

MEMORIAL HOSPITAL AT GULFPORT
Gulfport, Mississippi

Audited Financial Statements
As of and for the Years Ended
September 30, 2017 and 2016

MEMORIAL HOSPITAL AT GULFPORT

Gulfport, Mississippi

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CONTENTS

Independent Auditor's Report	1 - 2
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Management's Discussion and Analysis	3 - 11
Financial Statements	
Statements of Net Position	12
Statements of Revenues, Expenses and Changes in Net Position	13
Statements of Cash Flows	14
Notes to Financial Statements	15 - 44
Supplementary Information	
Schedule of Employer Contributions	45
Schedule of Changes in Net Pension Liability and Related Ratios	46
Notes to Supplementary Information	47- 48
Independent Auditor's 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>	49 - 50



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Memorial Hospital at Gulfport
Gulfport, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Memorial Hospital at Gulfport (the "Hospital") as of and for the years ended September 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

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.

Auditor's 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 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 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 evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Hospital, as of September 30, 2017 and 2016, and the changes in financial position and cash flows thereof 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 11 and the supplemental schedules on pages 45 through 48 be presented to supplement the basic financial statements. Such information, although not 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2017, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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 Hospital's internal control over financial reporting and compliance.



Ridgeland, Mississippi
December 18, 2017

MEMORIAL HOSPITAL AT GULFPORT
Management's Discussion and Analysis (Unaudited)
Years Ended September 30, 2017 and 2016

This discussion and analysis provides management's analysis of Memorial Hospital at Gulfport's (the "Hospital") financial performance for the fiscal years ended September 30, 2017 and 2016. The intent of this discussion and analysis is to provide further information regarding the Hospital's financial performance as a whole. It should be read in conjunction with the Hospital's financial statements, which begin on page 12 of the audited combined financial statements.

Industry Highlights

The healthcare industry continues to face significant challenges as it adjusts to the changing government reimbursement levels that began with enactment of the Affordable Care Act ("ACA"). It is important that a reader of these financial statements has a working knowledge of the environment in which the Hospital operates. The Hospital operates under a strategic plan, which is updated on an ongoing basis and is designed to address industry issues in accomplishing its mission in support of the community. Some of the issues having significant impact nationally, state-wide and on the Hospital's operations include:

- Reimbursements from Medicare for the Hospital, on a unit of service basis, are lower in 2017 than they were before the enactment of the ACA. This reflects decreases brought on by changes in wage index calculations, coding adjustments, Medicare funding sequestration and other initiatives aimed at capitating payments. The cost of Medicare services (labor, supply and pharmaceutical costs), however, continue to rise. We expect Medicare reimbursement to not keep pace with rising costs in fiscal year 2018 and beyond.
- Shortages of certain physician specialists both locally and nationally are expected to continue to grow over the next several years. This impacts the State of Mississippi and our market on the Mississippi gulf coast. We are designated as a healthcare professional shortage area. The demand for healthcare access and services exceed the supply of healthcare providers.
- The scheduled reductions to Medicaid DSH payments predicated on the expansion of Medicaid will have a significant impact on indigent and uninsured funding in future years.
- The cost of technology remains high. With almost every life-saving advance in medicine comes significant additional cost in the form of equipment and/or pharmaceuticals. The Hospital made significant investments in: clinical information technology systems, electronic medical records, decision support systems, data warehouse and analytics and other related applications, to fully integrate our digital information across the system to comply with government mandates enacted with the ACA as well as other regulatory changes.
- Uncertainty continues with the State of Mississippi's Medicaid funding level as the state continues its implementation of managed care for inpatient services. Funding levels could be impacted negatively by this change.

There are numerous other factors to be considered in evaluating the financial operations of any healthcare provider. However, it is important to evaluate provider performance in the context of the industry.

MEMORIAL HOSPITAL AT GULFPORT
Management's Discussion and Analysis (Unaudited)
Years Ended September 30, 2017 and 2016

Financial Highlights

2017

- The Hospital's financial position remains stable with increased liquidity although the Hospital saw real reimbursement cuts in Medicare and Medicaid. In response to continued Medicare funding risk, the Hospital entered into a joint venture with HealthSouth for post-acute rehab services. We continue to stabilize our clinical and business workflows associated with the fully integrated Electronic Health Record ("EHR") and associated IT systems. Liquidity measures show improvement and cash collections continued to improve significantly. Estimated receivables from patients' accounts receivables and third-party payors are \$101.7M (Net 75 days down from net 83 days in fiscal year 2016). Total capital expenditures (Tower project and routine capital) for fiscal year 2017 totaled \$17.8M (Fiscal year 2016 capital expenditures were \$17.6M). Fiscal year 2018 capital plans continue to reflect a more normal expenditure budget of \$17.4M. Total cash and investments for fiscal year 2017 is \$117.8M compared to \$92M in fiscal year 2016. Capital assets (net of depreciation) are \$190.8M. The Hospital fully funded its annual required defined benefit pension obligation of \$10.9M for fiscal year 2017. Net pension liability was increased by 14.5 percent from \$40.1M to \$45.8M as of the fiscal year 2017 as actuarial assumptions were updated based on experience studies.
- Outstanding debt, net of current maturities as of September 30, 2017 is \$63.4M which includes the unamortized bond premium of \$7.2M from the refinancing of the Series 2001 bonds. The Hospital remains compliant with all Trust Indentures.
- Effective April 1st, 2017, the Hospital entered into a definitive agreement to sell a majority share of its inpatient rehabilitation unit to HealthSouth Gulfport Holdings, LLC. As expected, this sale immediately infused \$10.9M of cash. Additionally, per separate agreements with the Hospital, HealthSouth paid \$450,000 in facility rent and also purchased ancillary services provided to the unit's patients. Consequently, FY 2017 results include only six months of operation.
- During fiscal year 2017, the Hospital recorded an increase in net position of \$5.1M. Operating revenues were up 4.6 percent (\$22.4M) over prior year as continued market growth associated with physician alignment strategies increased volumes to the Hospital. Outpatient ("OP") volume (as measured by charges) increased 8.7 percent (includes OP physician clinic visits) and general acute inpatient ("IP") admissions (adult and peds, including births) increased by 3.1 percent (452). In total, qualified inpatient admissions were relatively flat year over year due to the Rehab joint venture. The fiscal year 2017 payor mix (measured by gross patient revenues) saw Medicare/Medicare Advantage volumes grow from 52.8 percent to 55.1 percent and Medicaid/MS Can decrease from 13.2 percent to 11.7 percent, Commercial payor admissions declined from 26.3 percent to 26.0 percent of total and Self Pay decreased from 7.7 percent to 7.2 percent. Operating expenses increased 3.9 percent (\$19.2M), predominantly in salaries and supplies reflecting increased salary costs associated with the annualized cost of the 2016 RN salary market adjustment drug cost inflation, and costs associated with physician clinic and outpatient market volume growth.

MEMORIAL HOSPITAL AT GULFPORT
Management's Discussion and Analysis (Unaudited)
Years Ended September 30, 2017 and 2016

Financial Highlights

2016

- The Hospital's financial position remains stable although the Hospital is seeing real reimbursement cuts in Medicare and Medicaid. While the Hospital's planning and IT investment has mitigated the anticipated adverse impact on reimbursement within the industry-wide ICD-10 implementation, the impact of CMS's Two Midnight Rule shifting Medicare volumes from inpatient to outpatient, ACA Medicare mandated DSH reductions, CMS coding adjustments, wage index reductions and budget sequestration all impacted liquidity for the fiscal year. Additionally, the Mississippi Division of Medicaid ("DOM") supplemental funding for Memorial was again below the full OBRA (federally recognized cost shortfall) level for the fourth year in a row. We continue to stabilize our clinical and business workflows associated with the fully integrated Electronic Health Record ("EHR") and associated IT systems implemented in late fiscal year 2014. Liquidity measures show improvement and cash collections have improved significantly as of the fiscal year end 2016. Estimated receivables from patients' accounts receivables and third-party payors are \$107.8M (Net 83 days down from net 101 days in fiscal year 2015). Fiscal year 2016 saw the completion of the state of the art \$63 million capital project that adds two additional floors and renovations to the fourth and fifth floors of our main patient tower and relocates and expands our neonatal intensive care unit ("NICU"). Total capital expenditures (Tower project and routine capital) for fiscal year 2016 totaled \$17.6M (Fiscal year 2015 capital expenditures were \$44.2M). Fiscal year 2017 capital plans continue to reflect a more normal expenditure budget of \$18M. Total cash and investments is \$92M. Capital assets (net of depreciation) are \$201.8M. The Hospital fully funded its annual required defined benefit pension obligation of \$10.7M for fiscal year 2016. Net pension liability was reduced 6 percent from \$42.6M to \$40.1M as of the fiscal year 2016.
- Outstanding debt, net of current maturities as of September 30, 2016 is \$68.5M which includes the unamortized bond premium of \$8.9M from the refinancing of the Series 2001 bonds. That refinancing, along with the Series 1994A refunding, reduced aggregate debt and obtained an economic gain of over \$20M (the difference between the present values of the old and new debt service payments). The Hospital remains compliant with all Trust Indentures.
- During fiscal year 2016, the Hospital recorded a decrease in net position of \$8.8M. Operating revenues were up 8.0 percent (\$35.9M) over prior year as continued market growth associated with physician alignment strategies increased volumes to the Hospital. Outpatient ("OP") volume (as measured by charges) increased 8 percent (includes OP physician clinic visits) and inpatient ("IP") admissions (including newborns) grew 4 percent (750 admits primarily in adult medical services and OB). The fiscal year 2016 payor mix (measured by gross patient revenues) saw Medicare/Medicare Advantage volumes go from 51.9 percent to 52.8 percent, Medicaid/MS Can from 12.8 percent to 13.2 percent, Commercial 26.2 percent to 26.3 percent and Self Pay 9.2 percent to 7.7 percent. Operating expenses increased 9.0 percent (\$40.7M), predominantly in salaries and supplies reflecting increased salary costs associated with RN salary market adjustment, the new EHR implementation and salary and supply costs associated with physician clinic and outpatient market volume growth.

