

SoutheastHEALTH System, Inc.

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2019 and 2018

SoutheastHEALTH System, Inc.
December 31, 2019 and 2018

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Independent Auditor's Report

Board of Directors
SoutheastHEALTH System, Inc.
Cape Girardeau, Missouri

We have audited the accompanying consolidated financial statements of SoutheastHEALTH System, Inc. (the "Health System"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, 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 SoutheastHEALTH System, Inc., as of December 31, 2019 and 2018, and the results of its operations, 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 15* to the consolidated financial statements, in 2019, the Health System adopted ASU 2016-02, *Leases (Topic 842)*. 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
March 27, 2020

SoutheastHEALTH System, Inc.
Consolidated Balance Sheets
December 31, 2019 and 2018

Assets

	<u>2019</u>	<u>2018</u>
Current Assets		
Cash and cash equivalents	\$ 27,929,280	\$ 41,335,099
Assets limited as to use - current	5,792,265	5,614,084
Short-term investments	67,835,850	52,319,435
Patients accounts receivable	39,477,725	37,658,804
Estimated amounts due from third-party payers - current	1,081,037	1,175,486
Other accounts receivable	5,417,945	1,800,545
Supplies	7,415,544	7,303,376
Other	<u>3,898,124</u>	<u>3,773,806</u>
Total current assets	<u>158,847,770</u>	<u>150,980,635</u>
Assets Limited As To Use		
Held by trustee		
Debt service reserve funds	6,961,110	14,689,206
Workers' compensation funds	<u>485,990</u>	<u>482,134</u>
	7,447,100	15,171,340
Less amount required to meet current obligations	<u>5,792,265</u>	<u>5,614,084</u>
	<u>1,654,835</u>	<u>9,557,256</u>
Property and Equipment, Net	<u>148,457,215</u>	<u>147,727,346</u>
Other Assets		
Other assets	11,230,294	2,421,707
Interest in net assets of affiliates	4,873,000	4,936,902
Estimated amounts due from third-party payers - noncurrent	2,539,977	2,071,432
Intangible assets, net	<u>5,327,079</u>	<u>7,059,834</u>
	<u>23,970,350</u>	<u>16,489,875</u>
Total assets	<u><u>\$ 332,930,170</u></u>	<u><u>\$ 324,755,112</u></u>

Liabilities and Net Assets

	<u>2019</u>	<u>2018</u>
Current Liabilities		
Line of credit	\$ 2,552,500	\$ -
Current maturities of long-term debt and finance lease obligations	5,102,985	7,361,406
Accounts payable	30,183,984	27,178,917
Accrued salaries and wages	12,092,678	11,276,842
Accrued interest payable	2,174,555	2,238,733
Other accrued liabilities	4,077,642	2,462,390
Estimated amounts due to third-party payers	<u>4,196,497</u>	<u>4,112,433</u>
Total current liabilities	60,380,841	54,630,721
Long-Term Debt	125,270,796	130,479,485
Finance Lease Obligations	2,613,816	3,066,968
Other Long-Term Liabilities	<u>8,481,288</u>	<u>4,567,376</u>
Total liabilities	<u>196,746,741</u>	<u>192,744,550</u>
Net Assets		
Without donor restrictions	131,310,429	127,073,660
With donor restrictions	<u>4,873,000</u>	<u>4,936,902</u>
Total net assets	<u>136,183,429</u>	<u>132,010,562</u>
Total liabilities and net assets	<u><u>\$ 332,930,170</u></u>	<u><u>\$ 324,755,112</u></u>

SoutheastHEALTH System, Inc.
Consolidated Statements of Operations
Years Ended December 31, 2019 and 2018

	2019	2018
Revenues, Gains and Other Support Without Donor Restrictions		
Patient service revenue	\$ 347,739,063	\$ 348,204,007
Other	22,049,483	20,178,224
Total revenues, gains and other support without donor restrictions	369,788,546	368,382,231
Expenses and Losses		
Salaries and wages	145,897,666	137,364,656
Employee benefits	27,727,134	26,585,283
Operating leases	3,230,527	3,303,516
Insurance	3,095,779	2,348,883
Purchased services, professional fees, supplies and other	150,970,712	144,416,908
Medicaid provider tax	16,670,833	16,156,252
Depreciation and amortization	19,935,135	20,495,133
Interest	6,190,651	5,873,907
Total expenses and losses	373,718,437	356,544,538
Operating Income (Loss)	(3,929,891)	11,837,693
Other Income		
Contributions received	1,296	4,804
Investment return, net	6,008,964	613,786
Other	1,374,687	14,006
Total other income	7,384,947	632,596
Excess of Revenues Over Expenses from Continuing Operations	3,455,056	12,470,289
Gain (Loss) from Discontinued Operations of SoutheastHEALTH Center of Ripley County	495,641	(4,427,335)
Excess of Revenues Over Expenses	3,950,697	8,042,954
Contributions of or for acquisition of property and equipment	286,072	1,253,368
Increase in Net Assets Without Donor Restrictions	\$ 4,236,769	\$ 9,296,322

SoutheastHEALTH System, Inc.
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2019 and 2018

	2019	2018
Net Assets Without Donor Restrictions		
Excess of revenues over expenses	\$ 3,950,697	\$ 8,042,954
Contributions of or for acquisition of property and equipment	286,072	1,253,368
Increase in net assets without donor restrictions	4,236,769	9,296,322
Net Assets With Donor Restrictions		
Change in interest in net assets of affiliates	(63,902)	(883,768)
Decrease in net assets with donor restrictions	(63,902)	(883,768)
Change in Net Assets	4,172,867	8,412,554
Net Assets, Beginning of Year	132,010,562	123,598,008
Net Assets, End of Year	\$ 136,183,429	\$ 132,010,562

