

# **Southeast Hospital d/b/a SoutheastHEALTH**

## **Independent Auditor's Report and Consolidated Financial Statements**

**December 31, 2017 and 2016**

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**Southeast Hospital**  
**d/b/a SoutheastHEALTH**  
**December 31, 2017 and 2016**

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## Independent Auditor's Report

Board of Directors  
Southeast Hospital  
d/b/a SoutheastHEALTH  
Cape Girardeau, Missouri

We have audited the accompanying consolidated financial statements of Southeast Hospital, d/b/a SoutheastHEALTH (the "Health System"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Southeast Hospital, d/b/a SoutheastHEALTH, as of December 31, 2017 and 2016, and the results of its operations, the changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*BKD, LLP*

Springfield, Missouri  
March 30, 2018

**Southeast Hospital**  
**d/b/a SoutheastHEALTH**  
**Consolidated Balance Sheets**  
**December 31, 2017 and 2016**

**Assets**

	<u>2017</u>	<u>2016</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 34,868,218	\$ 36,194,513
Assets limited as to use - current	5,022,843	3,103,297
Short-term investments	52,413,008	40,186,079
Patients accounts receivable, net of allowance; 2017 - \$73,100,000, 2016 - \$64,800,000	40,038,206	34,679,125
Estimated amounts due from third-party payers - current	157,270	1,492,585
Other accounts receivable	1,949,556	3,321,208
Supplies	8,003,929	7,740,641
Other	3,568,182	4,676,797
	<u>146,021,212</u>	<u>131,394,245</u>
<b>Assets Limited As To Use</b>		
Held by trustee		
Debt service reserve funds	23,614,365	19,747,203
Workers' compensation funds	478,464	475,076
	<u>24,092,829</u>	<u>20,222,279</u>
Less amount required to meet current obligations	5,022,843	3,103,297
	<u>19,069,986</u>	<u>17,118,982</u>
	<u>150,817,602</u>	<u>148,170,933</u>
<b>Property and Equipment, Net</b>		
	<u>150,817,602</u>	<u>148,170,933</u>
<b>Other Assets</b>		
Other assets	2,415,112	2,830,257
Interest in net assets of affiliates	5,820,670	4,580,342
Estimated amounts due from third-party payers - noncurrent	2,643,060	2,129,424
Intangible assets, net	8,804,592	9,109,548
	<u>19,683,434</u>	<u>18,649,571</u>
	<u>19,683,434</u>	<u>18,649,571</u>
Total assets	<u>\$ 335,592,234</u>	<u>\$ 315,333,731</u>

## Liabilities and Net Assets

	<u>2017</u>	<u>2016</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt and capital lease obligations	\$ 7,144,937	\$ 6,556,238
Accounts payable	25,605,697	15,544,022
Accrued salaries and wages	12,740,592	11,374,397
Accrued interest payable	2,373,094	1,184,495
Other accrued liabilities	2,970,074	2,552,472
Estimated amounts due to third-party payers	<u>15,376,689</u>	<u>18,188,262</u>
Total current liabilities	66,211,083	55,399,886
<b>Long-Term Debt</b>	137,891,328	132,154,428
<b>Capital Lease Obligations</b>	3,397,460	5,698,720
<b>Other Long-Term Liabilities</b>	<u>4,494,355</u>	<u>4,141,185</u>
Total liabilities	<u>211,994,226</u>	<u>197,394,219</u>
<b>Net Assets</b>		
Unrestricted	117,777,338	113,359,170
Temporarily restricted	4,603,191	3,365,297
Permanently restricted	<u>1,217,479</u>	<u>1,215,045</u>
Total net assets	<u>123,598,008</u>	<u>117,939,512</u>
Total liabilities and net assets	<u>\$ 335,592,234</u>	<u>\$ 315,333,731</u>

**Southeast Hospital  
d/b/a SoutheastHEALTH  
Consolidated Statements of Operations  
Years Ended December 31, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>Unrestricted Revenues, Gains and Other Support</b>		
Patient service revenue (net of contractual discounts and allowances)	\$ 386,529,457	\$ 373,485,845
Provision for uncollectible accounts	(56,260,010)	(49,401,930)
Net patient service revenue less provision for uncollectible accounts	330,269,447	324,083,915
Gain on deconsolidation of SoutheastHEALTH Center of Reynolds County	5,984,507	-
Other	21,651,659	25,424,514
Total unrestricted revenues, gains and other support	357,905,613	349,508,429
<b>Expenses and Losses</b>		
Salaries and wages	135,183,580	131,638,617
Employee benefits	31,303,794	29,648,348
Operating leases	3,903,045	3,440,255
Insurance	2,488,173	2,610,519
Purchased services, professional fees, supplies and other	138,608,663	128,041,685
Medicaid provider tax	16,351,099	16,316,705
Depreciation and amortization	22,875,799	27,188,048
Interest	6,074,603	7,077,079
Total expenses and losses	356,788,756	345,961,256
<b>Operating Income</b>	<b>1,116,857</b>	<b>3,547,173</b>
<b>Other Income (Expense)</b>		
Contributions	8,360	5,541
Investment return	2,652,015	401,979
Gain (loss) on sale of equipment	132,337	(103,138)
Other	57,539	(1,053,790)
Total other income (expense)	2,850,251	(749,408)
<b>Excess of Revenues Over Expenses</b>	<b>3,967,108</b>	<b>2,797,765</b>
Contributions of or for acquisition of property and equipment	451,060	-
<b>Increase in Unrestricted Net Assets</b>	<b>\$ 4,418,168</b>	<b>\$ 2,797,765</b>

**Southeast Hospital**  
**d/b/a SoutheastHEALTH**  
**Consolidated Statements of Changes in Net Assets**  
**Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Unrestricted Net Assets</b>		
Excess of revenues over expenses	\$ 3,967,108	\$ 2,797,765
Contributions of or for acquisition of property and equipment	451,060	-
	<u>4,418,168</u>	<u>2,797,765</u>
Increase in unrestricted net assets		
<b>Temporarily Restricted Net Assets</b>		
Change in interest in net assets of affiliates	1,237,894	18,589
	<u>1,237,894</u>	<u>18,589</u>
Increase in temporarily restricted net assets		
<b>Permanently Restricted Net Assets</b>		
Change in interest in net assets of affiliates	2,434	3,441
	<u>2,434</u>	<u>3,441</u>
Increase in permanently restricted net assets		
<b>Change in Net Assets</b>	5,658,496	2,819,795
<b>Net Assets, Beginning of Year</b>	<u>117,939,512</u>	<u>115,119,717</u>
<b>Net Assets, End of Year</b>	<u>\$ 123,598,008</u>	<u>\$ 117,939,512</u>