MEMORIAL HOSPITAL AT GULFPORT
Management's Discussion and Analysis (Unaudited)
Years Ended September 30, 2017 and 2016

Restatement of October 1, 2014 Statement of Net Position Balances

The Hospital adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27 ("GASB No. 68")* as of October 1, 2014 and, as required, adjusted net position as of October 1, 2014 and restated the basic statement of net position as of October 1, 2014. The following table reflects the changes to the condensed basic statement of net position as of October 1, 2014, resulting from retroactive application of GASB No. 68:

NET POSITION	Oct 1, 2014 as previously reported	Implementation of GASB Statement 68	Oct 1, 2014 as restated
Invested in capital assets	\$ 112,206,579	\$ -	\$ 112,206,579
Restricted			
Debt service	16,048,880	-	16,048,880
Use in self-funded insurance programs	2,210,265	-	2,210,265
Restricted expendable net assets	1,749,044	-	1,749,044
Nonexpendable permanent endowments	1,366,258	-	1,366,258
Unrestricted net position	183,102,693	(38,513,762)	144,588,931
Total net position	\$ 316,683,719	\$ (38,513,762)	\$ 278,169,957

Overview of the Combined Financial Statements

The Hospital's financial statements consist of two parts: Management's discussion and analysis and the financial statements. The financial statements also include notes and required supplementary information.

The financial statements of the Hospital begin on page 12. They offer both short-term and long-term financial information about its activities. The statements of net position reflect all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and obligations to Hospital creditors (liabilities). The assets and liabilities are presented in a classified format, distinguishing between current and long-term assets and liabilities using the accrual basis of accounting. All of the current year's financial activities are taken into account regardless of when the cash is received or paid. The statements of net position provide the basis for evaluating the Hospital's capital structure and assessing the liquidity and financial flexibility of the Hospital.

The statements of revenues, expenses and changes in net position account for all of the current year's revenue and expenses. These statements measure the success of the Hospital's operations over the past years and can be used to determine profitability and credit worthiness. The statements of cash flows provide information about the Hospital's cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities.

MEMORIAL HOSPITAL AT GULFPORT
Management's Discussion and Analysis (Unaudited)
Years Ended September 30, 2017 and 2016

Financial Analysis

Our analysis of the financial statements of the Hospital begins below. The Hospital's net position – the difference between assets and liabilities – are one way to measure the Hospital's financial health or financial position. Over time, increases or decreases in net assets are one indicator of whether the Hospital's financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Hospital's patient volumes, changes in payment methodologies, as well as local economic factors to assess the overall health of the organization.

Net Position

A summary of the Hospital's statements of net position for September 30, 2017, 2016 and 2015 is presented below.

Table 1: Assets, Liabilities and Net Position (in millions of dollars)

	September 30, 2017	September 30, 2016	September 30, 2015
Assets			
Unrestricted cash	\$ 55.5	\$ 26.9	\$ 17.9
Other current assets	116.7	121.8	139.9
Current assets	172.2	148.7	157.8
Unrestricted noncurrent cash and investments	45.0	47.4	43.1
Restricted noncurrent cash and investments	14.1	14.5	17.8
Noncurrent cash and investments	59.1	61.9	60.9
Capital assets	190.7	201.8	215.2
Other assets	4.3	4.6	2.8
Total assets	426.3	417.0	436.7
Deferred outflows	8.3	1.9	3.5
Liabilities			
Current liabilities	56.6	47.1	50.0
Net pension liability	45.8	40.0	42.6
Long-term liabilities	63.4	68.5	75.5
Total liabilities	165.8	155.6	168.1
Deferred inflows	0.4	-	-
Unrestricted net position	251.3	245.8	249.7
Restricted net position	17.1	17.5	22.4
Total net position	\$ 268.4	\$ 263.3	\$ 272.1

MEMORIAL HOSPITAL AT GULFPORT
Management's Discussion and Analysis (Unaudited)
Years Ended September 30, 2017 and 2016

Year Ended September 30, 2017

Table 1 shows fiscal year 2017 total net position increased \$5.1M from 2016. Current assets increased 15.8 percent (\$23.5M) primarily due to increases in cash from the majority sale of the Hospital's inpatient rehab unit (\$10.9M) and the trending improvements in cash collections due to its continued revenue cycle improvement.

Year Ended September 30, 2016

Table 1 shows fiscal year 2016 total net position decreased \$8.8M from 2015. Current assets decreased 5.8 percent (\$9.1M) primarily due to decreases in accounts receivable balances associated with improved billing and subsequent collections after initial difficulties with system conversion.

GASB No. 68, Accounting and Financial Reporting for Pensions

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*. GASB No. 68 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. GASB No. 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB Statement No. 50, *Pension Disclosures*, as they related to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pensions, GASB No. 68 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. In addition, GASB No. 68 details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions.

GASB No. 68 was effective for fiscal years beginning after June 15, 2014, with earlier application encouraged. The Hospital adopted GASB No. 68 as of October 1, 2014 and, as required, adjusted net position and restated the statements of net position as of October 1, 2014. The impact of adopting GASB No. 68 resulted in a decrease in net position and an increase in liabilities of approximately \$38.5 million as of October 1, 2014.

MEMORIAL HOSPITAL AT GULFPORT
Management's Discussion and Analysis (Unaudited)
Years Ended September 30, 2017 and 2016

Operating Results and Changes in Net Position

A summary of the Hospital's statements of revenues, expenses and changes in net position for fiscal years ended September 30, 2017, 2016 and 2015 is presented below.

Table 2: Operating Results and Changes in Net Position (in millions of dollars)

	September 30, 2017	September 30, 2016	September 30, 2015
Operating revenue	\$ 507.3	\$ 484.9	\$ 449.0
Operating expenses			
Employee compensation	271.7	265.7	243.9
Supplies and other expenses	212.7	197.1	181.6
Depreciation and amortization	29.1	31.5	28.1
Total operating expenses	513.5	494.3	453.6
Loss from operations	(6.2)	(9.4)	(4.6)
Nonoperating expenses, net	11.0	(2.6)	(3.0)
Noncapital grants, contributions and other	0.3	3.2	1.5
Restatement for adoption of GASB 68	-	-	(38.5)
Increase (decrease) in net position	\$ 5.1	\$ (8.8)	\$ (44.6)

Year Ended September 30, 2017

Table 2 above shows operating revenues increased 4.6 percent from 2016 to 2017. Inpatient and outpatient volume increases primarily contribute to this growth. Operating expenses increased 3.9 percent in 2017, reflecting the increased volumes and rising salary costs during the fiscal year.

Year Ended September 30, 2016

Table 2 above shows operating revenues increased 8.0 percent from 2015 to 2016. Inpatient and outpatient volume increases primarily contribute to this growth. Operating expenses increased 9.0 percent in 2016, reflecting the increased volumes and EHR stabilization costs during the fiscal year.

Revenues by Payor

Fiscal Year Ended September 30, 2017

Note 13 to the accompanying financial statements discusses the types of payors with which the Hospital is involved and a summary of the net patient service revenues generated during the year by each of the payors. Note 15 to the accompanying financial statements provides a breakdown of current outstanding accounts receivable due from payors.

MEMORIAL HOSPITAL AT GULFPORT
Management's Discussion and Analysis (Unaudited)
Years Ended September 30, 2017 and 2016

Fiscal Year Ended September 30, 2016

Note 13 to the accompanying financial statements discusses the types of payors with which the Hospital is involved and a summary of the net patient service revenues generated during the year by each of the payors. Note 15 to the accompanying financial statements provides a breakdown of current outstanding accounts receivable due from payors.

The following table represents the relative percentage of gross charges billed for patient services by payor for the fiscal years ended September 30:

	Fiscal Year 2017	Fiscal Year 2016
Medicare	55.1%	52.8%
Medicaid	11.7	13.2
Self-pay and other	33.2	34.0
	<hr/>	<hr/>
Total gross charges	100.0%	100.0%

ECONOMIC FACTORS AND FISCAL 2018 OPERATIONS

While both federal and state government funding levels remain uncertain due to the current economic conditions (nationally and locally), the Hospital feels well positioned with its major investment in an integrated EHR and facility modernization complete. The Hospital continues to implement the ACA CMS regulatory changes and navigate through the economic uncertainty. The Hospital's strategy of physician alignment and integrating patient care in both the inpatient and outpatient setting has kept volumes strong. Although the annual budget of the Hospital is not presented within these financial statements, the Hospital's Board and Management considered many factors in developing the fiscal year 2018 budget such as:

1. Medicare reimbursement changes.
2. Medicaid reimbursement changes, as well as the continuation at the current level of the Disproportionate Share and the transition of Medicaid to fully managed care.
3. The number of uninsured and working poor.
4. Ongoing competition for services.
5. Increasing cost of supplies, including pharmaceuticals.
6. The status of the local economy and the healthcare environment.
7. Ability to recruit medical staff in the specialty areas needed by the Hospital in an environment that many physicians see as a state with an adverse business climate.
8. Stability of existing industry and the ability of the community to attract new industry.
9. Population growth in our service area.

THE HOSPITAL'S CASH FLOWS

Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenues, expenses and changes in net position, discussed earlier.

MEMORIAL HOSPITAL AT GULFPORT
Management's Discussion and Analysis (Unaudited)
Years Ended September 30, 2017 and 2016

CONTACTING THE HOSPITAL CHIEF FINANCIAL OFFICER

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Hospital's finances. If you have any questions about this report or need additional financial information, please contact the Chief Financial Officer, Memorial Hospital at Gulfport, P.O. Box 1810, Gulfport, Mississippi 39502-1810.

MEMORIAL HOSPITAL AT GULFPORT
 Statements of Net Position
 September 30, 2017 and 2016

ASSETS	2017	2016
Current assets		
Cash and cash equivalents	\$ 55,482,170	\$ 26,885,092
Restricted cash and investments		
Held by trustee under indenture agreements for debt service	211	22,066
Held by trustee for self-insurance fund	3,238,714	3,223,085
Total restricted cash and investments	3,238,925	3,245,151
Patient accounts receivable, net of allowance for doubtful accounts of \$123,585,549 and \$138,306,016, respectively	101,701,452	107,801,122
Inventories	9,014,293	7,974,161
Estimated receivables, third-party payors	-	519,697
Other current assets	2,746,875	2,285,076
Total current assets	172,183,715	148,710,299
Noncurrent cash and investments		
Investments	2,148,644	4,452,893
Restricted investments by contributors and grantors	2,005,560	1,673,071
Internally designated by the Board for plant replacement and expansion	42,840,461	42,955,782
Held by trustee under indenture agreements for debt service	10,632,437	11,314,460
Permanent endowments	1,491,258	1,466,258
Total noncurrent cash and investments	59,118,360	61,862,464
Capital assets, net	190,724,638	201,786,016
Other assets	4,272,900	4,642,423
Total assets	426,299,613	417,001,202
DEFERRED OUTFLOW OF RESOURCES		
Deferred pension outflows	7,955,627	1,573,807
Deferred refunding outflow	303,181	371,861
Total deferred outflow of resources	8,258,808	1,945,668
Total assets and deferred outflow of resources	434,558,421	418,946,870

See accompanying notes.

