invested \$22.5 million and \$14.0 million, respectively, in facility infrastructure projects, critical information technology, and medical equipment. An additional \$1.9 million and \$3.8 million during fiscal year 2018 and 2017 of federal grant funds were utilized for an exterior hardening project related to building improvements at Singing River Hospital. This project was completed during fiscal year 2018.

Financial statements

- The Health System’s financial statements are prepared on the accrual basis of accounting, based upon when services are provided or obligations are incurred, not when cash is received or bills are paid. The financial statements consist of three statements: (1) statements of net position, (2) statements of revenues, expenses, and changes in net position and (3) statements of cash flows. The statements of net position and the statement of revenues, expenses, and changes in net position reflect the Health System’s financial position at the end of the fiscal year and report the net position and changes as a result of the revenues and expenses for the year. The statement of net position presents the assets, deferred outflows, liabilities, deferred inflows, and net position of the Health System as the end of the year. The net position section presents assets plus deferred outflows of resources, less liabilities, less deferred inflows of resources. Increases or decreases in net position are an indicator of whether financial health is improving or deteriorating. Other nonfinancial factors should be considered, however, in evaluating financial health, such

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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.

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, 2018, 2017 and 2016:

| | 2018 | 2017 | Change | Total Percentage change | 2016 | Change | Total Percentage change |
|--|--------------|----------------|----------------|-------------------------------|----------------|--------------|-------------------------------|
| ASSETS: | | | | | | | |
| Current assets | 134.4 | 131.5 | 2.9 | 2.2% | 112.9 | 18.6 | 16.5% |
| Funds held by trustees | 22.7 | 20.0 | 2.7 | 13.5% | 18.7 | 1.3 | 7.0% |
| Capital assets, net | 180.7 | 173.8 | 6.9 | 4.0% | 174.0 | (0.2) | -0.1% |
| Other assets | 7.7 | 5.8 | 1.9 | 32.8% | 6.0 | (0.2) | -3.3% |
| TOTAL ASSETS | 345.5 | 331.1 | 14.4 | 4.3% | 311.6 | 19.5 | 6.3% |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | | | |
| | 1.2 | 22.4 | (21.2) | -94.6% | 38.8 | (16.4) | -42.3% |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | 346.7 | 353.5 | (6.8) | -1.9% | 350.4 | 3.1 | 0.9% |
| LIABILITIES | | | | | | | |
| Current liabilities | 53.5 | 45.6 | 7.9 | 17.3% | 42.6 | 3.0 | 7.0% |
| Long-term debt, excluding current installments | 66.5 | 74.0 | (7.5) | -10.1% | 81.1 | (7.1) | -8.8% |
| Capital lease obligations, excluding current installments | 1.1 | 0.2 | 0.9 | 450.0% | 0.3 | (0.1) | -33.3% |
| Other long-term liabilities | 81.9 | 338.2 | (256.3) | -75.8% | 342.2 | (4.0) | -1.2% |
| TOTAL LIABILITIES | 203.0 | 458.0 | (255.0) | -55.7% | 466.2 | (8.2) | -1.8% |
| DEFERRED INFLOWS OF RESOURCES | | | | | | | |
| | - | 14.8 | (14.8) | -100.0% | 7.7 | 7.1 | 92.2% |
| TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES | 203.0 | 472.8 | (269.8) | -57.1% | 473.9 | (1.1) | -0.2% |
| NET POSITION | | | | | | | |
| Invested in capital assets, net of related debt | 105.3 | 92.4 | 12.9 | 14.0% | 85.5 | 6.9 | 8.1% |
| Restricted - expendable for debt service | 12.9 | 12.9 | - | 0.0% | 13.2 | (0.3) | -2.3% |
| Unrestricted (deficit) | 25.5 | (224.6) | 250.1 | 111.4% | (222.2) | (2.4) | -1.1% |
| TOTAL NET POSITION | 143.7 | (119.3) | 263.0 | 220.5% | (123.5) | 4.2 | 3.4% |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | 346.7 | 353.5 | (6.8) | -1.9% | 350.4 | 3.1 | 0.9% |

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 \$263.0 million from fiscal year 2017 to fiscal year 2018 compared to increases of \$4.2 million and \$20.2 million during fiscal years 2017 and 2016, respectively.

The Health System had \$86.2 million, \$81.4 million, and \$67 million, in total unrestricted cash and investments as of September 30, 2018, 2017 and 2016.

Net patient accounts receivable (AR) decreased \$1.3 million from \$37.6 million at September 30, 2017 to \$36.3 million at September 30, 2018. This decrease is directly related to improved cash collections on revenue cycle, decreasing days in AR, and increases in service areas with a lower AR turnover including the Distinct Part Skilled Nursing Facility and Physician Clinics.

Designated funds held by trustees increased by \$2.7 million from 2017 to 2018 and \$0.8 million from 2016 to 2017. The increase from 2017 to 2018 is due to an additional funding of \$2.4 million to the pension settlement fund and

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Management’s Discussion and Analysis**

increased bond funds by \$0.3 million. The increase from 2016 to 2017 is due to the additional funding of a \$1.2 million held related to pension settlement fund held in an escrow account offset by a reduction of \$0.4 million for the funds held by trustee for self-insurance funding account.

Capital assets, net

The Health System had capital assets, net of accumulated depreciation of \$180.7 million, \$173.8 million, and \$174.0 million, at September 30, 2018, 2017 and 2016, increasing \$6.9 million in fiscal year 2018 and decreasing \$0.2 million in fiscal year 2017. Depreciation expense was \$17.6 million and capital additions equaled \$24.4 million in 2018, compared to depreciation expense of \$17.6 million and capital additions of \$17.7 million in 2017. The table below outlines increases and decreases in capital assets.

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|-----------------------------------|----------------------|----------------------|----------------------|
| Buildings and improvements | \$103,880,661 | \$ 90,419,448 | \$ 97,239,079 |
| Moveable equipment | 58,430,094 | 56,263,602 | 54,504,577 |
| Land and construction in progress | 15,226,679 | 23,545,811 | 18,219,538 |
| Fixed equipment | 1,646,382 | 1,821,718 | 1,997,055 |
| Land improvements | <u>1,538,662</u> | <u>1,786,006</u> | <u>2,008,777</u> |
| Total | <u>\$180,722,478</u> | <u>\$173,836,585</u> | <u>\$173,969,026</u> |

Deferred outflows of resources consist of unamortized losses on refunding of debt, and resources related to the Health System’s pension plan. Deferred outflows of resources decreased \$21.2 million (94.6%) from \$22.4 million as of September 30, 2017 to \$1.2 million as of September 30, 2018. Deferred inflows of resources decreased \$14.8 million (100%) from \$14.8 million as of September 30, 2017 to \$0.0 million as of September 30, 2018. The decreases in deferred outflows and deferred inflows are primarily related to pension settlement upheld by Order of The United States District Court of the Southern District of Mississippi. On November 20, 2014, the Health System’s Board of Trustees resolved to amend the Singing River Employees’ Retirement Plan and Trust (the “Plan”) to, among other things, freeze the Plan so that no further contributions will be made by the employees and that no further benefits shall accrue. The Resolution also directed that the Plan be terminated and that assets of the Plan be allocated and benefits funded in accordance with applicable provisions of the Plan. Prior to ensuing litigation, the Health System had intended to modify the plan payouts by converting to a new plan. The United States District Court of the Southern District of Mississippi approved a settlement (the “Settlement”) in a class-action lawsuit related to the Plan in June 2016. That decision was appealed to the Fifth Circuit Court of Appeals and oral arguments were heard on January 5, 2017. On July 27, 2017, the Fifth Circuit Court of Appeals remanded the case to the District Court in an effort to provide additional consideration as it relates to the Settlement. On October 30, 2017 the Health System submitted its brief to the District Court and provided the additional Court of Appeals-requested information. On April 12, 2018, by Order of the court a “Trust Preservation Order Modifying Terms of Pension Plan” was made reducing benefits by 25% and eliminating the cost of living increases. On September 26, 2018 the Fifth Circuit Court made a final ruling to uphold the Settlement. The outcome of the Settlement significantly impacts the financial statements through changes in future projections and estimated net pension liability as described above.

Total liabilities and deferred inflows of resources decreased \$269.8 million (57.1%) in fiscal year 2018 and increased \$1.1 million (0.2%) in fiscal year 2017.

- Current liabilities increased \$7.9 million (17.3%) and \$3.0 million (7.0%) in fiscal years 2018 and 2017, respectively.
- Long-term debt decreased \$7.5 million (10.1%) and \$7.1 million (8.8%) in fiscal years 2018 and 2017, respectively. Decrease in debt is in accordance with scheduled debt service payments.
- Net pension liability and pension settlement liability decreased \$254.4 million (77.9%) and \$6.6 million (2.0%) in fiscal years 2018 and 2017, respectively. Decreases are related to actuarial valuation of changes

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in plan assumptions, discount rates and other variables related to the pension liability in accordance with GASB 68 and due to the Settlement referred to above. Court ordered changes and final approval of settlement referenced above have a significant impact on the liability previously recorded.