SoutheastHEALTH System, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Activities		
Change in net assets	\$ 4,172,867	\$ 8,412,554
Items not requiring (providing) operating cash flow		
Depreciation and amortization	19,935,135	20,495,133
Amortization of deferred financing costs and bond premium	(612,562)	(629,435)
Loss on investment in equity investee	144,000	-
Net realized and unrealized gain (loss) on investments	(3,879,843)	1,477,848
(Gain) loss on sale of property and equipment	(2,301,573)	1,466,565
Undistributed portion of change in interest in net assets	63,902	883,768
Changes in		
Patient accounts receivable, net	(1,818,921)	2,379,402
Estimated amounts due from and to third-party payers	(290,032)	(11,710,844)
Supplies	(112,168)	700,553
Accounts payable and accrued expenses	183,652	(399,112)
Other assets and liabilities	<u>516,204</u>	<u>9,636</u>
Net cash provided by operating activities	<u>16,000,661</u>	<u>23,086,068</u>
Investing Activities		
Purchase of assets limited as to use and short-term investments	(18,384,857)	(1,405,102)
Proceeds from sale of assets limited as to use and short-term investments	6,748,285	20,827
Investment in equity investee	(144,000)	-
Purchase of property and equipment	(20,688,676)	(16,950,516)
Proceeds from sale of property and equipment	<u>96,723</u>	<u>14,006</u>
Net cash used in investing activities	<u>(32,372,525)</u>	<u>(18,320,785)</u>
Financing Activities		
Principal payments on long-term debt	(6,617,403)	(6,327,461)
Principal payments on finance lease obligations	(693,292)	(892,430)
Proceeds from line of credit	2,800,000	-
Payments on line of credit	<u>(247,500)</u>	<u>-</u>
Net cash used in financing activities	<u>(4,758,195)</u>	<u>(7,219,891)</u>

SoutheastHEALTH System, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Decrease in Cash, Cash Equivalents, Restricted Cash and Restricted Cash Equivalents	\$ (21,130,059)	\$ (2,454,608)
Cash, Cash Equivalents, Restricted Cash and Restricted Cash Equivalents, Beginning of Year	<u>56,506,439</u>	<u>58,961,047</u>
Cash, Cash Equivalents, Restricted Cash and Restricted Cash Equivalents, End of Year	<u>\$ 35,376,380</u>	<u>\$ 56,506,439</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash in current assets	\$ 27,929,280	\$ 41,335,099
Cash and cash equivalents in assets limited as to use	<u>7,447,100</u>	<u>15,171,340</u>
	<u>\$ 35,376,380</u>	<u>\$ 56,506,439</u>
Supplemental Cash Flows Information		
Finance lease and other financial obligations	\$ -	\$ 390,633
Interest paid (net of capitalized interest)	\$ 4,575,399	\$ 6,381,591
Purchase of property and equipment in accounts payable	\$ 1,773,907	\$ 2,439,478
Land transferred for investment in equity investment	\$ 3,300,000	\$ -

SoutheastHEALTH System, Inc.
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

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

Nature of Operations

SoutheastHEALTH System, Inc. (the “Health System”) is a not-for-profit corporation organized under the laws of the state of Missouri for the purpose of serving as a parent organization for wholly owned or controlled subsidiary corporations. Activities performed by the Health System include managing cash investments and administrative services related to subsidiaries. The Health System and its subsidiaries are providers of health services in and around the Cape Girardeau, Missouri, area. The subsidiaries of the Health System are:

Southeast Hospital, d/b/a SoutheastHEALTH (SoutheastHEALTH) 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 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 is the parent company of SoutheastHEALTH of Ripley County, d/b/a SoutheastHEALTH Center of Ripley County, and SoutheastHEALTH Center of Stoddard County. SoutheastHEALTH of Ripley County, d/b/a SoutheastHEALTH Centers 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 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, 2019 and 2018, SoutheastHEALTH Center of Ripley County is presented as discontinued operations within the consolidated financial statements of the Health System (see Note 23).

Therapeutic Solutions Investments, Inc., (TSI), a for-profit corporation was formed for the purpose of investing in other healthcare organizations in the State of Missouri.

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.

SoutheastHEALTH System, Inc.
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

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.

Cash Equivalents

The Health System considers all liquid investments with original maturities of three months or less to be cash equivalents, excluding assets limited as to use and those managed as part of the Health System's portfolio. At December 31, 2019 and 2018, cash equivalents consisted primarily of money market accounts with brokers.

At December 31, 2019, the Health System's cash accounts exceeded federally insured limits by approximately \$27,440,000.

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.

Contract Assets

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 on the consolidated balance sheets.

Supplies

Supply inventories are stated at the lower of cost or net realizable value. Costs are determined using the first-in, first-out (FIFO) method.

SoutheastHEALTH System, Inc.
Notes to Consolidated Financial Statements
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Debt Securities

Debt securities held by the Health System generally are classified and recorded in the consolidated financial statements as follows:

Classified as	Description	Recorded at
Trading	Securities that are bought and held principally for the purpose of selling in the near term and, therefore, held for only a short period of time	Fair value, with changes in fair value included in excess (deficiency) revenues over expenses

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Equity Investments

The Health System measures equity securities, other than investments that qualify for the equity method of accounting, at fair value with changes recognized in excess (deficiency) revenues over expenses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

In 2019, the Health System entered into a partnership agreement to build a behavioral health rehabilitation facility, Cape Girardeau Behavioral Health, LLC, whereas SoutheastHEALTH will own a 25 percent interest in this joint venture. During the year ended December 31, 2019, the Health System transferred land valued at \$3,300,000, which resulted in a gain of \$2,298,798 which is recorded in other operating revenue within the statement of operations. The \$3,300,000 investment is included within other assets on the balance sheets at December 31, 2019.

Additionally, as part of the Health System's initial 25 percent contribution, it has committed to also contribute an additional \$4,800,000 of cash during calendar 2020.

Net Investment Return

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 expenses.

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 as with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

SoutheastHEALTH System, Inc.
Notes to Consolidated Financial Statements
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Property and Equipment

Property and equipment acquisitions are recorded at cost, less accumulated depreciation and amortization. Depreciation and amortization are charged to expense on the straight-line basis over the estimated useful life of each asset. Assets under finance and operating 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	10 - 25 years
Buildings and leasehold improvements	5 - 40 years
Equipment	3 - 20 years

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:

	<u>2019</u>	<u>2018</u>
Interest capitalized	\$ 202,753	\$ 792,699
Interest charged to expense	<u>6,190,651</u>	<u>5,873,907</u>
Total interest incurred	<u>\$ 6,393,404</u>	<u>\$ 6,666,606</u>

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, 2019 and 2018.

SoutheastHEALTH System, Inc.
Notes to Consolidated Financial Statements
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Interest in Net Assets of Southeast Missouri Hospital Foundation, Inc.

Southeast Missouri Hospital Foundation Inc. (the “Foundation”) and the Health System are financially interrelated organizations. The Foundation seeks private support for and holds net assets on behalf of the Health System. The Health System accounts for its interest in the net assets of the Foundation (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 the Health System are recognized as increases or decreases in the Interest.

Debt Issuance Costs

Debt issuance costs represent costs incurred in connection with the issuance of long-term debt. The Health System records these costs as direct deductions from the related debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

Refund Liabilities

The consideration the Health System has received from patients for which it does not expect to be entitled to is recorded as a refund liability.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained 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 patients in accordance with the Health System’s policies and implicit price concessions provided to uninsured patients.

