

MEMORIAL HOSPITAL AT GULFPORT
Gulfport, Mississippi

Audited Financial Statements
As of and for the Years Ended
September 30, 2018 and 2017

MEMORIAL HOSPITAL AT GULFPORT

Gulfport, Mississippi

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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, 2018 and 2017, 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, 2018 and 2017, 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 9 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 17, 2018, 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.

HORNE LLP

Ridgeland, Mississippi
December 17, 2018

MEMORIAL HOSPITAL AT GULFPORT
Management's Discussion and Analysis (Unaudited)
Years Ended September 30, 2018 and 2017

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, 2018 and 2017. 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 10 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 2018 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 2019 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, 2018 and 2017

Financial Highlights

2018

- The Hospital's financial position remains stable with increased liquidity despite reimbursement cuts in Medicare and Medicaid. The Hospital continues to stabilize 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 \$90.7M (Net 64 days down from net 75 days in fiscal year 2017). Total capital expenditures (Tower refurbishment and generators) for fiscal year 2018 totaled \$13.1M (Fiscal year 2017 capital expenditures were \$17.2M). Fiscal year 2019 capital plans reflect a budget of \$21M. Total cash and investments for fiscal year 2018 is \$155.9M compared to \$117.8M in fiscal year 2017. Total days cash on hand is 112 compared to 78 at the end of fiscal year 2017. Capital assets (net of depreciation) are \$173.5M. The Hospital fully funded its annual required defined benefit pension obligation of \$10.7M for fiscal year 2018. Net pension liability was increased by 8.5 percent from \$45.8M to \$49.7M as of the fiscal year 2018 as the net investment yield was updated.
- Outstanding debt, net of current maturities as of September 30, 2018 is \$56.9M which is net of the unamortized bond premium of \$5.8M from the refinancing of the Series 2001 bonds. The Hospital remains compliant with all Trust Indentures.
- Effective December 18, 2017, the Hospital entered into a definitive agreement to sell Memorial Behavioral Health to TBD Acquisition II, LLC (the "Purchaser"). As expected, this sale immediately infused \$15.4M of cash. Consequently, FY 2018 results include only two months of operation.
- During fiscal year 2018, the Hospital recorded an increase in net position of \$19.0M. Operating revenues were up 5.2 percent (\$26.2M) 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 12.0 percent (includes OP physician clinic visits) and general acute inpatient ("IP") admissions (adult and peds, including births) were relatively flat compared to FY2017. The fiscal year 2018 payor mix (measured by gross patient revenues) saw Medicare/Medicare Advantage volumes grow from 55.1 percent to 56.2 percent and Medicaid/MS Can decrease from 11.7 percent to 10.5 percent, Commercial payor admissions increased from 26.0 percent to 26.2 percent of total and Self Pay decreased from 7.2 percent to 7.1 percent. Operating expenses increased 2.7 percent (\$13.9M), predominantly in purchased services and supplies reflecting investments made in physician clinics and the expansion of OP surgical services in Jackson County.

MEMORIAL HOSPITAL AT GULFPORT
Management's Discussion and Analysis (Unaudited)
Years Ended September 30, 2018 and 2017

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 totality, 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, 2018 and 2017

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 10. 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.

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, 2018, 2017 and 2016 is presented below.

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

	September 30, 2018	September 30, 2017	September 30, 2016
Assets			
Unrestricted cash	\$ 66.1	\$ 55.5	\$ 26.9
Other current assets	106.1	116.7	121.8
Current assets	172.2	172.2	148.7
Unrestricted noncurrent cash and investments	82.8	45.0	47.4
Restricted noncurrent cash and investments	3.6	14.1	14.5
Noncurrent cash and investments	86.4	59.1	61.9
Capital assets	173.5	190.7	201.8
Other assets	4.2	4.3	4.6
Total assets	436.3	426.3	417.0
Deferred outflows	11.2	8.3	1.9

MEMORIAL HOSPITAL AT GULFPORT
Management's Discussion and Analysis (Unaudited)
Years Ended September 30, 2018 and 2017

	September 30, 2018	September 30, 2017	September 30, 2016
Liabilities			
Current liabilities	\$ 53.3	\$ 56.6	\$ 47.1
Net pension liability	49.7	45.8	40.0
Long-term liabilities	56.9	63.4	68.5
Total liabilities	159.9	165.8	155.6
Deferred inflows	0.2	0.4	-
Unrestricted net position	280.6	251.3	245.8
Restricted net position	6.8	17.1	17.5
Total net position	\$ 287.4	\$ 268.4	\$ 263.3

Year Ended September 30, 2018

Table 1 shows fiscal year 2018 total net position increased \$19.0M from 2017. Noncurrent cash and investments increased 46 percent (\$27.3M) primarily due to increases in cash from the sale of Memorial Behavioral Health (\$15.4M) and the trending improvements in cash collections due to its continued revenue cycle improvement. Total days cash on hand is \$112 compared to \$78 at the end of fiscal year 2017.

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.

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, 2018, 2017 and 2016 is presented below.

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

	September 30, 2018	September 30, 2017	September 30, 2016
Operating revenue	\$ 533.5	\$ 507.3	\$ 484.9
Operating expenses			
Employee compensation	263.7	271.7	265.7
Supplies and other expenses	234.2	212.7	197.1
Depreciation and amortization	29.5	29.1	31.5
Total operating expenses	527.4	513.5	494.3
Loss from operations	6.1	(6.2)	(9.4)
Nonoperating expenses, net	12.9	11.0	(2.6)
Noncapital grants, contributions and other	0.0	0.3	3.2
Restatement for adoption of GASB 68	-	-	-
Increase (decrease) in net position	\$ 19.0	\$ 5.1	\$ (8.8)

MEMORIAL HOSPITAL AT GULFPORT
Management's Discussion and Analysis (Unaudited)
Years Ended September 30, 2018 and 2017

Year Ended September 30, 2018

Table 2 above shows operating revenues increased 5.2 percent from 2017 to 2018. Outpatient volume increases primarily contribute to this growth. Operating expenses increased 2.7 percent in 2018, reflecting the increase in volume during the fiscal year.