**Southeast Hospital**  
**d/b/a SoutheastHEALTH**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Operating Activities</b>		
Change in net assets	\$ 5,658,496	\$ 2,819,795
Items not requiring (providing) operating cash flow		
Depreciation and amortization	22,875,799	27,188,048
Amortization of deferred financing costs and bond premium	(230,447)	76,958
Net realized and unrealized gain on investments	(1,112,125)	(40,023)
(Gain) loss on sale of property and equipment	(132,337)	103,138
(Gain) loss on extinguishment of debt	(435,582)	327,471
Gain on deconsolidation of SoutheastHEALTH		
Center of Reynolds County	(5,984,507)	-
Undistributed portion of change in interest in net assets	(1,240,328)	(22,030)
Gain on forgiveness of accounts payable	-	(4,450,758)
Changes in		
Patient accounts receivable, net	(5,358,991)	1,913,468
Estimated amounts due from and to third-party payers	3,943,062	(782,136)
Supplies	(287,159)	134,155
Accounts payable and accrued expenses	11,092,699	(2,359,335)
Other assets and liabilities	2,962,250	586,952
	<u>31,750,830</u>	<u>25,495,703</u>
<b>Investing Activities</b>		
Cash disbursed through deconsolidation of SoutheastHEALTH		
Center of Reynolds County	(375,701)	-
Purchase of assets limited as to use and short-term investments	(131,876,778)	(58,279,379)
Proceeds from sale of assets limited as to use and short-term investments	116,632,601	47,327,206
Purchase of property and equipment	(24,691,250)	(4,905,651)
Proceeds from sale of property and equipment	534,264	34,474
	<u>(39,776,864)</u>	<u>(15,823,350)</u>
<b>Financing Activities</b>		
Principal payments on long-term debt	(92,328,541)	(32,679,571)
Principal payments on capital lease obligations	(793,497)	(2,085,483)
Proceeds from issuance of long-term debt	101,218,032	38,810,000
Payment of deferred financing costs	(1,396,255)	(741,177)
	<u>6,699,739</u>	<u>3,303,769</u>

**Southeast Hospital**  
**d/b/a SoutheastHEALTH**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	\$ (1,326,295)	\$ 12,976,122
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>36,194,513</u>	<u>23,218,391</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 34,868,218</u></u>	<u><u>\$ 36,194,513</u></u>
<b>Supplemental Cash Flows Information</b>		
Capital lease and other financial obligations	\$ -	\$ 1,906,649
Financing agreement for intangible asset	\$ -	\$ 9,070,432
Interest paid (net of capitalized interest)	\$ 8,054,582	\$ 8,094,681
Purchase of property and equipment in accounts payable	\$ 2,572,941	\$ 79,232

**Southeast Hospital**  
**d/b/a SoutheastHEALTH**  
**Notes to Consolidated Financial Statements**  
**December 31, 2017 and 2016**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations***

Southeast Hospital, d/b/a SoutheastHEALTH (the “Health System”), primarily earns revenues by providing inpatient, outpatient, emergency care and physician services to patients in the Cape Girardeau and the surrounding southeast Missouri area. SoutheastHEALTH Hospital is located in Cape Girardeau, Missouri, and has multiple campuses and facilities, such as HealthPoint Fitness, Southeast Home Health, Southeast Hospice, Southeast Medical Plaza, Southeast Cancer Center and various outpatient clinics.

SoutheastHEALTH of Ripley County, d/b/a SoutheastHEALTH Center of Ripley County, and SoutheastHEALTH Centers of Reynolds County and Stoddard County are collectively referred to as SoutheastHEALTH Regional System. The SoutheastHEALTH Regional System earns revenues by providing inpatient, outpatient, emergency care, physician services and retail pharmacy operations in Dexter, Missouri; Doniphan, Missouri; Ellington, Missouri, and their surrounding areas.

On March 11, 2016, SoutheastHEALTH Center of Reynolds County ceased operations and no longer provides services in Ellington, Missouri. On January 31, 2017, SoutheastHEALTH Center of Reynolds County filed a voluntary petition seeking relief under the provisions of Chapter 7 of Title 11 of the Bankruptcy Code. For the year ended December 31, 2017, SoutheastHEALTH Center of Reynolds County was deconsolidated from the consolidated financial statements of the Health System (see *Note 23*).

***Principles of Consolidation***

The accompanying consolidated financial statements include the accounts of SoutheastHEALTH and subsidiaries. All significant intercompany account balances and transactions have been eliminated in consolidation.

***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. Actual results could differ from those estimates.

**Southeast Hospital**  
**d/b/a SoutheastHEALTH**  
**Notes to Consolidated Financial Statements**  
**December 31, 2017 and 2016**

***Cash Equivalents***

The Health System considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2017 and 2016, cash equivalents consisted primarily of money market accounts with brokers.

At December 31, 2017, the Health System's cash accounts exceeded federally insured limits by approximately \$37,600,000.

***Investments and Investment Return***

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments, are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expense.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the consolidated statements of operations and changes in net assets as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

***Assets Limited As To Use***

Assets limited as to use include assets held by trustees under bond indentures and workers' compensation arrangements. Amounts required to meet current liabilities of the Health System are included in current assets.

***Patient Accounts Receivable***

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, the Health System analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts.

For receivables associated with services provided to patients who have third-party coverage, the Health System analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

**Southeast Hospital**  
**d/b/a SoutheastHEALTH**  
**Notes to Consolidated Financial Statements**  
**December 31, 2017 and 2016**

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Health System records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The Health System's allowance for uncollectible accounts for self-pay patients was 100% and 87% of self-pay accounts receivable at December 31, 2017 and 2016, respectively. In addition, the Health System's write-offs increased approximately \$7,700,000 from approximately \$39,800,000 for the year ended December 31, 2016, to approximately \$47,500,000 for the year ended December 31, 2017. These changes are the result of negative trends experienced in the collection of amounts from self-pay patients.

***Supplies***

The Health System states supply inventories at the lower of cost, determined using the average cost or first-in, first-out method, or market.

***Property and Equipment***

Property and equipment acquisitions are recorded at cost and are depreciated using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Land improvements	1 - 25 years
Buildings and leasehold improvements	5 - 40 years
Equipment	1 - 20 years

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

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**Notes to Consolidated Financial Statements**  
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The Health System capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred was:

	<b>2017</b>	<b>2016</b>
Interest capitalized	\$ 1,702,818	\$ 842,337
Interest charged to expense	6,074,603	7,077,079
Total interest incurred	\$ 7,777,421	\$ 7,919,416

***Intangible Assets***

Intangible assets with finite lives are being amortized on the straight-line basis over a period of five to seven years. Such assets are periodically evaluated as to the recoverability of their carrying values.

***Long-Lived Asset Impairment***

The Health System evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2017 and 2016.

***Interest in Net Assets of Southeast Missouri Hospital Foundation and Auxiliary***

Southeast Missouri Hospital Foundation Inc. (Foundation) and Southeast Missouri Hospital Auxiliary (Auxiliary) and the Health System are financially interrelated organizations. The Foundation and Auxiliary seek private support for and hold net assets on behalf of the Health System. The Health System accounts for its interest in the net assets of the Foundation and Auxiliary (Interest) in a manner similar to the equity method. Changes in the Interest are included in changes in net assets. Transfers of assets between the Foundation and Auxiliary and the Health System are recognized as increases or decreases in the Interest.

**Southeast Hospital**  
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**Notes to Consolidated Financial Statements**  
**December 31, 2017 and 2016**

***Deferred Financing Costs***

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

***Temporarily and Permanently Restricted Net Assets***

Temporarily restricted net assets are those whose use by the Health System has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Health System in perpetuity.

***Net Patient Service Revenue***

The Health System has agreements with third-party payers that provide for payments to the Health System at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

***Charity Care***

The Health System provides charity care to patients who are unable to pay for services. The amount of charity care is included in net patient service revenue and is not separately classified from the provision for uncollectible accounts.

***Contributions***

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

***Self-Insurance***

The Health System accrues estimated liabilities for self-insurance losses associated with workers' compensation and employee health insurance claims and includes an estimate of the ultimate costs for both reported claims and claims incurred but not reported.

**Southeast Hospital  
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**Notes to Consolidated Financial Statements**  
**December 31, 2017 and 2016**

***Professional Liability Claims***

The Health System recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in *Note 9*.

