

Singing River Health System Employees' Retirement Plan and Trust

**Financial Statements and
Required Supplementary Information
Year Ended September 30, 2015**

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Independent Auditors' Report

Board of Trustees
Singing River Health System
Gautier, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of Singing River Health System Employees' Retirement Plan and Trust (the "Plan"), which comprise the statement of fiduciary net position as of September 30, 2015 and the related statement of changes in fiduciary net position for the year 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 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 audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 fiduciary net position of the Plan as of September 30, 2015, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Change in Accounting Principle

As disclosed in Note 2 to the financial statements, during the year ended September 30, 2015, the Plan adopted new accounting guidance which replaces the existing financial reporting requirements for governmental defined benefit pension plans. Our opinion is not modified with respect to this matter.

Material Uncertainty

As disclosed in Note 6 to the financial statements, the Plan is involved in state and federal litigation related to benefits provided, funding, and plan administration. The outcome of these matters is uncertain and it is reasonably possible there could be a material impact on the operation of the Plan, its fiduciary net position, and level of benefits provided. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

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 5 and the schedules on pages 15 through 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2016, on our consideration of the Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements 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 on 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 Plan's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Atlanta, Georgia
March 2, 2016

Management's Discussion and Analysis

This section presents management's discussion and analysis of the financial position and performance of the Singing River Health System Employees' Retirement Plan and Trust (the "Plan") for the year ended September 30, 2015. The Plan is sponsored and administered by Singing River Health System (the "Health System") and covers eligible members who were full-time employees of the Health System prior to October 1, 2011. This discussion is presented as an overview of the financial activities of the Plan and should be read in conjunction with the Plan's financial statements.

Overview of the Basic Financial Statements

The following discussion and analysis is intended to serve as an introduction to the Plan's basic financial statements. The financial statements are prepared on an economic sources focus and accrual basis of accounting in accordance with Governmental Accounting Standards Board ("GASB") pronouncements. During fiscal 2015, the Plan adopted GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. This guidance replaces the financial reporting requirements for defined benefit pension plans, modifies and expands disclosure requirements, and requires the following basic financial statements:

- The statement of fiduciary net position provides a snapshot of plan assets, liabilities, and residual net position restricted for pension benefits, as of the Plan's fiscal year end. Over time, increases and decreases in the net position may serve as a useful indicator of whether the financial condition of the Plan is improving or deteriorating.
- The statement of changes in fiduciary net position shows the additions and deductions to plan assets and net position during the year, where additions (contributions and net investment income) less deductions (benefit payments and administrative expenses) equal the net change in net position restricted for pension benefits.
- The notes to the financial statements disclose additional information about amounts reported in the financial statements, including a description of the Plan, significant accounting policies, and other relevant disclosures that are essential to understanding the financial information reported in the basic financial statements.

In addition, certain required supplementary information concerning the employer net pension liability, contributions, and investment earnings accompanies the basic financial statements in accordance GASB Statement No. 67.

Financial Highlights

Fiduciary net position decreased by approximately \$12.8 million or 8.5 percent during fiscal year 2015 to approximately \$137.4 million at September 30, 2015. The change in fiduciary net position was primarily due to the payment of retirement benefits during the year, offset by modest investment market performance.

Fiduciary net position increased by approximately \$5.1 million or 3.6 percent during fiscal year 2014 to approximately \$150.2 million at September 30, 2014. The increase in fiduciary net position was primarily due to appreciation of the fair value of investments, offset by retirement benefits paid during the year.

Employee contributions to the Plan totaled approximately \$395 thousand and \$3.2 million during fiscal years 2015 and 2014, respectively. Prior to November 20, 2014, employees contributed 3 percent of covered wages to the Plan. As discussed below, the Plan was amended on November 20, 2014 to cease employee contributions. The Health System did not make any contributions to the Plan in fiscal 2015 and 2014.