- Deferred inflows of resources are changes in benefit terms, 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 decreased \$14.8 million (100%) and \$7.1 million (92.2%) during fiscal years 2018 and 2017, respectively. The elimination of deferred inflows during Fiscal Year 2018 is related to the District Court upholding the pension settlement referred to above.
- Bond covenants require the Health System to maintain 65 days cash on hand (DCOH) and a maximum annual debt services (MADS) ratio above 1.2. The Health System's focus over the previous years has been in strengthening the Health System's cash position, resulting in increases in DCOH of 8 and 12 days cash during fiscal years 2018 and 2017, respectively. The Health System had DCOH of 99, 91, and 79 at September 30, 2018, 2017 and 2016, respectively. The MADS ratio was 2.85, 2.39 and 3.65 at September 30, 2018, 2017 and 2016, respectively. The Health System is in compliance with both bond covenants at September 30, 2018.

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Management's Discussion and Analysis**

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, 2018, 2017 and 2016 and the changes in net position during each of those years:

| Condensed Summary of Revenues, Expenses and Changes in Net Position (In Millions) | | | | | | | |
|--|---------|---------|---------|-------------------------------|---------|--------|-------------------------------|
| | 2018 | 2017 | Change | Total Percentage Change | 2016 | Change | Total Percentage Change |
| Patient service revenues, net of provision for bad debts | 345.5 | 341.3 | 4.2 | 1.2% | 334.4 | 6.9 | 2.1% |
| Other revenues | 9.8 | 11.4 | (1.6) | -14.0% | 17.7 | (6.3) | -35.6% |
| Total operating revenues | 355.3 | 352.7 | 2.6 | 0.7% | 352.1 | 0.6 | 0.2% |
| Operating expenses | | | | | | | |
| Salaries and wages | 133.5 | 131.9 | 1.6 | 1.2% | 130.4 | 1.5 | 1.2% |
| Employee Benefits | 27.0 | 26.6 | 0.4 | 1.5% | 25.8 | 0.8 | 3.1% |
| GASB 68 and GASB 45 Expense | (248.5) | 16.4 | (264.9) | -1615.2% | 8.2 | 8.2 | 100.0% |
| Professional fees | 4.7 | 4.4 | 0.3 | 6.8% | 5.8 | (1.4) | -24.1% |
| Supplies | 79.4 | 71.5 | 7.9 | 11.0% | 70.4 | 1.1 | 1.6% |
| Purchased services | 36.5 | 39.1 | (2.6) | -6.6% | 39.9 | (0.8) | -2.0% |
| Other expenses | 37.2 | 36.1 | 1.1 | 3.0% | 30.8 | 5.3 | 17.2% |
| Depreciation and amortization | 20.0 | 19.1 | 0.9 | 4.7% | 21.6 | (2.5) | -11.6% |
| Total operating expenses | 89.8 | 345.1 | (255.3) | -74.0% | 332.9 | 12.2 | 3.7% |
| Operating income | 265.5 | 7.6 | 257.9 | 3393.4% | 19.2 | (11.6) | -60.4% |
| Non-operating revenues (expenses) | | | | | | | |
| Investment income | 1.1 | 0.5 | 0.6 | 120.0% | 0.4 | 0.1 | 25.0% |
| Interest expense | (3.9) | (4.3) | 0.4 | 9.3% | (4.7) | 0.4 | 8.5% |
| Equity method income | 0.3 | 0.4 | (0.1) | 25.0% | 0.4 | - | |
| Gain on sale of surgery centers | - | - | - | | 8.3 | (8.3) | |
| Loss on impairment | - | - | - | | (2.0) | 2.0 | |
| Total non-operating revenues (expense) | (2.5) | (3.4) | 0.9 | 26.5% | 2.4 | (5.8) | -241.7% |
| Excess of revenues over expenses | 263.0 | 4.2 | 258.8 | 6161.9% | 21.6 | (17.4) | -80.6% |
| Distributions | - | - | - | | (0.4) | 0.4 | 100.0% |
| Effect of deconsolidation of ASCs | - | - | - | | (1.0) | 1.0 | |
| Increase (decrease) in net position | 263.0 | 4.2 | 258.8 | 6161.9% | 20.2 | (16.0) | -79.2% |
| Net position, beginning | (119.3) | (123.5) | 4.2 | 3.4% | (143.7) | 20.2 | 14.1% |
| Net position, ending | 143.7 | (119.3) | 263.0 | 220.5% | (123.5) | 4.2 | 3.4% |

Net patient service revenue

Net Patient Service Revenue increased \$4.2 million (1.2%) to approximately \$345.5 million in fiscal year 2018 compared to \$341.3 million in fiscal year 2017 and \$334.4 million in fiscal year 2016. The increase from 2017 to 2018 is due to a large increase in overall volume and increase in service line of the Distinct Part Skilled Nursing Facility. The Health System has experienced an increase in admissions, inpatient surgeries, outpatient surgeries, patient days and service line visits, including Cancer visits, Rheumatology, and Hospice.

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

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approximately \$16.7 million during 2018, 2017 and 2016. The system received Medicaid DSH payments of approximately \$10.3 million, \$18.1 million, and \$17.1 million for fiscal years 2018, 2017, and 2016, respectively.

To participate in the MHAP and DSH programs the system paid to DOM an annual assessment of \$11.4 million, \$11.9 million, and \$12.3 million, for fiscal years 2018, 2017 and 2016, respectively. The net impact of the MHAP and UPL programs to the system was \$5.3 million, \$4.8 million, and \$4.5 million in fiscal years 2018, 2017 and 2016, respectively.

Other operating revenues were \$9.8 million in 2018 and \$11.4 million in 2017, a decrease of \$1.6 million. The decrease is primarily due to a reduction in grant revenue of \$1.6 million and electronic health record meaningful use funds of \$1.3 million.

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, 2018, 2017 and 2016:

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

| | 2018 | 2017 | Change | Total | | Total | |
|---|----------------|------------|----------------|------------------|---------------|--------------|---------------|
| | | | | Percentage | Change | Percentage | Change |
| Increase (decrease) in net position | 263.0 | 4.2 | 258.8 | 6161.9% | 20.2 | (16.0) | -79.2% |
| Infrequently occurring events | | | | | | | |
| Construction grant revenue | (1.7) | (3.3) | 1.6 | 48.5% | (8.2) | 4.9 | -59.8% |
| 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 | - | (0.2) | 0.2 | 100.0% | (1.3) | 1.1 | 84.6% |
| Professional liability adjustment | (0.4) | 0.7 | (1.1) | 157.1% | (1.5) | 2.2 | -146.7% |
| GASB 68 pension expense | (248.5) | 3.6 | (252.1) | 7002.8% | 15.0 | (11.4) | -76.0% |
| Total infrequently occurring events | (250.6) | 0.8 | (251.4) | -31425.0% | (15.0) | 15.8 | 105.3% |
| Normalized increase (decrease) in net position | 12.4 | 5.0 | 7.4 | 148.0% | 5.2 | (0.2) | 3.8% |

During fiscal years 2018, 2017 and 2016, there were a few occurrences outlined above driving a higher than anticipated increase in net position. The Settlement related to the Singing River Health System Employees Retirement Plan and Trust resulted in a \$248.5 million reduction of expense. Construction grant revenue recorded was \$1.7 million and \$3.3 million in fiscal years 2018 and 2017, respectively related to a hardening project to improve the facility at Singing River Hospital. Malpractice and workers comp actuarial assessments in addition to inventory of claims incurred but not reported based on historical experience decreased expense in fiscal year 2018 by \$0.4 million, and increased expense in fiscal year 2017 by \$0.7 million, respectively. Removing all the infrequently occurring events and items related to GASB 68 listed above from the financials results in a \$12.4 million normalized increase in net position compared to fiscal year 2017 normalized increase in net position of \$5.0 million.

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

Statistics

The 1.2% increase in net patient service revenue during fiscal year 2018 is due to increases in several statistics, including admissions, surgeries, and other service line visits.

- Adult Acute Admissions were up 1.5%
- Total admissions were up 2.5%
- Outpatient procedures visits overall were up 2.1%
- Outpatient surgeries were up 6.1%
- Inpatient surgeries were up 2.8%
- Total days of care were up 16.5%

A summary of statistics from fiscal years 2018, 2017 and 2016 are outlined in the chart below:

| HOSPITAL OPERATIONS | 2018 | 2017 | Variance | 2016 | Variance |
|--------------------------------------|-----------|-----------|----------|-----------|----------|
| Admissions (excludes nursery) | | | | | |
| Adult | 11,924 | 11,744 | 1.53% | 11,320 | 3.75% |
| Pediatric | 580 | 514 | 12.84% | 551 | -6.72% |
| Intensive Care Unit | 2,967 | 3,109 | -4.57% | 2,667 | 16.57% |
| Comprehensive Rehab | 503 | 498 | 1.00% | 462 | 7.79% |
| Behavioral Health | 741 | 947 | -21.75% | 1,027 | -7.79% |
| Skilled Nursing Facility | 517 | 1 | | | |
| Total | 17,232 | 16,813 | 2.49% | 16,027 | 4.90% |
| ER Admissions | 12,332 | 12,385 | -0.43% | 12,027 | 2.98% |
| Discharges | 17,520 | 16,955 | 3.33% | 16,271 | 4.20% |
| Adjusted Discharges | 37,664 | 35,980 | 4.68% | 35,128 | 2.43% |
| Total Days of Care | 85,663 | 73,544 | 16.48% | 71,853 | 2.35% |
| Average Daily Census | 235 | 201 | 16.92% | 196 | 2.55% |
| Inpatient Physician Services | 72,262 | 67,374 | 7.26% | 56,446 | 19.36% |
| Deliveries | 1,362 | 1,480 | -7.97% | 1,459 | 1.44% |
| Observation Days | 4,267 | 4,324 | -1.32% | 4,421 | -2.19% |
| Acute ALOS | 4.18 | 4.27 | -2.11% | 4.33 | -1.39% |
| Outpatient Procedures | | | | | |
| ER Visits | 97,916 | 99,142 | -1.24% | 102,160 | -2.95% |
| Radiology Exams | 137,618 | 132,158 | 4.13% | 129,924 | 1.72% |
| Laboratory Tests | 778,597 | 762,016 | 2.18% | 774,447 | -1.61% |
| PT/OT/ST Treatments | 389,949 | 397,944 | -2.01% | 370,526 | 7.40% |
| Other Service Line Visits | 183,390 | 163,013 | 12.50% | 141,344 | 15.33% |
| Total Outpatient Procedures | 1,587,470 | 1,554,273 | 2.14% | 1,518,401 | 2.36% |
| Surgeries | | | | | |
| Inpatient | 5,063 | 4,924 | 2.82% | 4,702 | 4.72% |
| Outpatient | 4,853 | 4,573 | 6.12% | 3,815 | 19.87% |
| Total Hospital Surgeries | 9,916 | 9,497 | 4.41% | 8,517 | 11.51% |

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 2018, 2017 and 2016.