SoutheastHEALTH System, Inc.
Notes to Consolidated Financial Statements
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The Health System determines its estimates of explicit price concessions which represent adjustments and discounts based on contractual agreements, its discount policies and 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 Health System provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Health System 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 \$3,150,000 and \$3,960,000 in 2019 and 2018, respectively.

Contributions

Contributions are provided to the Health System either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the Health System overcoming a donor imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> the donor imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

SoutheastHEALTH System, Inc.
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Self-Insurance

The Health System has elected to self-insure certain costs related to employee health and accident benefit programs. Costs resulting from noninsured losses are charged to income when incurred.

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

SoutheastHEALTH and SoutheastHEALTH of Stoddard 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.

TSI is subject to federal and state income taxes. TSI accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*).

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).

SoutheastHEALTH System, Inc.
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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.

Notes to Consolidated Financial Statements Revision

Fiscal year 2018 *Note 12* to the consolidated financial statements has been revised for presentation of endowment assets previously classified as held in perpetuity. The immaterial correction changed the classification of these endowment assets of \$728,455 to net assets with donor restrictions subject to expenditure for the specified purpose.

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

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). 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.

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

SoutheastHEALTH System, Inc.
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

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.

Transaction Price

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.

Third-Party Payers

Agreements with third-party payers typically provide for payments 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.

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

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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 Health System 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 \$915,000 and \$11,250,000 in 2019 and 2018, 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.

Patients and Uninsured Payers

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 ended December 31, 2019 and 2018, additional revenue of approximately \$2,000,000 and \$4,835,000, 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.

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Revenue Composition

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, 2019 and 2018, is as follows:

	2019	2018
Medicare	\$134,383,000	\$129,671,000
Medicaid	46,096,000	60,596,000
Other third-party payers	164,977,000	156,063,000
Patients	2,283,000	1,874,000
	<u>\$347,739,000</u>	<u>\$348,204,000</u>

Revenue from patients' deductibles and coinsurance are included in the categories presented above based on the primary payor.

The tables below represent disaggregation of revenue by payer by entity:

	December 31, 2019		
	Cape	Regional	Totals
Medicare	\$ 117,830,000	\$ 16,553,000	\$ 134,383,000
Medicaid	40,375,000	5,721,000	46,096,000
Other third-party payers	155,462,000	9,515,000	164,977,000
Patients	1,889,000	394,000	2,283,000
	<u>\$ 315,556,000</u>	<u>\$ 32,183,000</u>	<u>\$ 347,739,000</u>
Total	<u>\$ 315,556,000</u>	<u>\$ 32,183,000</u>	<u>\$ 347,739,000</u>

	December 31, 2018		
	Cape	Regional	Totals
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>\$ 319,510,000</u>	<u>\$ 28,694,000</u>	<u>\$ 348,204,000</u>
Total	<u>\$ 319,510,000</u>	<u>\$ 28,694,000</u>	<u>\$ 348,204,000</u>

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The composition of patient care service revenue based on lines of business and method of reimbursement for the years ended December 31, 2019 and 2018, are as follows:

	2019	2018
Hospital - inpatient	\$ 107,309,000	\$ 120,744,000
Hospital - outpatient	192,284,000	185,558,000
Physician services	44,725,000	38,949,000
Home health and hospice	3,421,000	2,953,000
Total	\$ 347,739,000	\$ 348,204,000
	2019	2018
Fee for service	\$ 300,457,000	\$ 285,170,000
Per diem	20,816,000	24,967,000
Episodic	3,421,000	2,953,000
Other	23,045,000	35,114,000
Total	\$ 347,739,000	\$ 348,204,000

Contract Balances

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 transferred to receivables when the rights become unconditional. Contract liabilities represent the Health System's obligation to provide services to patients when consideration has already been received from the patient or a third-party payer.

The following table provides information about the Health System's receivables from contracts with customers:

	2019	2018
Accounts receivable, beginning of period	\$ 37,658,804	\$ 40,038,206
Accounts receivable, end of period	39,477,725	37,658,804

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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, 2019 and 2018, was:

	2019	2018
Medicare	25%	22%
Medicaid	6%	8%
Other third-party payers	58%	62%
Patients	11%	8%
	<u>100%</u>	<u>100%</u>

Note 4: Investments and Investment Return

Investments, at December 31, include:

	2019	2018
Cash equivalents	\$ 8,458,378	\$ 15,409,828
Government obligations	15,850,324	10,421,342
Corporate obligations	33,837,207	30,780,416
Mutual funds - equity	13,703,035	9,586,422
Mutual funds - balanced	<u>3,434,006</u>	<u>1,292,767</u>
Total investments	<u>\$ 75,282,950</u>	<u>\$ 67,490,775</u>

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Investments are included on the consolidated balance sheets as follows:

	2019	2018
Short-term investments	\$ 67,835,850	\$ 52,319,435
Assets limited as to use		
Debt service reserve funds	6,961,110	14,689,206
Workers' compensation funds	485,990	482,134
	<u>\$ 75,282,950</u>	<u>\$ 67,490,775</u>

Deferred Compensation Plan Assets

	2019	2018
Life insurance annuities	\$ 2,400,038	\$ 1,800,870
Life insurance contracts	618,050	533,511
	<u>\$ 3,018,088</u>	<u>\$ 2,334,381</u>

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

Investment Return

Total investment return comprises the following:

	2019	2018
Interest and dividend income	\$ 2,281,003	\$ 2,287,550
Realized gains on trading securities	1,657,954	1,405,303
Unrealized gains (losses) on trading securities	2,221,889	(2,883,151)
	<u>\$ 6,160,846</u>	<u>\$ 809,702</u>

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

	2019	2018
Net assets without donor restrictions		
Revenues, gains and other support without donor restrictions	\$ 151,882	\$ 195,916
Other income		
Investment return, net	<u>6,008,964</u>	<u>613,786</u>
	<u>\$ 6,160,846</u>	<u>\$ 809,702</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:

	2019	2018
Land	\$ 17,239,574	\$ 17,580,441
Land improvements	6,417,093	5,866,923
Buildings and leasehold improvements	244,097,954	230,078,335
Equipment	138,818,225	132,285,807
Construction in progress	<u>1,274,801</u>	<u>4,417,723</u>
	<u>407,847,647</u>	<u>390,229,229</u>
Accumulated depreciation	<u>259,390,432</u>	<u>242,501,883</u>
	<u>\$148,457,215</u>	<u>\$147,727,346</u>

At December 31, 2019, 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 \$2.2 million with the remaining amount not already incurred at December 31, 2019, of approximately \$1.3 million. These projects are being financed through operations 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, 2019 and 2018, were:

	2019		2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets				
Licensing agreement	\$ 9,070,432	\$ 3,743,353	\$ 9,070,432	\$ 2,015,652
Other	242,690	242,690	242,690	237,636
	<u>\$ 9,313,122</u>	<u>\$ 3,986,043</u>	<u>\$ 9,313,122</u>	<u>\$ 2,253,288</u>

Amortization expense for the years ended December 31, 2019 and 2018, was \$1,732,755 and \$1,744,758, respectively. The software license was placed in service and amortized beginning in November 2017. Estimated annual amortization expense is the following:

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

Note 7: Interest in Net Assets of the Foundation

The Foundation was established to benefit the Health System. The Foundation's Board of Directors determines the amount, timing and purpose of the distribution of funds. The Health System's interest in the net assets of the Foundation is accounted for in a manner similar to the equity method. Changes in the interest are included in changes in net assets. Transfers of assets between the Foundation and the Health System are recognized as increases or decreases in the interest in the net assets of the Foundation with corresponding decreases or increases in the assets transferred and have no effect on change in net assets. At December 31, 2019 and 2018, \$4,873,000 and \$4,936,902, 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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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, 2019 and 2018, respectively, the Health System has recorded approximately \$4,323,000 and \$230,000 of estimated insurance coverage receivables within other accounts receivable on the balance sheets, and approximately \$4,723,000 and \$530,000 of estimated insurance liabilities within accounts payable on the balance sheets. Additionally, the Health System has recorded a liability of \$2,181,000 and \$1,933,000, respectively, for tail coverage as of December 31, 2019 and 2018. 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 reports claims and claims incurred but not reported. The accrual is based on the consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors and is included in current accrued expenses on the consolidated balance sheets. It is reasonably possible that the Health System's estimate will change by a material amount in the near term. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount.

Workers' Compensation

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

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

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Note 10: Line of Credit

During 2019, the Health System entered into an agreement for a \$2,800,000 revolving line of credit. At December 31, 2019, there was \$2,552,000 borrowed against this line. The line is collateralized by certain real estate and equipment. Interest accrues at 0.5 percent below the prime rate, and was 4.25 percent at December 31, 2019. Interest and principal are payable at maturity on August 14, 2020.

Note 11: Long-Term Debt and Finance Lease Obligations

	2019	2018
Hospital Revenue Bonds Series 2016A (A)	\$ 19,665,000	\$ 20,560,000
Hospital Revenue Bonds Series 2016B (B)	16,305,000	16,600,000
Hospital Revenue Bonds Series 2017A (C)	79,805,000	82,640,000
Hospital Revenue Bonds Series 2017B (D)	6,775,000	6,775,000
Land promissory note (E)	1,299,356	1,484,147
Financing agreements (F)	-	2,410,609
Finance lease obligations (G)	3,524,481	4,217,774
	<u>127,373,837</u>	<u>134,687,530</u>
Less unamortized deferred financing costs	1,711,794	1,862,838
Plus bond premium (discount), net	7,325,554	8,083,167
Less current maturities	<u>5,102,985</u>	<u>7,361,406</u>
	<u>\$127,884,612</u>	<u>\$133,546,453</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 \$348,359 and \$374,833 at December 31, 2019 and 2018, respectively.

(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 \$234,411 and \$248,069 at December 31, 2019 and 2018, respectively.

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- (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 \$1,029,209 and \$1,135,193 at December 31, 2019 and 2018, 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 \$99,815 and \$104,743 at December 31, 2019 and 2018, respectively.

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, which was paid in full in December 15, 2019.

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

	2019	2018
Buildings	\$ 3,134,832	\$ 3,134,832
Equipment	6,528,821	6,528,821
	9,663,653	9,663,653
Less accumulated depreciation	5,370,332	4,725,452
	\$ 4,293,321	\$ 4,938,201

Aggregate annual maturities of long-term debt and payments on finance lease obligations at December 31, 2019, are:

	Long-Term Debt (Excluding Finance Lease Obligations)	Finance Lease Obligations
2020	\$ 4,438,200	\$ 948,755
2021	4,676,992	656,589
2022	4,936,184	521,509
2023	5,200,794	396,843
2024	5,485,841	396,843
Thereafter	99,111,345	2,410,795
	\$ 123,849,356	5,331,334
Less amount representing interest		1,806,853
Present value of future minimum lease payments		3,524,481
Less current maturities		664,785
Noncurrent portion		\$ 2,859,696

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Note 12: Net Assets With Donor Restrictions

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

	2019	2018
Subject to expenditure for the specified purpose		
Health services	\$ 2,375,598	\$ 2,197,741
Education programs and scholarships	1,140,969	1,254,861
Operating expenses of the Health System	1,356,433	1,484,300
	<u>\$ 4,873,000</u>	<u>\$ 4,936,902</u>

Note 13: Liquidity and Availability

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

	2019	2018
Financial assets at year end		
Cash and cash equivalents	\$ 27,929,280	\$ 41,335,099
Short-term investments	67,835,850	52,319,435
Deferred compensation plan assets	3,018,088	2,334,381
Patient accounts receivable, net	39,477,725	37,658,804
Other accounts receivable	5,417,945	1,800,545
Estimated amounts due from third-party payers	3,621,014	3,246,918
Interest in net assets of affiliates	4,873,000	4,936,902
Assets limited as to use	7,447,100	15,171,340
Total financial assets	<u>159,620,002</u>	<u>158,803,424</u>
Less amounts not available to be used within one year		
Funds held by trustees	1,654,835	9,557,256
Estimated amounts due from third-party payers	2,539,977	2,071,432
Deferred compensation plan assets	3,018,088	2,334,381
Interest in net assets of affiliates	4,873,000	4,936,902
Financial assets not available to be used within one year	<u>12,085,900</u>	<u>18,899,971</u>
Financial assets available to meet general expenditures within one year	<u>\$147,534,102</u>	<u>\$139,903,453</u>

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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 14: 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:

	2019		
	Health Care Services	General and Administrative	Total
Salaries and wages	\$ 117,985,506	\$ 27,912,160	\$ 145,897,666
Employee benefits	22,422,566	5,304,568	27,727,134
Purchased services, professional fees, operating leases, insurance, supplies and other	143,116,856	14,180,162	157,297,018
Medicaid provider tax	16,670,833	-	16,670,833
Depreciation and amortization	16,121,279	3,813,856	19,935,135
Interest	5,006,297	1,184,354	6,190,651
	<u>\$ 321,323,337</u>	<u>\$ 52,395,100</u>	<u>\$ 373,718,437</u>
Total expenses			
	2018		
	Health Care Services	General and Administrative	Total
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
	<u>\$ 307,922,741</u>	<u>\$ 48,621,797</u>	<u>\$ 356,544,538</u>
Total expenses			

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Note 15: Leases

Change in Accounting Principle

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, *i.e.* the comparatives under ASC 840 option.