LIABILITIES	2017	2016
Current liabilities		
Current maturities of bonds and note payable	\$ 3,511,295	\$ 3,986,895
Accounts payable, trade and other	16,836,152	12,975,104
Accrued expenses	29,950,553	30,162,040
Estimated payables, third-party payors	6,304,975	-
Total current liabilities	56,602,975	47,124,039
Long-term liabilities, net of current maturities		
Net pension liability	45,790,489	40,011,485
Bonds payable, Series 2015A	-	3,027,841
Bonds payable, Series 2016	56,513,406	58,154,274
Note payable	6,863,519	7,346,973
Total long-term liabilities, net of current maturities	109,167,414	108,540,573
Total liabilities	165,770,389	155,664,612
DEFERRED INFLOW OF RESOURCES		
Deferred pension inflows	390,924	-
Total liabilities and deferred inflow of resources	166,161,313	155,664,612
NET POSITION		
Invested in capital assets, net of related debt	123,836,418	129,270,033
Restricted		
Debt service	10,632,648	11,336,526
Use in self-funded insurance programs	3,238,714	3,223,085
Restricted expendable net assets	1,700,183	1,501,504
Nonexpendable permanent endowments	1,491,258	1,466,258
Unrestricted	127,497,887	116,484,852
Total net position	\$ 268,397,108	\$ 263,282,258

MEMORIAL HOSPITAL AT GULFPORT
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2017 and 2016

	2017	2016
Patient service revenues, net of provision for bad debts of \$186,943,330 and \$198,191,379, respectively	\$ 498,239,727	\$ 475,981,956
Other operating revenues	9,055,952	8,904,429
Total operating revenues	507,295,679	484,886,385
Operating expenses		
Salaries and wages	236,850,352	229,467,071
Employee benefits	34,884,924	36,218,061
Professional fees	6,913,817	9,036,969
Supplies and other	163,938,050	148,786,486
Purchased services	41,807,951	39,377,720
Depreciation and amortization	29,071,171	31,409,081
Total operating expenses	513,466,265	494,295,388
Loss from operations	(6,170,586)	(9,409,003)
Nonoperating revenues (expenses)		
Grants, contributions and other	313,206	3,221,208
Gain on disposal of operations	10,853,300	-
Gain on sale of capital assets	39,736	288,157
Interest and investment income, net	1,191,005	804,008
Interest expense	(770,269)	(2,806,369)
Loss on joint venture	(341,542)	-
Debt issuance cost	-	(908,772)
Total nonoperating revenues (expenses)	11,285,436	598,232
Increase (decrease) in net position	5,114,850	(8,810,771)
Net position, beginning of year	263,282,258	272,093,029
Net position, end of year	\$ 268,397,108	\$ 263,282,258

See accompanying notes.

MEMORIAL HOSPITAL AT GULFPORT
 Statements of Cash Flows
 Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Cash received from patients and third-party payors	\$ 511,164,069	\$ 493,348,615
Cash paid to employees	(271,277,119)	(261,666,983)
Cash paid to suppliers	(211,216,850)	(205,125,653)
Cash received from other operating activities	9,055,952	8,904,429
Net cash provided by operating activities	37,726,052	35,460,408
Cash flows from noncapital financing activities		
Noncapital grants and contributions	313,206	3,221,208
Cash flows from capital and related financing activities		
Purchase of capital assets	(17,213,955)	(17,200,641)
Proceeds from sale of operation	10,869,800	-
Proceeds from issuance of bonds	-	67,141,309
Payments on bonds and note payable	(3,986,895)	(74,876,315)
Interest paid on long-term debt	(3,052,465)	(4,613,302)
Debt issuance cost	-	(908,772)
Net cash used in capital and related financing activities	(13,383,515)	(30,457,721)
Cash flows from investing activities		
Maturities and sales of investments	6,534,438	94,250,250
Purchases of investments	(4,497,455)	(98,761,092)
Interest and investment income	1,191,005	804,008
Net cash provided by (used in) investing activities	3,227,988	(3,706,834)
Net increase in cash and cash equivalents	27,883,731	4,517,061
Cash and cash equivalents, beginning of year	56,634,809	52,117,748
Cash and cash equivalents, end of year	\$ 84,518,540	\$ 56,634,809

See accompanying notes.

	2017	2016
Reconciliation of loss from operations to net cash provided by operating activities		
Loss from operations	\$ (6,170,586)	\$ (9,409,003)
Adjustments to reconcile loss from operations to net cash provided by operating activities		
Depreciation and amortization	29,071,171	31,409,081
Provision for bad debts	186,943,330	198,191,379
Changes in		
Patient receivables	(180,843,660)	(184,646,430)
Estimated third-party payor settlements	6,824,672	3,821,710
Inventories	(1,000,396)	(467,228)
Other assets	(610,300)	(1,240,299)
Accounts payable	3,861,048	(5,455,313)
Accrued expenses	(349,227)	3,256,511
Net cash provided by operating activities	<u>\$ 37,726,052</u>	<u>\$ 35,460,408</u>
Reconciliation of cash and cash equivalents		
Cash and cash equivalents in current assets	\$ 55,482,170	\$ 26,885,092
Cash and cash equivalents in noncurrent cash and investments		
Held by Trustee	13,871,362	14,559,611
Internally designated by the Board	15,165,008	15,190,106
Total	<u>\$ 84,518,540</u>	<u>\$ 56,634,809</u>

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

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

Nature of Operations and Reporting Entity

Memorial Hospital at Gulfport (the "Hospital") is an acute-care hospital organized as an enterprise (proprietary) operation. The Hospital provides inpatient, outpatient, rehabilitation and emergency care services primarily for residents of Harrison County and the surrounding area. Admitting physicians are primarily practitioners in the same Mississippi Gulf Coast area. The Hospital is currently licensed to operate approximately 445 inpatient beds.

The Hospital is a joint venture of the City of Gulfport (the "City") and the Gulfport-West Harrison County Hospital District (the "District"). The Hospital operates in the form of a government authority, governed by a Board of Trustees pursuant to Sections 41-13-15 et seq. of Mississippi Code of 1972, as amended, consisting of members from the City and the District. The Hospital is an independent enterprise held and operated separate and apart from all other assets and activities of the City and the District. The Hospital is not a taxable entity and does not file an income tax return. Budgets are prepared on a basis consistent with accounting principles generally accepted in the United States of America with concurrence by the Hospital's Board of Trustees on an annual basis. The Hospital, however, is not required by statute to adopt a legally binding budget. Accordingly, budgetary information is not a required part of these financial statements.

Basis of Accounting

The Hospital prepares its financial statements as a business-type activity in conformity with the applicable pronouncements of the Governmental Accounting Standards Board ("GASB"). The accompanying financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus.

Blended Component Units

The Hospital has five entities that have been, for financial reporting purposes only, presented as blended component units as of September 30, 2017 and 2016 into the Hospital's financial statements. The Hospital exerts control and there is a financial benefit relationship with these entities. All significant intercompany transactions between these five entities and the Hospital have been eliminated. These entities are as follows:

Memorial Hospital Ambulatory Health Services, LLC

Memorial Hospital Ambulatory Health Services, LLC ("MHAHS") is a wholly-owned, nonprofit component unit of the Hospital that holds the Hospital's ownership interest in an independently operated ambulatory surgery center, Gulfport Surgery Center ("GSC"), located on the Hospital's main campus. The Hospital appoints the Board of Directors of GSC.

Select Hospital Corporation

Select Hospital Corporation ("SHC") is a wholly-owned subsidiary of the Hospital that was formed in 1997 for the purpose of holding the Hospital's ownership interest in Mississippi Select Health Care, LLC ("MSHC"), also formed in 1997. MSHC operates as an administrator (non-risk assuming) of the Hospital's employee medical and dental benefit plans.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Medical Foundation of South Mississippi, Inc.

The Medical Foundation of South Mississippi, Inc. (the "Foundation") is a 501(c)(3) tax-exempt entity formed for the purpose of providing medical care to the community of the Mississippi Gulf Coast through the ownership and operation of a number of health clinics. Effective October 1, 2008, all medical services and business operations of the Foundation were assumed by the Hospital. The transactions to sell the tangible assets owned by the Foundation to the Hospital were completed in part by September 30, 2008, with the remainder sold in fiscal year 2009. The Foundation is fiscally dependent upon the Hospital's continuing financial support and could not continue as a going concern without this support.

Memorial Properties, Inc.

Memorial Properties, Inc. ("MPI") is a wholly-owned, nonprofit component unit of the Hospital that assisted in the development of a new medical office building ("MOB") and atrium and parking deck expansion with bridge connections to the Hospital ("APD"). The Hospital appoints the Board of Directors. The Hospital, the City and the District conveyed approximately two acres of land to MPI in order to allow for the development of the MOB and APD. The Hospital has since purchased both the APD and MOB at fair market values in 2002 and 2007, respectively. MOB activities include leasing, build out and rental of available space. In addition, MPI holds the Hospital's equity interest in the HealthSouth Rehabilitation Hospital of Gulfport, LLC ("HS Rehab") joint venture (Note 2).

Memorial Hospital at Gulfport Foundation

Memorial Hospital at Gulfport Foundation ("MHG Foundation") is a nonstock, nonprofit corporation exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. The members of the MHG Foundation Board consist principally of persons selected from the trustees, executive staff and medical staff of the Hospital, as well as local civic leaders and professionals.

The MHG Foundation is organized and operated exclusively for charitable scientific and educational purposes for the benefit of the Hospital. The primary sources of financial support for the MHG Foundation are gifts, grants and contributions from the general public, corporations and charitable organizations.

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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used for, but not limited to contractual allowances for revenue adjustments, allowance for doubtful accounts, net pension liability and depreciable lives of assets.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

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, management's 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 original maturities of three months or less and insignificant risk of changes in value, excluding amounts designated as to use by the Board of Trustees or under trust agreements.

Investments

Investments in debt and equity securities are carried at fair value except for investments in money market investments certificates of deposit and participating interest-earning investment contracts with a remaining maturity of less than one year at the time of purchase. These investments are reported at amortized cost, which approximates fair value. Money market investments are short-term highly liquid instruments including commercial paper, bankers' acceptances and U.S. Treasury and agency obligations. Investment income on investments in debt and equity securities, including realized and unrealized gains and losses, is included in nonoperating revenue when earned.

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 losses 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 Hospital'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.

Restricted Cash and Investments

Restricted cash and investments include assets held by trustees under indenture agreements, assets set aside under the Hospital's self-insured insurance programs, as well as assets designated for future capital improvements. Amounts that are required for obligations classified as current liabilities are reported as current assets, with the excess reported as noncurrent assets.