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

A summary of Medicare case mix indices follows:

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|------------------------|-------------|-------------|-------------|
| Singing River Hospital | 1.62 | 1.64 | 1.65 |
| Ocean Springs Hospital | 1.74 | 1.70 | 1.64 |

During fiscal years 2018 and 2017 payor class percentages remained relatively stable with slight increases in Medicare and self-pay patients offset by slight decreases in Managed Care and Medicaid.

Below is a chart comparing payor class percentages for fiscal years 2018, 2017 and 2016 based on volume of revenue:

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--------------|-------------|-------------|-------------|
| Medicare | 51.9% | 50.1% | 49.4% |
| Medicaid | 12.3% | 12.1% | 12.4% |
| Managed care | 28.8% | 30.7% | 31.5% |
| Self-pay | 7.0% | 7.1% | 6.7% |
| Total | 100.00% | 100.00% | 100.00% |

Deductions from revenue

Contractual and other adjustments (excluding charity and bad debts) expressed as a percentage of gross revenues, were 77.9%, 76.2% and 76.4% for fiscal years 2017, 2016, and 2015 respectively.

Bad debt and charity care

Bad debt expense was approximately \$117.4 million and \$108.2 million in fiscal years 2018 and 2017, respectively. The \$9.2 million increase of bad debt expense in 2018 is primarily related to an increase in volume and gross charges. Bad debt expense relates to patients with uninsured balances that do not qualify under the charity care policy as outlined by the Health System, which collection for services rendered will not be obtained. As volume and gross charges increase, an increase in the uncollectible portion is anticipated. During fiscal year 2018, bad debt expense represents 5.6% of total gross charges compared to 5.7% in fiscal year 2017. Charity care is defined as healthcare provided to patients at no cost while meeting certain criteria as outlined by the Health System's charity care policy. Charity care adjustments were approximately \$38.7 million and \$29.2 million in fiscal years 2018 and 2017, respectively. During fiscal year 2018, charity care represents 1.8% of total gross charges compared to 1.5% in fiscal year 2017. When combined, bad debt expense and charity care is 7.4% of total gross charges in fiscal year 2018 compared to 7.2% in fiscal year 2017.

Operating expenses

During the year ended September 30, 2018 total operating expenses decreased \$255.3 million. During the year September 30, 2017, total operating expenses increased \$12.2 million compared to the year ended September 30, 2016. Excluding the impact of GASB 68, operating expenses increased \$9.6 million (2.9%) during fiscal year 2018. Excluding the impact of GASB 68 and GASB 45, operating expenses increased \$10.9 million (3.3%) during the year ended September 30, 2017 compared to the year ended September 30, 2016.

- Salaries and wages increased \$1.6 million (1.2%) from fiscal year 2018 compared to fiscal year 2017. The primary reason for the increase is related to an increase in full time equivalents (FTE's) by 94.8 from fiscal year 2018 related to employing our environmental services employees, offset by a corresponding reduction in contract labor compared to fiscal year 2017 in addition to a merit increase for all employees during fiscal year 2018. .

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

- Benefits increased \$0.4 (1.5%) million from fiscal year 2018 compared to fiscal year 2017 related to additional FTE's and merit increase identified above.
- Supplies expense has increased \$7.9 million (11.0%) during fiscal year 2018 related to increases in inflation of pharmaceutical supplies and other medical supplies which continue to be a challenge in the industry, in addition to increases in patient days, surgical volumes, cancer visits, rheumatology and other service lines. Supplies expense increased by \$1.1 million (1.6%) during fiscal year 2017 due to growth
- Depreciation and amortization has increased \$0.9 million (4.7%) in fiscal year 2018 and decreased \$2.5 million (11.6%) in fiscal year 2017. The Health System has increased capital expenditures and improvement of infrastructure. Construction projects were closed and placed into service at the end of fiscal year 2018 and will result in depreciation and amortization increasing in future years. Capital improvements will continue to take place over the next few years related to the organization's strategic initiatives.

Cash flow

Cash and cash equivalents increased \$2.3 million and decreased \$3.3 million in fiscal years 2018 and 2017, respectively. During fiscal year 2018 and 2017 the Health System purchased investments of \$4.0 and \$17.9 million, respectively. These investment assets have an original maturity greater than three months. While these investments are highly liquid and convertible to cash if the system were to require access, the maturity is greater than the requirement to be classified as cash equivalent.

Cash and investments increased by \$4.9 million and \$14.3 million in fiscal years 2018 and 2017, respectively. Year-to-date net cash provided by operating activities was approximately \$42.8 million compared to prior year of \$43.2 million.

Year-to-date cash collections in fiscal year 2018 were \$354.1 million compared to \$336.7 million in fiscal year 2017, an increase of \$17.4 million due to increases in volumes offset by DSH cuts. Cash paid to suppliers increased \$12.3 million from fiscal year 2017 to fiscal year 2018 compared to a decrease \$1.9 million from fiscal year 2016 to fiscal year 2017. Increases in cash paid to suppliers are represented by the increase in expenses due to volumes and inflation referenced above. Cash paid to employees increased \$3.8 million from 2017 to 2018 compared to a decrease of \$0.7 million from fiscal year 2016 to fiscal year 2017. Increases in cash paid to employees are related to onboarding of our environmental services employees and merit increases implemented during fiscal year 2018.

Capital expenditures were approximately \$23.1 million in fiscal year 2018, up from \$17.7 million in fiscal year 2017. In 2018 \$1.9 million (7.6%) of capital expenditures during the year were the result of grant projects compared to \$3.8 million (21.5%) of the capital purchases in 2017. Capital improvements will continue to increase as the Health System continues to invest in infrastructure.

Economic conditions and plan for fiscal year 2019

In planning for fiscal year 2019, the primary concerns are the items noted in the Industry Highlights section and their potential financial and operational impact on the Health System. There are continuing reductions in payments related to DSH and 340b that are outside of the Health System's control that could substantially reduce cash received from third party payors.

In order to continue to improve operations, management is working in accordance with a strategic plan centered around access, proficiency, growth and marketing. In 2019, the system will increase access, continue to improve the culture, reduce cost and maximize labor efficiencies, explore mutually beneficial partnerships, explore calculated growth and business development opportunities, and expand population health management efforts.

Financial Statements

Singing River Health System
Statements of Net Position
September 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|-----------------------|-----------------------|
| ASSETS AND DEFERRED OUTFLOWS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 53,743,573 | \$ 53,870,370 |
| Investments | 32,461,470 | 27,514,269 |
| Trusteed bond funds - required for current liabilities | 2,767,322 | 2,900,832 |
| Patient accounts receivable, net of allowance for doubtful accounts of \$68,943,344 and \$62,781,169 at September 30, 2018 and 2017, respectively | 36,295,959 | 37,640,186 |
| Other receivables | 790,597 | 1,026,893 |
| Due from third-party payors | - | 1,497,924 |
| Inventories | 5,910,410 | 4,738,015 |
| Prepaid expenses | 2,400,798 | 2,314,035 |
| | <u>134,370,129</u> | <u>131,502,524</u> |
| | | |
| Trusteed bond funds | 10,182,451 | 9,955,434 |
| Held by trustee for self-insurance funding | 3,617,391 | 3,610,184 |
| Held in escrow for pension funding | 8,891,980 | 6,412,044 |
| Capital assets, net | 180,722,478 | 173,836,585 |
| Intangible assets, net | 1,906,575 | - |
| Investment in surgery centers | 4,167,476 | 4,231,409 |
| Other assets | 1,626,000 | 1,528,873 |
| | <u>345,484,480</u> | <u>331,077,053</u> |
| | | |
| Deferred outflows of resources: | | |
| Pension deferrals | - | 20,659,746 |
| Deferred loss on debt refunding, net | 1,254,057 | 1,768,642 |
| | <u>1,254,057</u> | <u>22,428,388</u> |
| | | |
| Total deferred outflows of resources | <u>1,254,057</u> | <u>22,428,388</u> |
| | | |
| Total assets and deferred outflows of resources | <u>\$ 346,738,537</u> | <u>\$ 353,505,441</u> |

Singing River Health System
Statements of Net Position
September 30, 2018 and 2017