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.

Revenues by Payor

Fiscal Year Ended September 30, 2018

Note 13 to the accompanying financial statements discuss 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.

Fiscal Year Ended September 30, 2017

Note 13 to the accompanying financial statements discuss 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 2018	Fiscal Year 2017
Medicare	56.2	55.1%
Medicaid	10.5	11.7
Self-pay and other	33.3	33.2
	<hr/>	
Total gross charges	100.0%	100.0%

MEMORIAL HOSPITAL AT GULFPORT
Management's Discussion and Analysis (Unaudited)
Years Ended September 30, 2018 and 2017

ECONOMIC FACTORS AND FISCAL 2019 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 2019 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.

CONTACTING THE HOSPITAL CHIEF EXECUTIVE 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 Executive Officer, Memorial Hospital at Gulfport, P.O. Box 1810, Gulfport, Mississippi 39502-1810.

MEMORIAL HOSPITAL AT GULFPORT

Statements of Net Position
September 30, 2018 and 2017

ASSETS	2018	2017
Current assets		
Cash and cash equivalents	\$ 66,083,874	\$ 55,482,170
Restricted cash and investments		
Held by trustee under indenture agreements	147,045	211
Held by trustee for self-insurance fund	3,269,048	3,238,714
Total restricted cash and investments	3,416,093	3,238,925
Patient accounts receivable, net of allowance for doubtful accounts of \$156,194,882 and \$123,585,549, respectively	90,730,441	101,701,452
Inventories	9,186,898	9,014,293
Other current assets	2,767,657	2,746,875
Total current assets	172,184,963	172,183,715
Noncurrent cash and investments		
Investments	42,596,635	4,848,644
Restricted investments by contributors and grantors	2,143,515	2,005,560
Internally designated by the Board for plant replacement and expansion	40,135,535	40,140,461
Held by trustee under indenture agreements	5,112	10,632,437
Permanent endowments	1,476,258	1,491,258
Total noncurrent cash and investments	86,357,055	59,118,360
Capital assets, net	173,532,929	190,724,638
Other assets	4,250,085	4,272,900
Total assets	436,325,032	426,299,613
DEFERRED OUTFLOW OF RESOURCES		
Deferred pension outflows	10,922,486	7,955,627
Deferred refunding outflow	240,959	303,181
Total deferred outflow of resources	11,163,445	8,258,808
Total assets and deferred outflow of resources	447,488,477	434,558,421

See accompanying notes.

LIABILITIES	2018	2017
Current liabilities		
Current maturities of bonds and note payable	\$ 4,968,947	\$ 3,511,295
Accounts payable, trade and other	15,480,080	16,836,152
Accrued expenses	30,284,735	29,950,553
Estimated payables, third-party payors	2,578,091	6,304,975
Total current liabilities	53,311,853	56,602,975
Long-term liabilities, net of current maturities		
Net pension liability	49,676,183	45,790,489
Bonds payable, Series 2016	52,246,850	56,513,406
Note payable	4,674,572	6,863,519
Total long-term liabilities, net of current maturities	106,597,605	109,167,414
Total liabilities	159,909,458	165,770,389
DEFERRED INFLOW OF RESOURCES		
Deferred pension inflows	218,465	390,924
Total liabilities and deferred inflow of resources	160,127,923	166,161,313
NET POSITION		
Invested in capital assets, net of related debt	111,642,560	123,836,418
Restricted		
Debt service	152,157	10,632,648
Use in self-funded insurance programs	3,269,048	3,238,714
Restricted expendable net assets	1,896,296	1,700,183
Nonexpendable permanent endowments	1,476,258	1,491,258
Unrestricted	168,924,235	127,497,887
Total net position	\$ 287,360,554	\$ 268,397,108

MEMORIAL HOSPITAL AT GULFPORT
 Statements of Revenues, Expenses and Changes in Net Position
 Years Ended September 30, 2018 and 2017

	2018	2017
Patient service revenues, net of provision for bad debts of \$178,895,809 and \$186,943,330, respectively	\$ 519,862,870	\$ 498,239,727
Other operating revenues	13,670,702	9,055,952
Total operating revenues	533,533,572	507,295,679
Operating expenses		
Salaries and wages	230,089,375	236,850,352
Employee benefits	33,618,006	34,884,924
Professional fees	5,750,077	6,913,817
Supplies and other	175,260,098	163,938,050
Purchased services	53,166,954	41,807,951
Depreciation and amortization	29,544,588	29,071,171
Total operating expenses	527,429,098	513,466,265
Income (loss) from operations	6,104,474	(6,170,586)
Nonoperating revenues (expenses)		
Grants, contributions and other	20,673	313,206
Gain on disposal of operations	12,525,118	10,853,300
Gain (loss) on sale of capital assets	(220,363)	39,736
Interest and investment income, net	1,597,468	1,191,005
Interest expense	(1,356,632)	(770,269)
Gain (loss) on joint venture	292,708	(341,542)
Total nonoperating revenues	12,858,972	11,285,436
Increase in net position	18,963,446	5,114,850
Net position, beginning of year	268,397,108	263,282,258
Net position, end of year	\$ 287,360,554	\$ 268,397,108

See accompanying notes.