Singing River Health System Employees' Retirement Plan and Trust Management's Discussion and Analysis

Fiduciary Net Position

The following table provides a summary statement of the Plan's total assets, liabilities, and fiduciary net position at September 30, 2015 and 2014:

	2015 (in millions)	2014 (in millions)
ASSETS		
Investments	\$ 137.6	\$ 150.2
Receivables	0.1	0.0
Total assets	<u>137.7</u>	<u>150.2</u>
LIABILITIES		
Due to brokers	<u>0.3</u>	<u>0.0</u>
Net position restricted for pensions	<u>\$ 137.4</u>	<u>\$ 150.2</u>

Changes in Fiduciary Net Position

The following table provides a summary statement of the Plan's additions, deductions, and net change in fiduciary net position for the years ended September 30, 2015 and 2014:

	2015 (in millions)	2014 (in millions)
ADDITIONS		
Investment income, net	\$ 1.7	\$ 14.8
Contributions	0.4	3.2
Total additions	<u>2.1</u>	<u>18.0</u>
DEDUCTIONS		
Benefits paid	14.4	12.5
Administrative and other expense	0.5	0.4
Total deductions	<u>14.9</u>	<u>12.9</u>
Net change in net position restricted for pensions	<u>\$ (12.8)</u>	<u>\$ 5.1</u>

Employer Net Pension Liability

The components of the Health System's net pension liability at September 30, 2015 and 2014 were as follows:

	2015 (in millions)	2014 (in millions)
Total pension liability	\$ 441.9	\$ 492.2
Plan fiduciary net position	<u>(137.4)</u>	<u>(150.2)</u>
Net pension liability	<u>\$ 304.5</u>	<u>\$ 342.0</u>
Fiduciary net position as a percentage of total pension liability	<u>31.1%</u>	<u>30.5%</u>

On November 20, 2014, the Board of Trustees of the Health System resolved to amend the Plan to, among other things, freeze member benefit accruals and employee contributions to the Plan. The Resolution also directed that the Plan be terminated and that assets of the Plan be allocated and benefits funded in accordance with applicable provisions of the Plan. Additionally, the Resolution directed that a new plan be established with modified benefits. Subsequently, that resolution was rescinded and an alternate partial funding plan amendment was developed.

Singing River Health System Employees' Retirement Plan and Trust Management's Discussion and Analysis

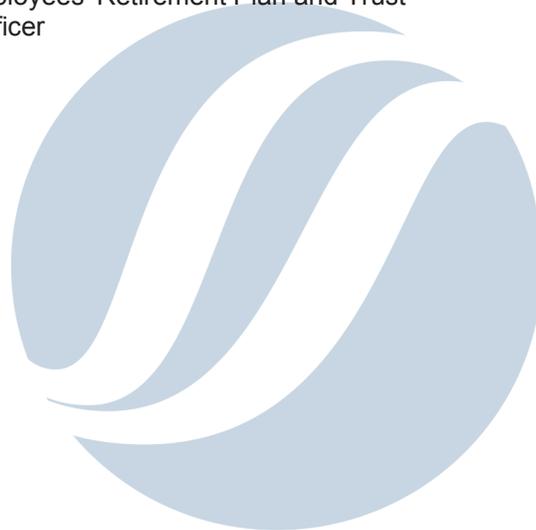
Currently there are 9 state court actions pending in the Chancery Court, 15 actions in Circuit Court, and 3 Federal Court actions pending pertaining to the Health System and the Plan. The state cases aim to prevent the Health System from terminating the Plan via a permanent injunction and allege violations of the Mississippi Uniform Trust Act, among other allegations. In addition, the 3 federal putative class action lawsuits allege breaches of contract and fiduciary obligation.

The complaints seek monetary relief and in some instances injunctive relief which could prevent amendment of the Plan. The ultimate resolution of the actions pending against the Health System and the Plan cannot be reasonably determined but could have a material adverse effect on the Health System's financial condition, results of operations and its long-term viability.

Contact Information

This financial report is designed to provide plan members and other users with a general overview of the Plan's financial condition and performance and to provide accountability regarding its operation. Questions concerning any data provided in the report or requests for additional information should be addressed to:

Singing River Health System Employees' Retirement Plan and Trust
Attn: Chief Human Resources Officer
2101 Highway 90
Gautier, MS 39553



Singing River Health System Employees' Retirement Plan and Trust
Statement of Fiduciary Net Position
September 30, 2015

ASSETS

Investments	\$ 137,609,916
Accrued interest and dividends	138,456
Due from brokers for assets sold	<u>7,029</u>
Total assets	<u>137,755,401</u>

LIABILITIES

Due to brokers for assets purchased	<u>342,402</u>
Net position restricted for pensions	<u><u>\$ 137,412,999</u></u>



