

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

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

**December 31, 2018 and 2017**

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**Southeast Hospital**  
**d/b/a SoutheastHEALTH**  
**December 31, 2018 and 2017**

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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, 2018 and 2017, 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, 2018 and 2017, 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.

### **Emphasis of Matter**

As discussed in *Note 1* to the consolidated financial statements during the year ended December 31, 2018, the Health System adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASU 2016-18 *Statement of Cash Flows (Topic 230): Restricted Cash*. Our opinion is not modified with respect to this matter.

### **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  
April 2, 2019

**Southeast Hospital**  
**d/b/a SoutheastHEALTH**  
**Consolidated Balance Sheets**  
**December 31, 2018 and 2017**

**Assets**

	<u>2018</u>	<u>2017</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 41,335,099	\$ 34,868,218
Assets limited as to use - current	5,614,084	5,022,843
Short-term investments	52,319,435	52,413,008
Patients accounts receivable, net of allowance; 2017 - \$73,100,000	37,658,804	40,038,206
Estimated amounts due from third-party payers - current	1,175,486	157,270
Other accounts receivable	1,800,545	1,949,556
Supplies	7,303,376	8,003,929
Other	<u>3,773,806</u>	<u>3,568,182</u>
Total current assets	<u>150,980,635</u>	<u>146,021,212</u>
<b>Assets Limited As To Use</b>		
Held by trustee		
Debt service reserve funds	14,689,206	23,614,365
Workers' compensation funds	<u>482,134</u>	<u>478,464</u>
	15,171,340	24,092,829
Less amount required to meet current obligations	<u>5,614,084</u>	<u>5,022,843</u>
	<u>9,557,256</u>	<u>19,069,986</u>
<b>Property and Equipment, Net</b>	<u>147,727,346</u>	<u>150,817,602</u>
<b>Other Assets</b>		
Other assets	2,421,707	2,415,112
Interest in net assets of affiliates	4,936,902	5,820,670
Estimated amounts due from third-party payers - noncurrent	2,071,432	2,643,060
Intangible assets, net	<u>7,059,834</u>	<u>8,804,592</u>
	<u>16,489,875</u>	<u>19,683,434</u>
Total assets	<u>\$ 324,755,112</u>	<u>\$ 335,592,234</u>

## Liabilities and Net Assets

	<u>2018</u>	<u>2017</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt and capital lease obligations	\$ 7,361,406	\$ 7,144,937
Accounts payable	27,178,917	25,605,697
Accrued salaries and wages	11,276,842	12,740,592
Accrued interest payable	2,238,733	2,373,094
Other accrued liabilities	2,462,390	2,970,074
Estimated amounts due to third-party payers	4,112,433	15,376,689
	<hr/>	<hr/>
Total current liabilities	54,630,721	66,211,083
<b>Long-Term Debt</b>	130,479,485	137,891,328
<b>Capital Lease Obligations</b>	3,066,968	3,397,460
<b>Other Long-Term Liabilities</b>	4,567,376	4,494,355
	<hr/>	<hr/>
Total liabilities	192,744,550	211,994,226
<b>Net Assets</b>		
Without donor restrictions	127,073,660	117,777,338
With donor restrictions	4,936,902	5,820,670
	<hr/>	<hr/>
Total net assets	132,010,562	123,598,008
Total liabilities and net assets	<u>\$ 324,755,112</u>	<u>\$ 335,592,234</u>

**Southeast Hospital**  
**d/b/a SoutheastHEALTH**  
**Consolidated Statements of Operations**  
**Years Ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017 (Reclassified - Note 23)</b>
<b>Revenues, Gains and Other Support Without Donor Restrictions</b>		
Patient service revenue (net of contractual discounts and allowances)		\$ 375,206,604
Provision for uncollectible accounts		(53,533,825)
Net patient care service revenue less provision for uncollectible accounts	\$ 348,204,007	321,672,779
Gain on deconsolidation of SoutheastHEALTH Center of Reynolds County	-	5,984,507
Other	20,178,224	20,510,507
Total revenues, gains and other support without donor restrictions	368,382,231	348,167,793
<b>Expenses and Losses</b>		
Salaries and wages	137,364,656	130,491,175
Employee benefits	26,585,283	30,344,998
Operating leases	3,303,516	3,497,474
Insurance	2,348,883	2,408,515
Purchased services, professional fees, supplies and other	144,416,908	135,269,521
Medicaid provider tax	16,156,252	15,871,903
Depreciation and amortization	20,495,133	22,641,042
Interest	5,873,907	6,018,970
Total expenses and losses	356,544,538	346,543,598
<b>Operating Income</b>	11,837,693	1,624,195
<b>Other Income</b>		
Contributions received	4,804	8,360
Investment return, net	613,786	2,648,846
Gain on sale of equipment	14,006	(174,081)
Other	-	411,238
Total other income	632,596	2,894,363
<b>Excess of Revenues Over Expenses from Continuing Operations</b>	12,470,289	4,518,558
<b>Loss from Discontinued Operations of SoutheastHEALTH Center of Ripley County</b>	(4,427,335)	(551,450)
<b>Excess of Revenues Over Expenses</b>	8,042,954	3,967,108
Contributions of or for acquisition of property and equipment	1,253,368	451,060
<b>Increase in Net Assets Without Donor Restrictions</b>	\$ 9,296,322	\$ 4,418,168

**Southeast Hospital**  
**d/b/a SoutheastHEALTH**  
**Consolidated Statements of Changes in Net Assets**  
**Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Net Assets Without Donor Restrictions</b>		
Excess of revenues over expenses	\$ 8,042,954	\$ 3,967,108
Contributions of or for acquisition of property and equipment	<u>1,253,368</u>	<u>451,060</u>
Increase in net assets without donor restrictions	<u>9,296,322</u>	<u>4,418,168</u>
<b>Net Assets With Donor Restrictions</b>		
Change in interest in net assets of affiliates	<u>(883,768)</u>	<u>1,240,328</u>
Increase (decrease) in net assets with donor restrictions	<u>(883,768)</u>	<u>1,240,328</u>
<b>Change in Net Assets</b>	8,412,554	5,658,496
<b>Net Assets, Beginning of Year</b>	<u>123,598,008</u>	<u>117,939,512</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 132,010,562</u></u>	<u><u>\$ 123,598,008</u></u>