***Income Taxes***

Southeast Hospital and SoutheastHEALTH of Ripley County are exempt from income taxes under Section 501(c)3 of the Internal Revenue Code and a similar provision of state law. However, the Health System is subject to federal income tax on any unrelated business taxable income.

The Health System files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Health System is no longer subject to U.S. federal examinations by tax authorities for years before 2014.

***Excess of Revenues Over Expenses***

The consolidated statement of operations and changes in net assets include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers to and from affiliates for other than goods and services and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

***Transfers Between Fair Value Hierarchy Levels***

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date.

***Electronic Health Records Incentive Program***

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the Health System continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

**Southeast Hospital**  
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**Notes to Consolidated Financial Statements**  
**December 31, 2017 and 2016**

The Health System recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

The Health System has recorded revenue of approximately \$480,000 and \$1,180,000 for 2017 and 2016, respectively, which is included in other revenue within operating revenues in the consolidated statements of operations.

***Reclassifications***

Certain reclassifications have been made to the 2016 consolidated financial statements to conform to the 2017 consolidated financial statement presentation. These reclassifications had no effect on the change in net assets.

**Note 2: Net Patient Service Revenue**

The Health System recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Health System recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Health System's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Health System records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided. This provision for uncollectible accounts is presented on the consolidated statements of operations as a component of net patient service revenue.

The Health System has agreements with third-party payers that provide for payments to the Health System at amounts different from its established rates. These payment arrangements include:

*Medicare.* Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity. Certain inpatient nonacute services and defined medical education costs are paid based on a cost reimbursement methodology. The Health System is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Health System and audits thereof by the Medicare administrative contractor.

*Medicaid.* Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for all other services. The Health System is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the Health System and audits thereof by the Medicaid administrative contractor.

**Southeast Hospital**  
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**Notes to Consolidated Financial Statements**  
**December 31, 2017 and 2016**

*Other Agreements.* The Health System has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Health System under these agreements include prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

The Health System receives additional reimbursement from the Missouri Medicaid program in relation to the percentage of Medicaid and indigent population it serves. Funding received in excess of costs to provide these services will be refunded to the state. As of December 31, 2017 and 2016, the Health System has recorded a liability of approximately \$13,800,000 and \$10,000,000, respectively, for the estimated portion of funding received in excess of costs. It is reasonably possible that this estimate could materially change in the near term.

The Health System had recorded a liability of approximately \$6,300,000 for the year ended December 31, 2016, for Medicaid rural health clinics' overpayments owed by SoutheastHEALTH Center of Reynolds County. See *Note 23* for more information regarding SoutheastHEALTH Center of Reynolds County.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

A summary of the mix of patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended December 31, 2017 and 2016, respectively, was approximately:

	<b>2017</b>	<b>2016</b>
Medicare	\$ 129,649,000	\$ 123,059,000
Medicaid	52,347,000	53,422,000
Other third-party payers	170,455,000	161,327,000
Patients	34,078,000	35,678,000
	<hr/>	<hr/>
Total	<u>\$ 386,529,000</u>	<u>\$ 373,486,000</u>

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**Note 3: Concentration of Credit Risk**

The Health System grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payers at December 31, 2017 and 2016, was:

	<b>2017</b>	<b>2016</b>
Medicare	24%	17%
Medicaid	11%	12%
Other third-party payers	53%	57%
Patients	12%	14%
	<u>100%</u>	<u>100%</u>

**Note 4: Investments and Investment Return**

Investments, at December 31, include:

	<b>2017</b>	<b>2016</b>
Cash and cash equivalents	\$ 24,243,205	\$ 37,387,603
Government obligations	12,253,674	5,780,593
Corporate obligations	26,473,232	14,757,502
Equity securities	11,616,950	1,322,130
Other	<u>1,918,776</u>	<u>1,160,530</u>
Total investments	<u>\$ 76,505,837</u>	<u>\$ 60,408,358</u>

Investments are included on the consolidated balance sheets as follows:

	<b>2017</b>	<b>2016</b>
Short-term investments	\$ 52,413,008	\$ 40,186,079
Assets limited as to use		
Debt service reserve funds	23,614,365	19,747,203
Workers' compensation funds	<u>478,464</u>	<u>475,076</u>
	<u>\$ 76,505,837</u>	<u>\$ 60,408,358</u>

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***Deferred Compensation Plan Assets***

	<u>2017</u>	<u>2016</u>
Life insurance annuities	\$ 1,731,800	\$ 1,282,176
Life insurance contracts	<u>455,555</u>	<u>369,009</u>
	<u>\$ 2,187,355</u>	<u>\$ 1,651,185</u>

Deferred compensation plan assets are included in other long-term assets on the consolidated balance sheets.

***Investment Return***

Total investment return is comprised of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 1,586,892	\$ 368,278
Realized gains (losses) on trading securities	(14,415)	20,819
Unrealized gains on trading securities	<u>1,126,540</u>	<u>19,204</u>
	<u>\$ 2,699,017</u>	<u>\$ 408,301</u>

Total investment return is reflected in the statements of operations and changes in net assets as follows:

	<u>2017</u>	<u>2016</u>
Unrestricted net assets		
Unrestricted revenues, gains and other support	\$ 47,002	\$ 6,322
Other income		
Investment return	<u>2,652,015</u>	<u>401,979</u>
	<u>\$ 2,699,017</u>	<u>\$ 408,301</u>

Investment income on funds held by trustee under bond indenture agreements has been included in unrestricted revenue as other operating revenue.

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**Note 5: Notes Receivable**

The Health System entered into a three-year agreement in 2014 with Missouri Delta Medical Center in Sikeston, Missouri, to provide licensing and information technology support for a revenue cycle information system. In January 2016, management and Missouri Delta Medical Center signed a conditional waiver of payment of \$1,000,000 for the respective outstanding note receivable balance if Missouri Delta Medical Center satisfies all other obligations agreed to with the Health System and upon the Cerner Corporation (Cerner) go-live date. At December 31, 2016, the Health System had recorded a receivable of \$1,218,219, related to this arrangement, with an offsetting allowance of \$1,000,000, and the net is included in other accounts receivable on the consolidated balance sheets. During the year ended December 31, 2017, all requirements of this agreement were met between Missouri Delta Medical Center and the Health System, and therefore the remaining receivable was waived. As of December 31, 2017, there were no assets or liabilities recorded in regards to this agreement.

Prior to January 1, 2013, the SoutheastHEALTH Center of Ripley County had a management contract with Ripley County Memorial Hospital (RCMH). At December 31, 2017 and 2016, the Health System had a receivable of \$0 and \$540,730, respectively, related to this contract. At December 31, 2016, \$100,730 was included in other accounts receivable and \$440,000 in other long-term assets in the consolidated balance sheets. In addition, the Health System had entered into a long-term capital lease agreement which was renegotiated during the year ended December 31, 2017. The renegotiation of this lease resulted in the removal of the capital assets and related liability for the building lease as the lease was determined to be an operating lease upon negotiation of the new terms. The result of the removal of the capital lease assets and related liabilities resulted in a gain of \$306,418, which the Health System has recorded as a component of gains (losses) on sale of equipment within the consolidated statement of operations.