(Continued)

| | <u>2018</u> | <u>2017</u> |
|--|-----------------------|-----------------------|
| LIABILITIES, DEFERRED INFLOWS AND NET POSITION | | |
| Current liabilities: | | |
| Current installments of long-term debt | \$ 7,420,000 | \$ 7,135,000 |
| Current installments of capital lease obligations | 395,137 | 119,997 |
| Current installments of other long-term liabilities | 1,420,925 | 309,888 |
| Current installments of pension settlement liability | 2,400,000 | - |
| Accounts payable | 16,763,123 | 18,049,069 |
| Accrued payroll and employee benefits | 18,437,451 | 19,018,331 |
| Due to third-party payors | 5,695,876 | - |
| Other accrued expenses | 919,383 | 990,973 |
| | <u>53,451,895</u> | <u>45,623,258</u> |
| Total current liabilities | | |
| Long-term debt, excluding current installments | 66,491,066 | 73,950,298 |
| Capital lease obligations, excluding current installments | 1,103,275 | 159,551 |
| Other long-term liabilities | 354,574 | 686,055 |
| Accrued workers' compensation, professional, and general liability costs | 12,002,496 | 11,150,845 |
| Pension settlement liability | 69,612,144 | - |
| Net pension liability | - | 326,429,747 |
| | <u>203,015,450</u> | <u>457,999,754</u> |
| Total liabilities | | |
| Deferred inflows of resources: | | |
| Pension deferrals | - | 14,769,745 |
| | <u>-</u> | <u>14,769,745</u> |
| Total deferred inflows of resources | | |
| Net position: | | |
| Net investment in capital assets | 105,313,000 | 92,471,739 |
| Restricted - expendable for debt service | 12,949,773 | 12,856,266 |
| Unrestricted (deficit) | 25,460,314 | (224,592,063) |
| | <u>143,723,087</u> | <u>(119,264,058)</u> |
| Total net position | | |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 346,738,537</u> | <u>\$ 353,505,441</u> |

Singing River Health System
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|--|-----------------------|-------------------------|
| Patient service revenues, net of provision for bad debts of \$117,443,553 (\$108,238,003 in fiscal year 2017) | \$ 345,543,757 | \$ 341,243,649 |
| Other revenues | <u>9,758,860</u> | <u>11,429,720</u> |
| Total operating revenues | <u>355,302,617</u> | <u>352,673,369</u> |
| Operating expenses: | | |
| Salaries and wages | 133,502,673 | 131,950,777 |
| Employee benefits | 27,032,098 | 26,604,405 |
| (Contra) pension expense | (248,527,602) | 16,352,139 |
| Professional fees | 4,675,666 | 4,459,352 |
| Supplies | 79,355,220 | 71,486,505 |
| Purchased services | 36,528,069 | 39,067,544 |
| Other expenses | 37,212,790 | 36,072,807 |
| Depreciation and amortization | <u>20,001,336</u> | <u>19,098,477</u> |
| Total operating expenses | <u>89,780,250</u> | <u>345,092,006</u> |
| Operating income | <u>265,522,367</u> | <u>7,581,363</u> |
| Total nonoperating revenues (expenses): | | |
| Net investment income | 1,141,874 | 565,948 |
| Interest expense | (3,959,573) | (4,285,625) |
| Equity method income | 282,477 | 396,872 |
| Loss on disposal of capital assets | <u>-</u> | <u>(11,588)</u> |
| Total nonoperating expenses | <u>(2,535,222)</u> | <u>(3,334,393)</u> |
| Revenues in excess of expenses | 262,987,145 | 4,246,970 |
| Net position, at beginning of period | <u>(119,264,058)</u> | <u>(123,511,028)</u> |
| Net position, end of period | <u>\$ 143,723,087</u> | <u>\$ (119,264,058)</u> |

Singing River Health System
Statements of Cash Flows
Years Ended September 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|----------------------|----------------------|
| Cash flows from operating activities: | | |
| Cash received from patients and third-party payors | \$ 354,081,784 | \$ 336,691,513 |
| Cash paid to employees | (160,945,651) | (157,150,077) |
| Cash paid to suppliers | (159,756,195) | (147,408,910) |
| Cash received from other operating activities | <u>9,382,677</u> | <u>11,067,822</u> |
| Net cash provided by operating activities | <u>42,762,615</u> | <u>43,200,348</u> |
| Cash flows from capital and related financing activities: | | |
| Proceeds from the sale of capital assets | - | 238,413 |
| Capital expenditures | (23,104,019) | (17,747,616) |
| Repayment of long-term debt | (7,135,000) | (6,835,000) |
| Repayment of capital lease obligations | (131,136) | (233,531) |
| Repayment of other long-term liabilities | (2,448,527) | (289,706) |
| Interest paid on long-term debt and capital lease obligations | <u>(4,031,163)</u> | <u>(4,360,450)</u> |
| Net cash used in capital and related financing activities | <u>(36,849,845)</u> | <u>(29,227,890)</u> |
| Cash flows from investing activities: | | |
| Net purchase of investments | (4,006,537) | (17,942,975) |
| Distributions from equity method investment | <u>346,410</u> | <u>641,122</u> |
| Net cash used by investing activities | <u>(3,660,127)</u> | <u>(17,301,853)</u> |
| Net increase (decrease) in cash and cash equivalents | <u>2,252,643</u> | <u>(3,329,395)</u> |
| Cash and cash equivalents, beginning of year | <u>73,134,657</u> | <u>76,464,052</u> |
| Cash and cash equivalents, end of year | <u>\$ 75,387,300</u> | <u>\$ 73,134,657</u> |

Singing River Health System
Statements of Cash Flows
Years Ended September 30, 2018 and 2017

(Continued)

| | <u>2018</u> | <u>2017</u> |
|--|----------------------|----------------------|
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | \$ 265,522,367 | \$ 7,581,363 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 20,001,336 | 19,098,477 |
| Provision for bad debts | 117,443,553 | 108,238,003 |
| Changes in: | | |
| Patient receivables | (116,099,326) | (112,665,807) |
| Estimated third-party payor settlements | 7,193,800 | (124,332) |
| Inventories and other current assets | (1,756,338) | (1,140,268) |
| Change in pension settlement liability | 72,012,144 | - |
| Net pension liability | (326,429,747) | (6,568,341) |
| Pension deferrals | 5,890,001 | 22,920,480 |
| Accounts payable and other accrued expenses | (1,866,826) | 2,904,504 |
| Accrued workers' compensation, professional, and general liability costs | 851,651 | 2,956,269 |
| Net cash provided by operating activities | <u>\$ 42,762,615</u> | <u>\$ 43,200,348</u> |
| Reconciliation of cash and cash equivalents to: | | |
| Cash and cash equivalents in current assets | \$ 53,743,573 | \$ 53,870,370 |
| Cash and cash equivalents in investments | 628,049 | 1,329,263 |
| Cash and cash equivalents in trusteed bond funds | 8,506,307 | 7,912,796 |
| Cash and cash equivalents in trustee for self-insurance funding | 3,617,391 | 3,610,184 |
| Cash and cash equivalents in escrow for pension funding | 8,891,980 | 6,412,044 |
| | <u>\$ 75,387,300</u> | <u>\$ 73,134,657</u> |
| Supplemental disclosure of noncash investing and capital and related financing activities: | | |
| Intangible assets acquired through installment agreements | <u>\$ 3,228,083</u> | <u>\$ -</u> |
| Capital assets acquired through capital lease obligations | <u>\$ 1,350,000</u> | <u>\$ -</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, 2018 and 2017 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, 2018 and 2017, 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"). 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, 2018 in the Health System's financial statements. Anesthesia Services, LLC is a wholly owned subsidiary of the Health System, that previously provided management, scheduling and billing and collection services for certified registered nurse anesthetists. All significant intercompany transactions have been eliminated.

Singing River Health System Notes to Financial Statements

Budgetary information

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

Basis of accounting

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

Use of estimates

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

Cash and cash equivalents

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

Investments and investment income

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

Patient accounts receivable

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

Inventories

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

Funds held by trustees

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

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

Singing River Health System Notes to Financial Statements

Capital assets, net

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

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

| | |
|----------------------------|---------------|
| Land improvements | 5 - 25 years |
| Buildings and improvements | 10 - 40 years |
| Fixed equipment | 5 - 25 years |
| Movable equipment | 3 - 20 years |

Capital assets are reviewed for impairment when service utility has declined significantly and unexpectedly. If such assets are no longer used, they are reported at the lower of carrying value or fair value. If such assets will continue to be used, the impairment loss is measured using a historical cost approach method that best reflects the diminished service utility of the capital asset. No impairment losses were recognized in 2018 and 2017.

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 2018 and 2017.

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.

Statements of revenues, expenses and changes in net position

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

Income taxes

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

Reclassifications

Certain reclassifications have been made to the 2017 financial statements included herein to conform to the 2018 presentation.

Subsequent Events

The Health System evaluated all events and transactions that occurred after September 30, 2018 through November 15, 2018, the date that the financial statements were available to be issued. During this period, the Health System did not have any material recognizable subsequent events.

2. Patient Service Revenue

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

- Medicare – Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to the patient classification system that is based on clinical, diagnostic and other factors. Inpatient services are paid under the traditional Part A plan or managed care (Medicare Advantage) negotiated rates under Part C. Outpatient services related to Medicare beneficiaries are reimbursed through a prospective payment system commonly known as Ambulatory Payment Classification ("APC"). Under the APC system, certain medical devices and drugs are reimbursed at cost or average wholesale price. Long-term care services are reimbursed under a prospective payment system that considers the Medicare beneficiaries' severity of illness among other clinical factors. Inpatient non-acute services are paid based on a prospective payment system. The Health System is reimbursed for cost-reimbursable items at a tentative rate, with final settlement determined after submission and review by the fiscal intermediary of annual cost reports. Revenue from the Medicare program accounted for approximately 52 and 50 percent of the Health System's net patient service revenue for the years ended September 30, 2018 and 2017, 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, 2018 and 2017, respectively.