**Southeast Hospital**  
**d/b/a SoutheastHEALTH**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b> <b>(As Adjusted -</b> <b>Note 1)</b>
<b>Operating Activities</b>		
Change in net assets	\$ 8,412,554	\$ 5,658,496
Items not requiring (providing) operating cash flow		
Depreciation and amortization	20,495,133	22,875,799
Amortization of deferred financing costs and bond premium	(629,435)	(230,447)
Net realized and unrealized gain (loss) on investments	1,477,848	(1,112,125)
(Gain) loss on sale of property and equipment	1,466,565	(132,337)
Loss on extinguishment of debt	-	(435,582)
Gain on deconsolidation of SoutheastHEALTH		
Center of Reynolds County	-	(5,984,507)
Undistributed portion of change in interest in net assets	883,768	(1,240,328)
Changes in		
Patient accounts receivable, net	2,379,402	(5,358,991)
Estimated amounts due from and to third-party payers	(11,710,844)	3,943,062
Supplies	700,553	(287,159)
Accounts payable and accrued expenses	(399,112)	11,092,699
Other assets and liabilities	9,636	2,962,250
Net cash provided by operating activities	23,086,068	31,750,830
<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	(1,405,102)	(11,373,627)
Proceeds from sale of assets limited as to use		
and short-term investments	20,827	-
Purchase of property and equipment	(16,950,516)	(24,691,250)
Proceeds from sale of property and equipment	14,006	534,264
Net cash used in investing activities	(18,320,785)	(35,906,314)
<b>Financing Activities</b>		
Principal payments on long-term debt	(6,327,461)	(92,328,541)
Principal payments on capital lease obligations	(892,430)	(793,497)
Proceeds from issuance of long-term debt	-	101,218,032
Payment of deferred financing costs	-	(1,396,255)
Net cash provided by (used in) financing activities	(7,219,891)	6,699,739

**Southeast Hospital**  
**d/b/a SoutheastHEALTH**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b> <b>(As Adjusted -</b> <b>Note 1)</b>
<b>Increase (Decrease) in Cash, Cash Equivalents, Restricted Cash and Restricted Cash Equivalents</b>	\$ (2,454,608)	\$ 2,544,255
<b>Cash, Cash Equivalents, Restricted Cash and Restricted Cash Equivalents, Beginning of Year</b>	<u>58,961,047</u>	<u>56,416,792</u>
<b>Cash, Cash Equivalents, Restricted Cash and Restricted Cash Equivalents, End of Year</b>	<u>\$ 56,506,439</u>	<u>\$ 58,961,047</u>
<b>Reconciliation of Cash and Cash Equivalents to the Balance Sheets</b>		
Cash in current assets	\$ 41,335,099	\$ 34,868,218
Cash and cash equivalents in assets limited as to use	<u>15,171,340</u>	<u>24,092,829</u>
	<u>\$ 56,506,439</u>	<u>\$ 58,961,047</u>
<b>Supplemental Cash Flows Information</b>		
Capital lease and other financial obligations	\$ 390,633	\$ -
Interest paid (net of capitalized interest)	\$ 6,381,591	\$ 4,938,838
Purchase of property and equipment in accounts payable	\$ 2,439,478	\$ 2,571,941

**Southeast Hospital**  
**d/b/a SoutheastHEALTH**  
**Notes to Consolidated Financial Statements**  
**December 31, 2018 and 2017**

**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 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; and Doniphan, 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 22*).

On October 15, 2018, SoutheastHEALTH Center of Ripley County ceased operations and no longer provides services in Doniphan, Missouri. On December 31, 2018, SoutheastHEALTH Center of Ripley County terminated its lease of the hospital with the County Commission of Ripley County, Missouri. For the years ended December 31, 2018 and 2017, SoutheastHEALTH Center of Ripley County is presented as discontinued operations within 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, 2018 and 2017**

***Cash Equivalents***

The Health System considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018 and 2017, cash equivalents consisted primarily of money market accounts with brokers.

At December 31, 2018, the Health System's cash accounts exceeded federally insured limits by approximately \$41,200,000.

***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 net assets without donor restrictions. Other investment return is reflected in the consolidated statements of operations and changes in net assets with or without donor restrictions 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***

Patient accounts receivable reflects the outstanding amount of consideration to which the Health System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others. As a service to the patient, the Health System bills third-party payers directly and bills the patient when the patient's responsibility for co-pays, coinsurance and deductibles is determined. Patient accounts receivable are due in full when billed.

Bad debt expense was not significant for the year ended December 31, 2018.

**Southeast Hospital**  
**d/b/a SoutheastHEALTH**  
**Notes to Consolidated Financial Statements**  
**December 31, 2018 and 2017**

***Contract Assets and Liabilities***

Amounts related to health care services provided to patients which have not been billed and that do not meet the conditions of an unconditional right to payment at the end of the reporting period are contract assets. Contract assets consist primarily of health care services provided to patients who are still receiving inpatient care in the Health System at the end of the year.

Contract assets are included in patient accounts receivable at December 31, 2018. At December 31, 2017, amounts related to health care services provided to patients which have not been billed and did not meet the conditions of an unconditional right to payment as of the year then ended are included on the balance sheet in accounts receivable, net of allowance.

Contract assets were not significant for the year ended December 31, 2018.

***Supplies***

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

***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 net assets without donor restrictions 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 net assets without donor restrictions when the donated asset is placed in service.

**Southeast Hospital  
d/b/a SoutheastHEALTH  
Notes to Consolidated Financial Statements  
December 31, 2018 and 2017**

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>2018</b>	<b>2017</b>
Interest capitalized	\$ 792,699	\$ 1,702,818
Interest charged to expense	5,873,907	6,018,970
Total interest incurred	\$ 6,666,606	\$ 7,721,788

***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, 2018 and 2017.

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

Southeast Missouri Hospital Foundation Inc. (the “Foundation”) and Southeast Missouri Hospital Auxiliary (the “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.

***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.

**Southeast Hospital**  
**d/b/a SoutheastHEALTH**  
**Notes to Consolidated Financial Statements**  
**December 31, 2018 and 2017**

***Net Assets with Donor Restrictions***

Net assets with donor restrictions include those whose use by the Health System has been limited by donors to a specific time period or purpose either temporarily or in perpetuity.

***Patient Service Revenue***

Patient service revenue is recognized as the Health System satisfies performance obligations under its contracts with patients. Patient service revenue is reported at the estimated transaction price or amount that reflects the consideration to which the Health System expects to be entitled in exchange for providing patient care. The Health System determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured in accordance with the Health System's policies and implicit price concessions provided to uninsured patients. The Health System determines its estimates of adjustments and discounts based on contractual agreements, its discount policies and explicit price concessions which represent historical experience by payer groups. The Health System determines its estimate of implicit price concessions based on its historical collection experience by classes of patients. The estimated amounts also include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations by third-party payers.

***Charity Care***

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as patient care service revenue. The Health System's direct and indirect costs for services furnished under its charity care policy aggregated approximately \$3,960,000 and \$4,340,000 in 2018 and 2017, respectively.

***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 changes in net assets with donor restrictions. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified and reported as an increase in net assets without donor restrictions. 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.

**Southeast Hospital**  
**d/b/a SoutheastHEALTH**  
**Notes to Consolidated Financial Statements**  
**December 31, 2018 and 2017**

***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.

***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 8*.

***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.

***Excess of Revenues Over Expenses***

The consolidated statement of operations and changes in net assets include excess of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess of revenues over expenses, consistent with industry practice, include 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.

***Reclassifications***

Certain reclassifications have been made to the 2017 consolidated financial statements to conform to the 2018 consolidated financial statement presentation. These reclassifications had no effect on the change in net assets.

**Southeast Hospital**  
**d/b/a SoutheastHEALTH**  
**Notes to Consolidated Financial Statements**  
**December 31, 2018 and 2017**

***Consolidated Statements of Cash Flows Revision***

Fiscal year 2017 consolidated statements of cash flows supplemental cash flows information has been revised for the interest paid (net of capitalized interest). The immaterial correction changed the interest paid (net of capitalized interest) from \$8,054,582 to \$4,938,838.