Singing River Health System Employees' Retirement Plan and Trust
Statement of Changes in Fiduciary Net Position
Year Ended September 30, 2015

ADDITIONS

Investment income	\$ 2,499,735
Less investment expense	<u>(748,985)</u>
Net investment income	1,750,750
Employee contributions	<u>395,038</u>
Total additions	<u>2,145,788</u>

DEDUCTIONS

Benefits paid	14,368,870
Administrative and other expense	<u>557,024</u>
Total deductions	<u>14,925,894</u>
Net decrease in net position	(12,780,106)
Net position restricted for pensions:	
Beginning of year	<u>150,193,105</u>
Ending of year	<u><u>\$ 137,412,999</u></u>



Notes to Financial Statements

1. Plan Description

The following description of Singing River Health System Employees' Retirement Plan and Trust (the "Plan") provides only general information. Plan members should refer to the plan document for a complete description of the Plan's provisions.

General

The Plan is a single-employer defined benefit pension plan sponsored by Singing River Health System (the "Health System"). The Plan was established February 17, 1983 and covers eligible plan members who were employed by the Health System on a full-time basis prior to October 1, 2011. The Plan was frozen to new entrants on October 1, 2011.

The Health System is a governmental entity and, thus, the Plan is exempt from the requirements of the Employee Retirement Income Security Act of 1974.

The Health System is the named fiduciary of the Plan and appoints a committee to serve as trustee of the Plan. As described in Note 6, a court-appointed "special fiduciary" was named trustee of the Plan on October 19, 2015, and was given responsibility for plan administration, asset management, and benefit determination.

Plan Members Covered by Benefit Terms

At September 30, 2015, the following Health System active employees, inactive employees, and beneficiaries were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	618
Inactive employees entitled to but not yet receiving benefits	147
Inactive employees not entitled to benefits but with accumulated employee contributions	949
Active employees	<u>1,429</u>
	<u><u>3,143</u></u>

Benefits Provided

The Plan provides retirement, disability, and death benefits to eligible plan members and their beneficiaries. Employees with 10 years of credited service are eligible for normal retirement at age 65, or early retirement at age 60. Terminated employees and active plan members are entitled to their accumulated plan contributions, plus interest.

Benefit accruals were frozen effective November 29, 2014. Earnings and employment after this date are excluded from eligibility and benefit determinations.

Except as described below, normal retirement benefits are calculated based on average monthly compensation during measurement periods in the 10 years of employment immediately preceding the earlier of November 29, 2014 or the date of termination from full-time employment.

Singing River Health System Employees' Retirement Plan and Trust Notes to Financial Statements

Normal retirement benefits are calculated in monthly installments as the sum of the following:

- 1.625 percent of average monthly earnings multiplied by years of service, up to 20 years
- 1.75 percent of average monthly earnings multiplied by years of service in excess of 20 years, up to 30 years
- 2 percent of average monthly earnings multiplied by years of service in excess of 30 years

For members with less than 20 years of credited service at September 30, 2011, the normal retirement benefit may not exceed 50% of final earnings at retirement, and in no case will the normal retirement benefit exceed \$90,000 per year. The minimum annual normal retirement benefit for eligible members is equal to years of credited service multiplied by \$60.

The early retirement benefit is equal to the normal retirement benefit, reduced by 3 percent for each year preceding normal retirement date. A member with 30 years or more of credited service is eligible for early retirement without any reductions.

After 10 years of service, employees are eligible for disability benefits if they are eligible for Social Security disability benefits. Disability benefits under the Plan are determined using final average earnings at the date of disability with adjustment factors based on age and years of service.

Death benefits are equal to the normal retirement benefit with a reduction factor for years left to retirement.

The Plan provides for annual cost-of-living adjustments to retirement benefit payments equal to ½ the change in the consumer price index, up to 2.5 percent.

Retirement benefits are paid out as an annuity when the actuarial value of the benefit is greater than \$5,000 and as a lump sum payment when the actuarial value of the benefit is equal to or less than \$5,000.

Contributions

Active members were required to contribute to the Plan 3 percent of annual earnings through November 29, 2014, at which point employee contributions were frozen. The Health System did not make any employer contributions to the Plan during fiscal 2015. As described in Note 6, the Health System is party to significant litigation related to the Plan which could result in material employer contributions to the Plan in the future.