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

Under these programs, the Health System receives enhanced reimbursement through a matching mechanism. For the years ended September 30, 2018 and 2017, the Health System received approximately \$10,300,000 and \$18,111,000, respectively, in enhanced reimbursement through the DSH program. DSH amounts are recorded as a reduction of contractual adjustments. The net benefit to the Health System associated with participation in the MHAP program was approximately \$5,300,000 and \$4,800,000 for the years ended September 30, 2018 and 2017, respectively. MHAP amounts, net of related tax assessments of approximately \$11,377,000 and \$11,912,000 for the years ended September 30, 2018 and 2017, 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 \$5,200,000 and an increase of approximately \$14,000 to net patient service revenue for the fiscal years ended September 30, 2018 and 2017, 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.

Singing River Health System
Notes to Financial Statements

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

| | <u>2018</u> | <u>2017</u> |
|--|------------------------------|-----------------------|
| Gross patient service revenue | \$2,093,460,590 | \$1,893,070,188 |
| Less provision for contractual and other adjustments | (1,630,473,280) | (1,443,588,536) |
| Less provision for bad debts | (117,443,553) | (108,238,003) |
| Net patient service revenue | <u>\$ 345,543,757</u> | <u>\$ 341,243,649</u> |

3. Charity Care

The Health System maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated costs of these services and supplies, and equivalent service statistics. Charges foregone, based on established rates, were approximately \$38,653,000 and \$29,222,000 for the years ended September 30, 2018 and 2017, respectively. The estimated costs and expenses incurred to provide charity care were approximately \$15,479,000 and \$11,664,000 for the years ended September 30, 2018 and 2017, respectively.

4. Capital Assets

Capital assets and related activity consisted of the following for the year ended September 30, 2018:

| | <u>Balance September 30, 2017</u> | <u>Additions</u> | <u>Retirements/ Transfers and Impairment</u> | <u>Balance September 30, 2018</u> |
|---|---|---------------------|--|---|
| Capital assets not being depreciated: | | | | |
| Land | \$ 5,597,289 | \$ - | \$ - | \$ 5,597,289 |
| Construction in progress | <u>17,948,521</u> | <u>17,788,001</u> | <u>(26,107,132)</u> | <u>9,629,390</u> |
| Total capital assets not being depreciated | <u>23,545,810</u> | <u>17,788,001</u> | <u>(26,107,132)</u> | <u>15,226,679</u> |
| Capital assets being depreciated: | | | | |
| Land improvements | 6,390,088 | - | - | 6,390,088 |
| Buildings and improvements | 205,241,408 | - | 20,432,542 | 225,673,950 |
| Fixed equipment | 13,946,381 | - | - | 13,946,381 |
| Movable equipment | <u>243,226,821</u> | <u>6,666,018</u> | <u>4,586,893</u> | <u>254,479,732</u> |
| Total capital assets being depreciated | <u>468,804,698</u> | <u>6,666,018</u> | <u>25,019,435</u> | <u>500,490,151</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | 4,604,082 | 247,344 | - | 4,851,426 |
| Buildings and improvements | 114,821,960 | 6,971,329 | - | 121,793,289 |
| Fixed equipment | 12,124,663 | 175,336 | - | 12,299,999 |
| Movable equipment | <u>186,963,219</u> | <u>10,174,116</u> | <u>(1,087,697)</u> | <u>196,049,638</u> |
| Total accumulated depreciation | <u>318,513,924</u> | <u>17,568,125</u> | <u>(1,087,697)</u> | <u>334,994,352</u> |
| Capital assets being depreciated, net | <u>150,290,774</u> | <u>(10,902,107)</u> | <u>26,107,132</u> | <u>165,495,799</u> |
| Capital assets, net | <u>\$ 173,836,584</u> | <u>\$ 6,885,894</u> | <u>\$ -</u> | <u>\$ 180,722,478</u> |

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

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

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

Construction in progress as of September 30, 2018 consisted primarily of expenditures associated with the Singing River Hospital ("SRH") operating room renovations and chiller plant improvements. These projects are estimated to be completed and placed in service during fiscal year 2019.

5. Leases

The Health System was obligated under several capital leases at September 30, 2018. Scheduled future payments on capital lease obligations are as follows:

| | <u>Principal</u> | <u>Interest</u> |
|-------|---------------------|-------------------|
| 2019 | \$ 395,137 | 51,644 |
| 2020 | 293,275 | 38,881 |
| 2021 | 270,000 | 29,624 |
| 2022 | 270,000 | 20,130 |
| 2023 | <u>270,000</u> | <u>10,260</u> |
| Total | <u>\$ 1,498,412</u> | <u>\$ 150,539</u> |

Singing River Health System
Notes to Financial Statements

A schedule of changes in the Health System's capital lease obligation balances for the year ended September 30, 2018 follows:

| <u>Description</u> | <u>Rate</u> | <u>Date of Issuance</u> | <u>Balance October 1, 2017</u> | <u>Additions</u> | <u>Retired</u> | <u>Balance September 30, 2018</u> | <u>Due Within One Year</u> |
|---------------------------|-------------|-------------------------|--------------------------------|---------------------|---------------------|-----------------------------------|----------------------------|
| Hospital equipment leases | | | | | | | |
| GE Capital | 4.20% | 4/1/2010 | \$ 279,548 | \$ - | \$ (131,136) | \$ 148,412 | \$ 125,137 |
| Stryker | 3.95% | 9/28/2018 | - | 1,350,000 | - | 1,350,000 | 270,000 |
| | | | <u>\$ 279,548</u> | <u>\$ 1,350,000</u> | <u>\$ (131,136)</u> | <u>\$ 1,498,412</u> | <u>\$ 395,137</u> |

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

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

Capital assets totaling approximately \$2,013,000 and \$663,000 are related to the above capital lease obligations at September 30, 2018 and 2017, respectively. Related accumulated amortization was approximately \$514,900 and \$383,800 at September 30, 2018 and 2017, respectively.

Rental expense for all operating leases was approximately \$6,552,000 and \$6,061,000 for the years ended September 30, 2018 and 2017, respectively. There are no significant noncancelable operating leases at September 30, 2018. Management expects that most lease agreements will be replaced, as they expire, with similar agreements.

Singing River Health System
Notes to Financial Statements

6. Cash, Cash Equivalents and Investments

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

| | <u>2018</u> | <u>2017</u> |
|---|----------------------|----------------------|
| Deposits insured by the FDIC | \$ 500,000 | \$ 500,000 |
| 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>80,091,791</u> | <u>77,621,832</u> |
| Total | <u>\$ 80,591,791</u> | <u>\$ 78,121,832</u> |
| Carrying amount (cash and cash equivalents) | <u>\$ 75,387,300</u> | <u>\$ 73,134,657</u> |

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

| | <u>2018</u> | <u>2017</u> |
|-------------------------------------|----------------------|----------------------|
| Money market investments | \$ 3,617,391 | \$ 3,610,184 |
| Money market funds | 16,880,502 | 15,019,762 |
| U.S. Government obligations | 11,814,038 | 11,858,902 |
| Municipal obligations | 1,748,080 | 2,039,183 |
| Collateralized mortgage obligations | 18,073,327 | 11,299,172 |
| Mortgage backed securities | 2,642,116 | 3,420,400 |
| Guaranteed contracts | <u>3,145,160</u> | <u>3,145,160</u> |
| | <u>\$ 57,920,614</u> | <u>\$ 50,392,763</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 average maturity of its investment portfolio to 3 years. As of September 30, 2018, the Health System's investments had the following maturities:

| <u>Investment Type</u> | <u>Fair or Contract Value</u> | <u>< 1</u> | <u>1 – 5</u> | <u>6 – 10</u> | <u>> 10</u> |
|-------------------------------------|-------------------------------|----------------------|----------------------|---------------------|----------------------|
| Money market investments | \$ 3,617,391 | \$ 3,617,391 | \$ - | \$ - | \$ - |
| Money market funds | 16,880,502 | 16,880,502 | - | - | - |
| U.S. Government obligations | 11,814,038 | 4,973,123 | 6,840,915 | - | - |
| Municipal obligations | 1,748,080 | 793,919 | 954,161 | - | - |
| Collateralized mortgage obligations | 18,073,327 | - | 549,135 | 3,595,471 | 13,928,721 |
| Mortgage-backed securities | 2,642,116 | - | - | 1,251,186 | 1,390,930 |
| Guaranteed contracts | <u>3,145,160</u> | <u>-</u> | <u>3,145,160</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 57,920,614</u> | <u>\$ 26,264,935</u> | <u>\$ 11,489,371</u> | <u>\$ 4,846,657</u> | <u>\$ 15,319,651</u> |

Custodial credit risk

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

Credit risk

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

| <u>Investment Type</u> | <u>Rating</u> | <u>Percentage</u> |
|-------------------------------------|---------------|-------------------|
| Money market investments | Not rated | 6% |
| Money market funds | Not rated | 29% |
| U.S. Government obligations | * | 20% |
| Municipal obligations | Aa2 | 2% |
| Municipal obligations | Not rated | 1% |
| Collateralized mortgage obligations | Aaa | 31% |
| Mortgage-back securities | Aaa | 5% |
| Guaranteed investment contract | Not rated | 6% |

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

Singing River Health System
Notes to Financial Statements

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

| | <u>2018</u> | <u>2017</u> |
|--|----------------------|----------------------|
| Reserve funds – long-term | \$ 7,367,170 | \$ 7,171,171 |
| Principal and interest funds – current | 2,767,322 | 2,900,832 |
| Capital improvement funds – long-term | <u>2,815,281</u> | <u>2,784,263</u> |
| | <u>\$ 12,949,773</u> | <u>\$ 12,856,266</u> |

The reserve funds are generally equal to the maximum annual principal and interest requirements (as defined) for the revenue bonds. The principal and interest funds are for the annual debt service of the revenue bonds. The capital improvement funds represent proceeds of the revenue bonds to be used to fund costs of construction and installation of equipment and facilities. Deposits classified as current assets represent funds to be used to pay debt service and cost of issuance amounts classified as current liabilities at September 30, 2018 and 2017.

