

Singing River Health System Employees' Retirement Plan and Trust

**Financial Statements and
Required Supplementary Information**

Year Ended September 30, 2016

Table of Contents

Independent Auditors' Report	1
Management's Discussion and Analysis	3
Financial Statements:	
Statement of Fiduciary Net Position	6
Statement of Changes in Fiduciary Net Position	7
Notes to Financial Statements	8
Required Supplementary Information:	
Schedule of Changes in Employer Net Pension Liability and Related Ratios	16
Schedule of Employer Contributions	17
Schedule of Investment Returns	18
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 <i>Government Auditing Standards</i>	19

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, 2016 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, 2016, 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 Matter

Material Uncertainty

As disclosed in Note 7 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 April 26, 2017, 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

**Birmingham, Alabama
April 26, 2017**

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, 2016. 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. Under GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, the following basic financial statements are required:

- 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 \$6.7 million or 4.9 percent during fiscal year 2016 to approximately \$130.7 million at September 30, 2016. 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 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.

The Plan was amended on November 20, 2014 to cease employee contributions and employee contributions were not made to the Plan in fiscal 2016. The Health System did not make any contributions to the Plan in fiscal 2016 and 2015. Employee contributions to the Plan totaled approximately \$0.4 million during fiscal year 2015.

**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, 2016 and 2015:

	2016 (in millions)	2015 (in millions)
ASSETS		
Investments	\$ 130.7	\$ 137.6
Receivables	<u>0.2</u>	<u>0.1</u>
Total assets	<u>130.9</u>	<u>137.7</u>
LIABILITIES		
Due to brokers	<u>0.2</u>	<u>0.3</u>
Net position restricted for pensions	<u>\$ 130.7</u>	<u>\$ 137.4</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, 2016 and 2015:

	2016 (in millions)	2015 (in millions)
ADDITIONS		
Investment income, net	\$ 9.0	\$ 1.7
Contributions	<u>-</u>	<u>0.4</u>
Total additions	<u>9.0</u>	<u>2.1</u>
DEDUCTIONS		
Benefits paid	15.0	14.4
Administrative and other expense	<u>0.7</u>	<u>0.5</u>
Total deductions	<u>15.7</u>	<u>14.9</u>
Net change in net position restricted for pensions	<u>\$ (6.7)</u>	<u>\$ (12.8)</u>

Employer Net Pension Liability

The components of the Health System's net pension liability at September 30, 2016 and 2015 were as follows:

	2016 (in millions)	2015 (in millions)
Total pension liability	\$ 463.6	\$ 441.9
Plan fiduciary net position	<u>(130.7)</u>	<u>(137.4)</u>
Net pension liability	<u>\$ 332.9</u>	<u>\$ 304.5</u>
Fiduciary net position as a percentage of total pension liability	<u>28.2%</u>	<u>31.1%</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

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

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.

The United States District Court of the Southern District of Mississippi approved a settlement in a class-action lawsuit related to the Plan in June 2016. That decision was appealed to the United States Court of Appeals for the Fifth Circuit ("Fifth Circuit") and oral arguments were heard on January 5, 2017. As of the report date, the Fifth Circuit has not yet ruled on the appeal. The outcome of the ruling could significantly impact the financial statements.

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

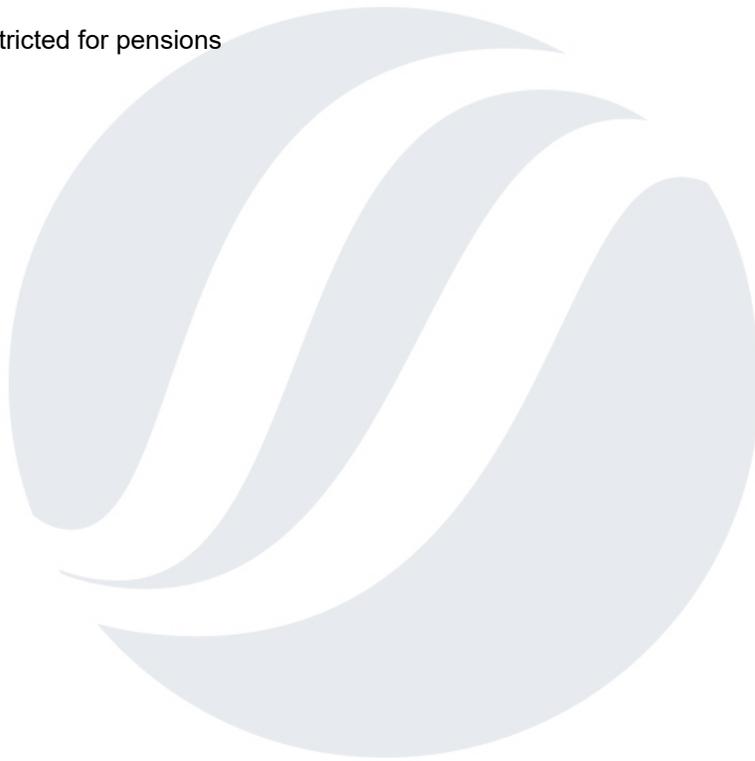
Singing River Health System Employees' Retirement Plan and Trust
Statement of Fiduciary Net Position
September 30, 2016