Plan Termination

In November 2014, the Board of Trustees of the Health System resolved to terminate the Plan and, in March 2015, rescinded the plan termination from the November resolution and instead resolved to develop a viable alternative to plan termination, with the input of the Board of Supervisors of Jackson County, Mississippi.

As discussed in Note 6, there are multiple federal and state court actions pending against the Health System in connection with the Plan, with an outstanding court order to prevent the Health System from amending or terminating the Plan. The ultimate resolution of the litigation and its impact on the Plan is uncertain.

Singing River Health System Employees' Retirement Plan and Trust Notes to Financial Statements

The plan document provides for the liquidation and distribution of plan assets in the following order upon termination of the Plan:

- 1) Costs and charges for the liquidation and distribution of the assets
- 2) Individual members' accrued benefits derived from their contributions
- 3) Benefits to retirees and beneficiaries who have received benefits for at least 3 years
- 4) Benefits to members who have been eligible to receive retirement benefit payments for at least 3 years
- 5) Other benefits under the Plan

2. Summary of Significant Accounting Policies

Basis of Accounting

The Plan prepares its financial statements in conformity with the applicable pronouncements of the Governmental Accounting Standards Board ("GASB"). As such, the accompanying financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus.

New Accounting Standard

During fiscal 2015, the Plan adopted GASB Statement No. 67, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 25* ("GASB 67"). GASB 67 establishes standards of financial reporting for the separately issued financial reports of governmental defined benefit pension plans and requires the presentation of a statement of fiduciary net position and a statement of changes in fiduciary net position, related footnote disclosures, and required supplementary information. GASB 67 also specifies the methodology required for the measurement of an employer's defined benefit pension liability. Implementation of the new guidance did not impact the Plan's total assets or fiduciary net position.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and changes therein and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Investment Valuation

Investments are reported at fair value. The fair value of securities traded in active markets are based on quoted market prices. Non-marketable securities are valued based on the Plan's proportionate interest and the net asset value of the funds as reported by the fund administrators. The estimated fair value of non-marketable securities may differ from the value that would have been used had ready markets for the investments existed.

Investment income includes interest and dividends as well as realized gains and losses on securities sold or redeemed and the change in unrealized market gains and losses on securities held during the year. Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date.

Contributions

Employer and employee contributions are recognized when due to the Plan.

Payment of Benefits

Benefit payments, including refunds of accumulated employee contributions, are recorded upon distribution.

Singing River Health System Employees' Retirement Plan and Trust Notes to Financial Statements

Administrative Expenses

Plan administrative expenses are paid out of plan assets. Certain administrative functions are performed by employees of the Health System. No such employee receives compensation from the Plan.

3. Employer Net Pension Liability

The components of the Health System's net pension liability at September 30, 2015 were as follows:

Total pension liability	\$ 441,868,300
Plan fiduciary net position	<u>(137,412,999)</u>
Net pension liability	<u>\$ 304,455,301</u>
Fiduciary net position as a percentage of total pension liability	<u>31.1%</u>

Actuarial Assumptions

The Health System's total pension liability was measured based on an actuarial valuation as of October 1, 2014, and was updated to roll forward the liability to September 30, 2015.

The total pension liability was determined using the following actuarial assumptions:

Annual cost of living increases	1.25%
Annual salary increases	2.8%
Long-term investment rate of return	6.5%

Mortality rates were based on the RP-2014 Employee and Healthy Annuitant Mortality Tables, projected generationally with adjustments for mortality improvements based on Scale MP-2014.

The long-term expected rate of return on pension plan investments is determined based on a range of expected returns and standard deviations by asset class and the selection of conservative expected returns within the range.

Discount Rate

The discount rate used to measure the total pension liability at September 30, 2015 was 3.93 percent. The projection of cash flows used to determine the discount rate assumes that employee contributions will not be made in the future and that employer contributions will be made at actuarially determined rates. Based on those assumptions, the Plan's fiduciary net position is not expected to be sufficient to make all projected future benefit payments. Therefore, a blended rate was applied to all periods of projected benefit payments to determine the total pension liability. The blended rate utilizes the long-term expected rate of return on plan assets (6.5 percent) and the benchmark 20-year general obligation Federal Reserve Bond Buyer Index rate (3.71 percent). The discount rate decreased from the rate of 4.11 percent from September 30, 2014 due to changes in the benchmark rate.