Investment income is comprised of the following at September 30:

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|-------------------|
| Dividend and interest income | \$ 277,099 | \$ 177,870 |
| Net increase in the fair value of investments | <u>864,775</u> | <u>388,078</u> |
| | <u>\$ 1,141,874</u> | <u>\$ 565,948</u> |

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

7. Long-Term Debt

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

| | <u>2018</u> | <u>2017</u> |
|---|----------------------|----------------------|
| Mississippi Development Bank Special Obligation Bonds – Series 2011 | \$ 23,915,000 | \$ 26,640,000 |
| Plus unamortized bond premium | <u>652,271</u> | <u>759,068</u> |
| | <u>24,567,271</u> | <u>27,399,068</u> |
| Mississippi Development Bank Special Obligation Bonds – Series 2009A | 29,350,000 | 30,120,000 |
| Unamortized bond discount | <u>(638,075)</u> | <u>(687,511)</u> |
| | <u>28,711,925</u> | <u>29,432,489</u> |
| Mississippi Development Bank Special Obligation Refunding Bonds – Series 2009B | 20,680,000 | 24,320,000 |
| Unamortized bond discount | <u>(48,130)</u> | <u>(66,259)</u> |
| | <u>20,631,870</u> | <u>24,253,741</u> |
| | 73,911,066 | 81,085,298 |
| Current installments, based on contractual terms | <u>(7,420,000)</u> | <u>(7,135,000)</u> |
| Long-term debt, excluding current contractual installments | <u>\$ 66,491,066</u> | <u>\$ 73,950,298</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 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

Singing River Health System
Notes to Financial Statements

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 was under construction in fiscal year 2017. The cooling tower was completed in 2017. The chiller plant is in its final stages and is expected to be completed the end of November 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, 2018.

Debt service requirements associated with the Health System's long-term debt are as follows at September 30, 2018:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|----------------------|----------------------|----------------------|
| 2019 | \$ 7,420,000 | \$ 3,823,131 | \$ 11,243,131 |
| 2020 | 7,745,000 | 3,576,619 | 11,321,619 |
| 2021 | 8,105,000 | 3,315,819 | 11,420,819 |
| 2022 | 8,450,000 | 3,071,519 | 11,521,519 |
| 2023 | 8,940,000 | 2,701,369 | 11,641,369 |
| 2024 – 2028 | 8,260,000 | 8,229,400 | 16,489,400 |
| 2029 – 2033 | 10,675,000 | 5,809,469 | 16,484,469 |
| 2034 – 2038 | 12,085,000 | 2,590,556 | 14,675,556 |
| 2039 – 2043 | <u>2,265,000</u> | <u>127,406</u> | <u>2,392,406</u> |
| | <u>\$ 73,945,000</u> | <u>\$ 33,245,288</u> | <u>\$107,190,288</u> |

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

At September 30, 2018, long-term debt, including additions and reductions, consisted of the following:

| <u>Description</u> | <u>Date of Issuance</u> | <u>Balance October 1, 2017</u> | <u>Additions</u> | <u>Retired</u> | <u>Balance September 30, 2018</u> | <u>Due Within One Year</u> |
|--------------------|-------------------------|--------------------------------|------------------|-----------------------|-----------------------------------|----------------------------|
| Series 2009B | 10/27/2009 | \$ 24,320,000 | \$ - | \$ (3,640,000) | \$20,680,000 | \$ 3,785,000 |
| Series 2009A | 4/2/2009 | 30,120,000 | - | (770,000) | 29,350,000 | 805,000 |
| Series 2011 | 7/27/2011 | <u>26,640,000</u> | <u>-</u> | <u>(2,725,000)</u> | <u>23,915,000</u> | <u>2,830,000</u> |
| | | <u>\$ 81,080,000</u> | <u>\$ -</u> | <u>\$ (7,135,000)</u> | <u>\$73,945,000</u> | <u>\$ 7,420,000</u> |

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

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

8. Pension Plan

On September 26, 2018, the Fifth Circuit Court of Appeals made a final ruling to uphold a settlement of a class-action lawsuit (the "Settlement") related to the Health System's funding of the Singing River Health System Employees' Retirement Plan and Trust (the "Plan"). The Settlement provides that the Health System fund \$156,400,000 into the Plan trust over a thirty-five-year period. The Settlement also provides that the payment of this \$156,400,000 is the Health System's only obligation to the Plan. The Health System has recorded its obligation under the Settlement, discounted at a rate of 6 percent, of approximately \$72,000,000 as a pension settlement liability in the statement of net position as of September 30, 2018.

The Settlement limits the amount of benefits to be paid to participants to the amount of plan fiduciary net position, which includes the future contributions from the Health System under the Settlement at their net present value. The total plan fiduciary net position as of September 30, 2018 was approximately \$188,000,000.

The Plan issues separate stand-alone financial statements which are available at request from the Health System or on the Health System's website.

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. As of September 30, 2017, the Pension Plan provided retirement, disability, and death benefits. Retirement benefits were 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 were calculated as the sum of a) 1.625 percent of Average Monthly Compensation multiplied by 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

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Average Monthly Compensation multiplied by years of credited service in excess of thirty years. Average Monthly Compensation was reduced by 50 percent in calculating benefits for participants with less than twenty years of service. In no case was 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 were eligible for normal retirement at age 65, or early retirement at age 60. The amount of early retirement benefit was 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 were eligible for disability benefits after 10 years of service if they are eligible for Social Security Disability. Disability retirement benefits were 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 could withdraw his or her contributions, plus any accumulated interest.

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

| | |
|--|---------------------|
| Inactive employees or beneficiaries currently receiving benefits | 724 |
| Inactive employees entitled to but not yet receiving benefits | 162 |
| Inactive employees not entitled to benefits but with employee contributions | 919 |
| Active employees | <u>1,020</u> |
| | <u><u>2,825</u></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 year ended September 30, 2017.

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

Net pension liability

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

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

| | |
|---------------------------|-------|
| Cost of living increases | 1.25% |
| Salary increases | -% |
| Investment rate of return | 6.0% |

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.

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

Discount rate. The discount rate used to measure the total pension liability at September 30, 2017 was 3.49 percent, as the projection of cash flows used to determine the discount rate assumed that employee contributions would 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 that utilized the long-term expected rate of return on the Pension Plan investments of 6.0 percent and the twenty-year general obligation Federal Reserve Bond Buyer Index rate ("Muni Bond Rate") of 3.35 percent was applied to projected benefit payments to determine the total pension liability.

Changes in the net pension liability

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

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

Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions

For the years ended September 30, 2018 and 2017, the Health System recognized (contra) pension expense of approximately \$(248,528,000) and \$16,352,000 respectively.

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

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

9. Other Retirement Plans

The Health System maintains supplementary retirement plans under IRS Code Sections 403(b) and 457(b) which are administered by Diversified Retirement Corporation and Transamerica Retirement Solutions. The 403(b) plan is a contributory plan with the System matching a fixed percentage of base earnings for each eligible employee. To receive an employer contribution, eligible employees must have completed 90 days of continuous service. Contributions by eligible employees are matched by the System at a rate of 50% of the first 6% of each employee's eligible compensation that is contributed by the participant to the plan. Employees contributing a portion of their eligible salary to the 457(b) plan do not receive a matching employer contribution. All employees are eligible to participate in both plans at the date of hiring. The employee contributions are made on a tax-deferred basis. The benefit to the employee under each plan is the amount contributed plus investment earnings. Employees are fully vested after four or more years of continuous employment.

The Health System's contributions to the 403(b) plan were \$1,635,387 and \$1,533,531, for the years ended September 30, 2018 and 2017, respectively. Employee contributions to the 403(b) plan totaled \$4,451,511 and \$4,156,292 for the years ended September 30, 2018 and 2017, respectively.

Employee contributions to the 457(b) plan totaled \$1,475,054 and \$1,559,145 for the years ended September 30, 2018 and 2017, respectively.

10. Business and Credit Concentrations

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

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

| | <u>2018</u> | <u>2017</u> |
|----------------------|-------------|-------------|
| Medicare | 39% | 36% |
| Commercial insurance | 19% | 19% |
| Patients | 23% | 25% |
| Blue Cross | 9% | 10% |
| Medicaid | <u>10%</u> | <u>10%</u> |
| | <u>100%</u> | <u>100%</u> |

11. Risk Management

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

Incurred losses identified through the Health System's incident reporting system and incurred but not reported losses are accrued based on estimates that incorporate the Health System's current inventory of reported claims

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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.