ASSETS

Investments	\$ 130,727,735
Accrued interest and dividends	141,999
Due from brokers for assets sold	<u>71,381</u>
Total assets	<u>130,941,115</u>

LIABILITIES

Due to brokers for assets purchased	<u>270,290</u>
Net position restricted for pensions	<u><u>\$ 130,670,825</u></u>



Singing River Health System Employees' Retirement Plan and Trust
Statement of Changes in Fiduciary Net Position
Year Ended September 30, 2016

ADDITIONS

Investment income	\$ 9,448,819
Less investment expense	<u>(490,130)</u>
Net investment income	<u>8,958,689</u>
Total additions	<u>8,958,689</u>

DEDUCTIONS

Benefits paid	15,023,228
Administrative and other expense	<u>677,635</u>
Total deductions	<u>15,700,863</u>
Net decrease in net position	(6,742,174)
Net position restricted for pensions:	
Beginning of year	<u>137,412,999</u>
Ending of year	<u>\$ 130,670,825</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 reporting requirements of the Employee Retirement Income Security Act of 1974.

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, 2016, the following Health System active employees, inactive employees, and beneficiaries were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	688
Inactive employees entitled to but not yet receiving benefits	156
Inactive employees not entitled to benefits but with accumulated employee contributions	947
Active employees	<u>1,154</u>
	<u><u>2,945</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 2016. As described in Note 7, 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 7, 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.

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

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

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 2016, the Plan adopted GASB Statement No. 72, *Fair Value Measurement and Application* ("GASB 72"). GASB 72, among other things, provides guidance for determining a fair value measurement for financial reporting purposes, guidance for applying fair value to certain investments and disclosures related to all fair value measurements. See Note 5 for additional disclosures.

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.

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, 2016 were as follows:

Total pension liability	\$ 463,629,088
Plan fiduciary net position	<u>(130,670,825)</u>
Net pension liability	<u>\$ 332,958,263</u>

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

Fiduciary net position as a percentage of total pension liability 28.2%

Actuarial assumptions

The Health System's total pension liability is measured based on an actuarial valuation as of September 30, 2016.

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

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

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

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

Discount rate

The discount rate used to measure the total pension liability at September 30, 2016 was 3.27 percent. The projection of cash flows used to determine the discount rate assumes that employee contributions will not be made in the future and that 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 (3.06 percent). The discount rate decreased from the rate of 3.93 percent from September 30, 2015 due to changes in the benchmark rate.

Sensitivity of net pension liability to changes in discount rate

The net pension liability of the Health System at September 30, 2016, calculated using the actual discount rate of 3.27 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	3.27%	\$ 332,958,263
1% decrease in discount rate	2.27%	\$ 416,171,043
1% increase in discount rate	4.27%	\$ 268,149,542

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.

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

The composition of investments at September 30, 2016, follows:

Cash deposits	\$ 16,275
Money market funds	20,685,173
Mutual funds	22,762,400
Corporate bonds and other marketable debt securities	6,836,150
Common stock and other marketable equity securities	30,643,448
Private investment companies and other alternative investments	<u>49,784,289</u>
 Total investments	 <u>\$ 130,727,735</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, 2016, certain alternative investments totaling \$11,446,756 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 \$3,289,547 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, 2016:

Federated Prime Obligations Fund	\$ 14,183,339
Aetos Capital Long/Short Strategies Cayman Fund	\$ 9,770,722
Metropolitan West Total Return Bond Fund	\$ 8,780,677
Invesco Balanced-Risk Allocation Trust	\$ 7,915,129
First Eagle Overseas Fund	\$ 7,023,365
Barrow, Hanley, Mewhinney & Strauss Large Cap Value Fund	\$ 6,866,491

Interest rate risk and credit risk

At September 30, 2016, 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	\$ 20,685,173	\$ -	\$ -	\$ -	\$ 20,685,173
Bond mutual funds – Not rated	8,780,687	-	-	-	8,780,687
Marketable debt securities:					
BBB > AA	85,062	293,983	-	-	379,045
B > BBB	1,701,217	3,596,465	1,025,787	65,505	6,388,974
C > CCC	<u>68,131</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>68,131</u>
 Total	 <u>\$ 31,320,270</u>	 <u>\$ 3,890,448</u>	 <u>\$ 1,025,787</u>	 <u>\$ 65,505</u>	 <u>\$ 36,302,010</u>

Custodial credit risk

At September 30, 2016, 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.