Inventories

Inventories, which consist primarily of medical supplies and drugs, are stated at average cost, which approximates the lower of cost or market.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Prepaid Expenses

Prepaid expenses are amortized over the estimated period of future benefit, generally on a straight-line basis.

Capital Assets, Net

Capital asset acquisitions are recorded at cost, if purchased, or at fair value at the date of the gift, if donated. The Hospital utilizes a capitalization threshold of \$500. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Except for capital assets acquired through gifts, contributions or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Management evaluates assets for potential impairment when a significant, unexpected decline in the service utility of a capital asset occurs.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until the future period. As of September 30, 2017 and 2016, the Hospital recognized \$8,258,808 and \$1,945,668, respectively, as deferred outflows of resources. In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. As of September 30, 2017 and 2016, the Hospital recognized \$390,924 and \$-0-, respectively, as deferred inflows of resources.

Cost of Borrowing

Costs incurred in connection with the obtaining of financing are expensed when incurred. Premiums or discounts incurred in connection with the issuance of bonds and indentures are amortized over the life of the obligations on the interest method, and the unamortized amount is included in the balance of the outstanding debt.

Pensions

The Hospital uses GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68") on the statements to recognize the net pension liability, deferred outflows and deferred inflows of resources, pension expense, and information about and changes in the fiduciary net position on the same basis as reported by the respective defined benefit pension plans. The Hospital recognizes benefit payments when due and payable in accordance with benefit terms. Investment assets are reported at fair value. More information on pension activity for the Hospital is included in Note 10.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Compensated Absences

The Hospital's policy is to compensate employees for absences due to earned vacation, personal and sick leave. Accumulated vacation, personal and sick pay is accrued as of the statements of net position date as it is payable upon termination of employment.

Net Position

Net position of the Hospital is classified in three components. Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted are those resources that are externally restricted by creditors, grantors, contributors or laws and regulations or those restricted by constitutional provisions and enabling legislation. Unrestricted net position is remaining resources that do not meet the definition of invested in capital assets, net of related debt or restricted.

When both restricted and unrestricted resources are available to finance a particular program, it is the Hospital's policy to use the restricted resources before using the unrestricted resources.

Patient Service Revenues

The Hospital has agreements with third-party payors that provide for payments to the Hospital 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.

The primary third-party programs include Medicare and Medicaid, which account for a significant amount of the Hospital's revenue. The laws and regulations under which Medicare and Medicaid programs operate are complex, and subject to interpretation and frequent changes. As part of operating under these programs, there is a possibility that government authorities may review the Hospital's compliance with these laws and regulations. Such review may result in adjustments to program reimbursement previously received and subject the Hospital to fines and penalties. Although no assurance can be given, management believes it has complied with the requirements of these programs.

Charity Care

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

Grants and Contributions

From time to time, the Hospital receives grants from other governmental entities as well as contributions from individuals and private organizations. Revenues from grants and contributions

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

(including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted either for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues.

Electronic Health Record Incentive Payments

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

The Hospital has and will continue to incur both capital costs and operating expenses in order to implement the certified EHR technology and meet meaningful use requirements in the future. These expenses are ongoing and are projected to continue over all stages of implementation of meaningful use. The timing of recognizing the expenses may not correlate with the receipt of the incentive payments and the recognition of revenues. There can be no assurance that the Hospital will continue to be able to demonstrate meaningful use of certified EHR technology in the future, and the failure to do so could have a material, adverse effect on the results of operations. As a part of operating this program, there is a possibility that government authorities may make adjustments to amounts previously recorded by the Hospital.

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

Operating Revenues and Expenses

The Hospital's statements of revenues, expenses and changes in net position distinguish between operating and nonoperating revenues and expenses.

Operating revenues and expenses result from exchange transactions associated with providing healthcare services, the Hospital's principal activity. Nonexchange revenues, including grants and contributions received, are reported as nonoperating revenues. Revenues and expenses associated with investment income and financing activities are reported as nonoperating revenues and expenses.

Newly Adopted Accounting Standards

Governmental Accounting Standards Board Statement No. 82 ("GASB 82")

The Hospital adopted GASB 82, *Pension Issues- An Amendment of GASB Statements No. 67, No. 68, and No. 73*, in fiscal year 2017. This statement addresses consistency regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (Plan member) contribution requirements. The adoption of GASB 82 did not have a significant impact on the financial statements of the Hospital.

Accounting Pronouncements Issued Not Yet Adopted

Governmental Accounting Standards Board Statement No. 84 ("GASB 84")

The Hospital will adopt GASB 84, *Fiduciary Activities*, in fiscal year 2020 with any changes applied retroactively. This statement is meant to provide guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes. Fiduciary activities meeting certain criteria (i.e. pension and other employee benefit trust funds, investment trust funds, private-purpose trust funds, and custodial funds) will now be reported in a fiduciary fund as part of the basic financial statements. The Hospital is currently assessing the impact of the adoption of this GASB and its effect on the Hospital's financial position or results of operations.

Governmental Accounting Standards Board Statement No. 87 ("GASB 87")

The Hospital will adopt GASB 87, *Leases*, in fiscal year 2021 with any changes applied retroactively. This statement will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. Under this statement all leases are required to be recognized as assets and liabilities with associated deferred inflows and outflows of resources on the financial statements. Furthermore, the statement defines a lease and details the considerations for determining the lease term. The Hospital is currently assessing the impact of the adoption of this GASB and its effect on the Hospital's financial position or results of operations.

Note 2. Disposal of Operations

Effective April 1, 2017, the Hospital entered into an agreement with HealthSouth Gulfport Holdings, LLC ("HSGH"), whereby HSGH purchased the assets of the Hospital's 33-bed inpatient rehabilitation unit and ancillary services provided to the unit's patients. In coordination with the purchase, HS Rehab was created to serve as the owner and operator of the rehabilitation unit. HS Rehab is considered a joint venture between the Hospital and HSGH, in which the Hospital holds an equity interest. During 2017, HS Rehab paid \$450,000 in facility rent to the Hospital, which was recorded in operating revenue. Per the purchase agreement, the Hospital transferred capital and intangible assets, including a related certificate of need, into HS Rehab and received a twenty-percent ownership interest in HS Rehab. The Hospital recognized a gain of \$10,853,300 in non-operating revenues as of the date of sale of the operations. The condensed statements of revenues, expenses and changes in net position as of and for the six month period ended March 31, 2017 and year ended September 30, 2016 for the operations disposed of are detailed below:

	March 31, 2017 (Unaudited)	September 30, 2016 (Unaudited)
Condensed statements of revenues, expenses and changes in net position		
Operating revenues	\$ 4,220,214	\$ 9,613,331
Operating expenses	2,169,384	4,984,312
Increase in net position	\$ 2,050,830	\$ 4,629,019

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 2. Continued

A summary of the unaudited financial position and results of operations for the period April 1, 2017 to September 30, 2017 of HS Rehab is as follows:.

	September 30, 2016 (Unaudited)
Total assets	\$ 12,789,458
Liabilities	\$ 3,170,826
Equity	9,618,632
Total liabilities and equity	\$ 12,789,458
Net loss	\$ (1,366,168)

Note 3. Designated Net Position

Of the \$127,497,887 and \$116,484,852 of unrestricted net position reported at September 30, 2017 and 2016, respectively, \$42,840,461 and \$42,955,782 for 2017 and 2016, respectively, have been designated by the Hospital's Board of Trustees for capital acquisitions. Designated funds remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes.

Note 4. Deposits and Investments

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Hospital's deposits might not be recovered. The collateral for public entities' deposits in financial institutions, is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the Hospital's funds are protected through a collateral pool administered by the State Treasurer.

Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation ("FDIC"). All deposits with financial institutions must be collateralized in an amount equal to 105 percent of uninsured deposits and are therefore fully insured. The bank balance of the collateralized and insured balances was \$56,532,532 and \$31,106,572 at September 30, 2017 and 2016, respectively.

The Hospital also has cash deposits held by a trustee. The use of these funds is restricted for self-insurance related to professional liability and unemployment. The carrying value of these deposits was \$3,238,714 and \$3,223,085 at September 30, 2017 and 2016, respectively.

Investments and Deposits

The statutes of the State of Mississippi restrict the authorized investments of the Hospital to obligations of the U.S. Treasury, agencies and instrumentalities of the United States and certain other types of investments.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 4. Continued

The Hospital's investment policy does not further limit types of investments available to the Hospital. The Hospital's investments and cash equivalents consisted of the following funds at September 30:

	Maturity		2017 Fair Value		2016 Fair Value
Federal Farm Credit Bank - 0.93%	04/13/2018	\$	5,008,121	\$	5,021,071
Federal Farm Credit Bank - 1.07%	03/01/2019		4,964,838		5,010,088
Federal Home Loan Mortgage Corp - .875%	07/27/2018		4,986,606		5,002,656
Federal Home Loan Mortgage Corp - 1.00%	05/25/2018		5,006,061		5,017,361
Federal Home Loan Mortgage Corp - 1.10%	08/23/2018		4,994,603		5,006,653
SEI Daily Income Government II Money Market Fund	Daily		15,154,887		15,180,042
Fidelity Institutional Government Money Market Fund	60 days average		10,121		10,064
Certificates of deposits	Less than 1 year		3,514,480		4,579,066
Certificates of deposits	1 - 5 years		1,384,000		996,000
Certificates of deposits	6 - 10 years		250,000		1,140,000
Certificates of deposits	More than 10 years		-		730,000
Federated Government Obligation Money Market Fund	43 days average		1,034,720		1,762,353
Equity securities			371,760		254,968
Mutual funds			2,843,820		2,603,123
Cash - restricted			12,833,268		12,794,170
Cash - unrestricted			55,482,170		26,885,092
			<u>\$ 117,839,455</u>		<u>\$ 91,992,707</u>

As a means of limiting its exposure to fair value losses arising from interest rates, the Hospital's investment policy provides the following investment maturity guidelines:

Maturity	Maximum Investment
One to three years	50%
Three to ten years	25%
More than ten years	25%

As of September 30, 2017, the Hospital's nongovernmental investments were rated as follows:

	Rating	Source	Market Value
Federated Government Obligation Money Market Fund	AAAm	Standard & Poor's	\$ 1,034,720
SEI Daily Income Government II Money Market Fund	Aaa	Moody's	15,154,887
Fidelity Institutional Government Money Market Fund	AAAm	Standard & Poor's	<u>10,121</u>
Total			<u>\$ 16,199,728</u>

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 4. Continued

As of September 30, the Hospital's noncurrent cash and investments internally designated by the Board for plant replacement and expansion are as follows:

	2017	2016
SEI Daily Income Government II Money Market Fund	\$ 15,154,887	\$ 15,180,042
Fidelity Institutional Government Money Market Fund	10,121	10,064
Total cash equivalents	15,165,008	15,190,106
Total investments	27,675,453	27,765,676
Total internally designated by Board	<u>\$ 42,840,461</u>	<u>\$ 42,955,782</u>

The carrying amounts of deposits and investments shown above are included in the Hospital's statements of net position as follows at September 30:

	2017	2016
Cash and cash equivalents	\$ 55,482,170	\$ 26,885,092
Current restricted cash and investments		
Held by trustee under indenture agreements for debt service	211	22,066
Held by trustee for self-insurance fund	3,238,714	3,223,085
Total current restricted cash and investments	<u>3,238,925</u>	<u>3,245,151</u>
Noncurrent cash and investments		
Investments	2,148,644	4,452,893
Restricted investments by contributors and grantors	2,005,560	1,673,071
Internally designated by the Board for plant replacement and expansion	42,840,461	42,955,782
Held by trustee under indenture agreements for debt service	10,632,437	11,314,460
Principal of permanent endowments	1,491,258	1,466,258
Total noncurrent cash and investments	<u>59,118,360</u>	<u>61,862,464</u>
Total	<u>\$ 117,839,455</u>	<u>\$ 91,992,707</u>

Note 5. Fair Value Measurement

The Hospital holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the Hospital's mission, the Hospital determined that the disclosures related to these investments only need to be disaggregated by major type. The Hospital elected a narrative format for the fair value disclosures.