***Changes in Accounting Principles***

On January 1, 2018, the Health System adopted the Financial Accounting Standards Board Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*, (ASU 2014-09) using a modified-retrospective method of adoption to all contracts with patients at January 1, 2018. The core guidance in ASU 2014-09 is to recognize revenue to depict the transfer of promised goods or services to customers or patients in an amount that reflects the consideration to which the Health System expects to be entitled in exchange for those goods or services. The amount to which the Health System expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing patient care services to its patients. Adoption of ASU 2014-09 resulted in changes in presentation of the financial statements and related disclosures in the notes to the consolidated financial statements. Prior to the adoption of ASU 2014-09, the majority of the provision for doubtful accounts related to patients without insurance, as well as patient responsibility balances for co-pays, co-insurance and deductibles for patients with insurance. Under ASU 2014-09, the estimated amounts due from patients for which the Health System does not expect to be entitled or collect from the patients are considered implicit price concessions and excluded from the Health System's estimation of the transaction price or revenue recorded.

During the year ended December 31, 2018, the Health System adopted the Financial Accounting Standards Board Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958: Presentation of Financial Statements of Not-for-Profit Entities)*, (ASU 2016-14), on a retrospective basis. This ASU is intended to improve the net asset clarification requirements and the information presented in the consolidated financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. The main provisions of this ASU include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The ASU also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity and expenses by both their natural and functional classification. Adoption of ASU 2016-14 resulted in no material impact to the Health System's consolidated financial statements.

**Southeast Hospital**  
**d/b/a SoutheastHEALTH**  
**Notes to Consolidated Financial Statements**  
**December 31, 2018 and 2017**

During the year ended December 31, 2018, the Health System adopted the Financial Accounting Standards Board Accounting Standards Update 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force), (ASU 2016-18), on a retrospective basis. This ASU is intended to remove diversity in practice of restricted cash within the statements of cash flows. The Health System, which presents cash and cash equivalents with restrictions in multiple line items on the consolidated balance sheets, will now report these items as cash and cash equivalents for the consolidated statements of cash flows, and will disclose the location of its cash and cash equivalents to reconcile the two statements for each period presented. Adoption of ASU 2016-14 resulted in the following changes on the consolidated statement of cash flows to the Health System's consolidated financial statements.

	<b>December 31, 2017</b>		
	<b>As Previously Reported</b>	<b>As Adjusted</b>	<b>Adoption Impact</b>
<b>Consolidated Statements of Cash Flows</b>			
Purchase of assets limited as to use and short-term investments	\$(131,876,778)	\$ (11,373,627)	\$ 120,503,151
Proceeds from sales of assets limited as to use and short-term investments	116,632,601	-	(116,632,601)
Net cash used in investing activities	(39,776,864)	(35,906,314)	3,870,550
Increase (decrease) in cash and cash equivalents	(1,326,295)	2,544,255	3,870,550
Cash and cash equivalents, beginning of year	36,194,513	56,416,792	20,222,279
Cash and cash equivalents, end of year	34,868,218	58,961,047	24,092,829

**Note 2: Patient Service Revenue**

Patient care service revenue is reported at the amount that reflects the consideration to which the Health System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payers (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the Health System bills the patients and third-party payers several days after the services are performed or the patient is discharged from the facility and patient accounts receivable are due in full when billed. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Health System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected charges. The Health System believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the Health System receiving inpatient services or patients receiving services in outpatient centers or in their homes (home care).

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The Health System measures the performance obligation from inpatient admission, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and the Health System does not believe it is required to provide additional goods or services related to the patient encounter.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Health System has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient and home care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Health System determines the transaction price based on standard charges for goods and services provided, reduced by explicit price concessions, which consist of contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with the Health System's policy and implicit price concessions provided to uninsured patients. The Health System determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. The Health System determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Agreements with third-party payers typically provide for payments to the Health System at amounts less than established charges. A summary of the payment arrangements with major third-party payers follows:

*Medicare.* Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates. 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.

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*Other.* Payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Health System's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Health System. In addition, the contracts the Hospital has with commercial payers also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to cost report or other audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Health System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known based on newly available information or as years are settled or are no longer subject to such audits, reviews and investigations. Patient service revenue increased by approximately \$11,250,000 and \$400,000 in 2018 and 2017, respectively as a result of changes in estimates due to settlements of prior year cost reports, Medicaid settlements and the disposition of other payer audits and settlements.

From time to time the Health System will receive overpayments of patient balances from third-party payers or patients resulting in amounts owed back to either the patients or third-party payers. These amounts are excluded from revenues and are recorded as liabilities until they are refunded.

Generally, patients who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. The Health System also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Health System estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient care service revenue in the period of the change. For the years

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ended December 31, 2018 and 2017, additional revenue of approximately \$4,835,000 and \$2,560,000, respectively, was recognized due to changes in its estimates of implicit price concessions, discounts and contractual adjustments for performance obligations satisfied in prior years. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Consistent with the Health System's mission, care is provided to patients regardless of their ability to pay. Therefore, the Health System has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances, such as copays and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Health System expects to collect based on its collection history with those patients.

Patients who meet the Health System's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

The Health System has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors: payers, service line and method of reimbursement.

The composition of patient care service revenue by primary payer for the years ended December 31 is as follows:

	<b>2018</b>	<b>2017</b>
Medicare	\$129,671,000	\$125,294,000
Medicaid	60,596,000	48,938,000
Other third-party payers	156,063,000	168,814,000
Patients	1,874,000	32,160,000
	<u>\$348,204,000</u>	<u>\$375,206,000</u>

Revenue from patients' deductibles and coinsurance are included in the categories presented above based upon primary payer for 2018.

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The table below represents disaggregation of revenue by payer by entity.

	<b>December 31, 2018</b>		
	<b>Cape</b>	<b>Regional</b>	<b>Totals</b>
Medicare	\$ 115,986,000	\$ 13,685,000	\$ 129,671,000
Medicaid	53,891,000	6,705,000	60,596,000
Other third-party payers	148,229,000	7,834,000	156,063,000
Patients	1,404,000	470,000	1,874,000
	<u>115,986,000</u>	<u>13,685,000</u>	<u>129,671,000</u>
	<u>53,891,000</u>	<u>6,705,000</u>	<u>60,596,000</u>
	<u>148,229,000</u>	<u>7,834,000</u>	<u>156,063,000</u>
	<u>1,404,000</u>	<u>470,000</u>	<u>1,874,000</u>
Total	<u><u>\$ 319,510,000</u></u>	<u><u>\$ 28,694,000</u></u>	<u><u>\$ 348,204,000</u></u>

The composition of patient care service revenue based on lines of business and method of reimbursement for the year ended December 31, 2018, are as follows:

	<b>2018</b>
Hospital - inpatient	\$ 120,744,000
Hospital - outpatient	185,558,000
Physician services	38,949,000
Home health and hospice	2,953,000
	<u>120,744,000</u>
	<u>185,558,000</u>
	<u>38,949,000</u>
	<u>2,953,000</u>
Total	<u><u>\$ 348,204,000</u></u>

  