MEMORIAL HOSPITAL AT GULFPORT
 Statements of Cash Flows
 Years Ended September 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Cash received from patients and third-party payors	\$ 527,106,997	\$ 511,164,069
Cash paid to employees	(264,180,439)	(271,277,119)
Cash paid to suppliers	(234,164,671)	(211,216,850)
Cash received from other operating activities	13,670,702	9,055,952
Net cash provided by operating activities	42,432,589	37,726,052
Cash flows from noncapital financing activities		
Noncapital grants and contributions	20,673	313,206
Cash flows from capital and related financing activities		
Purchase of capital assets	(13,112,058)	(17,213,955)
Proceeds from sales of operations	13,532,326	10,869,800
Payments on bonds and note payable	(3,511,295)	(3,986,895)
Interest paid on long-term debt	(2,942,136)	(3,052,465)
Net cash used in capital and related financing activities	(6,033,163)	(13,383,515)
Cash flows from investing activities		
Maturities and sales of investments	6,534,438	6,534,438
Purchases of investments	(44,194,039)	(4,497,455)
Interest and investment income	1,597,468	1,191,005
Net cash provided by (used in) investing activities	(36,062,133)	3,227,988
Net increase in cash and cash equivalents	357,966	27,883,731
Cash and cash equivalents, beginning of year	84,518,540	56,634,809
Cash and cash equivalents, end of year	\$ 84,876,506	\$ 84,518,540

See accompanying notes.

	2018	2017
Reconciliation of income (loss) from operations to net cash provided by operating activities		
Income (loss) from operations	\$ 6,104,474	\$ (6,170,586)
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities		
Depreciation and amortization	29,544,588	29,071,171
Provision for bad debts	178,895,809	186,943,330
Changes in		
Patient receivables	(167,924,798)	(180,843,660)
Estimated third-party payor settlements	(3,726,884)	6,824,672
Inventories	(392,968)	(1,000,396)
Other assets	171,748	(610,300)
Accounts payable	(1,356,072)	3,861,048
Accrued expenses	1,116,692	(349,227)
Net cash provided by operating activities	<u>\$ 42,432,589</u>	<u>\$ 37,726,052</u>
Reconciliation of cash and cash equivalents		
Cash and cash equivalents in current assets	\$ 66,083,874	\$ 55,482,170
Cash and cash equivalents in noncurrent cash and investments		
Investments	10,061,692	-
Held by Trustee	3,421,205	13,871,362
Internally designated by the Board	5,309,735	15,165,008
Total	<u>\$ 84,876,506</u>	<u>\$ 84,518,540</u>

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2018 and 2017

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, 2018 and 2017 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, Inc.

Memorial Hospital Ambulatory Health Services, Inc. ("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, 2018 and 2017

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, Inc.

Memorial Hospital at Gulfport Foundation, Inc. ("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, 2018 and 2017

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 when purchased 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, 2018 and 2017

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, 2018 and 2017, the Hospital recognized \$11,163,445 and \$8,258,808, 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, 2018 and 2017, the Hospital recognized \$218,465 and \$390,924, 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, 2018 and 2017

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 outstanding balances of any 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.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2018 and 2017

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

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 (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.

Income Tax

The Hospital qualifies as a tax-exempt organization under existing provisions of the Internal Revenue Code and its income is generally not subject to federal and state income taxes.

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.

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.

Governmental Accounting Standards Board Statement No. 88 ("GASB 88")

The Hospital will adopt GASB 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, in fiscal year 2019. This statement requires additional information related to debt be disclosed in the notes to financial statements, including unused lines of credit; assets

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2018 and 2017

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default or termination with finance-related consequences and significant acceleration clauses. With the inclusion of this information, users will better understand the effects of debt on a government's future resource flows. 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. 89 ("GASB 89")

The Hospital will adopt GASB 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, in fiscal year 2021. This statement will improve financial reporting by (1) enhancing the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and (2) simplifying accounting for interest cost incurred before the end of a construction period. This statement will supersede GASB 62, requiring that interest cost incurred before the end of a construction period to be recognized as an expense in the period in which the cost was incurred. 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.

Reclassification

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 financial statement presentation. The reclassification had no effect on net assets or changes in net assets.

Note 2. Disposal of Operations and Affiliations

Disposal of Rehabilitation Services

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 fiscal years 2018 and 2017, the Hospital recognized approximately \$997,000 and \$499,000, respectively, in facility rent incurred by HSGH, which was recorded in other 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, which is accounted for under the equity method. The Hospital received proceeds of \$10,869,800, and recognized a gain of \$10,853,300 in non-operating revenues as of the date of sale of the operations. The condensed statement of revenues, expenses and changes in net position for the six-month period ended March 31, 2017 for the operations disposed of are detailed below:

	March 31, 2017 (Unaudited)
Condensed statement of revenues, expenses and changes in net position	
Operating revenues	\$ 4,220,214
Operating expenses	<u>2,169,384</u>
Increase in net position	<u>\$ 2,050,830</u>

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2018 and 2017

NOTES TO FINANCIAL STATEMENTS

Note 2. Continued

The following is summarized unaudited financial information for HS Rehab as of and for the year ended September 30, 2018, and as of and for the six-month period ended September 30, 2017:

	September 30, 2018 (Unaudited)	September 30, 2017 (Unaudited)
Total assets	\$ 14,392,163	\$ 12,789,458
Liabilities	\$ 3,602,701	\$ 3,170,826
Equity	10,789,462	9,618,632
Total liabilities and equity	\$ 14,392,163	\$ 12,789,458
Net income (loss)	\$ 1,118,778	\$ (1,366,168)

Disposal of Memorial Behavioral Health

Effective December 18, 2017, the Hospital entered into an agreement with TBD Acquisition II, LLC ("TBD"), whereby TBD purchased the assets of the Hospital's 109-bed inpatient behavioral health facility and ancillary services provided to the unit's patients. Per the purchase agreement, the Hospital transferred capital and intangible assets, including a related certificate of need, to TBD. The Hospital received proceeds of \$15,397,947 and recognized a gain of \$12,378,233 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 two-month period ended November 31, 2017 and year ended September 30, 2017, for the operations disposed of are detailed below:

	November 31, 2017 (Unaudited)	September 30, 2017 (Unaudited)
Condensed statements of revenues, expenses and changes in net position		
Operating revenues	\$ 2,104,517	\$ 6,868,973
Operating expenses	2,994,409	12,200,314
Decrease in net position	\$ (889,892)	\$ (5,331,341)

Disposal of Pediatric Clinics

Effective January 22, 2018, the Hospital entered into an affiliation agreement and an asset purchase agreement (the "Agreements") with the University of Mississippi Medical Center ("UMMC"), whereby UMMC acquired certain assets and assumed certain liabilities associated with the Hospital's pediatric and neonatal services for proceeds of \$76,385. UMMC will also provide management services for the Hospital in pediatric neonatal intensive care as well as provide pediatric hospitalists and certain other physician neonatology and related allied health professional services to the Hospital. The Hospital retained ownership of the facilities in which the acquired pediatric clinics are located and accordingly, in coordination with the Agreements, the Hospital and UMMC entered into sublease agreements for each of the related facilities. Other terms of the Agreements include a mutually beneficial academic affiliation and collaboration on clinical trials and research.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2018 and 2017

NOTES TO FINANCIAL STATEMENTS

Note 2. Continued

The Agreements also provided that the Hospital remain responsible for compensation of certain professionals through an additional Professional Services and Staffing Agreement and the Hospital also must compensate UMMC through an incentive fee in the event certain financial metrics are achieved as well as periodically reimburse UMMC for operating losses, as defined, for a period of four years from the effective date of the Agreements. As of September 30, 2018, the Hospital has accrued approximately \$980,000 for such commitments. The Hospital recognized a gain of \$76,385 in 2018 on the sale of assets related to this transaction.

The condensed statements of revenues, expenses and changes in net position for the three-month period ended December 31, 2017 and year ended September 30, 2017, for the operations disposed of are detailed below:

	December 31, 2017 (Unaudited)	September 30, 2017 (Unaudited)
Condensed statements of revenues, expenses and changes in net position		
Operating revenues	\$ 949,565	\$ 1,813,410
Operating expenses	5,483,035	7,488,598
Decrease in net position	\$ (4,533,470)	\$ (5,675,188)

Disposal of Nephrology Clinics

Effective May 31, 2018, the Hospital terminated their professional services agreement with South Mississippi Nephrology, PLLC ("SMN"), whereby SMN had been contracted to provide professional services related to the Hospital's nephrology services. With the termination of the agreement, SMN disengaged from the Hospital to return to private practice in providing these services and acquired from the Hospital certain assets previously used in providing these services. The Hospital received proceeds of \$70,500 and recognized a gain of \$70,500 in non-operating revenues as of the date of sale of the operations. The condensed statements of revenues, expenses and changes in net position for the eight-month period ended May 31, 2018 and year ended September 30, 2017, for the operations disposed of are detailed below:

	May 31, 2018 (Unaudited)	September 30, 2017 (Unaudited)
Condensed statements of revenues, expenses and changes in net position		
Operating revenues	\$ 821,365	\$ 1,341,739
Operating expenses	4,269,014	7,193,828
Decrease in net position	\$ (3,447,649)	\$ (5,852,089)

Note 3. Designated Net Position

Of the \$168,924,235 and \$127,497,887 of unrestricted net position reported at September 30, 2018 and 2017, respectively, \$40,135,535 and \$40,140,461 for 2018 and 2017, 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.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2018 and 2017

NOTES TO FINANCIAL STATEMENTS

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 \$68,774,656 and \$56,532,532 at September 30, 2018 and 2017, 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 workers' compensation claims. The carrying value of these deposits was \$3,269,048 and \$3,238,714 at September 30, 2018 and 2017, 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.

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	2018 Fair Value	2017 Fair Value
Federal Farm Credit Bank - 0.93%	04/13/2018	\$ -	\$ 5,008,121
Federal Farm Credit Bank - 1.07%	03/21/2019	4,965,338	4,964,838
Federal Farm Credit Bank - 2.70%	02/01/2021	4,988,053	-
Federal Home Loan Bank - 2.90%	08/27/2021	9,989,167	-
Federal Home Loan Bank - 3.15%	05/02/2023	10,095,300	-
Federal Home Loan Mortgage Corp - .875%	07/27/2018	-	4,986,606
Federal Home Loan Mortgage Corp - 1.00%	05/25/2018	-	5,006,061
Federal Home Loan Mortgage Corp - 1.10%	08/23/2018	-	4,994,603
Federal Home Loan Mortgage Corp - 1.35%	11/26/2019	4,934,250	-
Federal Home Loan Mortgage Corp - 1.75%	06/29/2020	4,928,692	-
Federal Home Loan Mortgage Corp - 2.00%	11/20/2020	4,946,187	-
Federal Home Loan Mortgage Corp - 2.50%	11/23/2021	4,965,897	-
Federal National Mortgage Association - 2.875%	07/30/2021	10,000,236	-
SEI Daily Income Government II Money Market Fund	Daily	5,309,735	15,154,887
Fidelity Institutional Government Money Market Fund	Daily	10,061,692	10,121

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2018 and 2017

NOTES TO FINANCIAL STATEMENTS

Note 4. Continued

	Maturity	2018 Fair Value	2017 Fair Value
Certificates of deposits	Less than 1 year	\$ 4,522,025	\$ 3,514,480
Certificates of deposits	1 - 5 years	2,780,650	1,384,000
Certificates of deposits	6 - 10 years	250,000	250,000
Federated Government Obligation Money Market Fund	43 days average	147,045	1,034,720
Equity securities		368,268	371,760
Mutual funds		3,251,505	2,843,820
Cash - restricted		3,269,108	12,833,268
Cash - unrestricted		66,083,874	55,482,170
Total investments and deposits		<u>\$ 155,857,022</u>	<u>\$ 117,839,455</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, 2018, the Hospital's nongovernmental investments were rated as follows:

	Rating	Source	Market Value
Federated Government Obligation Money Market Fund	AAAm	Standard & Poor's	\$ 147,045
SEI Daily Income Government II Money Market Fund	Aaa	Moody's	5,309,735
Fidelity Institutional Government Money Market Fund	AAAm	Standard & Poor's	10,061,692
Total			<u>\$ 15,518,472</u>

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

	2018	2017
SEI Daily Income Government II Money Market Fund	\$ 5,309,735	\$ 15,154,887
Fidelity Institutional Government Money Market Fund	-	10,121
Total cash equivalents	5,309,735	15,165,008
Total investments	34,825,800	24,975,453
Total internally designated by Board	<u>\$ 40,135,535</u>	<u>\$ 40,140,461</u>

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2018 and 2017

NOTES TO FINANCIAL STATEMENTS

Note 4. Continued

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

	2018	2017
Cash and cash equivalents	\$ 66,083,874	\$ 55,482,170
Current restricted cash and investments		
Held by trustee under indenture agreements	147,045	211
Held by trustee for self-insurance fund	3,269,048	3,238,714
Total current restricted cash and investments	3,416,093	3,238,925
Noncurrent cash and investments		
Investments	42,596,635	4,848,644
Restricted investments by contributors and grantors	2,143,515	2,005,560
Internally designated by the Board for plant replacement and expansion	40,135,535	40,140,461
Held by trustee under indenture agreements	5,112	10,632,437
Principal of permanent endowments	1,476,258	1,491,258
Total noncurrent cash and investments	86,357,055	59,118,360
Total	\$ 155,857,022	\$ 117,839,455

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.

The Hospital has the following recurring fair value measurements:

- Equity securities and mutual funds of \$3,619,773 and \$3,215,580 as of September 30, 2018 and 2017, respectively, are valued using prices quoted in active markets for those securities (Level 1 inputs).
- Government agency bond obligations of \$59,813,120 and \$24,960,229 as of September 30, 2018 and 2017, respectively, are valued using significant other observable inputs for those securities (Level 2 inputs)

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2018 and 2017

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets, Net

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

	Estimated Useful Lives	2018	2017
Land	-	\$ 6,311,386	\$ 7,121,386
Land improvements	1-25	4,863,228	5,046,349
Building and improvements	1-40	229,374,585	231,009,645
Fixed equipment	3-30	104,232,286	99,735,813
Major moveable equipment	1-25	241,084,838	236,463,546
Total		585,866,323	579,376,739
Less accumulated depreciation and amortization		415,433,511	391,475,076
		170,432,812	187,901,663
Construction in progress		3,100,117	2,822,975
Capital assets, net		\$ 173,532,929	\$ 190,724,638

Depreciation expense for the year ended September 30, 2018 and 2017 totaled \$29,421,595 and \$28,894,689, respectively. Interest capitalized and included in construction in progress during the year ended September 30, 2018 and 2017, totaled \$125,036 and \$635,856, respectively. There were no construction commitments at September 30, 2018.

Capital assets activity for the year ended September 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 7,121,386	\$ -	\$ (810,000)	\$ 6,311,386
Construction in progress	2,822,975	7,240,400	(6,963,258)	3,100,117
Total capital assets not being depreciated	9,944,361	7,240,400	(7,773,258)	9,411,503
Other capital assets				
Land improvements	5,046,349	80,196	(263,317)	4,863,228
Building and improvements	231,009,645	2,018,335	(3,653,395)	229,374,585
Fixed equipment	99,735,813	4,884,033	(387,560)	104,232,286
Major moveable equipment	236,463,546	6,769,584	(2,148,292)	241,084,838
Total other capital assets at historical cost	572,255,353	13,752,148	(6,452,564)	579,554,937

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2018 and 2017

NOTES TO FINANCIAL STATEMENTS

Note 6. Continued

	Beginning Balance	Increases	Decreases	Ending Balance
Less accumulated depreciation for:				
Land improvements	\$ 4,779,660	\$ 158,382	\$ (263,317)	\$ 4,674,725
Building and improvements	124,268,979	8,287,948	(2,667,435)	129,889,492
Fixed equipment	73,035,709	3,372,777	(384,116)	76,024,370
Major moveable equipment	189,390,728	17,602,488	(2,148,292)	204,844,924
Total accumulated depreciation	391,475,076	29,421,595	(5,463,160)	415,433,511
Depreciable capital assets, net	180,780,277	(15,669,447)	(989,404)	164,121,426
Total capital assets, net	\$ 190,724,638	\$ (8,429,047)	\$ (8,762,662)	\$ 173,532,929

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	32,592,844	9,516,821	(32,165,304)	9,944,361
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
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	(2,247,446)	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

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2018 and 2017

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, 2018 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowment funds	\$ -	\$ 1,149,804	\$ 1,476,258	\$ 2,626,062

Changes in endowment net position as of September 30, 2018 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net position, beginning of year	\$ -	\$ 1,002,212	\$ 1,491,258	\$ 2,493,470
Contributions	-	10,000	-	10,000
Expenses	-	(26,824)	-	(26,824)
Reclass	-	15,000	(15,000)	-
Investment income	-	149,416	-	149,416
Endowment net position, end of year	\$ -	\$ 1,149,804	\$ 1,476,258	\$ 2,626,062

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2018 and 2017

NOTES TO FINANCIAL STATEMENTS

Note 7. Continued

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

Note 8. Long-Term Debt

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

	2018	2017
Series 2015A Hospital Revenue Bonds, a rate of 1.5 percent, interest payable semi-annually, matured in July 2018 collateralized by a pledge of the Hospital's revenues.	\$ -	\$ 3,027,841
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 imputed interest rate of 5.75 percent, payable annually, maturing in 2023, collateralized by the Hospital's capital assets (Note 9).	6,863,519	7,346,973
	56,133,519	59,644,814
Less current maturities	(4,968,947)	(3,511,295)
Unamortized bond premium	5,756,850	7,243,406
Long-term debt, less current maturities	\$ 56,921,422	\$ 63,376,925