The Hospital categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 5. Continued

The Hospital has the following recurring fair value measurements:

- Equity securities and mutual funds of \$3,215,580 and \$2,858,091 as of September 30, 2017 and 2016, respectively, are valued using prices quoted in active markets for those securities (Level 1 inputs).
- Government agency bond obligations of \$24,960,229 and \$25,057,829 as of September 30, 2017 and 2016, respectively, are valued using significant other observable inputs for those securities (Level 2 inputs)

Note 6. Capital Assets, Net

A summary of capital assets, net, at September 30 is set forth below:

	Estimated Useful Lives	2017	2016
Land	-	\$ 7,121,386	\$ 7,121,386
Land improvements	1-25	5,046,349	4,961,904
Building and improvements	1-40	231,009,645	209,387,883
Fixed equipment	3-30	99,735,813	96,367,748
Major moveable equipment	1-25	236,463,546	223,483,470
Deposits on equipment	-	-	3,693
Total		579,376,739	541,326,084
Less accumulated depreciation and amortization		391,475,076	365,007,833
		187,901,663	176,318,251
Construction in progress		2,822,975	25,467,765
Capital assets, net		<u>\$ 190,724,638</u>	<u>\$ 201,786,016</u>

Depreciation expense for the year ended September 30, 2017 and 2016 totaled \$28,894,689 and \$31,302,570, respectively. Interest capitalized and included in construction in progress during the year ended September 30, 2017 and 2016, totaled \$635,856 and \$806,531, respectively. Construction commitments at September 30, 2017 totaled \$2,407,331.

Capital assets activity for the year ended September 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 7,121,386	\$ -	\$ -	\$ 7,121,386
Deposits on equipment	3,693	-	(3,693)	-
Construction in progress	25,467,765	9,516,821	(32,161,611)	2,822,975
Total capital assets not being depreciated	<u>32,592,844</u>	<u>9,516,821</u>	<u>(32,165,304)</u>	<u>9,944,361</u>
Other capital assets				
Land improvements	4,961,904	84,445	-	5,046,349
Building and improvements	209,387,883	21,621,762	-	231,009,645

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 6. Continued

	Beginning Balance	Increases	Decreases	Ending Balance
Fixed equipment	\$ 96,367,748	\$ 3,418,450	\$ (50,385)	\$ 99,735,813
Major moveable equipment	223,483,470	15,340,637	(2,360,561)	236,463,546
Total other capital assets at historical cost	534,201,005	40,465,294	(2,410,946)	572,255,353
Less accumulated depreciation for:				
Land improvements	4,575,035	204,625	-	4,779,660
Building and improvements	115,756,808	8,512,171	-	124,268,979
Fixed equipment	69,892,559	3,193,535	(50,385)	73,035,709
Major moveable equipment	174,783,431	16,984,358	(2,377,061)	189,390,728
Total accumulated depreciation	365,007,833	28,894,689	(2,427,446)	391,475,076
Depreciable capital assets, net	169,193,172	11,570,605	16,500	180,780,277
Total capital assets, net	\$ 201,786,016	\$ 21,087,426	\$ (32,148,804)	\$ 190,724,638

Capital assets activity for the year ended September 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 7,121,386	\$ -	\$ -	\$ 7,121,386
Deposits on equipment	3,693	-	-	3,693
Construction in progress	60,488,690	11,748,827	(46,769,752)	25,467,765
Total capital assets not being depreciated	67,613,769	11,748,827	(46,769,752)	32,592,844
Other capital assets				
Land improvements	4,947,427	14,477	-	4,961,904
Building and improvements	173,858,962	35,550,702	(21,781)	209,387,883
Fixed equipment	86,257,239	10,110,509	-	96,367,748
Major moveable equipment	218,005,481	7,352,409	(1,874,420)	223,483,470
Total other capital assets at historical cost	483,069,109	53,028,097	(1,896,201)	534,201,005
Less accumulated depreciation for:				
Land improvements	4,377,366	197,669	-	4,575,035
Building and improvements	105,451,402	10,589,653	(284,247)	115,756,808
Fixed equipment	66,503,283	3,628,108	(238,832)	69,892,559
Major moveable equipment	159,141,932	16,887,140	(1,245,641)	174,783,431
Total accumulated depreciation	335,473,983	31,302,570	(1,768,720)	365,007,833
Depreciable capital assets, net	147,595,126	21,725,527	(127,481)	169,193,172
Total capital assets, net	\$ 215,208,895	\$ 33,474,354	\$ (46,897,233)	\$ 201,786,016

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 7. Endowments

The MHG Foundation follows the provisions of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). In the absence of donor restrictions, the net appreciation on a donor restricted endowment fund is spendable under UPMIFA. The MHG Foundation's donors have not placed restrictions on the use of the investment income or net appreciation resulting from the donor-restricted endowment funds.

The MHG Foundation Board of Trustees has determined that the majority of the MHG Foundation's contributions are subject to the terms of its governing documents. Certain contributions are received subject to other gift instruments, or are subject to specific agreements with the MHG Foundation. Under the terms of the MHG Foundation's governing documents and UPMIFA, the MHG Foundation Board of Trustees has the ability to distribute so much of the original principal of any trust or separate gift, devise, bequest or fund as the Board, in its sole discretion, shall determine to be prudent.

The MHG Foundation implements investing activities for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of these endowment assets over the long-term. The primary goal is to preserve the real value of the endowment corpus by achieving a growth rate on the principal amount of the endowment cycle of not less than the rate of inflation as measured by the CPI. The secondary goal is to provide spendable income equivalent to the spending rate.

The MHG Foundation Board of Trustees chooses to spend only a portion of the investment income (including changes in the value of investments) each year. The current spending policy is to distribute 3 to 5 percent of endowment earnings. This is consistent with the MHG Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through investment return.

Endowment net position composition by type of fund as of September 30, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowment funds	\$ -	\$ 1,002,212	\$ 1,491,258	\$ 2,493,470

Changes in endowment net position as of September 30, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net position, beginning of year	\$ -	\$ 798,644	\$ 1,466,258	\$ 2,264,902
Contributions	-	-	25,000	25,000
Investment income	-	203,568	-	203,568
Endowment net position, end of year	\$ -	\$ 1,002,212	\$ 1,491,258	\$ 2,493,470

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 7. Continued

Endowment net position composition by type of fund as of September 30, 2016 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowment funds	\$ -	\$ 798,644	\$ 1,466,258	\$ 2,264,902

Changes in endowment net position as of September 30, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net position, beginning of year	\$ -	\$ 644,888	\$ 1,366,258	\$ 2,011,146
Contributions	-	-	100,000	100,000
Investment income	-	153,756	-	153,756
Endowment net position, end of year	\$ -	\$ 798,644	\$ 1,466,258	\$ 2,264,902

Note 8. Long-Term Debt

A summary of long-term debt at September 30 follows:

	2017	2016
Series 2015A Hospital Revenue Bonds, a rate of 1.5 percent, interest payable semi-annually, maturing in July 2018 collateralized by a pledge of the Hospital's revenues.	\$ 3,027,841	\$ 5,879,872
Series 2016A Hospital Revenue Refunding Bonds, a rate of 5 percent, interest payable semi-annually, maturing in 2031, collateralized by a pledge of the Hospital's revenues.	49,270,000	49,270,000
Note payable with no stated interest rate, payable annually, maturing in 2023, collateralized by the Hospital's capital assets (Note 9).	7,346,973	8,481,837
	59,644,814	63,631,709
Less current maturities	(3,511,295)	(3,986,895)
Unamortized bond premium	7,243,406	8,884,274
Long-term debt, less current maturities	\$ 63,376,925	\$ 68,529,088

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 8. Continued

Scheduled repayments on long-term debt are as follows:

Year Ending September 30,	Interest	Principal
2018	\$ 2,942,682	\$ 3,511,295
2019	2,868,721	4,968,947
2020	2,600,486	4,760,438
2021	2,345,827	4,295,685
2022	2,119,917	4,164,139
2023 - 2027	7,583,176	19,339,310
2028 - 2031	2,382,250	18,605,000
Total	<u>\$ 22,843,059</u>	<u>\$ 59,644,814</u>

On November 5, 2015, the Hospital refunded the City of Gulfport, Mississippi, Hospital Revenue Refunding and Improvement Bonds Series 1994A in the amount of \$8,560,000, with interest rates ranging from 5.8 to 6.2 percent, through the issuance of a City of Gulfport, Mississippi, Hospital Revenue Refunding Bond, Series 2015A ("Series 2015A") in the original principal amount of \$8,560,000 with an interest rate of 1.5 percent. The Hospital in effect reduced its aggregate debt service payments and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$3,491,692.

On June 2, 2016, the Hospital refunded the City of Gulfport, Mississippi, Hospital Revenue Bonds Series 2001 in the amount of \$60,000,000, with interest rates ranging from 5.5 percent to 5.8 percent, through the issuance of the City of Gulfport, Mississippi, Hospital Revenue Refunding Bonds Series 2016 ("Series 2016") in the amount of \$49,270,000 with an interest rate of 5 percent, maturing in 2031. The Series 2016 Bonds were issued with a premium of approximately \$9,311,309 that will be amortized over the term of the bonds. The Hospital in effect reduced its aggregate debt service payments and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$17,491,263. The Hospital incurred debt issuance costs associated with the Series 2016 Bonds in the amount of \$908,772. This amount was expensed as a non-operating expense in the statements of revenues, expenses and changes in net position as of September 30, 2016.