Singing River Health System Employees' Retirement Plan and Trust
Notes to Financial Statements

Sensitivity of Net Pension Liability to Changes in Discount Rate

The net pension liability of the Health System at September 30, 2015, calculated using the actual discount rate of 3.93 percent and comparative rates that are 1 percentage point lower and 1 percentage point higher than the actual rate, are as follows:

<u>Sensitivity</u>	<u>Discount Rate</u>	<u>Net Pension Liability</u>
Actual discount rate	3.93%	\$ 304,455,301
1% decrease in discount rate	2.93%	\$ 383,758,913
1% increase in discount rate	4.93%	\$ 242,660,737

4. Investments

The Plan's investments consist primarily of marketable fixed income and equity securities, money market funds and mutual funds, and non-marketable alternative investments. Alternative investments are not traded in active markets and include interests in limited partnerships, limited liability companies, commingled trusts, and similar private investment vehicles with underlying holdings.

The composition of investments at September 30, 2015, follows:

Cash deposits	\$ 11,820
Money market funds	4,593,818
Mutual funds	36,189,537
Corporate bonds and other marketable debt securities	6,152,382
Common stock and other marketable equity securities	27,842,316
Private investment companies and other alternative investments	<u>62,820,043</u>
Total investments	<u>\$ 137,609,916</u>

Investment Risks

The Plan invests in securities that are exposed to various risks such as interest rate risk, market risk, counterparty risk, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect amounts reported in the financial statements.

Investment Commitments and Liquidity Restrictions

At September 30, 2015, certain alternative investments totaling \$11,181,658 have imposed liquidity restrictions that limit the timing and method of redemption to specific periods from 2016 to 2027. The Plan has committed to invest an additional \$7,864,133 in certain alternative investments through 2017.

Concentration of Credit Risk and Investment Concentrations

The following investments by issuer represent 5 percent or more of the Plan's total investments and fiduciary net position at September 30, 2015:

Metropolitan West Total Return Bond Fund	\$ 23,824,030
Pointer Offshore Ltd	\$ 13,898,507
Aetos Capital Long/Short Strategies Cayman Fund	\$ 9,653,740
Invesco Balanced-Risk Allocation Trust	\$ 6,986,759

Singing River Health System Employees' Retirement Plan and Trust
Notes to Financial Statements

Interest Rate Risk and Credit Risk

At September 30, 2015, the Plan's investments in debt securities, money market funds, and bond mutual funds had the following credit ratings and maturities:

<u>Investment Type</u>	<u>< 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>>10 Years</u>	<u>Total</u>
Money market funds - AAA	\$ 4,593,818	\$ -	\$ -	\$ -	\$ 4,593,818
Bond mutual funds – Not rated	23,824,030	-	-	-	23,824,030
Marketable debt securities:					
BBB > AA	78,800	132,567	82,481	-	293,848
B > BBB	739,775	4,081,211	780,325	66,505	5,667,816
C > CCC	<u>75,267</u>	<u>83,164</u>	<u>-</u>	<u>32,287</u>	<u>190,718</u>
Total	<u>\$ 29,311,690</u>	<u>\$ 4,296,942</u>	<u>\$ 862,806</u>	<u>\$ 98,792</u>	<u>\$ 34,570,230</u>

Custodial Credit Risk

At September 30, 2015, the Plan's cash deposits are fully insured by federal depository insurance and are not exposed to custodial credit risk from uninsured and uncollateralized deposits.

Rate of Return

For the year ended September 30, 2015, the annual money-weighted rate of return on pension plan investments, net of investment expense, was 1.2 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Investment Policy

The Plan's investment policy includes the following objectives:

- Reduce the Health System's cost of funding the Plan's benefits
- Provide a funding resource for possible future enhancement or augmentation of the Plan's benefits
- Insulate the Plan's assets against the deterioration of purchasing power caused by inflation

The Plan's long-range investment goals include the following:

- Maintain an asset market value to total pension liability ratio of 1.0 or higher
- Earn long-term returns in excess of the actuarial discount rate
- Earn long-term returns in excess of the inflation rate by 5 percent
- Exceed the return of a benchmark index rate that reflects the Plan's asset allocation

The investment strategy of the Plan is intended to match the long-term pension obligations of the Health System with the long-term performance patterns of the various investment markets. The investment policy establishes the significant terms and constraints for investment types, quality, diversification, liquidity, and maturity.