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 2018 and 2017:

| | <u>2018</u> | <u>2017</u> |
|---|----------------------|---------------------|
| Balance at October 1 | \$ 9,330,845 | \$ 6,284,576 |
| Provisions for claims reported and claims incurred but not reported | 992,554 | 3,046,269 |
| Claims paid | <u>(310,903)</u> | <u>-</u> |
| Balance at September 30 | <u>\$ 10,012,496</u> | <u>\$ 9,330,845</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, 2018 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 2018 and 2017:

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|---------------------|
| Balance at October 1 | \$ 1,820,000 | \$ 1,910,000 |
| Provisions for claims reported and claims incurred but not reported | 709,711 | 493,594 |
| Claims paid | <u>(539,711)</u> | <u>(583,594)</u> |
| Balance at September 30 | <u>\$ 1,990,000</u> | <u>\$ 1,820,000</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 2018 and 2017:

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|---------------------|
| Balance at October 1 | \$ 2,388,747 | \$ 2,230,585 |
| Provisions for claims reported and claims incurred but not reported | 20,690,944 | 18,650,074 |
| Claims paid | <u>(20,641,097)</u> | <u>(18,491,912)</u> |
| Balance at September 30 | <u>\$ 2,438,594</u> | <u>\$ 2,388,747</u> |

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12. Blended Component Unit Reporting

The Condensed Combining Statement of Net Position, Condensed Combining Statement of Revenue, Expenses and Changes in Net Position and the Condensed Combining Statement of Cash Flows as of and for the years ended September 30, 2018 and 2017, are detailed below:

Condensed Combining Statement of Net Position, September 30, 2018:

| | <u>SRHS</u> | <u>SRHSAS</u> | <u>Anesthesia Services, LLC</u> | <u>Eliminations</u> | <u>Combined</u> |
|---|------------------------------|----------------------------|-------------------------------------|-------------------------------|------------------------------|
| Assets: | | | | | |
| Current assets | \$ 133,501,279 | \$ 801,199 | \$ 2,078,133 | \$ (2,010,483) | \$ 134,370,128 |
| Capital assets | 177,521,882 | 3,200,596 | - | - | 180,722,478 |
| Other assets | <u>34,568,749</u> | <u>4,167,475</u> | <u>-</u> | <u>(8,344,350)</u> | <u>30,391,874</u> |
| Total assets | 345,591,910 | 8,169,270 | 2,078,133 | (10,354,833) | 345,484,480 |
| Total deferred outflows of resources | <u>1,254,057</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,254,057</u> |
| Total assets and deferred outflows | <u>\$ 346,845,967</u> | <u>\$ 8,169,270</u> | <u>\$ 2,078,133</u> | <u>\$ (10,354,833)</u> | <u>\$ 346,738,537</u> |
| Current liabilities | \$ 53,372,330 | \$ 150,000 | \$ 1,108,605 | \$ (1,179,040) | \$ 53,451,895 |
| Long-term liabilities | <u>149,563,555</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>149,563,555</u> |
| Total liabilities | <u>202,935,885</u> | <u>150,000</u> | <u>1,108,605</u> | <u>(1,179,040)</u> | <u>203,015,450</u> |
| Net position: | | | | | |
| Net investment capital assets | 102,112,404 | 3,200,596 | - | - | 105,313,000 |
| Restricted | 12,949,773 | - | - | - | 12,949,773 |
| Unrestricted | <u>28,847,905</u> | <u>4,818,674</u> | <u>969,528</u> | <u>(9,175,793)</u> | <u>25,460,314</u> |
| Total net position | <u>143,910,082</u> | <u>8,019,270</u> | <u>969,528</u> | <u>(9,175,793)</u> | <u>143,723,087</u> |
| Total liabilities, deferred inflows and net position | <u>\$ 346,845,967</u> | <u>\$ 8,169,270</u> | <u>\$ 2,078,133</u> | <u>\$ (10,354,833)</u> | <u>\$ 346,738,537</u> |

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Condensed Combining Statement of Revenues, Expenses, and Changes in Net Position, September 30, 2018:

| | <u>SRHS</u> | <u>SRHSAS</u> | <u>Anesthesia Services, LLC</u> | <u>Eliminations</u> | <u>Combined</u> |
|------------------------------------|-----------------------|---------------------|-------------------------------------|-----------------------|-----------------------|
| Net patient service revenue, net | \$ 345,669,361 | \$ - | \$ (125,604) | \$ - | \$ 345,543,757 |
| Other revenues | <u>9,694,922</u> | <u>-</u> | <u>63,938</u> | <u>-</u> | <u>9,758,860</u> |
| Total revenues | <u>355,364,283</u> | <u>-</u> | <u>(61,666)</u> | <u>-</u> | <u>355,302,617</u> |
| Depreciation | 19,990,184 | 11,152 | - | - | 20,001,336 |
| Other operating expenses | <u>69,672,061</u> | <u>88,880</u> | <u>17,973</u> | <u>-</u> | <u>69,778,914</u> |
| Total operating expenses | <u>89,662,245</u> | <u>100,032</u> | <u>17,973</u> | <u>-</u> | <u>89,780,250</u> |
| Operating income | 265,702,038 | (100,032) | (79,639) | - | 265,522,367 |
| Nonoperating revenues (expenses) | (2,610,688) | 282,478 | - | (207,012) | (2,535,222) |
| Distributions | <u>-</u> | <u>(5,000,000)</u> | <u>-</u> | <u>5,000,000</u> | <u>-</u> |
| Change in net position | 263,091,350 | (4,817,554) | (79,639) | 4,792,988 | 262,987,145 |
| Net position, beginning of period | <u>(119,181,268)</u> | <u>12,836,824</u> | <u>1,049,167</u> | <u>(13,968,781)</u> | <u>(119,264,058)</u> |
| Net position, end of period | <u>\$ 143,910,082</u> | <u>\$ 8,019,270</u> | <u>\$ 969,528</u> | <u>\$ (9,175,793)</u> | <u>\$ 143,723,087</u> |

Condensed Combining Statement of Cash Flows, September 30, 2018:

| | <u>SRHS</u> | <u>SRHSAS</u> | <u>Anesthesia Services, LLC</u> | <u>Eliminations</u> | <u>Combined</u> |
|--|----------------------|-------------------|-------------------------------------|---------------------|----------------------|
| Net cash provided (used) by operating activities | \$ 44,588,895 | \$ (28,879) | \$ (1,797,401) | \$ - | \$ 42,762,615 |
| Net cash provided (used) by capital and related financing activities | 5,000,000 | (5,000,000) | - | - | - |
| Net cash used by capital and related financing activities | (36,849,845) | - | - | - | (36,849,845) |
| Net cash provided (used) by investing activities | <u>(4,006,537)</u> | <u>346,410</u> | <u>-</u> | <u>-</u> | <u>(3,660,127)</u> |
| Net increase (decrease) in cash and cash equivalents | 8,732,513 | (4,682,469) | (1,797,401) | - | 2,252,643 |
| Cash and cash equivalents, beginning of year | <u>65,706,975</u> | <u>5,483,668</u> | <u>1,944,014</u> | <u>-</u> | <u>73,134,657</u> |
| Cash and cash equivalents end of year | <u>\$ 74,439,488</u> | <u>\$ 801,199</u> | <u>\$ 146,613</u> | <u>\$ -</u> | <u>\$ 75,387,300</u> |

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

| | <u>SRHS</u> | <u>SRHSAS</u> | <u>Anesthesia Services, LLC</u> | <u>Eliminations</u> | <u>Combined</u> |
|---|-----------------------|----------------------|-------------------------------------|------------------------|-----------------------|
| Assets: | | | | | |
| Current assets | \$ 125,754,736 | \$ 5,483,666 | \$ 2,240,871 | \$ (1,976,749) | \$ 131,502,524 |
| Capital assets | 170,624,836 | 3,211,749 | - | - | 173,836,585 |
| Other assets | <u>34,677,607</u> | <u>4,231,409</u> | <u>-</u> | <u>(13,171,072)</u> | <u>25,737,944</u> |
| Total assets | 331,057,179 | 12,926,824 | 2,240,871 | (15,147,821) | 331,077,053 |
| Total deferred outflows of resources | <u>22,428,388</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>22,428,388</u> |
| Total assets and deferred outflows | <u>\$ 353,485,567</u> | <u>\$ 12,926,824</u> | <u>\$ 2,240,871</u> | <u>\$ (15,147,821)</u> | <u>\$ 353,505,441</u> |
| Current liabilities | \$ 45,520,594 | \$ 90,000 | \$ 1,191,704 | \$ (1,179,040) | \$ 45,623,258 |
| Long-term liabilities | <u>412,376,496</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>412,376,496</u> |
| Total liabilities | <u>457,897,090</u> | <u>90,000</u> | <u>1,191,704</u> | <u>(1,179,040)</u> | <u>457,999,754</u> |
| Total deferred inflows of resources | <u>14,769,745</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>14,769,745</u> |
| Net position: | | | | | |
| Net investment capital assets | 89,259,990 | 3,211,749 | - | - | 92,471,739 |
| Restricted | 12,856,266 | - | - | - | 12,856,266 |
| Unrestricted | <u>(221,297,524)</u> | <u>9,625,075</u> | <u>1,049,167</u> | <u>(13,968,781)</u> | <u>(224,592,063)</u> |
| | <u>(119,181,268)</u> | <u>12,836,824</u> | <u>1,049,167</u> | <u>(13,968,781)</u> | <u>(119,264,058)</u> |
| Total liabilities, deferred inflows and net position | <u>\$ 353,485,567</u> | <u>\$ 12,926,824</u> | <u>\$ 2,240,871</u> | <u>\$ (15,147,821)</u> | <u>\$ 353,505,441</u> |