A summary of interest cost on borrowed funds and interest income on funds held by trustees at September 30 follows:

	2017	2016
Interest paid on long-term debt	\$ 3,052,465	\$ 4,613,302
Capitalized	(635,856)	(806,531)
Amortized bond (premium) discount	(1,640,868)	30,837
Other changes in accruals	(5,472)	(1,031,239)
Interest expense	<u>\$ 770,269</u>	<u>\$ 2,806,369</u>
Interest income	<u>\$ 36,055</u>	<u>\$ 15,455</u>

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 8. Continued

Long-term debt activity for the year ended September 30, 2017 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Bonds and note payable					
Revenue bonds	\$ 55,149,872	-	\$ (2,852,031)	\$ 52,297,841	\$ 3,027,841
Premium on bonds	8,884,274	-	(1,640,868)	7,243,406	-
Note payable	8,481,837	-	(1,134,864)	7,346,973	483,454
Total long-term debt	<u>\$ 72,515,983</u>	<u>-</u>	<u>\$ (5,627,763)</u>	<u>\$ 66,888,220</u>	<u>\$ 3,511,295</u>

Long-term debt activity for the year ended September 30, 2016 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Bonds and note payable					
Revenue bonds	\$ 70,955,000	\$ 57,830,000	\$(73,635,128)	\$ 55,149,872	\$ 2,852,031
Premium (discount) on bonds	(457,872)	9,311,309	30,837	8,884,274	-
Note payable	9,723,024	-	(1,241,187)	8,481,837	1,134,864
Total long-term debt	<u>\$ 80,220,152</u>	<u>\$ 67,141,309</u>	<u>\$ (74,845,478)</u>	<u>\$ 72,515,983</u>	<u>\$ 3,986,895</u>

Under the terms of the bond indenture for the revenue refunding bonds, the Hospital is required to maintain deposits with a trustee. The bond indenture also requires that the Hospital satisfy certain measures of financial performance as long as the bonds are outstanding. Under the most restrictive covenants under the bond indenture, the Hospital is required to maintain certain debt service coverage ratios. For the years ended September 30, 2017 and 2016, the Hospital was in compliance with such covenants.

Note 9. Information Technology Contract

The Hospital entered into a ten-year equipment, software and services agreement with a major information technology vendor. The agreement generally commits the Hospital to the purchase of a variety of information technology products and services from this vendor for a defined payment stream over the term of the contract. The contract included a ten-year financing agreement for certain equipment, software licenses and support fees totaling \$17,401,754, maturing in 2023, and is included in note payable in the accompanying financial statements. Software maintenance expense associated with this contract of \$4,171,337 and \$4,171,044 was recognized for the years ended September 30, 2017 and 2016, respectively.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 9. Continued

The following table summarizes the future payment commitments by year under the contract pertaining to fees, subscriptions and other related services, as of September 30, 2017. The Hospital has the ability under the contract to terminate these services on six months' notice and a termination fee, as defined in the contract.

	Capitalized Software Costs Obligation
2018	\$ 4,199,845
2019	4,208,121
2020	4,225,501
2021	4,244,619
2022	4,265,648
Thereafter	4,266,552
Total commitment	\$ 25,410,286

Note 10. Retirement Plans

The Hospital has established the Memorial Hospital at Gulfport Retirement Plan (the "Plan"), a contributory defined benefit pension plan. The Hospital elected to freeze the Plan to new entrants as of January 1, 2012. Information about the Plan follows:

Plan Description

The Plan is a single-employer defined benefit public employee retirement system plan, administered by the Director of the Hospital's Department of Human Resources. The Plan provides retirement, disability and death benefits to Plan members and beneficiaries. Benefit provisions are established by the Hospital's Board of Trustees. The Plan issues a financial report, available for all participants, that includes financial statements and required supplementary information. That information may be obtained by writing to Human Resources, Memorial Hospital, P.O. Box 1810, Gulfport, MS, 39501.

Benefits Provided

Plan participating members who are vested and retire at or after age 65 or those who retire at age 55 with at least 25 years of creditable service are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 1.00 percent of their average monthly earnings up to \$3,333, plus 1.5 percent of average monthly earnings in excess of \$3,333, multiplied by years of continuous services to a maximum of 25 years. Average compensation is the average of the employee's earnings for the highest 60 consecutive calendar months' earnings out of 120 months preceding retirement or termination, limited as required by Internal Revenue Code section 401(a)(17). A member may elect a reduced retirement benefit at age 55 with at least 10 years of consecutive service. Benefits vest upon completion of 5 years of continuous service. The Plan also provides certain death and disability benefits.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 10. Continued

Employees Covered by Benefit Terms

The following employees were covered by the benefit terms, as of the October 1 valuation date as follows:

	2016	2014
Active members	1,563	1,801
Active members with benefits suspended	161	111
Terminated vested members	228	231
Members in pay status	270	196
Total	2,222	2,339

Contributions

Members of the Plan are not required or permitted to contribute any portion of their salary to fund the Plan. The Hospital has committed to fund an actuarially determined contribution based on a closed amortization period, which means that payment of the actuarially determined contribution each year will bring the Plan to a 100 percent funded position by the end of the amortization period.

Net Pension Liability

At September 30, 2017 and 2016, the Hospital reported a net pension liability of \$45,790,489 and \$40,011,485, respectively. The net pension liability was measured as of September 30, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2016 and 2014, respectively. The Hospital's net pension liability was based on a projection of the Hospital's long-term share of contributions to the pension plan, actuarially determined.

For the years ended September 30, 2017 and 2016, the Hospital recognized pension expense of \$10,699,579 and \$10,029,726, respectively.

Certain changes in actuarial assumptions impacted 2017 deferred outflows including:

- The mortality table was changed from RP-2000 Mortality Table with separate tables for annuitants and non-annuitants projected with Scale AA to 2016 with additional 7 year and 15 year projections for Annuitants and Non-annuitants, respectively, for males and females to RP-2000 Mortality Table with generational projections using Scale AA for males and females;
- The net investment yield was changed from 7.0 to 6.5 percent;
- The consumer price index was changed from 2.7 to 2.6 percent;
- The salary scale was revised from 4.0 percent to a phased-in salary scale, whereby, the salary increases 2.0 percent for plan years prior to 2018, 3.0 percent for 2018 and 4.0 percent thereafter;
- Assumptions regarding the withdrawal and retirement of active participants were changed; and,
- Assumptions regarding the elected form of payment for future retirement and termination benefits were changed.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 10. Continued

Certain changes in actuarial assumptions impacted 2016 deferred outflows including: the mortality improvement from the valuation date to the measurement date; as such, a 0.2 percent liability load was added to the RP-2000 Mortality Table used prior to 2016.

The changes of assumptions are being amortized over a closed period of 6.08 and 6.84 for the years ended September 30, 2017 and 2016, respectively. The difference between expected and actual experience related to economic and demographic assumptions is being amortized over a closed period of 6.08 for the year ended September 30, 2017. Differences between projected and actual earnings on pension plan investments are amortized over a closed period of 5 years.

At September 30, 2017 and 2016, the Hospital reported deferred outflows and inflows of resources related to pensions from the following sources:

	2017	2016
Deferred outflows of resources		
Changes of assumptions	\$ 3,290,366	\$ 244,284
Net difference between projected and actual earnings on pension plan investments	-	1,329,523
Differences between expected and actual experience on economic/demographic assumptions	4,665,261	-
Total deferred outflows of resources	\$ 7,955,627	\$ 1,573,807
Deferred inflows of resources		
Net difference between projected and actual earnings on pension plan investments	\$ 390,924	\$ -

Deferred outflows and inflows of resources related to pensions will be recognized as pension expense as follows:

Year ending September 30,

2018	\$ 1,826,764
2019	1,826,766
2020	952,021
2021	1,275,697
2022	1,561,353
Thereafter	122,102
Total	\$ 7,564,703

Actuarial Assumptions

The total pension liability in the September 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Net investment yield	6.50 percent, reflects inflation
Inflation	2.60 percent
Salary increases	2.00 percent for plan years prior to 2018, 3.00 percent for 2018, and 4.00 percent thereafter

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 10. Continued

Mortality rates were based on the RP-2000 Mortality Table with generational projections using Scale AA for males or females.

The Plan's valuation assumptions are based on actuarial experience studies performed as of July 2017.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future rate of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The net pension liability activity for the year ended September 30, 2017 and 2016 was as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances as of October 1, 2015	\$ 133,983,341	\$ 91,342,862	\$ 42,640,479
Changes for the year:			
Service cost	6,037,324	-	6,037,324
Interest on total pension liability	9,561,477	-	9,561,477
Change in assumptions/inputs	286,113	-	286,113
Benefit payments	(6,974,244)	(6,974,244)	-
Employer contributions	-	10,733,545	(10,733,545)
Net investment income	-	7,780,363	(7,780,363)
Balances as of September 30, 2016	142,894,011	102,882,526	40,011,485
Changes for the year:			
Service cost	5,693,697	-	5,693,697
Interest on total pension liability	10,130,465	-	10,130,465
Economic/demographic loss	5,583,619	-	5,583,619
Change in assumptions/inputs	3,695,767	-	3,695,767
Benefit payments	(7,866,611)	(7,866,611)	-
Employer contributions	-	10,911,471	(10,911,471)
Net investment income	-	8,413,073	(8,413,073)
Balances as of September 30, 2017	\$ 160,130,948	\$ 114,340,459	\$ 45,790,489

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 10. Continued

Sensitivity Analysis

The following presents the net pension liability of the Hospital, calculated using the discount rate of 6.50 percent, as well as what the Hospital's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate.