	<b>2018</b>
Fee for service	\$ 285,170,000
Per diem	24,967,000
Episodic	2,953,000
Other	35,114,000
	<u>285,170,000</u>
	<u>24,967,000</u>
	<u>2,953,000</u>
	<u>35,114,000</u>
Total	<u><u>\$ 348,204,000</u></u>

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## Notes to Consolidated Financial Statements December 31, 2018 and 2017

### **Financing Component**

The Health System has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Health System's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Health System does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

### **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, 2018 and 2017, was:

	<b>2018</b>	<b>2017</b>
Medicare	22%	24%
Medicaid	8%	11%
Other third-party payers	62%	53%
Patients	8%	12%
	100%	100%

### **Note 4: Investments and Investment Return**

Investments, at December 31, include:

	<b>2018</b>	<b>2017</b>
Cash and cash equivalents	\$ 15,409,828	\$ 24,243,205
Government obligations	10,421,342	12,521,840
Corporate obligations	30,780,416	28,123,842
Mutual funds - equity	9,586,422	11,616,950
Mutual funds - balanced	1,292,767	-
Total investments	\$ 67,490,775	\$ 76,505,837

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Investments are included on the consolidated balance sheets as follows:

	<b>2018</b>	<b>2017</b>
Short-term investments	\$ 52,319,435	\$ 52,413,008
Assets limited as to use		
Debt service reserve funds	14,689,206	23,614,365
Workers' compensation funds	482,134	478,464
	<u>\$ 67,490,775</u>	<u>\$ 76,505,837</u>

***Deferred Compensation Plan Assets***

	<b>2018</b>	<b>2017</b>
Life insurance annuities	\$ 1,800,870	\$ 1,731,800
Life insurance contracts	533,511	455,555
	<u>\$ 2,334,381</u>	<u>\$ 2,187,355</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:

	<b>2018</b>	<b>2017</b>
Interest and dividend income	\$ 2,287,550	\$ 1,583,723
Realized gains (losses) on trading securities	1,405,303	(14,415)
Unrealized gains (losses) on trading securities	(2,883,151)	1,126,540
	<u>\$ 809,702</u>	<u>\$ 2,695,848</u>

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

	<b>2018</b>	<b>2017</b>
Net assets without donor restrictions		
Revenues, gains and other support without donor restrictions	\$ 195,916	\$ 47,002
Other income		
Investment return, net	<u>613,786</u>	<u>2,648,846</u>
	<u>\$ 809,702</u>	<u>\$ 2,695,848</u>

Investment income on funds held by trustee under bond indenture agreements has been included in revenue, gains and other support without donor restrictions as other operating revenue.

**Note 5: Property and Equipment**

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

	<b>2018</b>	<b>2017</b>
Land	\$ 17,580,441	\$ 17,580,441
Land improvements	5,866,923	5,899,093
Buildings and leasehold improvements	230,078,335	213,236,421
Equipment	132,285,807	127,978,009
Construction in progress	<u>4,417,723</u>	<u>13,472,237</u>
	390,229,229	378,166,201
Accumulated depreciation	<u>242,501,883</u>	<u>227,348,599</u>
	<u>\$147,727,346</u>	<u>\$150,817,602</u>

At December 31, 2018, construction in progress represents costs incurred in various projects in relation to various projects and renovations. The total project costs are expected to be approximately \$9.4 million with the remaining amount not already incurred at December 31, 2018, of approximately \$5.4 million. These projects are being financed through operations and the 2016 bond funds, and are anticipated to be completed in 2019.

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### Note 6: Acquired Intangible Assets

The carrying basis and accumulated amortization of recognized intangible assets for a software license at December 31, 2018 and 2017, were:

	2018		2017	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets				
Licensing agreement	\$ 9,070,432	\$ 2,015,652	\$ 9,070,432	\$ 287,950
Other	242,690	237,636	242,690	220,580
	<u>\$ 9,313,122</u>	<u>\$ 2,253,288</u>	<u>\$ 9,313,122</u>	<u>\$ 508,530</u>

Amortization expense for the years ended December 31, 2018 and 2017, was \$1,744,758 and \$304,956, respectively. The software license began being amortized with the placed in service date in November 2017. Estimated annual amortization expense is the following:

2019	\$ 1,732,755
2020	1,727,701
2021	1,727,701
2022	1,727,701
2023	143,975

### Note 7: Interest in Net Assets of the Foundation and Auxiliary

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, 2018 and 2017, \$4,936,902 and \$5,118,813, 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.

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The Auxiliary was established to benefit the Health System. During 2018, the Auxiliary was dissolved and all assets were transferred to the Foundation. The Auxiliary's Board of Directors determined 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 were 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 had no effect on change in net assets. At December 31, 2018 and 2017, \$0 and \$701,857, 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 8: 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 has 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, 2018 and 2017, respectively, the Health System has recorded approximately \$230,000 and \$500,000 of estimated insurance coverage receivables, and approximately \$530,000 and \$840,000 of estimated insurance liabilities. Additionally, the Health System has recorded a liability of \$1,933,000 and \$1,967,000, respectively, for tail coverage as of December 31, 2018 and 2017. It is reasonably possible that these estimates could change materially in the near term.

**Note 9: 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 reported 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.

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**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 10: Long-Term Debt and Capital Lease Obligations**

	<b>2018</b>	<b>2017</b>
Hospital Revenue Bonds Series 2016A (B)	\$ 20,560,000	\$ 21,405,000
Hospital Revenue Bonds Series 2016B (C)	16,600,000	16,880,000
Hospital Revenue Bonds Series 2017A (D)	82,640,000	85,290,000
Hospital Revenue Bonds Series 2017B (E)	6,775,000	6,775,000
Land promissory note (F)	1,484,147	1,660,895
Financing agreements (G)	2,410,609	4,789,320
Capital lease obligations (H)	4,217,774	4,785,658
	<u>134,687,530</u>	<u>141,585,873</u>
Less unamortized deferred financing costs	1,862,838	2,019,497
Plus bond premium (discount), net	8,083,167	8,867,349
Less current maturities	<u>7,361,406</u>	<u>7,144,937</u>
	<u><u>\$133,546,453</u></u>	<u><u>\$141,288,788</u></u>

(A) 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, secured by property. The interest rate on the Series 2016A is fixed over the life of the bonds at 6.0 percent. Annual principal and interest payments are due on the bonds, maturing on December 31, 2033. Unamortized deferred financing costs associated with the borrowing were \$374,833 and \$401,308 at December 31, 2018 and 2017, respectively.

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- (B) Industrial Development Authority of Stoddard County, Missouri, issued Health Facilities Revenue Bonds Series 2016B in March 2016, in the amount of \$16,800,000, secured by property. The interest rate on the Series 2016B is fixed over the life of the bonds at 6.0 percent. Annual principal and interest payments are due on the bonds, maturing on December 31, 2037. Unamortized deferred financing costs associated with the borrowing were \$248,069 and \$261,726 at December 31, 2018 and 2017, respectively.
- (C) 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, secured by property. The interest rate on the Series 2017A ranges from 2.0 percent to 5.0 percent. Annual principal and interest payments are due on the bonds, maturing on March 1, 2036. Unamortized deferred financing costs associated with the borrowing were \$1,135,193 and \$1,246,623 at December 31, 2018 and 2017, respectively.
- (D) Industrial Development Authority of Stoddard County, Missouri, issued Health Facilities Revenue Bonds Series 2017B in August 2017, in the amount of \$6,775,000, secured by property. The interest rate on the Series 2017B is fixed over the life of the bonds at 4.25 percent. Annual principal and interest payments are due on the bonds, maturing on March 1, 2042. Unamortized deferred financing costs associated with the borrowing were \$104,743 and \$109,840 at December 31, 2018 and 2017, 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.