**Note 6: Property and Equipment**

A summary of property and equipment by category and the related total accumulated depreciation follows:

	<b>2017</b>	<b>2016</b>
Land	\$ 17,580,441	\$ 17,698,441
Land improvements	5,899,093	5,869,587
Buildings and leasehold improvements	213,236,421	215,641,524
Equipment	127,978,009	139,353,908
Construction in progress	13,472,237	4,651,033
	<u>378,166,201</u>	<u>383,214,493</u>
Accumulated depreciation	227,348,599	235,043,560
	<u><u>\$150,817,602</u></u>	<u><u>\$148,170,933</u></u>

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At December 31, 2017, the majority of construction in progress represents costs incurred in connection with renovations to the Stoddard Medical Center buildings. The total project cost is expected to be approximately \$13.5 million with the remaining amount not already incurred at December 31, 2017, of approximately \$1.5 million, being financed through operations and is anticipated to be completed in 2018.

**Note 7: Acquired Intangible Assets**

The carrying basis and accumulated amortization of recognized intangible assets for a software license at December 31, 2017 and 2016, were:

	<b>2017</b>		<b>2016</b>	
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>
Amortized intangible assets				
Licensing agreement	\$ 9,070,432	\$ 287,950	\$ 9,070,432	\$ -
Other	242,690	220,580	242,690	203,574
	<u>\$ 9,313,122</u>	<u>\$ 508,530</u>	<u>\$ 9,313,122</u>	<u>\$ 203,574</u>

Amortization expense for the years ended December 31, 2017 and 2016, was \$304,956 and \$17,006, respectively. Amortization expense for the licensing agreement had not commenced at December 31, 2016, as the software was not placed in service. The software license began being amortized with the placed in service date in November 2017. Estimated annual amortization expense is the following:

2018	\$ 1,744,707
2019	1,732,805
2020	1,727,701
2021	1,727,701
2022	1,727,701
Thereafter	143,975

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**Note 8: Interest in Net Assets of the Foundation and Auxiliary**

The Southeast Missouri Hospital Foundation (the “Foundation”) was established to benefit the Health System. The Foundation’s Board of Directors determines the amount, timing and purpose of the distribution of funds. The Health System’s interest in the net assets of the Foundation is accounted for in a manner similar to the equity method. Changes in the interest are included in changes in net assets. Transfers of assets between the Foundation and the Health System are recognized as increases or decreases in the interest in the net assets of the Foundation with corresponding decreases or increases in the assets transferred and have no effect on change in net assets. At December 31, 2017 and 2016, \$5,118,813 and \$4,032,922, respectively, was recognized as the Health System’s interest in the net assets of the Foundation and these interests include contributions received by the Foundation.

The Southeast Missouri Hospital Auxiliary (the “Auxiliary”) was established to benefit the Health System. The Auxiliary’s Board of Directors determines the amount, timing and purpose of the distribution of funds. The Health System’s interest in the net assets of the Auxiliary are accounted for in a manner similar to the equity method. Changes in the interest are included in changes in net assets. Transfers of assets between the Auxiliary and the Health System are recognized as increases or decreases in the interest in the net assets of the Auxiliary with corresponding decreases or increases in the assets transferred and have no effect on change in net assets. At December 31, 2017 and 2016, \$701,857 and \$547,420, respectively, was recognized as the Health System’s interest in the net assets of the Auxiliary and these interests include contributions received by the Auxiliary.

**Note 9: Professional Liability Claims**

The Health System purchases medical malpractice insurance under a claims-made policy. Under such a policy, only claims made and reported to the insurer during the policy term, regardless of when the incidents giving rise to the claims occurred, are covered. The Health System also purchases excess umbrella liability coverage, which provides additional coverage above the basic policy limits up to the amount specified in the umbrella policy.

Based upon the Health System’s claims experience, an accrual had been made for the Health System’s estimated medical malpractice costs, including costs associated with litigating or settling claims, under its medical malpractice insurance policy. Claim liabilities are to be determined without regard for recoveries. Expected recoveries are presented separately. As of December 31, 2017 and 2016, respectively, the Health System had recorded approximately \$500,000 and \$1,440,000 of estimated insurance coverage receivables, and approximately \$840,000 and \$2,040,000 of estimated insurance liabilities. Additionally, the Health System had recorded a liability of \$1,967,000 and \$1,890,000, respectively, for tail coverage as of December 31, 2017 and 2016. It is reasonably possible that these estimates could change materially in the near term.

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**Note 10: Self-Insurance**

***Health Insurance***

The Health System is self-insured for employee health coverage and has accrued an estimate of the ultimate costs for both reports claims and claims incurred but not reported. The accrual is based on the consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors and is included in current accrued expenses on the consolidated balance sheets. It is reasonably possible that the Health System's estimate will change by a material amount in the near term. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount.

***Workers' Compensation***

The Health System has a self-insurance program to provide for workers' compensation coverage and has accrued an estimate of the ultimate costs for both claims reported and claims incurred but not reported. A trust fund has been established for this purpose and is included in assets limited as to use. The accrual is based on the consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors and is included in current accrued expenses on the balance sheets. It is reasonably possible that the Health System's estimate will change by a material amount in the near term.

Liabilities for self-insurance costs for workers' compensation are classified as current or long-term in the accompanying consolidated financial statements based on past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors.

**Note 11: Long-Term Debt and Capital Lease Obligations**

	<b>2017</b>	<b>2016</b>
Hospital Revenue Bonds Series 2007 (A)	\$ -	\$ 89,280,000
Hospital Revenue Bonds Series 2016A (B)	21,405,000	21,930,000
Hospital Revenue Bonds Series 2016B (C)	16,880,000	16,880,000
Hospital Revenue Bonds Series 2017A (D)	85,290,000	-
Hospital Revenue Bonds Series 2017B (E)	6,775,000	-
Land promissory note (F)	1,660,895	1,829,949
Financing agreements (G)	4,789,320	6,854,194
Capital lease obligations (H)	4,785,658	7,618,454
	<u>141,585,873</u>	<u>144,392,597</u>
Less unamortized deferred financing costs	2,019,497	1,330,049
Plus bond premium (discount), net	8,867,349	1,346,838
Less current maturities	<u>7,144,937</u>	<u>6,556,238</u>
	<u>\$ 141,288,788</u>	<u>\$ 137,853,148</u>

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- (A) Industrial Development Authority of the County of Cape Girardeau, Missouri, issued Health Facilities Refunding Revenue Bonds Series 2007 in April 2007, in the original amount of \$99,500,000 with interest rates ranging from 4.0% to 5.0%, maturing on June 1, 2036. These bonds were paid in full during the year ended December 31, 2017, with the issuance of the Hospital Revenue Bonds Series 2017A and 2017B. Unamortized deferred financing costs associated with the borrowing were \$0 and \$620,912 at December 31, 2017 and 2016, respectively.
- (B) Industrial Development Authority of the County of Cape Girardeau, Missouri, issued Health Facilities Revenue Bonds Series 2016A in March 2016, in the amount of \$21,930,000. The interest rate on the Series 2016A is fixed over the life of the bonds at 6.0%. Annual principal and interest payments are due on the bonds, maturing on December 31, 2033. Unamortized deferred financing costs associated with the borrowing were \$401,308 and \$432,567 at December 31, 2017 and 2016, respectively.
- (C) Industrial Development Authority of Stoddard County, Missouri, issued Health Facilities Revenue Bonds Series 2016B in March 2016, in the amount of \$16,800,000. The interest rate on the Series 2016B is fixed over the life of the bonds at 6.0%. Annual principal and interest payments are due on the bonds, maturing on December 31, 2037. Unamortized deferred financing costs associated with the borrowing were \$261,726 and \$276,570 at December 31, 2017 and 2016, respectively.

The proceeds from issuance of the Series 2016A and 2016B Bonds were used to pay in full the remaining outstanding balance of the Series 2013A and 2013B Bonds, with the remaining funds to be used for various capital projects in 2016. A loss on extinguishment of debt of \$325,000 was recorded on the consolidated financial statements as a component of other nonoperating expenses for the year ended December 31, 2016.