	1% Decrease 5.50%	Current Discount Rate 6.50%	1% Increase 7.50%
2017	\$ 61,741,597	\$ 45,790,489	\$ 32,031,694

Discount Rate

The discount rate used to measure the total pension liability was 6.50 and 7.50 percent as of September 30, 2017 and 2016, respectively. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at the current contribution rate and that contributions from the Hospital will be made at contractually required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to always be sufficient to cover benefit payments and administrative expense. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Cash	1%	0.32%
US Short Bonds	18%	1.26%
US Interm Bonds	15%	1.70%
US Long Bonds	4%	2.70%
US Inflation-Indexed Bonds	5%	1.41%
US High Yield Bonds	5%	4.90%
Non-US Bonds	1%	0.32%
US Small Caps	2%	5.84%
US Mid Caps	5%	5.14%
US Large Growth	15%	5.27%
US Large Value	5%	4.43%
Foreign Developed Equity	7%	5.85%
Emerging Markets Equity	10%	8.21%
US REITs	7%	5.01%
Total	<u>100%</u>	

Defined Contribution Plan

The Hospital sponsors a defined contribution plan qualified under Section 403b of the Internal Revenue Code (the "403b Plan"). Under the provisions of the 403b Plan, employees may contribute up to 100 percent of their annual compensation, as defined. Effective beginning January 1, 2010,

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 10. Continued

the Hospital matches contributions up to 50 percent of the first 3 percent of an employee's contribution. Effective beginning January 1, 2011, the Hospital stopped matching the employee's contribution, with the exception of physicians. The Hospital's matching contributions totaled \$1,350,459 and \$1,000,170 for the years ended September 30, 2017 and 2016, respectively.

Note 11. Insurance Programs

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; medical malpractice; errors and omissions; employee injuries and illnesses; natural disasters and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters, or the Hospital is self-insured, as noted below.

Self-Funded Health Insurance

The Hospital is self-insured for employee medical and dental benefits. Employees have 3 options with varying benefits in relation to these plans for which the general terms are detailed in the plan documents. The Hospital purchases reinsurance coverage which limits the aggregate claim losses per employee. Employees participate in this plan, and the Hospital makes premium payments based on actuarial estimates of the amount needed to pay prior and current year claims and to establish a reserve for catastrophic losses.

The Hospital records a liability for claims incurred but not reported or paid. This liability at September 30, 2017 and 2016 is based on the requirements of GASB Statement No. 10, which requires that liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the Hospital's claims liability amount as of September 30:

		Medical and Dental			
		(Beginning) October 1, Claims Liability	Current Year Claims and Changes in Estimates	Current Year Claim Payments	(Ended) September 30, Claims Liability
2016	\$	1,476,868	\$ 12,721,174	\$ (12,485,408)	\$ 1,712,634
2017	\$	1,712,634	\$ 12,231,259	\$ (12,608,964)	\$ 1,334,929

The Hospital also has a self-insured workers' compensation program defined by the Workers' Compensation Law for employees injured in the course and scope of employment. The Hospital retains the first \$250,000 of incurred liability with the excess insurance being provided on unlimited basis over and above the self-insured retention. Changes in the Hospital's incurred but not reported claims liability amount as of September 30:

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 11. Continued

Workers' Compensation								
		(Beginning) October 1, Claims Liability		Current Year Claims and Changes in Estimates		Current Year Claim Payments		(Ended) September 30 Claims Liability
2016	\$	2,338,758	\$	2,927,687	\$	(890,503)	\$	4,375,942
2017	\$	4,375,942	\$	979,350	\$	(1,759,323)	\$	3,595,969

Medical Malpractice Insurance

The Hospital holds professional and general liability insurance under a self-funded plan. At year-end, the Hospital has accrued for an estimate of losses for malpractice and general liability claims outstanding, based on historical loss and loss adjustment expense development patterns. The future assertion of claims for occurrences prior to year-end is reasonably possible and may occur, although not anticipated. In any event, management believes that any such claims would be substantially covered under its insurance program.

The Mississippi Tort Claims Act ("MTCA") provides a cap on the amount of damages recoverable against government entities, including governmental hospitals. The amount recoverable for claims is the greater of \$500,000 or the amount of liability insurance coverage that has been retained. Changes in the Hospital's medical malpractice liability amount as of September 30:

Medical Malpractice								
		(Beginning) October 1,		Current Year Changes & Estimates		Current Year Claim Payments		(Ended) September 30, Liability
2016	\$	2,936,585	\$	215,031	\$	(1,217,144)	\$	1,934,472
2017	\$	1,934,472	\$	1,386,420	\$	(1,417,870)	\$	1,903,022

Note 12. Net Position

Invested in capital assets, net of related debt, were as follows at September 30:

	2017	2016
Capital assets	\$ 582,199,714	\$ 566,793,849
Less accumulated depreciation	(391,475,076)	(365,007,833)
Less debt outstanding related to capital assets	(66,888,220)	(72,515,983)
Invested in capital assets, net of related debt	\$ 123,836,418	\$ 129,270,033

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 13. Patient Service Revenue

The Hospital has agreements with governmental and other third-party payors that provide for payments to the Hospital for services rendered at amounts different from its established rates. Patient revenue is reported net of contractual adjustments arising from these third-party arrangements, as well as net of provisions for uncollectible accounts. A summary of the payment arrangements with major third-party payors follows:

Medicare

Inpatient acute, rehabilitation and outpatient services rendered to Medicare beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, outcome and other factors. Medicare bad debts and disproportionate share payments are paid at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon the Ambulatory Payment Classification ("APC") system for outpatient payments and an APR-DRG system for inpatient payment.

The Hospital participates in the Medicaid Disproportionate Share Hospital ("DSH") program. Under this program, the Hospital receives enhanced reimbursement through a matching mechanism. For the fiscal years ended September 30, 2017 and 2016, the Hospital reported \$27,209,164 and \$21,639,121, respectively, in enhanced reimbursement through the DSH program.

The Hospital participates in the Division of Medicaid ("DOM") Mississippi Hospital Access Payment ("MHAP") program (the "MHAP Program"). The MHAP program is administered by the DOM through the Mississippi CAN coordinated care organizations ("CCO"). The CCO's will subcontract with the Hospitals throughout the state for distribution of the MHAP for the purpose of protecting patient access to hospital care. The MHAP programs and associated tax were distributed and collected in seven equal installments during the months of December 2016 through June 2017. For the fiscal years ended September 30, 2017 and 2016, the Hospital reported \$22,137,756 and \$22,187,556, respectively, in enhanced reimbursement from the MHAP program.

DSH and MHAP amounts are recorded as a reduction of contractual adjustments with related assessments of \$12,769,363 and \$12,769,951 recorded in operating expenses for the years ended September 30, 2017 and 2016, respectively.

Revenue from the Medicare and Medicaid programs accounted for approximately 55.1 percent and 11.7 percent, respectively, of the Hospital's gross patient revenue for the year ended September 30, 2017, and 52.8 percent and 13.2 percent, respectively, of the Hospital's gross patient revenue for the year ended September 30, 2016. 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. The 2017 and 2016 net patient service revenue decreased \$3,131,000 and increased \$807,570, respectively, due to adjustments in excess of amounts previously estimated. As of September 30, 2017, cost reports for fiscal years 2014 and prior have been settled.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 13. Continued

Other

The Hospital has also entered into payment agreements with certain other commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates and discounts from established charges.

A summary of patient service revenue as of September 30 follows:

	<u>2017</u>	<u>2016</u>
Gross patient service revenue	\$ 3,703,670,967	\$ 3,282,305,357
Less provisions for		
Contractual adjustments under third-party reimbursement programs and managed care contract	3,018,487,910	2,608,132,022
Uncollectible accounts	186,943,330	198,191,379
Net patient service revenue	<u>\$ 498,239,727</u>	<u>\$ 475,981,956</u>

Note 14. Charity Care

The Hospital 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 cost of those services and supplies and equivalent service statistics. The direct and indirect costs associated with these services cannot be identified to specific charity care patients. Therefore, management estimated the costs of these services by calculating a cost to gross charge ratio and multiplying it by the charges associated with services provided to patients meeting the Hospital's charity care guidelines. Costs incurred for charity care, based on the cost to charge ratio, were approximately \$8,814,616 and \$12,798,455 as of the years ended September 30, 2017 and 2016, respectively.

The Hospital also provides healthcare services to a significant portion of the uninsured and underinsured population in the surrounding community. While a portion of these patients may ultimately qualify for coverage under the Medicaid program or the financial assistance policy discussed above, the Hospital often admits a number of patients with the expectation/realization that it will likely be unable to collect a significant portion of these accounts.

Note 15. Concentrations of Credit Risk

Accounts Receivable

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The percentage mix of gross accounts receivable from patients and major third-party payors at September 30 was as follows:

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 15. Continued

	2017	2016
Medicare	33.48%	29.28%
Medicaid	9.76	11.38
Commercial insurance	29.95	29.97
Private pay	19.60	25.15
Other	7.21	4.22
Total	100.00%	100.00%

Note 16. Investment in Blended Component Units

Medical Foundation of South Mississippi, Inc.

The Foundation is a legally separate, tax-exempt component of the Hospital. Because the Foundation is considered to be a blended component unit of the Hospital, its financial activity is included in the Hospital's financial activity on the accompanying consolidated financial statements. The condensed statements of net position, condensed statements of revenues, expenses and changes in net position and the condensed statements of cash flows as of and for the years ended September 30, 2017 and 2016 are detailed below:

Memorial Hospital Ambulatory Health Services, LLC

MHAHS is a wholly-owned, nonprofit component unit of the Hospital. Because MHAHS is considered to be a blended component unit of the Hospital, its financial activity is included in the Hospital's financial activity on the accompanying consolidated financial statements. The condensed statements of net position, condensed statements of revenues, expenses and changes in net position and the condensed statements of cash flows as of and for the years ended September 30, 2017 and 2016 are detailed below:

Memorial Properties, Inc.