Singing River Health System Employees' Retirement Plan and Trust

Notes to Financial Statements

Rate of return

For the year ended September 30, 2016, the annual money-weighted rate of return on pension plan investments, net of investment expense, was 6.8 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

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

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

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. Fair Value Measurements

GASB 72 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 Plan categorizes its fair value measurements within the fair value hierarchy established by this standard.

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

	<u>Fair value measurements at September 30, 2016 using</u>			
	<u>Fair value at September 30, 2016</u>	<u>Quote 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>Investments by fair value level</i>				
Money market funds	\$ 20,685,173	\$ -	\$ 20,685,173	\$ -
Mutual funds	22,762,400	22,762,400	-	-
Corporate bonds and other marketable debt securities	6,836,150	6,836,150	-	-
Common stock and other marketable equity securities	<u>30,643,448</u>	<u>30,643,448</u>	<u>-</u>	<u>-</u>
Total investments by level	<u>80,927,171</u>	<u>\$ 60,241,998</u>	<u>\$ 20,685,173</u>	<u>\$ -</u>
Investments measured at net asset value per share	49,784,289			
Cash and cash deposit	<u>16,275</u>			
Total investments	<u>\$ 130,727,735</u>			

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

6. 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.

7. 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 United States District Court of the Southern District of Mississippi approved a settlement in a class-action lawsuit related to the pension plan in June 2016. That decision was appealed to the United States Court of Appeals for the Fifth Circuit ("Fifth Circuit") and oral arguments were heard on January 5, 2017. As of the report date, the Fifth Circuit has not yet ruled on the appeal. The outcome of the ruling could significantly impact the total pension liability.

8. Subsequent Events

The Plan has evaluated subsequent events through April 26, 2017, the date of the financial statements were issued.



Supplementary Information

Singing River Health System Employees' Retirement Plan and Trust
Schedule of Changes in Employer Net Pension Liability and Related Ratios
Last Three Fiscal Years*

	September 30		
	2016	2015	2014
Total pension liability:			
Service cost	\$ -	\$ 1,636,685	\$ 9,301,301
Interest	17,011,106	17,939,427	19,601,873
Changes in benefit terms	-	(77,583,377)	-
Differences between expected and actual experience	(10,199,979)	-	(10,575,128)
Changes of assumptions	29,972,889	22,058,366	70,788,607
Benefit payments, including refunds of employee contributions	(15,023,228)	(14,368,870)	(12,507,174)
Net change in total pension liability	21,760,788	(50,317,769)	76,609,479
Total pension liability - beginning of year	441,868,300	492,186,069	415,576,590
Total pension liability - end of year	463,629,088	441,868,300	492,186,069
Plan fiduciary net position:			
Contributions - employer	-	-	-
Contributions - employee	-	395,038	3,158,856
Net investment income	8,958,689	1,750,750	14,796,956
Benefit payments, including refunds of employee contributions	(15,023,228)	(14,368,870)	(12,508,174)
Administrative expense	(677,635)	(557,024)	(370,020)
Other	-	-	-
Net change in plan fiduciary net position	(6,742,174)	(12,780,106)	5,077,618
Plan fiduciary net position - beginning of year	137,412,999	150,193,105	145,115,487
Plan fiduciary net position - end of year	130,670,825	137,412,999	150,193,105
Net pension liability - end of year	\$ 332,958,263	\$ 304,455,301	\$ 341,992,964
Plan fiduciary net position as a percentage of total pension liability	28.2%	31.1%	30.5%
Covered-employee payroll	N/A	\$ 86,061,783	\$ 86,397,101
Net pension liability as a percentage of covered-employee payroll	N/A	353.8%	395.8%

Notes to Schedule:

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

Changes of assumptions - 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.

*This schedule will increase to become a ten year schedule as information becomes available.

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
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%
2016	\$ -	\$ -	\$ -	N/A	N/A

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 or 2016.

Singing River Health System Employees' Retirement Plan and Trust
Schedule of Investment Returns
Last Three Fiscal Years*

	2016	September 30 2015	2014
Annual money-weighted rate of return, net of investment expense	<u>6.8%</u>	<u>1.2%</u>	<u>11.2%</u>

*This schedule will increase to become a ten year schedule as information becomes available.



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, 2016, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements, and have issued our report thereon dated April 26, 2017.

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 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 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

Birmingham, Alabama
April 26, 2017