- (D) Industrial Development Authority of the County of Cape Girardeau, Missouri issued Health Facilities Revenue Bonds Series 2017A in August 2017 in the amount of \$85,290,000. The interest rate on the Series 2017A ranges from 2.0% to 5.0%. Annual principal and interest payments are due on the bonds, maturing on March 1, 2036. Unamortized deferred financing costs associated with the borrowing were \$1,246,623 and \$0 at December 31, 2017 and 2016, respectively.
- (E) Industrial Development Authority of Stoddard County, Missouri, issued Health Facilities Revenue Bonds Series 2017B in August 2017, in the amount of \$6,775,000. The interest rate on the Series 2017B is fixed over the life of the bonds at 4.25%. Annual principal and interest payments are due on the bonds, maturing on March 1, 2042. Unamortized deferred financing costs associated with the borrowing were \$109,840 and \$0 at December 31, 2017 and 2016, respectively.

The proceeds from issuance of the Series 2017A and 2017B Bonds were used to pay in full the remaining outstanding balance of the Series 2007 Bonds, with the remaining funds to be used for various capital projects in 2017. A gain on extinguishment of debt of approximately \$436,000 was recorded on the consolidated financial statements as a component of other nonoperating expenses for the year ended December 31, 2017.

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Terms of the indentures require that certain funds be established with the trustees for the Series 2016A, Series 2016B, Series 2017A and Series 2017B Bonds. Accordingly, these funds are included in assets limited as to use in the consolidated financial statements.

Under a Master Indenture, the unrestricted revenues and properties of SoutheastHEALTH are pledged to the Master Trustee to secure obligations of SoutheastHEALTH under the Master Indenture, including its obligation to make payments on the Series 2016A, Series 2016B, Series 2017A and Series 2017B Bonds and any other notes hereafter issued under the Master Indenture.

The Master Indenture contains covenants which require the Health System to maintain debt service ratios along with other requirements as set forth in the Master Indenture. The Financing Agreement for the Series 2016A, Series 2016B, Series 2017A and Series 2017B Bonds contained covenants which require the Health System to maintain certain liquidity and debt service ratios, along with other requirements.

- (F) Land promissory note, dated February 1, 2013, bearing interest at 4.5%, payable in semiannual installments of \$124,760 through October 1, 2025. Secured by land.
- (G) Financing agreements primarily for the software license of the Cerner Millennium Software, dated February 1, 2016, bearing interest at 5.5%, payable in quarterly installments of \$623,510 through December 15, 2019.
- (H) Capital leases for various buildings and equipment, payable in monthly installments through 2034. The capital leases bear interest rates between 3.75% to 24.33% and are secured by the buildings and equipment.

	<b>2017</b>	<b>2016</b>
Buildings	\$ 3,631,482	\$ 5,560,559
Equipment	6,105,416	7,380,643
	9,736,898	12,941,202
Less accumulated depreciation	3,899,821	4,498,122
	\$ 5,837,077	\$ 8,443,080

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Aggregate annual maturities of long-term debt and payments on capital lease obligations at December 31, 2017, are:

	<b>Long-Term Debt (Excluding Capital Lease Obligations)</b>	<b>Capital Lease Obligations</b>
2018	\$ 6,330,458	\$ 1,141,736
2019	6,620,400	1,034,709
2020	4,438,200	790,734
2021	4,676,992	560,715
2022	4,936,184	478,947
Thereafter	<u>109,797,981</u>	<u>3,204,481</u>
	<u><u>\$ 136,800,215</u></u>	<u>7,211,322</u>
Less amount representing interest		<u>2,425,664</u>
Present value of future minimum lease payments		<u>4,785,658</u>
Less current maturities		<u>814,479</u>
Noncurrent portion		<u><u>\$ 3,971,179</u></u>

**Note 12: Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets held by the Foundation and Auxiliary are available for the following purpose or periods:

	<b>2017</b>	<b>2016</b>
Health services	\$ 855,412	\$ 717,597
Education programs and scholarships	847,242	847,242
Operating expenses of the Health System	<u>2,900,537</u>	<u>1,800,458</u>
	<u><u>\$ 4,603,191</u></u>	<u><u>\$ 3,365,297</u></u>

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Permanently restricted net assets held by the Foundation and Auxiliary are restricted for:

	<b>2017</b>	<b>2016</b>
Investments to be held in perpetuity, the income is restricted to be spent only for the donor's intended purpose	<u>\$ 1,217,479</u>	<u>\$ 1,215,045</u>

**Note 13: Financial Assistance**

The costs of charity care provided under the Health System's financial assistance policy were approximately \$4,340,000 and \$3,240,000 for 2017 and 2016, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

**Note 14: Functional Expenses**

The Health System provides health care services primarily to residents within its geographic area. Expenses related to providing these services are as follows:

	<b>2017</b>	<b>2016</b>
Health care services	\$288,968,584	\$281,126,193
General and administrative	<u>67,820,172</u>	<u>64,835,063</u>
	<u>\$356,788,756</u>	<u>\$345,961,256</u>

**Note 15: Operating Leases**

Rental expense under operating lease agreements for various physician clinic buildings and equipment totaled approximately \$3,903,000 and \$3,440,000 for the years ended December 31, 2017 and 2016, respectively.

Future minimum lease payments at December 31, 2017, were:

2018	\$ 2,768,892
2019	1,647,407
2020	1,392,228
2021	1,274,969
2022	978,184
Thereafter	<u>571,250</u>
Future minimum lease payments	<u>\$ 8,632,930</u>

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**Note 16: Significant Commitments**

The Health System and a national information technology company have entered into a strategic information technology service agreement. Cerner has assumed operational and administrative responsibilities for the Health System’s information technology environment and services, including remote hosting, monitoring and system performance capabilities. The agreement is effective as of February 1, 2016, through January 31, 2023. At the end of the initial term, the agreement will automatically renew in one-year increments. The payments on these agreements are recognized as expense when incurred.

Future minimum payments required under these agreements at December 31, 2017, are summarized as follows:

2018	\$ 2,479,992
2019	2,479,992
2020	2,479,992
2021	2,479,992
2022	2,479,992
Thereafter	<u>206,666</u>
Future minimum information technology commitments	<u><u>\$ 12,606,626</u></u>

In addition, as part of the agreement entered into during 2016, outstanding unpaid invoices were forgiven, and, as a result, the Health System recognized a gain from the relief of these payables of approximately \$4,450,000, which was recorded as a component of other operating revenue in 2016.

**Note 17: Pension Plan**

The Health System has a defined contribution pension plan covering substantially all employees. The Board of Directors annually determines the amount, if any, of the Health System’s contributions to the plan. For the years ended December 31, 2017 and 2016, the Health System made a discretionary contribution of 2% and matched up to 6%. Pension expense was approximately \$5,957,000 and \$5,800,000 for 2017 and 2016, respectively.

**Note 18: Deferred Compensation**

The Health System funds deferred compensation plans under Section 457(f) and 457(b) for the benefit of certain senior executives. The trust accounts assets are classified as other assets and a corresponding deferred compensation obligation has been recorded by the Health System in the amount of \$2,187,355 and \$1,651,185 at December 31, 2017 and 2016, respectively, and is classified as other assets and other long-term liabilities.