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2018 and 2017

NOTES TO FINANCIAL STATEMENTS

Note 8. Continued

Scheduled repayments on long-term debt are as follows:

Year Ending September 30,	Interest	Principal
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	1,903,176	4,039,310
2024 - 2028	6,610,250	19,615,000
2029 - 2031	1,452,000	14,290,000
Total	<u>\$ 19,900,377</u>	<u>\$ 56,133,519</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:

	2018	2017
Interest paid on long-term debt	\$ 2,942,136	\$ 3,052,465
Capitalized	(125,036)	(635,856)
Amortized bond premium	(1,486,556)	(1,640,868)
Other changes in accruals	26,088	(5,472)
Interest expense	<u>\$ 1,356,632</u>	<u>\$ 770,269</u>
Interest income	<u>\$ 96,820</u>	<u>\$ 36,055</u>

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2018 and 2017

NOTES TO FINANCIAL STATEMENTS

Note 8. Continued

Long-term debt activity for the year ended September 30, 2018 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Bonds and note payable					
Revenue bonds	\$ 52,297,841	-	\$ (3,027,841)	\$ 49,270,000	\$ 2,780,000
Premium on bonds	7,243,406	-	(1,486,556)	5,756,850	-
Note payable	7,346,973	-	(483,454)	6,863,519	2,188,947
Total long-term debt	<u>\$ 66,888,220</u>	<u>-</u>	<u>\$ (4,997,851)</u>	<u>\$ 61,890,369</u>	<u>\$ 4,968,947</u>

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>

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, 2018 and 2017, the Hospital was in compliance with such covenants.

Note 9. Information Technology Contract

In 2013, 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 \$4,199,845 and \$4,171,337 was recognized for the years ended September 30, 2018 and 2017, respectively.

MEMORIAL HOSPITAL AT GULFPORT
 Years Ended September 30, 2018 and 2017

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, 2018. 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.

	Software Maintenance Obligation
2019	\$ 4,208,121
2020	4,225,501
2021	4,244,619
2022	4,265,648
2023	4,266,552
Total commitment	\$ 21,210,441

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, 2018 and 2017

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, 2018 and 2017, the Hospital reported a net pension liability of \$49,676,183 and \$45,790,489, respectively. The net pension liability was measured as of September 30, 2018 and 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2016. 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, 2018 and 2017, the Hospital recognized pension expense of \$11,424,897 and \$10,699,579, respectively.

Certain changes in actuarial assumptions impacted 2018 deferred outflows including:

- The net investment yield was changed from 6.50 to 6.25 percent;

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,

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2018 and 2017

NOTES TO FINANCIAL STATEMENTS

Note 10. Continued

- Assumptions regarding the elected form of payment for future retirement and termination benefits were changed.

The changes of assumptions are being amortized over a closed period of 6.24 and 6.08 for the years ended September 30, 2018 and 2017, respectively. The difference between expected and actual experience related to economic and demographic assumptions is being amortized over a closed period of 6.24 and 6.08 for the years ended September 30, 2018 and 2017, respectively. Differences between projected and actual earnings on pension plan investments are amortized over a closed period of 5 years.

At September 30, 2018 and 2017, the Hospital reported deferred outflows and inflows of resources related to pensions from the following sources:

	2018	2017
Deferred outflows of resources		
Changes of assumptions	\$ 5,827,092	\$ 3,290,366
Net difference between projected and actual earnings on pension plan investments	1,348,492	-
Differences between expected and actual experience on economic/demographic assumptions	3,746,902	4,665,261
Total deferred outflows of resources	\$ 10,922,486	\$ 7,955,627
Deferred inflows of resources		
Differences between expected and actual experience on economic/demographic assumptions	\$ 218,465	\$ -
Net difference between projected and actual earnings on pension plan investments	-	390,924
Total deferred inflows of resources	\$ 218,465	\$ 390,924

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

Year ending September 30,

2019	\$ 2,892,702
2020	2,017,962
2021	2,341,635
2022	2,627,287
2023	688,499
Thereafter	135,936
Total	\$ 10,704,021

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2018 and 2017

NOTES TO FINANCIAL STATEMENTS

Note 10. Continued

Actuarial Assumptions

The total pension liability in the September 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Net investment yield	6.25 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

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, 2018 and 2017 was as follows:

	Total Pension Liability	Increase (Decrease) Plan Fiduciary Net Position	Net Pension Liability
Balances as of October 1, 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
Changes for the year:			
Service cost	5,234,042	-	5,234,042
Interest on total pension liability	10,392,920	-	10,392,920
Economic/demographic loss	(260,157)	-	(260,157)
Change in assumptions/inputs	3,794,505	-	3,794,505
Benefit payments	(11,122,938)	(11,122,938)	-
Employer contributions	-	10,678,521	(10,678,521)
Net investment income	-	4,597,095	(4,597,095)
Balances as of September 30, 2018	\$ 168,169,320	\$ 118,493,137	\$ 49,676,183

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2018 and 2017

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 6.25 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 5.25%	Current Discount Rate 6.25%	1% Increase 7.25%
2018	\$ 66,355,895	\$ 49,676,183	\$ 35,293,809