MPI is a wholly-owned, nonprofit component unit of the Hospital. Because MPI is considered to be a blended component unit of the Hospital, its financial activity is included in the Hospital's financial activity on the accompanying consolidated financial statements. The condensed statements of net position, condensed statements of revenues, expenses and changes in net position and the condensed statements of cash flows as of and for the years ended September 30, 2017 and 2016 are detailed below:

Select Hospital Corporation

SHC is a wholly-owned component unit of the Hospital. Because the SHC is a blended component unit of the Hospital, its financial activity is included in the Hospital's financial activity on the accompanying consolidated financial statements. The condensed statements of net position, condensed statements of revenues, expenses and changes in net position and the condensed statements of cash flows as of and for the years ended September 30, 2017 and 2016 are detailed below:

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 16. Continued

Memorial Hospital at Gulfport Foundation

MHG Foundation is a legally separate component unit of the Hospital. Because MHG Foundation is a blended component unit of the Hospital, its financial activity is included in the Hospital's financial activity on the accompanying consolidated financial statements. The condensed statements of net position, condensed statements of revenues, expenses and changes in net position and the condensed statements of cash flows as of and for the years ended September 30, 2017 and 2016 are detailed below:

	2017				
	MFSM	MHAHS	MPI	SHC	MF
Condensed Statements of Net Position					
Assets					
Current assets	\$ 21,642	\$ 1,404,193	\$ 633,431	\$ 3,682,953	\$ 2,262,478
Capital assets	-	-	1,528,100	281,308	165,000
Noncurrent cash and investments	-	-	5,104,658	2,148,644	1,560,374
Total assets	21,642	1,404,193	7,266,189	6,112,905	3,987,852
Liabilities					
Current liabilities	-	-	1,277,563	321,311	5,414
Due to the Hospital	36,750,237	941,500	4,478,590	-	-
Total liabilities	36,750,237	941,500	5,756,153	321,311	5,414
Net position					
Invested in capital assets	-	-	1,528,100	281,308	165,000
Restricted expendable	-	-	-	-	1,535,183
Nonexpendable permanent endowments	-	-	-	-	1,491,258
Unrestricted equity (deficit)	(36,728,595)	462,693	(18,064)	5,510,286	790,997
Total net position	\$(36,728,595)	\$ 462,693	\$ 1,510,036	\$ 5,791,594	\$ 3,982,438
Condensed Statements of Revenues, Expenses and Changes in Net Position					
Operating revenues	\$ -	\$ -	\$ -	\$ 2,400,672	\$ -
Operating expenses	141	-	-	2,257,609	609,525
Total operating revenues (expenses)	(141)	-	-	143,063	(609,525)
Nonoperating income (loss)	-	2,270	(318,202)	86,713	895,649
Increase (decrease) in net position	(141)	2,270	(318,202)	229,776	286,124
Joint venture contribution to equity	-	-	2,746,200	-	-
Net position, beginning of year	(36,728,454)	460,423	(917,962)	5,561,818	3,696,314
Net position, end of year	\$(36,728,595)	\$ 462,693	\$ 1,510,036	\$ 5,791,594	\$ 3,982,438
Condensed Statements of Cash Flows					
Cash provided by (used in) operating activities	\$ (141)	\$ -	\$ -	\$ 313,638	\$ (611,207)
Cash provided by investing activities	-	2,270	20,777	86,713	565,461

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 16. Continued

	2017				
	MFSM	MHAHS	MPI	SHC	MF
Increase (decrease) in cash and cash equivalents	\$ (141)	\$ 2,270	\$ 20,777	\$ 400,351	(45,746)
Cash and cash equivalents, beginning of year	21,783	1,344,190	3,307,294	4,936,792	183,197
Cash and cash equivalents, end of year	\$ 21,642	\$ 1,346,460	\$ 3,328,071	\$ 5,337,143	\$ 137,451

	2016				
	MFSM	MHAHS	MPI	SHC	MF
Condensed Statements of Net Position					
Assets					
Current assets	\$ 21,783	\$ 1,401,923	\$ 610,091	\$ 991,771	\$ 1,984,827
Capital assets	-	-	1,528,100	376,284	165,000
Noncurrent cash and investments	-	-	2,700,000	4,452,893	1,556,383
Total assets	21,783	1,401,923	4,838,191	5,820,948	3,706,210
Liabilities					
Current liabilities	-	-	1,277,563	259,130	9,896
Due to the Hospital	36,750,237	941,500	4,478,590	-	-
Total liabilities	36,750,237	941,500	5,756,153	259,130	9,896
Net position					
Invested in capital assets	-	-	1,528,100	376,284	165,000
Restricted expendable	-	-	-	-	1,336,504
Nonexpendable permanent endowments	-	-	-	-	1,466,258
Unrestricted equity (deficit)	(36,728,454)	460,423	(2,446,062)	5,185,534	728,552
Total net position	\$(36,728,454)	\$ 460,423	\$ (917,962)	\$ 5,561,818	\$ 3,696,314

Condensed Statements of Revenues, Expenses and Changes in Net Position

Operating revenues	\$ -	\$ -	\$ -	\$ 2,630,686	\$ -
Operating expenses	665	-	885	2,424,316	526,738
Total operating revenues (expenses)	(665)	-	(885)	206,370	(526,738)
Nonoperating income	-	135	21,057	66,236	748,150
Increase (decrease) in net position	(665)	135	20,172	272,606	221,412
Net position, beginning of year	(36,727,789)	460,288	(938,134)	5,289,212	3,474,902
Net position, end of year	\$(36,728,454)	\$ 460,423	\$ (917,962)	\$ 5,561,818	\$ 3,696,314

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 16. Continued

	2016				
	MFSM	MHAHS	MPI	SHC	MF
Condensed Statements of Cash Flows					
Cash provided by (used in) operating activities	\$ (665)	\$ -	\$ (885)	\$ 39,994	\$ (523,538)
Cash provided by (used in) investing activities	-	135	36,310	66,236	469,394
Increase (decrease) in cash and cash equivalents	(665)	135	35,425	106,230	(54,144)
Cash and cash equivalents, beginning of year	22,448	1,344,055	3,271,869	4,830,562	237,341
Cash and cash equivalents, end of year	\$ 21,783	\$ 1,344,190	\$ 3,307,294	\$ 4,936,792	\$ 183,197

Note 17. Commitments and Contingencies

Operating Leases

The Hospital leases various equipment and facilities under operating leases expiring at various dates through September 30, 2022. Total rental expense for the years ended September 30, 2017 and 2016, for all operating leases was \$10,681,550 and \$9,347,818, respectively.

The following is a schedule by year of expiration of approximate future minimum lease payments under noncancellable operating leases as of September 30, 2017, that have initial or remaining lease terms in excess of one year:

**Year Ending
September 30,**

2018	\$ 10,389,777
2019	9,196,664
2020	8,114,099
2021	6,967,496
2022	3,974,276
Total	<u>\$ 38,642,312</u>

Litigation

The Hospital is involved in 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 Hospital's future financial position or on the results of its future operations.

Note 18. Risks and Uncertainties

The Patient Protection and Affordable Care Act ("ACA") is the comprehensive healthcare reform bill passed by Congress in March 2010. The law reshapes the way healthcare is delivered and financed by transitioning providers from a volume-based fee-for-service system toward value-based care. Through a series of new programs, regulations, fees and subsidies, the ACA seeks to achieve a triple

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 18. Continued

aim of better population health, lower per capita costs and elevated patient experience. Several legal challenges have been made against the legislation since it was enacted, and uncertainty exists as to the ultimate impact of the legislation on the healthcare delivery system. On June 28, 2012, The United States Supreme Court upheld the constitutionality of components of the ACA, allowing the historic overhaul of the healthcare system to continue. Potential impacts of healthcare reform include political uncertainty and volatility in Medicare and Medicaid reimbursement, fundamental changes in payment systems, increased regulation and significant required investments in healthcare information technology.

The accompanying financial statements have been prepared using values and information currently available to the Hospital.

Note 19. Subsequent Events

The Hospital's Board of Directors has adopted a resolution approving the sale of Memorial Behavioral Health on November 13, 2017. The Hospital will continue operating the psychiatric hospital until the sale is finalized and the new entity takes ownership, which might occur as early as January 2018. The condensed statements of revenues, expenses and changes in net position as of and for the years end September 30, 2017 and 2016 are detailed below:

	September 30, 2017 (Unaudited)	September 30, 2016 (Unaudited)
Condensed statements of revenues, expenses and changes in net position		
Operating revenues	\$ 6,644,305	\$ 6,315,860
Operating expenses	12,219,125	12,252,448
Decrease in net position	\$ (5,574,820)	\$ (5,936,588)

The Hospital is also evaluating the possibility of restructuring the ownership of their pediatric unit, although a final determination has not been made.

MEMORIAL HOSPITAL AT GULFPORT
 Supplementary Information
 Schedule of Employer Contributions
 Memorial Hospital at Gulfport Retirement Plan
 September 30, 2017, 2016 and 2015

	2017	2016	2015
Actuarially determined employer contribution	\$ 10,911,471	\$ 10,733,545	\$ 10,934,839
Contributions in relation to the actuarially determined contribution	(10,911,471)	(10,733,545)	(10,934,839)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employee payroll	\$ 75,668,481	\$ 82,724,150	\$ 86,887,090
Contributions as a percentage of covered employee payroll	14.42%	12.98%	12.59%

See notes to supplementary information

MEMORIAL HOSPITAL AT GULFPORT
Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
Memorial Hospital at Gulfport Retirement Plan
September 30, 2017, 2016 and 2015

	2017	2016	2015
Total Pension Liability			
Service cost	\$ 5,693,697	\$ 6,037,324	\$ 6,434,641
Interest on total pension liability	10,130,465	9,561,477	9,029,915
Effect of plan changes	-	-	-
Effect of economic/demographic (gains) losses	5,583,619	-	-
Effect of assumption changes or inputs	3,695,767	286,113	-
Benefit payments	(7,866,611)	(6,974,244)	(7,956,179)
Net change in total pension liability	17,236,937	8,910,670	7,508,377
Total pension liability, beginning	142,894,011	133,983,341	126,474,964
Total pension liability, ending	160,130,948	142,894,011	133,983,341
Fiduciary Net Position			
Employer contributions	10,911,471	10,733,545	10,934,839
Investment income net of investment expenses	8,413,073	7,780,363	1,437,393
Benefit payments	(7,866,611)	(6,974,244)	(7,956,179)
Administrative expenses	-	-	-
Net change in fiduciary net position	11,457,933	11,539,664	4,416,053
Fiduciary net position, beginning	102,882,526	91,342,862	86,926,809
Fiduciary net position, ending	114,340,459	102,882,526	91,342,862
Net pension liability, ending	\$ 45,790,489	\$ 40,011,485	\$ 42,640,479
Fiduciary net position as a % of total pension liability	71.40%	72.00%	68.17%
Covered payroll	\$ 75,668,481	\$ 82,724,150	\$ 86,887,090
Net pension liability as a % of covered payroll	60.51%	48.37%	49.08%

See notes to supplementary information

MEMORIAL HOSPITAL AT GULFPORT
Year Ended September 30, 2017

NOTES TO SUPPLEMENTARY INFORMATION

This change resulted in an increase to net pension liability of approximately \$9,279,000.

Certain changes in actuarial assumptions impacted the 2016 total pension liability including: the mortality improvement from the valuation date to the measurement date, as such a 0.2 percent liability load was added to the RP-2000 Mortality Table used prior to 2016. This change resulted in an increase to net pension liability of approximately \$286,000.

Other Information

Entry into the plan was frozen effective for new employees hired after January 1, 2012.



**INDEPENDENT AUDITOR'S 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
Memorial Hospital at Gulfport
Gulfport, 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 Memorial Hospital at Gulfport (the "Hospital"), as of and for the year ended September 30, 2017 and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated December 18, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital'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 of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 Hospital'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.

A handwritten signature in cursive script that reads "Home LLP".

Ridgeland, Mississippi
December 18, 2017