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**Note 19: Related Party Transactions**

During 2017 and 2016, the Health System received \$445,000 and \$0, respectively, in contributions from the Foundation. In addition, the Health System has recorded a receivable from the Foundation of \$32,644 and \$55,202 as of December 31, 2017 and 2016, respectively. During the year ended December 31, 2014, the Health System entered into a capital lease agreement with the Foundation for the Women's First building with annual payments of principal and interest totaling \$156,843 under the lease agreement and for the years ended December 31, 2017 and 2016, payments under the agreement were \$156,843. This capital lease is included in (H) in *Note 11*.

For the years ended December 31, 2017 and 2016, the Health System received \$4,989 and \$5,768, respectively, in contributions from the Auxiliary. In addition, the Health System has recorded a payable from the Auxiliary of \$18,893 and \$19,144, as of December 31, 2017 and 2016, respectively.

The Health System has entered into a various leasing agreements with physicians employed by the Health System. Leasing agreements include three operating leases with varying termination dates through 2022. For the years ended December 31, 2017 and 2016, annual payments of principal and interest to these physicians totaled \$717,586. The Health System also had two leasing agreements with these physicians for buildings that were leased through SoutheastHEALTH Centers of Reynolds County. These lease agreements are included as part of the bankruptcy proceedings and have been included as part of the gain on deconsolidation of SoutheastHEALTH Center of Reynolds County as of December 31, 2017 (see *Note 23*).

**Note 20: Disclosures About Fair Value of Assets and Liabilities**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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## Notes to Consolidated Financial Statements December 31, 2017 and 2016

### **Recurring Measurements**

The following tables present the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017 and 2016:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>December 31, 2017</b>				
Cash equivalents	\$ 24,243,205	\$ 24,243,205	\$ -	\$ -
Government obligations	12,253,674	-	12,253,674	-
Corporate obligations	26,473,232	26,473,232	-	-
Equity securities				
Consumer discretionary	1,277,865	1,277,865	-	-
Consumer staples	1,160,533	1,160,533	-	-
Energy	520,439	520,439	-	-
Financials	1,870,329	1,870,329	-	-
Health care	1,447,472	1,447,472	-	-
Industrials	1,890,078	1,890,078	-	-
Information technology	1,865,682	1,865,682	-	-
Materials	637,771	637,771	-	-
Utilities	305,526	305,526	-	-
Other industries	641,255	641,255	-	-
Other	1,918,776	196,009	1,722,767	-

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## Notes to Consolidated Financial Statements December 31, 2017 and 2016

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>December 31, 2016</b>				
Cash equivalents	\$ 37,387,603	\$ 37,387,603	\$ -	\$ -
Government obligations	5,780,593	-	5,780,593	-
Corporate obligations	14,757,502	14,757,502	-	-
Equity securities				
Consumer discretionary	159,317	159,317	-	-
Consumer staples	164,209	164,209	-	-
Energy	74,965	74,965	-	-
Financials	203,344	203,344	-	-
Health care	152,838	152,838	-	-
Industrials	187,478	187,478	-	-
Information technology	197,658	197,658	-	-
Materials	71,527	71,527	-	-
Utilities	41,118	41,118	-	-
Other industries	69,676	69,676	-	-
Other	1,160,530	134,436	1,026,094	-

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2017. The Health System has no assets classified within Level 3 of the fair value hierarchy.

### ***Cash Equivalents and Investments***

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Health System has no assets classified within Level 3 of the fair value hierarchy.

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## Notes to Consolidated Financial Statements December 31, 2017 and 2016

### ***Fair Value of Financial Instruments***

The following tables present estimated fair values of the Health System's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017 and 2016.

	Carrying Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>December 31, 2017</b>				
Financial assets				
Cash and cash equivalents	\$ 34,868,218	\$ 34,868,218	\$ -	\$ -
Assets limited as to use	24,092,829	24,092,829	-	-
Short-term investments	52,413,008	38,436,567	13,976,441	-
Interest in net assets of the Foundation and Auxiliary	5,820,670	-	5,820,670	-
Deferred compensation plan assets	2,187,355	338,941	1,848,414	-
Intangible assets	8,804,592	-	-	8,804,592
<b>December 31, 2016</b>				
Financial assets				
Cash and cash equivalents	\$ 36,194,513	\$ 36,194,513	\$ -	\$ -
Investments	20,222,279	20,222,279	-	-
Short-term investments	40,186,079	33,379,392	6,806,687	-
Interest in net assets of the Foundation and Auxiliary	4,580,342	-	4,580,342	-
Deferred compensation plan assets	1,651,185	223,413	1,427,772	-
Intangible assets	9,109,548	-	-	9,109,548

### ***Fair Value of Financial Instruments***

The following methods are used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

**Southeast Hospital**  
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**December 31, 2017 and 2016**

***Cash and Cash Equivalents***

The carrying amount approximates fair value.

***Interest in Net Assets of the Foundation and Auxiliary***

Fair value is estimated by discounting the cash flows of the future distributions expected to be received over the term of the agreement using rates of return on assets with similar cash flows.

***Deferred Compensation Plan Assets***

The carrying amount approximates fair value.

***Intangible Assets***

Intangible assets are valued at fair value on December 31, 2017 and 2016. The fair value is estimated using recent market transactions on similar assets and discounted cash flows. Key inputs include comparability discounts, weighted average cost of capital and long-term growth rates which cannot be corroborated by observable market data and, therefore, are classified within Level 3 of the valuation hierarchy.

Testing and measuring impairment of other intangibles is completed by the management through the use of independent valuation firms. Valuations and significant inputs developed by the independent valuation firms are reviewed by management for accuracy and reasonableness compared to expected changes for the period. The major inputs and methodology are provided to the CFO for approval as part of the closing process.

**Note 21: Asset Retirement Obligation**

Accounting principles generally accepted in the United States of America require that an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard) even when the timing and/or method of settlement may be conditional on a future event. The Health System's conditional asset retirement obligations relate to environmental hazards contained in buildings that the Health System owns. Environmental regulations exist that require the Health System to handle and dispose of environmental hazards in a special manner if a building undergoes major renovations or is demolished. At December 31, 2016, the Health System did not recognize a liability in the accompanying consolidated financial statements because the liability could not be reasonably estimated. At December 31, 2017, the Health System recognized a liability related to an asset retirement obligation of \$28,500 related to construction projects occurring in 2017. The remaining asset retirement obligation as of December 31, 2017, has yet to be recognized as a liability in the accompanying consolidated financial statements because the remaining liability cannot be reasonably estimated. The Health System will recognize the remaining liability when sufficient information is available to reasonably estimate fair value.

**Southeast Hospital**  
**d/b/a SoutheastHEALTH**  
**Notes to Consolidated Financial Statements**  
**December 31, 2017 and 2016**

**Note 22: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

***Allowance for Net Patient Service Revenue Adjustments***

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1* and *2*.

***Professional Liability Claims***

Estimates related to the accrual for professional liabilities claims are described in *Notes 1* and *9*.

***Estimated Liability for Employee Health Care and Workers' Compensation***

Estimates related to the accrual for employee health care and workers' compensation claims are described in *Notes 1* and *10*.

***Litigation***

In the normal course of business, the Health System is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Health System's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Health System evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

***Asset Retirement Obligation***

As discussed in *Note 21*, the Health System has asset retirement obligations related to environmental hazards.