The Health System adopted Topic 842 on January 1, 2019 (the effective date) using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. The Health System elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification or initial direct costs for existing or expired leases prior to the effective date. The Health System has lease agreements with nonlease components that relate to the lease components. The Health System elected the practical expedient to account for nonlease components and the lease components to which they relate, as a single lease component for all classes of underlying assets. Also, the Health System elected to keep short-term leases with an initial term of 12 months or less off the balance sheet. Additionally, the Health System elected the hindsight practical expedient in determining the lease term for existing leases as of January 1, 2019.

The most significant impact of adoption was recognition of operating lease ROU assets and operating lease liabilities of \$6,801,433 at January 1, 2019, while the accounting for existing capital leases (now referred to as finance leases) remained substantially unchanged. The standard did not significantly affect the consolidated statements of operations, changes in net assets or cash flows.

Accounting Policies

The Health System determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of ROU assets and lease liabilities on the consolidated balance sheets. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Health System determines lease classification as operating or finance at the lease commencement date.

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The Health System combines lease and nonlease components, such as common area and other maintenance costs, in calculating the ROU assets and lease liabilities for its equipment and real estate leases. The lease components consist of equipment or real estate. The nonlease components consist of services, taxes, and other costs, such as maintenance. In addition, for certain equipment leases, the Health System applies a portfolio approach to effectively account for the operating lease ROU assets and liabilities.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The Health System uses the implicit rate when readily determinable. As most of the leases do not provide an implicit rate, the Health System uses its incremental borrowing rate based on the information available at the commencement date to determine the present value of lease payments. Incremental borrowing rates used to determine the present value of lease payments were derived by reference to the Health System's secured-debt yields corresponding to the lease commencement date and estimated term. The Health System has applied a portfolio approach to certain categories of leases to estimate the incremental borrowing rate, based on term of lease and type of asset under lease.

The lease term may include options to extend or to terminate the lease that the Health System is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

The Health System has elected not to record leases with an initial term of 12 months or less on the consolidated balance sheets. Lease expense on such leases is recognized on a straight-line basis over the lease term.

Nature of Leases

The Health System has entered into the following lease arrangements:

Finance Leases

These leases mainly consist of buildings and equipment, payable in monthly installments through 2034. The leases bear interest rates between 3.11 percent and 24.33 percent and are secured by the buildings and equipment.

Operating Leases

The Health System leases office space for several offices that expire in various years through 2029. These leases generally contain renewal options for periods ranging from 1 to 5 years and require the Health System to pay all executory costs (property taxes, maintenance and insurance). Some lease payments have an escalating fee schedule, which range from a 3 percent to 4 percent at a specific point in time. Termination of the leases is generally prohibited unless there is a violation under the lease agreement.

SoutheastHEALTH System, Inc.
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The Health System leases equipment that expire in various years through 2024. These leases generally contain renewal options for periods ranging from 1 to 3 years and require the Health System to pay all executory costs (property taxes, maintenance and insurance). These leases do not currently have an escalating fee schedule. Termination of the leases generally are prohibited unless there is a violation under the lease agreement.

Short-Term Leases

The Health System leases certain equipment and real estate based on seasonal demand. The expected lease terms are less than 12 months. Total lease expense included in operating expenses for the year ending December 31, 2019, was \$229,403.

All Leases

The Health System's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Quantitative Disclosures

The lease cost and other required information for the year ended December 31, 2019, is as follows:

	2019
Lease cost	
Finance lease cost	
Amortization of right-of-use asset	\$ 952,693
Interest on lease liabilities	310,839
Operating lease cost	2,998,116
Short-term lease cost	229,403
Variable lease cost	3,008
	<hr/>
Total lease cost	\$ 4,494,059

SoutheastHEALTH System, Inc.
Notes to Consolidated Financial Statements
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	2019
Other information	
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from finance leases	\$ 1,263,532
Financing cash flows from finance leases	693,292
Operating cash flows from operating leases	2,997,228
Right-of-use assets obtained in exchange for new operating lease liabilities	1,290,537
Weighted-average remaining lease term	
Finance leases	9.2 years
Operating leases	2.7 years
Weighted-average discount rate	
Finance leases	18.1%
Operating leases	4.5%

Future minimum lease payments and reconciliation to the consolidated balance sheet at December 31, 2019, are as follows:

	Operating Leases	Finance Leases
2020	\$ 2,119,999	\$ 948,755
2021	1,893,752	656,589
2022	649,393	521,509
2023	434,609	396,843
2024	54,195	396,843
Thereafter	48,450	2,410,795
Total future undiscounted lease payments	5,200,398	5,331,334
Less interest	345,451	1,806,853
Lease liabilities	\$ 4,854,947	\$ 3,524,481

SoutheastHEALTH System, Inc.
Notes to Consolidated Financial Statements
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	Balance Sheet Classification	December 31, 2019
Operating Leases		
Operating Lease ROU Assets	Other assets, net	\$ 4,854,947
Current operating lease liabilities	Other accrued liabilities	1,932,748
Long-term operating lease liabilities	Other long-term liabilities	2,922,199
Finance Leases		
Finance Lease ROU Assets	Property and equipment	9,663,653
Accumulated amortization	Accumulated depreciation and amortization	5,370,332
Current finance lease liabilities	Current maturities of long-term debt	664,785
Long-term finance lease liabilities	Long-term debt	2,859,696

As previously disclosed in the 2018 consolidated financial statements, which followed lease accounting prior to adoption of ASC 842, future commitments relating to noncancelable operating and capital leases and financing obligations for the five years and period thereafter as of December 31, 2018, were as follows:

	Operating Leases	Finance Leases
2019	\$ 1,903,200	\$ 1,071,565
2020	1,571,384	900,993
2021	1,412,696	656,541
2022	1,062,131	521,485
2023	157,220	396,843
Thereafter	59,850	2,787,763
	<u>\$ 6,166,481</u>	<u>2,117,416</u>
Future minimum lease payments	<u>\$ 6,166,481</u>	<u>4,217,774</u>
		<u>741,006</u>
		<u>\$ 3,476,768</u>

SoutheastHEALTH System, Inc.
Notes to Consolidated Financial Statements
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Note 16: Significant Commitments

The Health System and a national information technology company have entered into multiple 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 agreements have various effective dates starting from February 1, 2016, and effective through ending dates of January 3, 2027. At the end of each respective initial term, the agreements 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, 2019, are summarized as follows:

2020	\$ 3,459,630
2021	3,548,688
2022	3,548,688
2023	1,275,362
2024	1,068,696
Thereafter	<u>2,226,450</u>
Future minimum information technology commitments	<u><u>\$ 15,127,514</u></u>

Note 17: Pension Plan

The Health System has a defined contribution pension plan covering substantially all employees. The Board of Directors annually determines the amount, if any, of the Health System’s contributions to the plan. For the years ended December 31, 2019 and 2018, the Health System made a discretionary contribution of 2 percent and matched up to 6 percent. Pension expense was approximately \$6,504,000 and \$6,256,000 for 2019 and 2018, respectively.