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.

- (E) Land promissory note, dated February 1, 2013, bearing interest at 4.5 percent, payable in semiannual installments of \$124,760 through October 1, 2025. Secured by land.
- (F) Financing agreements primarily for the software license of the Cerner Millennium Software (Cerner), dated February 1, 2016, bearing interest at 5.5 percent, payable in quarterly installments of \$623,510 through December 15, 2019.

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(G) Capital leases for various buildings and equipment, payable in monthly installments through 2034. The capital leases bear interest rates between 3.11 percent to 24.33 percent and are secured by the buildings and equipment.

	<u>2018</u>	<u>2017</u>
Buildings	\$ 3,134,832	\$ 3,631,482
Equipment	<u>6,528,821</u>	<u>6,105,416</u>
	9,663,653	9,736,898
Less accumulated depreciation	<u>4,725,452</u>	<u>3,899,821</u>
	<u>\$ 4,938,201</u>	<u>\$ 5,837,077</u>

Aggregate annual maturities of long-term debt and payments on capital lease obligations at December 31, 2018, are:

	<b>Long-Term Debt (Excluding Capital Lease Obligations)</b>	<b>Capital Lease Obligations</b>
2019	\$ 6,620,400	\$ 1,071,565
2020	4,438,200	900,993
2021	4,676,992	656,541
2022	4,936,184	521,485
2023	5,200,794	396,843
Thereafter	<u>104,597,186</u>	<u>2,787,763</u>
	<u>\$ 130,469,756</u>	6,335,190
Less amount representing interest		<u>2,117,416</u>
Present value of future minimum lease payments		4,217,774
Less current maturities		<u>741,006</u>
Noncurrent portion		<u>\$ 3,476,768</u>

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**Note 11: Net Assets With Donor Restrictions**

Net assets with donor restrictions are available for the following purposes or periods:

	<b>2018</b>	<b>2017</b>
Subject to expenditure for the specified purpose		
Health services	\$ 2,197,741	\$ 855,412
Education programs and scholarships	526,406	838,097
Operating expenses of the Health System	<u>1,484,300</u>	<u>2,909,682</u>
	<u>\$ 4,208,447</u>	<u>\$ 4,603,191</u>
 Endowments		
Investments to be held in perpetuity, the income is restricted to be spent only for the donor's intended purpose	   <u>\$ 728,455</u>	   <u>\$ 1,217,479</u>

**Note 12: Liquidity and Availability**

The Health System's financial assets available within one year of the balance sheet date for general expenditure are:

	<b>2018</b>	<b>2017</b>
Financial assets at year end		
Cash and cash equivalents	\$ 41,335,099	\$ 34,868,218
Short-term investments	52,319,435	52,413,008
Deferred compensation plan assets	2,334,381	2,187,355
Patient accounts receivable, net	37,658,804	40,038,206
Other accounts receivable	1,800,545	1,949,556
Estimated amounts due from third-party payers	3,246,918	157,270
Interest in net assets of affiliates	4,936,902	5,820,670
Assets limited as to use	<u>15,171,340</u>	<u>24,092,829</u>
Total financial assets	<u>158,803,424</u>	<u>161,527,112</u>
 Less amounts not available to be used within one year		
Funds held by trustees	9,557,256	19,069,986
Estimated amounts due from third-party payers	2,071,432	2,643,060
Deferred compensation plan assets	2,334,381	2,187,355
Interest in net assets of affiliates	<u>4,936,902</u>	<u>5,820,670</u>
Financial assets not available to be used within one year	<u>18,899,971</u>	<u>29,721,071</u>
 Financial assets available to meet general expenditures within one year	   <u>\$ 139,903,453</u>	   <u>\$ 131,806,041</u>

# Southeast Hospital d/b/a SoutheastHEALTH

## Notes to Consolidated Financial Statements December 31, 2018 and 2017

The Health System has assets limited to use for debt service and worker's compensation self-insurance program. These assets limited to use, which are more fully described in *Note 1*, are not available for general expenditure within the next year.

As part of the Health System's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Health System invests cash in excess of daily requirements in short-term investments.

### Note 13: Functional Expenses

The Health System provides health care services primarily to residents within its geographic area. Certain costs attributable to more than one function have been allocated among the health care services, general and administrative and fundraising functional expense classifications based direct assignment, expenses and other methods. The following schedule presents the natural classification of expenses by function as follows:

	<b>2018</b>		
	<b>Health Care Services</b>	<b>General and Administrative</b>	<b>Total</b>
Salaries and wages	\$ 112,476,489	\$ 24,888,167	\$ 137,364,656
Employee benefits	21,795,774	4,789,509	26,585,283
Purchased services, professional fees, operating leases, insurance, supplies and other	135,898,175	14,171,132	150,069,307
Medicaid provider tax	16,156,252	-	16,156,252
Depreciation and amortization	16,784,298	3,710,835	20,495,133
Interest	4,811,753	1,062,154	5,873,907
<b>Total expenses</b>	<b>\$ 307,922,741</b>	<b>\$ 48,621,797</b>	<b>\$ 356,544,538</b>
	<b>2017</b>		
	<b>Health Care Services</b>	<b>General and Administrative</b>	<b>Total</b>
Salaries and wages	\$ 106,025,030	\$ 24,466,145	\$ 130,491,175
Employee benefits	24,403,423	5,941,575	30,344,998
Purchased services, professional fees, operating leases, insurance, supplies and other	129,780,339	11,395,171	141,175,510
Medicaid provider tax	15,871,903	-	15,871,903
Depreciation and amortization	18,080,068	4,560,974	22,641,042
Interest	4,881,618	1,137,352	6,018,970
<b>Total expenses</b>	<b>\$ 299,042,381</b>	<b>\$ 47,501,217</b>	<b>\$ 346,543,598</b>

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**Note 14: Operating Leases**

Rental expense under operating lease agreements for various physician clinic buildings and equipment totaled approximately \$4,130,000 and \$3,903,000 for the years ended December 31, 2018 and 2017, respectively.

Future minimum lease payments at December 31, 2018, were:

2019	\$ 1,903,200
2020	1,571,384
2021	1,412,696
2022	1,062,131
2023	157,220
Thereafter	<u>59,850</u>
Future minimum lease payments	<u><u>\$ 6,166,481</u></u>

**Note 15: 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, 2018, are summarized as follows:

2019	\$ 2,479,992
2020	2,479,992
2021	2,479,992
2022	2,479,992
2023	<u>206,666</u>
Future minimum information technology commitments	<u><u>\$ 10,126,634</u></u>

**Southeast Hospital**  
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**Notes to Consolidated Financial Statements**  
**December 31, 2018 and 2017**

**Note 16: 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, 2018 and 2017, the Health System made a discretionary contribution of 2 percent and matched up to 6 percent. Pension expense was approximately \$6,256,000 and \$5,957,000 for 2018 and 2017, respectively.