***Investments***

The Health System invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

**Southeast Hospital**  
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**Notes to Consolidated Financial Statements**  
**December 31, 2017 and 2016**

**Note 23: Deconsolidation of SoutheastHEALTH Center of Reynolds County**

On March 11, 2016, SoutheastHEALTH Center of Reynolds County ceased operations and no longer provides services in Ellington, Missouri. On January 31, 2017, SoutheastHEALTH Center of Reynolds County filed a voluntary petition seeking relief under the provisions of Chapter 7 of Title 11 of the Bankruptcy Code. As part of the bankruptcy proceedings all assets and liabilities were turned over to the bankruptcy trustee, which resulted in the loss of control of SoutheastHEALTH Center of Reynolds County by the Health System. As such, SoutheastHEALTH of Reynolds County was deconsolidated during 2017. At the date of the bankruptcy filing, total assets were approximately \$1,200,000, total liabilities were approximately \$7,200,000, resulting in a gain on deconsolidation of approximately \$6,000,000 which is recorded as a component of operating revenue within the consolidated statements of operations.

**Note 24: Subsequent Events**

Subsequent events have been evaluated through March 30, 2018, which is the date the consolidated financial statements were issued.

**Note 25: Future Changes in Accounting Principles**

***Revenue Recognition (ASU 2014-09)***

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for the Health System for annual periods beginning after December 15, 2017, and any interim periods within annual reporting periods that begin after December 15, 2018. The Health System is in the process of evaluating the impact the amendment will have on the consolidated financial statements.

**Southeast Hospital**  
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**Notes to Consolidated Financial Statements**  
**December 31, 2017 and 2016**

***Leases (ASU 2016-02)***

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for the Health System for annual periods beginning after December 15, 2018, and any interim periods within annual reporting periods that begin after December 15, 2018. The Health System is evaluating the impact the standard will have on the consolidated financial statements; however, the standard is expected to have a material impact on the consolidated financial statements due to the recognition of additional assets and liabilities for operating leases.

## **Supplementary Information**

**Southeast Hospital**  
**d/b/a SoutheastHEALTH**  
**Consolidating Schedule – Balance Sheet Information**  
**December 31, 2017**

**Assets**

	<b>SoutheastHEALTH Hospital</b>	<b>SoutheastHEALTH Regional System</b>	<b>Total</b>
<b>Current Assets</b>			
Cash and cash equivalents	\$ 33,243,890	\$ 1,624,328	\$ 34,868,218
Assets limited as to use - current	4,351,303	671,540	5,022,843
Short-term investments	52,413,008	-	52,413,008
Patients accounts receivable, net	36,645,894	3,392,312	40,038,206
Estimated amounts due from third-party payers	-	157,270	157,270
Other accounts receivable	1,491,166	458,390	1,949,556
Supplies	7,395,800	608,129	8,003,929
Other	3,291,229	276,953	3,568,182
	<hr/>	<hr/>	<hr/>
Total current assets	138,832,290	7,188,922	146,021,212
<b>Assets Limited As To Use</b>			
Held by trustee			
Debt service reserve funds	20,018,229	3,596,136	23,614,365
Workers' compensation funds	478,464	-	478,464
	<hr/>	<hr/>	<hr/>
	20,496,693	3,596,136	24,092,829
Less amount required to meet current obligations	4,351,303	671,540	5,022,843
	<hr/>	<hr/>	<hr/>
	16,145,390	2,924,596	19,069,986
<b>Property and Equipment, Net</b>			
	<hr/>	<hr/>	<hr/>
	131,039,564	19,778,038	150,817,602
<b>Other Assets</b>			
Other assets	2,415,112	-	2,415,112
Interest in net assets of affiliates	5,820,670	-	5,820,670
Estimated amounts due from third-party payers - noncurrent	-	2,643,060	2,643,060
Intangible assets, net	8,797,347	7,245	8,804,592
	<hr/>	<hr/>	<hr/>
	17,033,129	2,650,305	19,683,434
	<hr/>	<hr/>	<hr/>
Total assets	\$ 303,050,373	\$ 32,541,861	\$ 335,592,234
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## Liabilities and Net Assets

	SoutheastHEALTH Hospital	SoutheastHEALTH Regional System	Total
<b>Current Liabilities</b>			
Current maturities of long-term debt and capital lease obligations	\$ 6,590,983	\$ 553,954	\$ 7,144,937
Accounts payable	21,258,726	4,346,971	25,605,697
Accrued salaries and wages	11,378,764	1,361,828	12,740,592
Accrued interest payable	1,933,915	439,179	2,373,094
Other accrued liabilities	2,670,926	299,148	2,970,074
Estimated amounts due to third-party payers	13,011,952	2,364,737	15,376,689
Total current liabilities	56,845,266	9,365,817	66,211,083
<b>Long-Term Debt</b>	114,380,861	23,510,467	137,891,328
<b>Capital Lease Obligations</b>	2,407,959	989,501	3,397,460
<b>Other Long-Term Liabilities</b>	4,358,302	136,053	4,494,355
Total liabilities	177,992,388	34,001,838	211,994,226
<b>Net Assets</b>			
Unrestricted	119,237,315	(1,459,977)	117,777,338
Temporarily restricted	4,603,191	-	4,603,191
Permanently restricted	1,217,479	-	1,217,479
Total net assets	125,057,985	(1,459,977)	123,598,008
Total liabilities and net assets	\$ 303,050,373	\$ 32,541,861	\$ 335,592,234

**Southeast Hospital  
d/b/a SoutheastHEALTH**  
**Consolidating Schedule – Statement of Operations Information**  
**Year Ended December 31, 2017**

	SoutheastHEALTH Hospital	SoutheastHEALTH Regional System	Total
<b>Unrestricted Revenues, Gains and Other Support</b>			
Patient service revenue (net of contractual discounts and allowances)	\$ 346,170,800	\$ 40,358,657	\$ 386,529,457
Provision for uncollectible accounts	(47,103,394)	(9,156,616)	(56,260,010)
Net patient service revenue less provision for uncollectible accounts	299,067,406	31,202,041	330,269,447
Gain on deconsolidation of SoutheastHEALTH Center of Reynolds	-	5,984,507	5,984,507
Other	17,900,168	3,751,491	21,651,659
Total unrestricted revenues, gains and other support	316,967,574	40,938,039	357,905,613
<b>Expenses and Losses</b>			
Salaries and wages	119,829,551	15,354,029	135,183,580
Employee benefits	28,061,462	3,242,332	31,303,794
Operating leases	2,744,534	1,158,511	3,903,045
Insurance	2,104,663	383,510	2,488,173
Purchased services, professional fees, supplies and other	123,948,510	14,660,153	138,608,663
Medicaid provider tax	14,772,032	1,579,067	16,351,099
Depreciation and amortization	21,694,849	1,180,950	22,875,799
Interest	5,034,546	1,040,057	6,074,603
Total expenses and losses	318,190,147	38,598,609	356,788,756
<b>Operating Income (Loss)</b>	(1,222,573)	2,339,430	1,116,857
<b>Other Income (Expense)</b>			
Contributions	8,360	-	8,360
Investment return	2,647,805	4,210	2,652,015
Gain (loss) on disposition of equipment	(174,081)	306,418	132,337
Other	429,240	(371,701)	57,539
Total other income (expense)	2,911,324	(61,073)	2,850,251
<b>Excess of Revenues Over Expenses</b>	1,688,751	2,278,357	3,967,108
Contributions of or for acquisition of property and equipment	451,060	-	451,060
Transfers from (to) affiliates	(4,273,671)	4,273,671	-
<b>Increase (Decrease) in Unrestricted Net Assets</b>	\$ (2,133,860)	\$ 6,552,028	\$ 4,418,168

**Southeast Hospital  
d/b/a SoutheastHEALTH**  
**Consolidating Schedule – Regional Balance Sheet Information**  
**December 31, 2017**