Note 18: Deferred Compensation

The Health System funds deferred compensation plans under Section 457(f) and 457(b) for the benefit of certain senior executives. The trust accounts assets are classified as other assets and a corresponding deferred compensation obligation has been recorded by the Health System in the amount of \$3,018,088 and \$2,334,381 at December 31, 2019 and 2018, respectively, and is classified as other assets and other long-term liabilities.

SoutheastHEALTH System, Inc.
Notes to Consolidated Financial Statements
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Note 19: Related Party Transactions

During 2019 and 2018, the Health System received approximately \$487,000 and \$1,260,000, respectively, in contributions from the Foundation. In addition, the Health System has recorded a receivable from the Foundation of \$75,547 and \$57,808 as of December 31, 2019 and 2018, respectively. During the year ended December 31, 2014, the Health System entered into a finance 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, 2019 and 2018, 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 2019 and 2018, the Foundation reimbursed the Health System approximately \$389,000 and \$384,000, respectively, for these expenses.

Note 20: Disclosures About Fair Value of Assets and Liabilities

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

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

SoutheastHEALTH System, Inc.
Notes to Consolidated Financial Statements
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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, 2019 and 2018:

	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)
December 31, 2019				
Cash equivalents	\$ 8,458,378	\$ 8,458,378	\$ -	\$ -
Government obligations				
Mortgage-backed	5,714,068	-	5,714,068	-
Treasuries and other	10,136,256	-	10,136,256	-
Corporate obligations				
Energy	1,639,688	-	1,639,688	-
Materials	298,125	-	298,125	-
Industrials	2,683,127	-	2,683,127	-
Consumer discretionary	1,242,188	-	1,242,188	-
Consumer staples	1,888,126	-	1,888,126	-
Health care	447,188	-	447,188	-
Financials	7,055,629	-	7,055,629	-
Information technology	596,250	-	596,250	-
Telecom services	1,043,438	-	1,043,438	-
Utilities	2,335,314	-	2,335,314	-
Real estate investment trusts	447,188	-	447,188	-
Mortgage-backed	1,788,751	-	1,788,751	-
Asset-backed	12,372,195	-	12,372,195	-
Mutual funds - equity	13,703,035	13,703,035	-	-
Mutual funds - balanced	3,434,006	3,434,006	-	-

SoutheastHEALTH System, Inc.
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

	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)
December 31, 2018				
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	-	-

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, 2019. The Health System has no assets classified within Level 3 of the fair value hierarchy.

SoutheastHEALTH System, Inc.
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

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 21: Asset Retirement Obligation

Accounting principles generally accepted in the United States of America require that an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard) even when the timing and/or method of settlement may be conditional on a future event. The Health System's conditional asset retirement obligations relate to environmental hazards contained in buildings that the Health System owns. Environmental regulations exist that require the Health System to handle and dispose of environmental hazards in a special manner if a building undergoes major renovations or is demolished. The remaining asset retirement obligation as of December 31, 2019, 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 22: Significant Estimates and Concentrations

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

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*.

SoutheastHEALTH System, Inc.
Notes to Consolidated Financial Statements
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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 21*, the Health System has asset retirement obligations related to environmental hazards.

Investments

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

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, 2019 and 2018, there were no assets held for sale. Ripley operating revenues were \$506,981 and \$7,074,995 in 2019 and 2018, respectively. An impairment loss of \$0 and \$1,459,724 has been recognized for 2019 and 2018, respectively, and is included in 2018 loss from discontinued operations.

SoutheastHEALTH System, Inc.
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

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

	2019	2018
Revenues, Gains and Other Support		
Without Donor Restrictions		
Patient service revenue	\$ 473,289	\$ 5,996,744
Other	33,692	1,078,251
Total revenues, gains and other support without donor restrictions	506,981	7,074,995
Expenses and Losses		
Salaries and wages	-	4,226,681
Employee benefits	29,962	1,101,838
Operating leases	(22,137)	826,884
Insurance	(17,543)	187,027
Purchased services, professional fees, supplies and other	23,213	3,197,724
Medicaid provider tax	-	334,451
Depreciation and amortization	-	164,501
Interest	-	5,200
Impairment loss and other expenses, from disposal of equipment and termination of lease and other contractual arrangements	-	1,459,724
Total expenses and losses	13,495	11,504,030
Operating Income (Loss)	493,486	(4,429,035)
Other Income (Expense)		
Investment return	2,155	1,700
Total other income (expense)	2,155	1,700
Total gain (loss) on discontinued operations that is presented on the statement of operations	\$ 495,641	\$ (4,427,335)

SoutheastHEALTH System, Inc.
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

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

	2019	2018
Cash and cash equivalents	\$ 52,403	\$ 203,854
Supplies	44,561	46,891
Estimated amounts due from third-party payers - noncurrent	<u>646,124</u>	<u>517,941</u>
 Total major classes of assets of the discontinued operations	 <u>\$ 743,088</u>	 <u>\$ 768,686</u>
 Assets of discontinued operations	 <u>\$ 743,088</u>	 <u>\$ 768,686</u>

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

	2019	2018
Accounts payable	\$ 584,675	\$ 1,168,764
Accrued salaries and wages	-	6,393
Other accrued liabilities	-	51,682
Estimated amounts due to third-party payers - current	172,603	172,603
Other long-term liabilities	<u>32,715</u>	<u>60,258</u>
 Total major classes of liabilities of the discontinued operations	 <u>\$ 789,993</u>	 <u>\$ 1,459,700</u>
 Liabilities of discontinued operations	 <u>\$ 789,993</u>	 <u>\$ 1,459,700</u>

Cash flows from discontinued operations consisted of the following:

	2019	2018
Operating cash flows	\$ (151,451)	\$ 229,744
Investing cash flows	-	60,020
Financing cash flows	-	(157,273)

SoutheastHEALTH System, Inc.
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

Note 24: Subsequent Events

Subsequent events have been evaluated through March 27, 2020, which is the date the consolidated financial statements were issued.