**Note 17: 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 \$2,334,381 and \$2,187,355 at December 31, 2018 and 2017, respectively, and is classified as other assets and other long-term liabilities.

**Note 18: Related Party Transactions**

During 2018 and 2017, the Health System received \$1,260,000 and \$445,000, respectively, in contributions from the Foundation. In addition, the Health System has recorded a receivable from the Foundation of \$57,808 and \$32,644 as of December 31, 2018 and 2017, 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, 2018 and 2017, payments under the agreement were \$156,843. This capital lease is included in (G) in *Note 10*. In addition, the Foundation reimburses the Health System for salaries and employee benefits. During 2018 and 2017, the Foundation reimbursed the Health System approximately \$384,000 and \$337,000, respectively, for these expenses.

For the years ended December 31, 2018 and 2017, the Health System received \$0 and \$4,989, respectively, in contributions from the Auxiliary. In addition, the Health System has recorded a receivable of \$4,889 and a payable of \$18,893 from the Auxiliary, as of December 31, 2018 and 2017, respectively.

**Note 19: 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.

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## Notes to Consolidated Financial Statements December 31, 2018 and 2017

- 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.

### **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, 2018 and 2017:

	<b>Fair Value Measurements Using</b>			
	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>December 31, 2018</b>				
Cash equivalents	\$ 15,409,828	\$ 15,409,828	\$ -	\$ -
Government obligations				
Mortgage-backed	2,853,463	-	2,853,463	-
Treasuries and other	7,567,879	-	7,567,879	-
Corporate obligations				
Energy	1,157,927	-	1,157,927	-
Materials	496,254	-	496,254	-
Industrials	1,488,763	-	1,488,763	-
Consumer discretionary	992,509	-	992,509	-
Consumer staples	1,612,827	-	1,612,827	-
Health care	951,154	-	951,154	-
Financials	5,169,316	-	5,169,316	-
Information technology	620,318	-	620,318	-
Telecom services	1,571,472	-	1,571,472	-
Utilities	1,902,308	-	1,902,308	-
Real estate investment trusts	909,800	-	909,800	-
Mortgage-backed	3,018,881	-	3,018,881	-
Asset-backed	10,888,887	-	10,888,887	-
Mutual funds - equity	9,586,422	9,586,422	-	-
Mutual funds - balanced	1,292,767	1,292,767	-	-

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## Notes to Consolidated Financial Statements December 31, 2018 and 2017

	Fair Value Measurements Using			
	Fair Value	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				
Mortgage-backed	3,140,657	-	3,140,657	-
Treasuries and other	9,381,183	-	9,381,183	-
Corporate obligations				
Energy	1,223,633	-	1,223,633	-
Materials	571,029	-	571,029	-
Industrials	1,101,269	-	1,101,269	-
Consumer discretionary	1,305,208	-	1,305,208	-
Consumer staples	1,713,086	-	1,713,086	-
Health care	611,816	-	611,816	-
Financials	4,282,714	-	4,282,714	-
Information technology	652,604	-	652,604	-
Telecom services	1,509,147	-	1,509,147	-
Utilities	1,794,661	-	1,794,661	-
Real estate investment trusts	122,363	-	122,363	-
Mortgage-backed	2,814,355	-	2,814,355	-
Asset-backed	10,421,957	-	10,421,957	-
Mutual funds - equity	11,616,950	11,616,950	-	-

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, 2018. The Health System has no assets classified within Level 3 of the fair value hierarchy.

**Southeast Hospital**  
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**Notes to Consolidated Financial Statements**  
**December 31, 2018 and 2017**

***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.

**Note 20: 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, 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, 2018, 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.

**Note 21: 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:

***Variable Consideration***

Estimates of variable consideration in determining the transaction price for patient care 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 *8*.

**Southeast Hospital**  
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***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 *9*.

***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 20*, 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.

**Note 22: 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.

**Southeast Hospital**  
**d/b/a SoutheastHEALTH**  
**Notes to Consolidated Financial Statements**  
**December 31, 2018 and 2017**

**Note 23: Discontinued Operations of SoutheastHEALTH Center of Ripley County**

On October 15, 2018, SoutheastHEALTH decided to discontinue the operations of SoutheastHEALTH Center of Ripley County (Ripley) due to ongoing poor operations. The Health System terminated its lease of the hospital with the Ripley County effective December 31, 2018. At December 31, 2018, there are no assets held for sale. Ripley operating revenues were \$7,074,995 in 2018 and \$9,737,820 in 2017. An impairment loss of \$1,459,724 has been recognized for 2018 and is included in 2018 loss from discontinued operations. Results from 2017 operations have been reclassified to include all revenues and expenses of Ripley in discontinued operations.

Major classes of line items constituting loss of discontinued operations consisted of the following:

	<b>2018</b>	<b>2017</b>
<b>Revenues, Gains and Other Support Without Donor Restrictions</b>		
Patient service revenue	\$ 5,996,744	\$ 8,596,668
Other	1,078,251	1,141,152
Total revenues, gains and other support without donor restrictions	7,074,995	9,737,820
<b>Expenses and Losses</b>		
Salaries and wages	4,226,681	4,692,405
Employee benefits	1,101,838	958,796
Operating leases	826,884	405,571
Insurance	187,027	79,658
Purchased services, professional fees, supplies and other	3,197,724	3,339,142
Medicaid provider tax	334,451	479,196
Depreciation and amortization	164,501	234,757
Interest	5,200	55,633
Impairment loss and other expenses, from disposal of equipment and termination of lease and other contractual arrangements	1,459,724	-
Total expenses and losses	11,504,030	10,245,158
<b>Operating Loss</b>	<b>(4,429,035)</b>	<b>(507,338)</b>
<b>Other Income (Expense)</b>		
Investment return	1,700	3,169
Gain on disposition of equipment	-	306,418
Other	-	(353,699)
Total other income (expense)	1,700	(44,112)
Total loss on discontinued operations that is presented on the statement of operations	<b>\$ (4,427,335)</b>	<b>\$ (551,450)</b>

**Southeast Hospital**  
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Carrying amounts of major classes of assets included as part of discontinued operations consisted of the following:

	<b>2018</b>	<b>2017</b>
Cash and cash equivalents	\$ 203,854	\$ 71,363
Patient accounts receivable	-	1,010,392
Other accounts receivable	-	314,359
Supplies	46,891	92,055
Other current assets	-	99,333
Property and equipment, net	-	1,743,937
Estimated amounts due from third-party payers - noncurrent	517,941	1,609,825
	<u>768,686</u>	<u>4,941,264</u>
Total major classes of assets of the discontinued operations	<u>\$ 768,686</u>	<u>\$ 4,941,264</u>
Assets of discontinued operations	<u>\$ 768,686</u>	<u>\$ 4,941,264</u>

Carrying amounts of major classes of liabilities included as part of discontinued operations consisted of the following:

	<b>2018</b>	<b>2017</b>
Current maturities of long-term debt and capital lease obligations	\$ -	\$ 91,470
Accounts payable	1,168,764	515,709
Accrued salaries and wages	6,393	419,523
Other accrued liabilities	51,682	34,635
Estimated amounts due to third-party payers - current	172,603	1,298,337
Capital lease obligations	-	65,803
Other long-term liabilities	60,258	45,406
	<u>1,459,700</u>	<u>2,470,883</u>
Total major classes of liabilities of the discontinued operations	<u>\$ 1,459,700</u>	<u>\$ 2,470,883</u>
Liabilities of discontinued operations	<u>\$ 1,459,700</u>	<u>\$ 2,470,883</u>

Cash flows from discontinued operations consisted of the following:

	<b>2018</b>	<b>2017</b>
Operating cash flows	\$ 229,744	\$ (252,345)
Investing cash flows	60,020	(41,252)
Financing cash flows	(157,273)	(100,492)

**Southeast Hospital**  
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**Notes to Consolidated Financial Statements**  
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**Note 24: Subsequent Events**

In February 2019, the Health System entered into a partnership agreement to build a behavioral health rehabilitation facility, Cape Girardeau Behavioral Health, LLC.

Subsequent events have been evaluated through April 2, 2019, which is the date the consolidated financial statements were issued.

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

***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, 2018**

**Assets**

	SoutheastHEALTH Hospital	SoutheastHEALTH Regional System	Total
<b>Current Assets</b>			
Cash and cash equivalents	\$ 40,442,287	\$ 892,812	\$ 41,335,099
Assets limited as to use - current	4,928,778	685,306	5,614,084
Short-term investments	52,319,435	-	52,319,435
Patients accounts receivable	34,637,494	3,021,310	37,658,804
Estimated amounts due from third-party payers - current	506,030	669,456	1,175,486
Other accounts receivable	1,638,903	161,642	1,800,545
Supplies	6,776,790	526,586	7,303,376
Other	3,667,992	105,814	3,773,806
	<u>144,917,709</u>	<u>6,062,926</u>	<u>150,980,635</u>
<b>Assets Limited As To Use</b>			
Held by trustee			
Debt service reserve funds	13,497,500	1,191,706	14,689,206
Workers' compensation funds	482,134	-	482,134
	<u>13,979,634</u>	<u>1,191,706</u>	<u>15,171,340</u>
Less amount required to meet current obligations	4,928,778	685,306	5,614,084
	<u>9,050,856</u>	<u>506,400</u>	<u>9,557,256</u>
<b>Property and Equipment, Net</b>	<u>128,126,786</u>	<u>19,600,560</u>	<u>147,727,346</u>
<b>Other Assets</b>			
Other assets	2,421,707	-	2,421,707
Interest in net assets of affiliates	4,936,902	-	4,936,902
Estimated amounts due from third-party payers - noncurrent	-	2,071,432	2,071,432
Intangible assets, net	7,057,703	2,131	7,059,834
	<u>14,416,312</u>	<u>2,073,563</u>	<u>16,489,875</u>
<b>Total assets</b>	<u>\$ 296,511,663</u>	<u>\$ 28,243,449</u>	<u>\$ 324,755,112</u>

## Liabilities and Net Assets

	SoutheastHEALTH Hospital	SoutheastHEALTH Regional System	Total
<b>Current Liabilities</b>			
Current maturities of long-term debt and capital lease obligations	\$ 6,878,073	\$ 483,333	\$ 7,361,406
Accounts payable	23,096,589	4,082,328	27,178,917
Accrued salaries and wages	10,257,137	1,019,705	11,276,842
Accrued interest payable	1,810,754	427,979	2,238,733
Other accrued liabilities	2,179,322	283,068	2,462,390
Estimated amounts due to third-party payers	3,879,140	233,293	4,112,433
	<hr/>	<hr/>	<hr/>
Total current liabilities	48,101,015	6,529,706	54,630,721
<b>Long-Term Debt</b>	107,406,187	23,073,298	130,479,485
<b>Capital Lease Obligations</b>	2,181,342	885,626	3,066,968
<b>Other Long-Term Liabilities</b>	4,392,736	174,640	4,567,376
	<hr/>	<hr/>	<hr/>
Total liabilities	162,081,280	30,663,270	192,744,550
	<hr/>	<hr/>	<hr/>
<b>Net Assets</b>			
Without donor restrictions	129,493,481	(2,419,821)	127,073,660
With donor restrictions	4,936,902	-	4,936,902
	<hr/>	<hr/>	<hr/>
Total net assets	134,430,383	(2,419,821)	132,010,562
	<hr/>	<hr/>	<hr/>
Total liabilities and net assets	\$ 296,511,663	\$ 28,243,449	\$ 324,755,112
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

# Southeast Hospital d/b/a SoutheastHEALTH

## Consolidating Schedule – Statement of Operations Information Year Ended December 31, 2018

	SoutheastHEALTH Hospital	SoutheastHEALTH Regional System	Eliminations	Total
<b>Revenues, Gains and Other Support</b>				
<b>Without Donor Restrictions</b>				
Patient service revenue	\$ 319,510,152	\$ 28,693,855	\$ -	\$ 348,204,007
Gain on deconsolidation of SoutheastHEALTH Center of Reynolds	-	-	-	-
Other	17,996,017	2,323,338	(141,131)	20,178,224
Total revenues, gains and other support without donor restrictions	<u>337,506,169</u>	<u>31,017,193</u>	<u>(141,131)</u>	<u>368,382,231</u>
<b>Expenses and Losses</b>				
Salaries and wages	125,407,813	11,956,843	-	137,364,656
Employee benefits	24,463,822	2,121,461	-	26,585,283
Operating leases	2,560,462	743,054	-	3,303,516
Insurance	2,147,806	201,077	-	2,348,883
Purchased services, professional fees, supplies and other	129,984,865	14,573,174	(141,131)	144,416,908
Medicaid provider tax	15,153,783	1,002,469	-	16,156,252
Depreciation and amortization	18,852,638	1,642,495	-	20,495,133
Interest	4,579,220	1,294,687	-	5,873,907
Total expenses and losses	<u>323,150,409</u>	<u>33,535,260</u>	<u>(141,131)</u>	<u>356,544,538</u>
<b>Operating Income (Loss)</b>	<u>14,355,760</u>	<u>(2,518,067)</u>	<u>-</u>	<u>11,837,693</u>
<b>Other Income</b>				
Contributions	4,804	-	-	4,804
Investment return	559,850	53,936	-	613,786
Gain on disposition of equipment	14,006	-	-	14,006
Total other income	<u>578,660</u>	<u>53,936</u>	<u>-</u>	<u>632,596</u>
<b>Excess (Deficiency) of Revenues Over Expenses from Continuing Operations</b>	14,934,420	(2,464,131)	-	12,470,289
<b>Loss from Discontinued Operations of SoutheastHEALTH Center of Ripley County</b>	<u>-</u>	<u>(4,427,335)</u>	<u>-</u>	<u>(4,427,335)</u>
<b>Excess (Deficiency) of Revenues Over Expenses</b>	14,934,420	(6,891,466)	-	8,042,954
Contributions of or for acquisition of property and equipment	223,124	1,030,244	-	1,253,368
Transfers from (to) affiliates	(4,901,378)	4,901,378	-	-
<b>Increase (Decrease) in Net Assets Without Donor Restrictions</b>	<u>\$ 10,256,166</u>	<u>\$ (959,844)</u>	<u>\$ -</u>	<u>\$ 9,296,322</u>