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Notes to Financial Statements**

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

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

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

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

13. Recent Reporting and Disclosure Developments

Accounting pronouncements issued not yet adopted

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

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

14. Risks and Uncertainties

Current economic and regulatory conditions

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

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

Other uncertainties

The United States District Court of the Southern District of Mississippi ("District Court") approved a settlement (the "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 ("Fifth Circuit") and oral arguments were heard on January 5, 2017. On July 27, 2017, the Fifth Circuit remanded the case to the District Court in an effort to provide additional consideration as it relates to the Settlement. On October 30, 2017 the Health System submitted its brief to the District Court and provided the additional Fifth Circuit-requested information. On January 22, 2018, a fairness hearing was held at the District Court for additional information requested by Fifth Circuit. On January 26, 2018, the District Court ruled in favor of the Settlement. This ruling was appealed to the Fifth Circuit. On June 5, 2018, the oral arguments were presented to the Fifth Circuit. On August 6, 2018, the Fifth Circuit entered its order confirming that the settlement was fair, reasonable, and adequate. The objectors have until December 17, 2018 to file Writ of Certiorari with the United States Supreme Court.

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

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

System. The Health System has notified the physician's patients and all other entities requiring notification. The Health System has received a limited number of claims and appropriate reserves are included in the financial statements related to this matter.

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

15. 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, 2018 and 2017:

| | <u>Fair value measurements at September 30, 2018 using</u> | | | |
|---|--|---|---|--|
| | <u>Fair value at September 30, 2018</u> | <u>Quoted prices in active markets for identical assets and liabilities (Level 1)</u> | <u>Quoted prices for similar assets and liabilities (Level 2)</u> | <u>Significant unobservable inputs (Level 3)</u> |
| <i><u>Investments by fair value level</u></i> | | | | |
| U.S. Government obligations | \$ 11,814,038 | \$ 11,814,038 | \$ - | \$ - |
| Municipal obligations | 1,748,080 | - | 1,748,080 | - |
| Collateralized mortgage obligations | 18,073,327 | - | 18,073,327 | - |
| Mortgage-backed securities | <u>2,642,116</u> | <u>-</u> | <u>2,642,116</u> | <u>-</u> |
| Total investments by level | <u>\$ 34,277,561</u> | <u>\$ 11,814,038</u> | <u>\$ 22,463,523</u> | <u>\$ -</u> |

The above schedule excludes guaranteed contracts measured at contract value of \$3,145,160, money market funds of \$16,880,503 and money market investments of \$3,617,390.

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

| | Fair value measurements at September 30, 2017 using | | | |
|--|--|---|---|--|
| | Fair value at September 30, 2018 | Quoted prices in active markets for identical assets and liabilities (Level 1) | Quoted prices for similar assets and liabilities (Level 2) | Significant unobservable inputs (Level 3) |
| <i>Investments by fair value level</i> | | | | |
| U.S. Government obligations | \$ 11,858,902 | \$ 11,858,902 | \$ - | \$ - |
| Municipal obligations | 2,039,183 | - | 2,039,183 | - |
| Collateralized mortgage obligations | 11,299,172 | - | 11,299,172 | - |
| Mortgage-backed securities | 3,420,400 | - | 3,420,400 | - |
| Total investments by level | <u>\$ 28,617,657</u> | <u>\$ 11,858,902</u> | <u>\$ 16,758,755</u> | <u>\$ -</u> |

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

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

16. 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 \$4,167,476 and \$4,231,409 at September 30, 2018 and 2017, respectively.

Supplementary Information

Singing River Health System
Schedule of Changes in Net Pension Liability and Related Ratios
Last Five Years Ending September 30

| | September 30 | | | | |
|--|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Total pension liability: | | | | | |
| Service cost | \$ - | \$ - | \$ - | \$ 1,636,685 | \$ 9,301,301 |
| Interest | 15,454,271 | 14,893,889 | 17,011,106 | 17,939,427 | 19,601,873 |
| Changes in benefit terms | (252,577,574) | - | - | (77,583,377) | - |
| Differences between expected and actual experience | (4,513,723) | 4,496,222 | (10,199,979) | - | (10,574,128) |
| Changes of assumptions | (3,477,050) | (15,273,971) | 29,972,888 | 22,058,366 | 70,788,607 |
| Benefit payments, including refunds of employee contributions | (18,224,000) | (16,304,500) | (15,023,227) | (14,368,870) | (12,507,174) |
| Net change in total pension liability | (263,338,076) | (12,188,360) | 21,760,788 | (50,317,769) | 76,610,479 |
| Total pension liability - beginning of year | 451,440,728 | 463,629,088 | 441,868,300 | 492,186,069 | 415,576,590 |
| Total pension liability - end of year | 188,102,652 | 451,440,728 | 463,629,088 | 441,868,300 | 492,187,069 |
| Plan fiduciary net position: | | | | | |
| Contributions - employer | 72,012,144 | - | - | - | - |
| Contributions - employee | - | - | - | 395,038 | 3,158,856 |
| Net investment income | 9,979,527 | 11,369,590 | 8,918,860 | 1,750,750 | 14,796,956 |
| Benefit payments, including refunds of employee contributions | (18,224,000) | (16,304,500) | (15,023,227) | (14,368,870) | (12,508,174) |
| Administrative expense | (676,000) | (685,109) | (677,632) | (557,024) | (370,020) |
| Other | - | - | - | - | - |
| Net change in plan fiduciary net position | 63,091,671 | (5,620,019) | (6,781,999) | (12,780,106) | 5,077,618 |
| Plan fiduciary net position - beginning of year | 125,010,981 | 130,631,000 | 137,412,999 | 150,193,105 | 145,115,487 |
| Plan fiduciary net position - end of year | 188,102,652 | 125,010,981 | 130,631,000 | 137,412,999 | 150,193,105 |
| Net pension liability - end of year | \$ - | \$ 326,429,747 | \$ 332,998,088 | \$ 304,455,301 | \$ 341,993,964 |
| Plan fiduciary net position as a percentage of total pension liability | 100.0% | 27.7% | 28.2% | 31.1% | 30.5% |
| Covered-employee payroll | N/A | N/A | N/A | 86,061,783 | 86,397,101 |
| Net pension liability as a percentage of covered-employee payroll | N/A | N/A | N/A | 353.8% | 395.8% |

See independent auditors' report on the supplementary information.

Singing River Health System
Schedule of Surety Bonds for Officers and Employees
September 30, 2018

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

Compliance Reports

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

Board of Trustees
Singing River Health System
Gautier, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business-type activities of Singing River Health System (the "Health System"), as of and for the years ended September 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Health System's basic financial statements, and have issued our report thereon dated November 15, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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



Purpose of this Report

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

Dixon Hughes Goodman LLP

**Birmingham, Alabama
November 15, 2018**

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

Board of Trustees
Singing River Health System
Gautier, Mississippi

Report on Compliance for the Major Federal Program

We have audited Singing River Health System's (the "Health System") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended September 30, 2018. The Health System's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, the Health System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2018.

Report on Internal Control over Compliance

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

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

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

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

Dixon Hughes Goodman LLP

Birmingham, Alabama
November 15, 2018

**Singing River Health System
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2018**

Schedule of Expenditures Of Federal Awards

| Federal Grantor / Pass-Through Federal Grantor / Program Title | CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|---|----------------|---|-------------------------|
| U.S. Department of Homeland Security | | | |
| <i>Passed through Mississippi Emergency Management Agency</i> | | | |
| Federal Emergency Management Agency: Hazard Mitigation Grant Program | 97.039 | 1604-0498 | <u>\$ 1,658,175</u> |
| U.S. Department of Transportation | | | |
| <i>Passed through Mississippi Department of Transportation</i> | | | |
| Federal Transit Administration – Federal Transit Cluster: Section 5339 Bus and Bus Facilities Formula Program | 20.526 | 76-0016-15-904 | <u>36,840</u> |
| <i>Passed through Mississippi Department of Transportation</i> | | | |
| Federal Transit Administration – Transit Services Program: Section 5310 Enhanced Mobility of Seniors | 20.513 | 76-0016-16-800 | <u>44,637</u> |
| Total U.S Department of Transportation | | | <u>81,477</u> |
| U.S. Department of Housing and Urban Development | | | |
| <i>Passed through City of Pascagoula</i> | | | |
| Community Development Block Grant | 14.218 | 1602 | <u>7,323</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 1,746,975</u> |

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Singing River Health System (the "Health System") under programs of the federal government for the year ended September 30, 2018. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the schedule presents only a selected portion of the operations of the Health System, it is not intended to and does not present the financial position, changes in net position or cash flows of the Health System.

2. Summary of Significant Accounting Policies

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

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

3. Contingencies

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

**Singing River Health System
 Schedule of Findings and Questioned Costs
 Year Ended September 30, 2018**

Section I – Summary of Auditors’ Results

Financial Statements

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

Unmodified

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

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

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

Unmodified

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

Identification of major federal programs:

CFDA Number Name of Federal Program or Cluster

97.039 Hazard Mitigation Grant Program

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

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

**Singing River Health System
Schedule of Findings and Questioned Costs
Year Ended September 30, 2018**

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None