Subsequent to December 31, 2019, the Health System purchased a building it had previously been leasing for \$8,600,000. This purchase was financed by the Health System entering into a \$7,600,000 promissory note with a local financial institution, in addition to the Health System utilizing \$1,000,000 of its own operating cash. The payments for the promissory note are due monthly over the life of the note, and it has a maturity date of March 19, 2025, with a fixed interest rate of 4.360 percent.

In late 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in China. Subsequent to year end, the spread of COVID-19 began to cause some business disruption through reduced patient revenue, specifically related to elective procedures and physician office visits. Additionally, there has been significant volatility in the investment markets both nationally and globally since December 31, 2019, resulting in an overall market decline in certain market segments which has resulted in a substantial decline in the value of our investment portfolio.

While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. The Health System expects this matter to negatively impact its financial condition and operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

Note 25: Future Changes in Accounting Principles

Accounting for Financial Instruments – Credit Losses

The Financial Accounting Standards Board amended its standards related to the accounting for credit losses on financial instruments. This amendment introduces new guidance for accounting for credit losses on instruments including trade receivables and finance receivables. The new standard is effective for annual and interim periods beginning after December 15, 2022. The Health System is in the process of evaluating the impact the amendment will have on the consolidated financial statements.

Supplementary Information

SoutheastHEALTH System, Inc.
Consolidating Schedule – Balance Sheet Information
December 31, 2019

Assets

	SoutheastHEALTH Hospital	SoutheastHEALTH System	Therapeutic Solutions Investments	Eliminations	Total
Current Assets					
Cash and cash equivalents	\$ 24,199,551	\$ 3,373,729	\$ 356,000	\$ -	\$ 27,929,280
Assets limited as to use - current	5,792,265	-	-	-	5,792,265
Short-term investments	67,835,850	-	-	-	67,835,850
Patients accounts receivable	39,477,725	-	-	-	39,477,725
Estimated amounts due from third-party payers - current	1,081,037	-	-	-	1,081,037
Other accounts receivable	5,417,945	-	-	-	5,417,945
Supplies	7,415,544	-	-	-	7,415,544
Other	3,898,124	-	-	-	3,898,124
	<u>155,118,041</u>	<u>3,373,729</u>	<u>356,000</u>	<u>-</u>	<u>158,847,770</u>
Assets Limited As To Use					
Held by trustee					
Debt service reserve funds	6,961,110	-	-	-	6,961,110
Workers' compensation funds	485,990	-	-	-	485,990
	<u>7,447,100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,447,100</u>
Less amount required to meet current obligations	5,792,265	-	-	-	5,792,265
	<u>1,654,835</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,654,835</u>
	<u>148,457,215</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>148,457,215</u>
Property and Equipment, Net					
	<u>148,457,215</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>148,457,215</u>
Other Assets					
Other assets	11,230,294	-	-	-	11,230,294
Interest in net assets of affiliates	4,873,000	-	-	-	4,873,000
Estimated amounts due from third-party payers - noncurrent	2,539,977	-	-	-	2,539,977
Intangible assets, net	5,327,079	-	-	-	5,327,079
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
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	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,970,350</u>
	<u>23,970,350</u>	<u>-</u>			

Liabilities and Net Assets

	SoutheastHEALTH Hospital	SoutheastHEALTH System	Therapeutic Solutions Investments	Eliminations	Total
Current Liabilities					
Line of credit	\$ 2,552,500	\$ -	\$ -	\$ -	\$ 2,552,500
Current maturities of long-term debt and capital lease obligations	5,102,985	-	-	-	5,102,985
Accounts payable	30,183,984	-	-	-	30,183,984
Accrued salaries and wages	12,092,678	-	-	-	12,092,678
Accrued interest payable	2,174,555	-	-	-	2,174,555
Other accrued liabilities	4,077,642	-	-	-	4,077,642
Estimated amounts due to third-party payers	4,196,497	-	-	-	4,196,497
Total current liabilities	60,380,841	-	-	-	60,380,841
Long-Term Debt	125,270,796	-	-	-	125,270,796
Finance Lease Obligations	2,613,816	-	-	-	2,613,816
Other Long-Term Liabilities	8,481,288	-	-	-	8,481,288
Total liabilities	196,746,741	-	-	-	196,746,741
Net Assets					
Without donor restrictions	127,580,700	3,373,729	356,000	-	131,310,429
With donor restrictions	4,873,000	-	-	-	4,873,000
Total net assets	132,453,700	3,373,729	356,000	-	136,183,429
Total liabilities and net assets	\$ 329,200,441	\$ 3,373,729	\$ 356,000	\$ -	\$ 332,930,170

SoutheastHEALTH System, Inc.
Consolidating Schedule – Statement of Operations Information
December 31, 2019

	SoutheastHEALTH Hospital	SoutheastHEALTH System	Therapeutic Solutions Investments	Eliminations	Total
Revenues, Gains and Other Support					
Without Donor Restrictions					
Patient service revenue	\$ 347,739,063	\$ -	\$ -	\$ -	\$ 347,739,063
Other	22,049,483	-	-	-	22,049,483
Total revenues, gains and other support without donor restrictions	369,788,546	-	-	-	369,788,546
Expenses and Losses					
Salaries and wages	145,897,666	-	-	-	145,897,666
Employee benefits	27,727,134	-	-	-	27,727,134
Operating leases	3,230,527	-	-	-	3,230,527
Insurance	3,095,779	-	-	-	3,095,779
Purchased services, professional fees, supplies and other	150,797,595	173,117	-	-	150,970,712
Medicaid provider tax	16,670,833	-	-	-	16,670,833
Depreciation and amortization	19,935,135	-	-	-	19,935,135
Interest	6,190,651	-	-	-	6,190,651
Total expenses and losses	373,545,320	173,117	-	-	373,718,437
Operating Loss	(3,756,774)	(173,117)	-	-	(3,929,891)
Other Income					
Contributions	1,296	-	-	-	1,296
Investment return	6,008,964	-	-	-	6,008,964
Other	1,518,687	-	(144,000)	-	1,374,687
Total other income	7,528,947	-	(144,000)	-	7,384,947
Excess (Deficiency) of Revenues Over Expenses from Continuing Operations	3,772,173	(173,117)	(144,000)	-	3,455,056
Gain from Discontinued Operations of SoutheastHEALTH Center of Ripley County	495,641	-	-	-	495,641
Excess (Deficiency) of Revenues Over Expenses	4,267,814	(173,117)	(144,000)	-	3,950,697
Contributions of or for acquisition of property and equipment	286,072	-	-	-	286,072
Transfers from (to) affiliates	(4,046,846)	3,546,846	500,000	-	-
Increase in Net Assets Without Donor Restrictions	\$ 507,040	\$ 3,373,729	\$ 356,000	\$ -	\$ 4,236,769