**Southeast Hospital  
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Consolidating Schedule – Regional Balance Sheet Information  
December 31, 2018**

**Assets**

	SoutheastHEALTH Center of Ripley	SoutheastHEALTH Center of Stoddard	SoutheastHEALTH Holding Company	SoutheastHEALTH Pharmacy	Total
<b>Current Assets</b>					
Cash and cash equivalents	\$ 203,854	\$ 417,295	\$ 13,498	\$ 258,165	\$ 892,812
Assets limited as to use - current	-	685,306	-	-	685,306
Patients accounts receivable	601	3,020,709	-	-	3,021,310
Estimated amounts due from third-party payers - current	16,038	653,418	-	-	669,456
Other accounts receivable	30,252	16,392	2,060	112,938	161,642
Supplies	-	277,005	-	249,581	526,586
Other	-	105,543	149	122	105,814
Total current assets	<u>250,745</u>	<u>5,175,668</u>	<u>15,707</u>	<u>620,806</u>	<u>6,062,926</u>
<b>Assets Limited As To Use</b>					
Held by trustee					
Debt service reserve funds	-	1,191,706	-	-	1,191,706
	<u>-</u>	<u>1,191,706</u>	<u>-</u>	<u>-</u>	<u>1,191,706</u>
Less amount required to meet current obligations	-	685,306	-	-	685,306
	<u>-</u>	<u>506,400</u>	<u>-</u>	<u>-</u>	<u>506,400</u>
<b>Property and Equipment, Net</b>	<u>-</u>	<u>19,600,560</u>	<u>-</u>	<u>-</u>	<u>19,600,560</u>
<b>Other Assets</b>					
Estimated amounts due from third-party payers - noncurrent	517,941	1,553,491	-	-	2,071,432
Intangible assets, net	-	2,131	-	-	2,131
	<u>517,941</u>	<u>1,555,622</u>	<u>-</u>	<u>-</u>	<u>2,073,563</u>
Total assets	<u>\$ 768,686</u>	<u>\$ 26,838,250</u>	<u>\$ 15,707</u>	<u>\$ 620,806</u>	<u>\$ 28,243,449</u>

**Southeast Hospital**  
**d/b/a SoutheastHEALTH**  
**Consolidating Schedule – Regional Balance Sheet Information**  
**December 31, 2018**

**Liabilities and Net Assets**

	SoutheastHEALTH Center of Ripley	SoutheastHEALTH Center of Stoddard	SoutheastHEALTH Holding Company	SoutheastHEALTH Pharmacy	Eliminations	Total
<b>Current Liabilities</b>						
Current maturities of long-term debt and capital lease obligations	\$ -	\$ 483,333	\$ -	\$ -	\$ -	\$ 483,333
Accounts payable	1,168,764	1,989,702	673,344	250,518	-	4,082,328
Accrued salaries and wages	6,393	1,000,927	(354)	12,739	-	1,019,705
Accrued interest payable	-	427,979	-	-	-	427,979
Other accrued liabilities	51,682	105,061	21,393	104,932	-	283,068
Estimated amounts due to third-party payers	172,603	60,690	-	-	-	233,293
Total current liabilities	1,399,442	4,067,692	694,383	368,189	-	6,529,706
<b>Long-Term Debt</b>	-	23,073,298	-	-	-	23,073,298
<b>Capital Lease Obligations</b>	-	885,626	-	-	-	885,626
<b>Other Long-Term Liabilities</b>	60,258	114,382	-	-	-	174,640
Total liabilities	1,459,700	28,140,998	694,383	368,189	-	30,663,270
<b>Net Assets</b>						
Without donor restrictions	(691,014)	(1,302,748)	(678,676)	252,617	-	(2,419,821)
Total net assets	(691,014)	(1,302,748)	(678,676)	252,617	-	(2,419,821)
Total liabilities and net assets	\$ 768,686	\$ 26,838,250	\$ 15,707	\$ 620,806	\$ -	\$ 28,243,449

# Southeast Hospital d/b/a SoutheastHEALTH

## Consolidating Schedule – Regional Statement of Operations Information Year Ended December 31, 2018

	SoutheastHEALTH Center of Ripley	SoutheastHEALTH Center of Stoddard	SoutheastHEALTH Holding Company	SoutheastHEALTH Pharmacy	Eliminations	Total
<b>Revenues, Gains and Other Support Without Donor Restrictions</b>						
Patient service revenue	\$ -	\$ 28,693,855	\$ -	\$ -	\$ -	\$ 28,693,855
Other	-	325,874	-	1,997,464	-	2,323,338
Total revenues, gains and other support without donor restrictions	<u>-</u>	<u>29,019,729</u>	<u>-</u>	<u>1,997,464</u>	<u>-</u>	<u>31,017,193</u>
<b>Expenses and Losses</b>						
Salaries and wages	-	11,754,739	-	202,104	-	11,956,843
Employee benefits	-	2,094,131	-	27,330	-	2,121,461
Operating leases	-	721,147	-	21,907	-	743,054
Insurance	-	201,105	-	(28)	-	201,077
Purchased services, professional fees, supplies and other	-	12,847,561	-	1,725,613	-	14,573,174
Medicaid provider tax	-	938,427	-	64,042	-	1,002,469
Depreciation and amortization	-	1,642,495	-	-	-	1,642,495
Interest	-	1,294,685	-	2	-	1,294,687
Total expenses and losses	<u>-</u>	<u>31,494,290</u>	<u>-</u>	<u>2,040,970</u>	<u>-</u>	<u>33,535,260</u>
<b>Operating Loss</b>	<u>-</u>	<u>(2,474,561)</u>	<u>-</u>	<u>(43,506)</u>	<u>-</u>	<u>(2,518,067)</u>
<b>Other Income</b>						
Investment return, net	-	53,936	-	-	-	53,936
Total other income	<u>-</u>	<u>53,936</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>53,936</u>
<b>Deficiency of Revenues Over Expenses from Continuing Operations</b>	<u>-</u>	<u>(2,420,625)</u>	<u>-</u>	<u>(43,506)</u>	<u>-</u>	<u>(2,464,131)</u>
<b>Loss from Discontinued Operations of SoutheastHEALTH Center of Ripley County</b>	<u>(4,427,335)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,427,335)</u>
<b>Deficiency of Revenues Over Expenses</b>	<u>(4,427,335)</u>	<u>(2,420,625)</u>	<u>-</u>	<u>(43,506)</u>	<u>-</u>	<u>(6,891,466)</u>
Contributions of or for acquisition of property and equipment	-	1,030,244	-	-	-	1,030,244
Transfers from (to) affiliates	1,265,940	4,194,865	(579,536)	20,109	-	4,901,378
<b>Increase (Decrease) in Net Assets Without Donor Restrictions</b>	<u>\$ (3,161,395)</u>	<u>\$ 2,804,484</u>	<u>\$ (579,536)</u>	<u>\$ (23,397)</u>	<u>\$ -</u>	<u>\$ (959,844)</u>