Significant terms and constraints for fixed income securities include the following:

- Investment grade, with up to 15% rated BBB (or equivalent) or better as determined by a major rating agency, excluding portfolios that are specifically committed to invest in high yield bonds
- Market-weighted average credit rating of A (or equivalent) or better
- Maximum concentration in a single issuer of 5% and a single industry group of 15%, excluding government securities
- Remaining outstanding principal value of at least \$50,000,000

Singing River Health System Employees' Retirement Plan and Trust

Notes to Financial Statements

Significant terms and constraints for equity securities include the following:

- Traded on one or more national or international exchanges
- Initial public offerings and new issues limited to 5% of each manager's portfolio, subject to consistency with the style the manager was hired to employ
- Maximum concentration in a single holding of 7.5%, a single industry group of two times the benchmark or 10% of the portfolio market value, and a single market sector of two times the benchmark
- Quality of equity securities should be primarily determined based on 3 to 5 year profitability and at least 5 years of earnings.
- Market capitalization of at least \$100,000,000

Authorized investments under the Plan's investment policy include the following:

- Cash equivalents
- Domestic common stock and international stock
- Domestic corporate and government bonds, bond swaps, strips/zeros, and asset-backed securities
- Real estate investment trusts
- Alternative investments, including limited partnerships, hedge funds, and commingled trusts, for authorized investment managers

Investment performance is evaluated at least quarterly, with asset allocation, investment selection, portfolio performance, and overall adherence to the investment policy guidelines evaluated at least annually.

5. Income Tax Status

In a determination letter dated August 5, 2014, the Internal Revenue Service held that the Plan, as amended effective May 29, 2013, is exempt from federal income taxes. The Plan was subsequently amended, and the Health System believes it continues to be designed and operated in compliance with the applicable requirements of the Internal Revenue Code such that the Plan remains qualified and tax exempt.

6. Contingencies and Uncertainties

The Health System and Plan are subject to ongoing litigation in state and federal court related to benefit terms, funding, plan administration, fiduciary responsibility, and plan termination. The plaintiffs and petitioners seek both monetary relief and injunctive relief to prevent plan amendment and termination. Under court order, the Plan cannot be amended, terminated, or liquidated without further order of the state court. In October 2015, a special fiduciary was appointed trustee and given primary responsibility over plan administration and benefit determination. In January 2016, a proposed settlement was reached which would resolve the federal class action suits and potentially certain state cases. Under the proposed settlement, the Health System would contribute \$149,950,000 to the Plan over 35 years. The proposed settlement and the classes to which it applies are subject to approval by the courts. The ultimate resolution of the litigation and related contingencies and uncertainties cannot be reasonably determined, but it is probable to have a material impact on the Plan and the Health System.

7. Subsequent Events

The Plan has evaluated subsequent events through March 2, 2016, the date of the financial statements were issued.

Singing River Health System Employees' Retirement Plan and Trust
Schedule of Changes in Employer Net Pension Liability and Related Ratios
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Total pension liability:		
Service cost	\$ 1,636,685	\$ 9,301,301
Interest	17,939,427	19,601,873
Changes in benefit terms	(77,583,377)	-
Differences between expected and actual experience	-	(10,575,128)
Changes of assumptions	22,058,366	70,788,607
Benefit payments, including refunds of employee contributions	(14,368,870)	(12,507,174)
	<u>(50,317,769)</u>	<u>76,609,479</u>
Net change in total pension liability		
	(50,317,769)	76,609,479
Total pension liability - beginning of year	<u>492,186,069</u>	<u>415,576,590</u>
Total pension liability - end of year	<u>441,868,300</u>	<u>492,186,069</u>
Plan fiduciary net position:		
Contributions - employer	-	-
Contributions - employee	395,038	3,158,856
Net investment income	1,750,750	14,796,956
Benefit payments, including refunds of employee contributions	(14,368,870)	(12,508,174)
Administrative expense	(557,024)	(370,020)
Other	-	-
	<u>(12,780,106)</u>	<u>5,077,618</u>
Net change in plan fiduciary net position		
	(12,780,106)	5,077,618
Plan fiduciary net position - beginning of year	<u>150,193,105</u>	<u>145,115,487</u>
Plan fiduciary net position - end of year	<u>137,412,999</u>	<u>150,193,105</u>
Net pension liability - end of year	<u>\$ 304,455,301</u>	<u>\$ 341,992,964</u>
Plan fiduciary net position as a percentage of total pension liability	<u>31.1%</u>	<u>30.5%</u>
Covered-employee payroll	<u>\$ 86,061,783</u>	<u>\$ 86,397,101</u>
Net pension liability as a percentage of covered-employee payroll	<u>353.8%</u>	<u>395.8%</u>