**Assets**

	SoutheastHEALTH Center of Ripley	SoutheastHEALTH Center of Stoddard	SoutheastHEALTH Center of Reynolds	SoutheastHEALTH Holding Company	SoutheastHEALTH Pharmacy	Total
<b>Current Assets</b>						
Cash and cash equivalents	\$ 71,363	\$ 1,424,018	\$ -	\$ 25,296	\$ 103,651	\$ 1,624,328
Assets limited as to use - current	-	671,540	-	-	-	671,540
Patients accounts receivable, net	1,010,392	2,381,920	-	-	-	3,392,312
Estimated amounts due from third-party payers	-	157,270	-	-	-	157,270
Other accounts receivable	314,359	11,153	-	3,134	129,744	458,390
Supplies	92,055	269,315	-	-	246,759	608,129
Other	99,333	177,145	-	288	187	276,953
Total current assets	<u>1,587,502</u>	<u>5,092,361</u>	<u>-</u>	<u>28,718</u>	<u>480,341</u>	<u>7,188,922</u>
<b>Assets Limited As To Use</b>						
Held by trustee						
Debt service reserve funds	-	3,596,136	-	-	-	3,596,136
	<u>-</u>	<u>3,596,136</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,596,136</u>
Less amount required to meet current obligations	-	671,540	-	-	-	671,540
	<u>-</u>	<u>2,924,596</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,924,596</u>
<b>Property and Equipment, Net</b>	<u>1,743,937</u>	<u>18,034,101</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,778,038</u>
<b>Other Assets</b>						
Estimated amounts due from third-party payers - noncurrent	1,609,825	1,033,235	-	-	-	2,643,060
Intangible assets, net	-	7,245	-	-	-	7,245
	<u>1,609,825</u>	<u>1,040,480</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,650,305</u>
Total assets	<u>\$ 4,941,264</u>	<u>\$ 27,091,538</u>	<u>\$ -</u>	<u>\$ 28,718</u>	<u>\$ 480,341</u>	<u>\$ 32,541,861</u>

**Southeast Hospital  
d/b/a SoutheastHEALTH**  
**Consolidating Schedule – Regional Balance Sheet Information**  
**December 31, 2017**

**Liabilities and Net Assets**

	SoutheastHEALTH Center of Ripley	SoutheastHEALTH Center of Stoddard	SoutheastHEALTH Center of Reynolds	SoutheastHEALTH Holding Company	SoutheastHEALTH Pharmacy	Total
<b>Current Liabilities</b>						
Current maturities of long-term debt and capital lease obligations	\$ 91,470	\$ 462,484	\$ -	\$ -	\$ -	\$ 553,954
Accounts payable	515,709	3,690,722	-	55,528	85,012	4,346,971
Accrued salaries and wages	419,523	863,971	-	65,253	13,081	1,361,828
Accrued interest payable	-	439,179	-	-	-	439,179
Other accrued liabilities	34,635	151,202	-	7,077	106,234	299,148
Estimated amounts due to third-party payers	1,298,337	1,066,400	-	-	-	2,364,737
<b>Total current liabilities</b>	<b>2,359,674</b>	<b>6,673,958</b>	<b>-</b>	<b>127,858</b>	<b>204,327</b>	<b>9,365,817</b>
<b>Long-Term Debt</b>	<b>-</b>	<b>23,510,467</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23,510,467</b>
<b>Capital Lease Obligations</b>	<b>65,803</b>	<b>923,698</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>989,501</b>
<b>Other Long-Term Liabilities</b>	<b>45,406</b>	<b>90,647</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>136,053</b>
<b>Total liabilities</b>	<b>2,470,883</b>	<b>31,198,770</b>	<b>-</b>	<b>127,858</b>	<b>204,327</b>	<b>34,001,838</b>
<b>Net Assets</b>						
Unrestricted	2,470,381	(4,107,232)	-	(99,140)	276,014	(1,459,977)
<b>Total net assets</b>	<b>2,470,381</b>	<b>(4,107,232)</b>	<b>-</b>	<b>(99,140)</b>	<b>276,014</b>	<b>(1,459,977)</b>
<b>Total liabilities and net assets</b>	<b>\$ 4,941,264</b>	<b>\$ 27,091,538</b>	<b>\$ -</b>	<b>\$ 28,718</b>	<b>\$ 480,341</b>	<b>\$ 32,541,861</b>

# Southeast Hospital d/b/a SoutheastHEALTH

## Consolidating Schedule – Regional Statement of Operations Information Year Ended December 31, 2017

	SoutheastHEALTH Center of Ripley	SoutheastHEALTH Center of Stoddard	SoutheastHEALTH Center of Reynolds	SoutheastHEALTH Holding Company	SoutheastHEALTH Pharmacy	Total
<b>Unrestricted Revenues, Gains and Other Support</b>						
Net patient service revenue	\$ 11,322,853	\$ 29,032,752	\$ 3,052	\$ -	\$ -	\$ 40,358,657
Provision for uncollectible accounts	(2,726,185)	(6,432,068)	1,637	-	-	(9,156,616)
Net patient service revenue less provision for uncollectible accounts	8,596,668	22,600,684	4,689	-	-	31,202,041
Gain on deconsolidation of SoutheastHEALTH Center of Reynolds	-	-	5,984,507	-	-	5,984,507
Other	1,141,152	579,229	42	-	2,031,068	3,751,491
Total unrestricted revenues, gains and other support	<u>9,737,820</u>	<u>23,179,913</u>	<u>5,989,238</u>	<u>-</u>	<u>2,031,068</u>	<u>40,938,039</u>
<b>Expenses and Losses</b>						
Salaries and wages	4,692,405	10,465,711	-	-	195,913	15,354,029
Employee benefits	958,796	2,205,330	4,632	-	73,574	3,242,332
Operating leases	405,571	731,068	-	-	21,872	1,158,511
Insurance	79,658	303,126	726	-	-	383,510
Purchased services, professional fees, supplies and other	3,339,142	9,521,230	35,539	-	1,764,242	14,660,153
Medicaid provider tax	479,196	1,039,061	-	-	60,810	1,579,067
Depreciation and amortization	234,757	930,757	15,436	-	-	1,180,950
Interest	55,633	970,938	13,484	-	2	1,040,057
Total expenses and losses	<u>10,245,158</u>	<u>26,167,221</u>	<u>69,817</u>	<u>-</u>	<u>2,116,413</u>	<u>38,598,609</u>
<b>Operating Loss</b>	<u>(507,338)</u>	<u>(2,987,308)</u>	<u>5,919,421</u>	<u>-</u>	<u>(85,345)</u>	<u>2,339,430</u>
<b>Other Income (Expense)</b>						
Investment return	3,169	1,041	-	-	-	4,210
Gain on disposition of equipment	306,418	-	-	-	-	306,418
Other	(353,699)	-	(18,002)	-	-	(371,701)
Total other income (expense)	<u>(44,112)</u>	<u>1,041</u>	<u>(18,002)</u>	<u>-</u>	<u>-</u>	<u>(61,073)</u>
<b>Excess (Deficiency) of Revenues Over Expenses</b>	<u>(551,450)</u>	<u>(2,986,267)</u>	<u>5,901,419</u>	<u>-</u>	<u>(85,345)</u>	<u>2,278,357</u>
Transfers from (to) affiliates	563,530	3,697,339	23,429	(33,682)	23,055	4,273,671
<b>Increase (Decrease) in Unrestricted Net Assets</b>	<u>\$ 12,080</u>	<u>\$ 711,072</u>	<u>\$ 5,924,848</u>	<u>\$ (33,682)</u>	<u>\$ (62,290)</u>	<u>\$ 6,552,028</u>