Discount Rate

The discount rate used to measure the total pension liability was 6.25 and 6.50 percent as of September 30, 2018 and 2017, 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%	0.27%
US Short Bonds	18%	1.38%
US Interm Bonds	15%	1.66%
US Long Bonds	4%	2.60%
US Inflation-Indexed Bonds	5%	1.19%
US High Yield Bonds	5%	3.94%
Non-US Bonds	1%	-0.08%
US Small Caps	2%	5.59%
US Mid Caps	5%	4.89%
US Large Growth	15%	5.02%
US Large Value	5%	4.18%
Foreign Developed Equity	7%	5.60%
Emerging Markets Equity	10%	7.96%
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, 2018 and 2017

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 \$2,362,538 and \$1,350,459 for the years ended September 30, 2018 and 2017, 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, 2018 and 2017 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
2017	\$	1,712,634	\$ 12,231,259	\$ (12,608,964)	\$ 1,334,929
2018	\$	1,334,929	\$ 11,052,864	\$ (10,880,652)	\$ 1,507,141

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, 2018 and 2017

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
2017	\$	4,375,942	\$	979,350	\$	(1,759,323)	\$	3,595,969
2018	\$	3,595,969	\$	(215,227)	\$	(1,266,590)	\$	2,114,152

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
2017	\$	1,934,472	\$	1,386,420	\$	(1,417,870)	\$	1,903,022
2018	\$	1,903,022	\$	2,203,832	\$	(959,390)	\$	3,147,464

Note 12. Net Position

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

	2018	2017
Capital assets	\$ 588,966,440	\$ 582,199,714
Less accumulated depreciation	(415,433,511)	(391,475,076)
Less debt outstanding related to capital assets	(61,890,369)	(66,888,220)
Invested in capital assets, net of related debt	\$ 111,642,560	\$ 123,836,418

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2018 and 2017

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 administrative contractor.

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, 2018 and 2017, the Hospital reported \$29,279,056 and \$27,209,164, 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 2017 through June 2018. For the fiscal years ended September 30, 2018 and 2017, the Hospital reported \$21,468,980 and \$22,137,756, respectively, in enhanced reimbursement from the MHAP program.

DSH and MHAP amounts are recorded as a reduction of contractual adjustments with related assessments of \$10,146,762 and \$12,769,363 recorded in operating expenses for the years ended September 30, 2018 and 2017, respectively.

Revenue from the Medicare and Medicaid programs accounted for approximately 56.2 percent and 10.5 percent, respectively, of the Hospital's gross patient revenue for the year ended September 30, 2018, and 55.1 percent and 11.7 percent, respectively, of the Hospital's gross patient revenue for the year ended September 30, 2017. 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 2018 and 2017 net patient service revenue decreased \$993,439 and \$3,131,000, respectively, due to adjustments in excess of amounts previously estimated. As of September 30, 2018, cost reports for fiscal years 2015 and prior have been settled.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2018 and 2017

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:

	2018	2017
Gross patient service revenue	\$ 3,881,316,923	\$ 3,703,670,967
Less provisions for		
Contractual adjustments under third-party reimbursement programs and managed care contract	3,182,558,244	3,018,487,910
Uncollectible accounts	178,895,809	186,943,330
Net patient service revenue	\$ 519,862,870	\$ 498,239,727

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 \$9,727,278 and \$8,814,616 as of the years ended September 30, 2018 and 2017, 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.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2018 and 2017

NOTES TO FINANCIAL STATEMENTS

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:

	2018	2017
Medicare	37.43%	33.48%
Medicaid	11.05	9.76
Commercial insurance	24.75	29.95
Private pay	20.45	19.60
Other	6.32	7.21
Total	<u>100.00%</u>	<u>100.00%</u>

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, 2018 and 2017 are detailed below.

Memorial Hospital Ambulatory Health Services, Inc.

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, 2018 and 2017 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, 2018 and 2017 are detailed below.

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2018 and 2017

NOTES TO FINANCIAL STATEMENTS

Note 16. Continued

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, 2018 and 2017 are detailed below.

Memorial Hospital at Gulfport Foundation, Inc.

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, 2018 and 2017 are detailed below.

	2018				
	MFSM	MHAHS	MPI	SHC	MF
Condensed Statements of Net Position					
Assets					
Current assets	\$ 21,642	\$ 1,407,857	\$ 663,815	\$ 1,470,370	\$ 2,454,761
Capital assets	-	-	1,528,100	177,958	165,000
Noncurrent cash and investments	-	-	2,697,366	4,826,103	1,513,642
Total assets	21,642	1,407,857	4,889,281	6,474,431	4,133,403
Liabilities					
Current liabilities	-	-	1,277,563	271,819	1,134
Due to the Hospital	36,750,237	941,500	4,469,749	-	21,236
Total liabilities	36,750,237	941,500	5,747,312	271,819	22,370
Net position					
Invested in capital assets	-	-	1,528,100	177,958	165,000
Restricted expendable	-	-	-	-	1,876,396
Nonexpendable permanent endowments	-	-	-	-	1,476,258
Unrestricted equity (deficit)	(36,728,595)	466,357	(2,386,131)	6,024,654	593,379
Total net position	\$(36,728,595)	\$ 466,357	\$ (858,031)	\$ 6,202,612	\$ 4,111,033

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2018 and 2017

NOTES TO FINANCIAL STATEMENTS

Note 16. Continue

	2018				
	MFSM	MHAHS	MPI	SHC	MF
Condensed Statements of Revenues, Expenses and Changes in Net Position					
Operating revenues	\$ -	\$ -	\$ -	\$ 2,709,768	\$ -
Operating expenses	-	-	-	2,394,156	505,960
Total operating revenues (expenses)	-	-	-	315,612	(505,960)
Nonoperating income (loss)	-	3,664	331,933	95,406	634,555
Increase (decrease) in net position	-	3,664	331,933	411,018	128,595
Distribution to Hospital	-	-	(2,700,000)	-	-
Net position, beginning of year	(36,728,595)	462,693	1,510,036	5,791,594	3,982,438
Net position, end of year	\$(36,728,595)	\$ 466,357	\$ (858,031)	\$ 6,202,612	\$ 4,111,033
Condensed Statements of Cash Flows					
Cash provided by (used in) operating activities	\$ -	\$ -	\$ -	\$ 840,702	\$ (506,553)
Cash provided by investing activities	-	3,664	(2,664,256)	95,406	\$ 589,856
Increase (decrease) in cash and cash equivalents	-	3,664	(2,664,256)	936,108	83,303
Cash and cash equivalents, beginning of year	21,642	1,346,460	3,328,071	5,337,143	137,451
Cash and cash equivalents, end of year	\$ 21,642	\$ 1,350,124	\$ 663,815	\$ 6,273,251	\$ 220,754