Notes to Schedule:

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

Changes of assumptions - In fiscal 2015, amounts reported as "changes of assumptions" resulted primarily from changes in the discount rate, which are driven by changes in benchmark municipal bond index rates.

Singing River Health System Employees' Retirement Plan and Trust
Schedule of Employer Contributions
Last 10 Fiscal Years

Fiscal Year Ended September 30	Actuarially Determined Contribution	Employer Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll	Employer Contributions as a Percentage of Covered Payroll
2006	\$ 2,065,045	\$ 5,300,000	\$ (3,234,955)	\$ 80,132,456	6.6%
2007	\$ 2,306,420	\$ 2,600,000	\$ (293,580)	\$ 86,321,321	3.0%
2008	\$ 2,650,513	\$ 2,600,000	\$ 50,513	\$ 97,042,780	2.7%
2009	\$ 4,522,625	\$ 2,000,000	\$ 2,522,625	\$ 112,085,995	1.8%
2010	\$ 4,409,160	\$ -	\$ 4,409,160	\$ 120,759,213	0.0%
2011	\$ 7,283,090	\$ -	\$ 7,283,090	\$ 120,697,220	0.0%
2012	\$ 8,964,565	\$ -	\$ 8,964,565	\$ 117,403,165	0.0%
2013	\$ 11,434,823	\$ -	\$ 11,434,823	\$ 102,294,056	0.0%
2014	\$ 18,388,795	\$ -	\$ 18,388,795	\$ 86,397,101	0.0%
2015	\$ -	\$ -	\$ -	\$ 86,061,783	0.0%

Notes to Schedule:

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

Actuarially determined contribution - In fiscal 2015, new accounting guidance was implemented which changed the accounting for the employer pension liability and presentation of required supplementary information. The "actuarially determined contribution" for all years prior to fiscal 2015 are the same as the previously reported "annual required contribution." No actuarially determined contribution was provided in fiscal 2015.

Singing River Health System Employees' Retirement Plan and Trust
Schedule of Investment Returns
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	<u>1.2%</u>	<u>11.2%</u>



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 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 Singing River Health System Employees' Retirement Plan and Trust (the "Plan"), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements, and have issued our report thereon dated March 2, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances 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 Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan'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 a 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, we identified the following deficiencies in internal control that we consider to be a material weakness.

Finding 2015-001: A material weakness in internal control was identified related to entity-level and activity-level controls over plan operation, recordkeeping, participant data, and financial reporting. This material weakness is based on the cumulative effect of the following internal control deficiencies identified during the audit:

- Investment balances and related activity provided to the actuary by the investment manager and reported in the financial statements did not reconcile to trust reports
- Incomplete and inaccurate participant data in the plan census and administrative recordkeeping database which is used to determine benefits and to determine the employer total pension liability
- Certain historical personnel and payroll records were not available or provided in support of participant data for inactive and active employees selected for testing
- Incomplete plan records supporting benefit payment elections prior to September 30, 2011

Recommendation: We recommend that management design and implement effective activity-level controls to prevent, or detect and correct on a timely basis, misstatements in the financial statements, missing personnel records, and operational failures and noncompliance that could have a direct and material impact on the financial statements. We also recommend that management design and implement entity-level controls to assess and monitor such risks and related controls.

Potential Effects: The potential effects of this material weakness include misstatement of the financial statements, improper inclusion or exclusion of members from plan participation, inaccurate benefit determinations, loss of qualified status, and ultimately the termination and liquidation of the Plan.

Management's Response to Findings: Management's response to finding 2015-001 follows:

Management agrees with the findings and continues to work with the third-party administrator to identify and resolve historical errors in participant data.

This response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan'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 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*. 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 Plan'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 Plan's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dixon Hughes Goodman LLP

Atlanta, Georgia
March 2, 2016