	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

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2018 and 2017

NOTES TO FINANCIAL STATEMENTS

Note 16. Continued

	2017				
	MFSM	MHAHS	MPI	SHC	MF
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	<u>\$(36,728,595)</u>	<u>\$ 462,693</u>	<u>\$ 1,510,036</u>	<u>\$ 5,791,594</u>	<u>\$ 3,982,438</u>

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	<u>\$(36,728,595)</u>	<u>\$ 462,693</u>	<u>\$ 1,510,036</u>	<u>\$ 5,791,594</u>	<u>\$ 3,982,438</u>

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
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	<u>\$ 21,642</u>	<u>\$ 1,346,460</u>	<u>\$ 3,328,071</u>	<u>\$ 5,337,143</u>	<u>\$ 137,451</u>

MEMORIAL HOSPITAL AT GULFPORT
Years Ended September 30, 2018 and 2017

NOTES TO FINANCIAL STATEMENTS

Note 17. Commitments and Contingencies

Operating Leases

The Hospital leases various equipment and facilities under operating leases expiring at various dates through September 30, 2023. Total rental expense for the years ended September 30, 2018 and 2017, for all operating leases was \$11,732,564 and \$10,681,550, respectively.

The following is a schedule by year of expiration of approximate future minimum lease payments under noncancellable operating leases as of September 30, 2018, that have initial or remaining lease terms in excess of one year:

**Year Ending
September 30,**

2019	\$ 10,553,079
2020	8,570,732
2021	6,159,665
2022	3,630,122
2023	<u>5,189,346</u>
Total	<u>\$ 34,102,944</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 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. On January 20, 2017, the U.S. President signed an Executive Order entitled *Minimizing the Economic Burden of the Patient Protection and Affordable Care Act Pending Appeal*. Subsequent attempts at repeal and replace of the ACA have been unsuccessful. 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.

MEMORIAL HOSPITAL AT GULFPORT
 Supplementary Information
 Schedule of Employer Contributions
 Memorial Hospital at Gulfport Retirement Plan
 September 30, 2018, 2017, 2016 and 2015

	2018	2017	2016	2015
Actuarially determined employer contribution	\$ 10,678,521	\$ 10,911,471	\$ 10,733,545	\$ 10,934,839
Contributions in relation to the actuarially determined contribution	(10,678,521)	(10,911,471)	(10,733,545)	(10,934,839)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 68,536,551	\$ 75,668,481	\$ 82,724,150	\$ 86,887,090
Contributions as a percentage of covered employee payroll	15.58%	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, 2018, 2017, 2016 and 2015

	2018	2017	2016	2015
Total Pension Liability				
Service cost	\$ 5,234,042	\$ 5,693,697	\$ 6,037,324	\$ 6,434,641
Interest on total pension liability	10,392,920	10,130,465	9,561,477	9,029,915
Effect of plan changes	-	-	-	-
Effect of economic/demographic (gains) losses	(260,157)	5,583,619	-	-
Effect of assumption changes or inputs	3,794,505	3,695,767	286,113	-
Benefit payments	(11,122,938)	(7,866,611)	(6,974,244)	(7,956,179)
Net change in total pension liability	8,038,372	17,236,937	8,910,670	7,508,377
Total pension liability, beginning	160,130,948	142,894,011	133,983,341	126,474,964
Total pension liability, ending	168,169,320	160,130,948	142,894,011	133,983,341
Fiduciary Net Position				
Employer contributions	10,678,521	10,911,471	10,733,545	10,934,839
Investment income net of investment expenses	4,597,095	8,413,073	7,780,363	1,437,393
Benefit payments	(11,122,938)	(7,866,611)	(6,974,244)	(7,956,179)
Administrative expenses	-	-	-	-
Net change in fiduciary net position	4,152,678	11,457,933	11,539,664	4,416,053
Fiduciary net position, beginning	114,340,459	102,882,526	91,342,862	86,926,809
Fiduciary net position, ending	118,493,137	114,340,459	102,882,526	91,342,862
Net pension liability, ending	\$ 49,676,183	\$ 45,790,489	\$ 40,011,485	42,640,479
Fiduciary net position as a % of total pension liability	70.46%	71.40%	72.00%	68.17%
Covered payroll	\$ 68,536,551	\$ 75,668,481	\$ 82,724,150	86,887,090
Net pension liability as a % of covered payroll	72.48%	60.51%	48.37%	49.08%

See notes to supplementary information.

MEMORIAL HOSPITAL AT GULFPORT
Year Ended September 30, 2018

NOTES TO SUPPLEMENTARY INFORMATION

Actuarial experience studies were performed as of July 2017, which resulted in certain changes in actuarial assumptions impacting the 2017 total pension liability 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.

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

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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Memorial Hospital at Gulfport, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise Memorial Hospital at Gulfport's basic financial statements, and have issued our report thereon dated December 17, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Memorial Hospital at Gulfport'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 Memorial Hospital at Gulfport's internal control. Accordingly, we do not express an opinion on the effectiveness of Memorial Hospital at Gulfport'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.

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. 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 Memorial Hospital at Gulfport'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.

HORNE LLP

Ridgeland, Mississippi
December 17, 2018