SoutheastHEALTH System, Inc.
Consolidating Schedule – SoutheastHEALTH Balance Sheet Information
December 31, 2019

Assets

	SoutheastHEALTH Hospital	SoutheastHEALTH Regional System	Eliminations	Total
Current Assets				
Cash and cash equivalents	\$ 23,360,672	\$ 838,879	\$ -	\$ 24,199,551
Assets limited as to use - current	5,089,219	703,046	-	5,792,265
Short-term investments	67,835,850	-	-	67,835,850
Patients accounts receivable	36,532,180	2,945,545	-	39,477,725
Estimated amounts due from third-party payers - current	992,334	88,703	-	1,081,037
Other accounts receivable	5,204,120	213,825	-	5,417,945
Supplies	6,916,328	499,216	-	7,415,544
Other	3,826,570	71,554	-	3,898,124
	<u>149,757,273</u>	<u>5,360,768</u>	<u>-</u>	<u>155,118,041</u>
Assets Limited As To Use				
Held by trustee				
Debt service reserve funds	5,751,664	1,209,446	-	6,961,110
Workers' compensation funds	485,990	-	-	485,990
	<u>6,237,654</u>	<u>1,209,446</u>	<u>-</u>	<u>7,447,100</u>
Less amount required to meet current obligations	5,089,219	703,046	-	5,792,265
	<u>1,148,435</u>	<u>506,400</u>	<u>-</u>	<u>1,654,835</u>
	<u>129,972,683</u>	<u>18,484,532</u>	<u>-</u>	<u>148,457,215</u>
Property and Equipment, Net				
Other Assets				
Other assets	10,960,936	269,358	-	11,230,294
Interest in net assets of affiliates	4,873,000	-	-	4,873,000
Estimated amounts due from third-party payers - noncurrent	-	2,539,977	-	2,539,977
Intangible assets, net	5,327,079	-	-	5,327,079
	<u>21,161,015</u>	<u>2,809,335</u>	<u>-</u>	<u>23,970,350</u>
Total assets	<u>\$ 302,039,406</u>	<u>\$ 27,161,035</u>	<u>\$ -</u>	<u>\$ 329,200,441</u>

Liabilities and Net Assets

	SoutheastHEALTH Hospital	SoutheastHEALTH Regional System	Eliminations	Total
Current Liabilities				
Line of credit	\$ 2,552,500	\$ -	\$ -	\$ 2,552,500
Current maturities of long-term debt and capital lease obligations	4,578,822	524,163	-	5,102,985
Accounts payable	27,686,431	2,497,553	-	30,183,984
Accrued salaries and wages	11,016,081	1,076,597	-	12,092,678
Accrued interest payable	1,752,476	422,079	-	2,174,555
Other accrued liabilities	3,859,088	218,554	-	4,077,642
Estimated amounts due to third-party payers	<u>3,577,439</u>	<u>619,058</u>	<u>-</u>	<u>4,196,497</u>
Total current liabilities	55,022,837	5,358,004	-	60,380,841
Long-Term Debt	102,654,835	22,615,961	-	125,270,796
Finance Lease Obligations	1,771,065	842,751	-	2,613,816
Other Long-Term Liabilities	<u>8,210,763</u>	<u>270,525</u>	<u>-</u>	<u>8,481,288</u>
Total liabilities	<u>167,659,500</u>	<u>29,087,241</u>	<u>-</u>	<u>196,746,741</u>
Net Assets				
Without donor restrictions	129,506,906	(1,926,206)	-	127,580,700
With donor restrictions	<u>4,873,000</u>	<u>-</u>	<u>-</u>	<u>4,873,000</u>
Total net assets	<u>134,379,906</u>	<u>(1,926,206)</u>	<u>-</u>	<u>132,453,700</u>
Total liabilities and net assets	<u>\$ 302,039,406</u>	<u>\$ 27,161,035</u>	<u>\$ -</u>	<u>\$ 329,200,441</u>

SoutheastHEALTH System, Inc.
Consolidating Schedule – SoutheastHEALTH Statement of Operations
Information
Year Ended December 31, 2019

	SoutheastHEALTH Hospital	SoutheastHEALTH Regional System	Eliminations	Total
Revenues, Gains and Other Support				
Without Donor Restrictions				
Patient service revenue	\$ 315,555,878	\$ 32,183,185	\$ -	\$ 347,739,063
Other	18,828,668	3,220,815	-	22,049,483
Total revenues, gains and other support without donor restrictions	<u>334,384,546</u>	<u>35,404,000</u>	<u>-</u>	<u>369,788,546</u>
Expenses and Losses				
Salaries and wages	131,826,094	14,071,572	-	145,897,666
Employee benefits	25,354,257	2,372,877	-	27,727,134
Operating leases	2,861,124	369,403	-	3,230,527
Insurance	2,793,207	302,572	-	3,095,779
Purchased services, professional fees, supplies and other	134,161,370	16,636,225	-	150,797,595
Medicaid provider tax	15,631,557	1,039,276	-	16,670,833
Depreciation and amortization	17,948,933	1,986,202	-	19,935,135
Interest	4,681,828	1,508,823	-	6,190,651
Total expenses and losses	<u>335,258,370</u>	<u>38,286,950</u>	<u>-</u>	<u>373,545,320</u>
Operating Loss	<u>(873,824)</u>	<u>(2,882,950)</u>	<u>-</u>	<u>(3,756,774)</u>
Other Income				
Contributions	1,296	-	-	1,296
Investment return	5,984,099	24,865	-	6,008,964
Other	1,518,687	-	-	1,518,687
Total other income	<u>7,504,082</u>	<u>24,865</u>	<u>-</u>	<u>7,528,947</u>
Excess (Deficiency) of Revenues Over Expenses from Continuing Operations	6,630,258	(2,858,085)	-	3,772,173
Gain from Discontinued Operations of SoutheastHEALTH Center of Ripley County	<u>-</u>	<u>495,641</u>	<u>-</u>	<u>495,641</u>
Excess (Deficiency) of Revenues Over Expenses	6,630,258	(2,362,444)	-	4,267,814
Contributions of or for acquisition of property and equipment	186,072	100,000	-	286,072
Transfers from (to) affiliates	(6,802,905)	2,756,059	-	(4,046,846)
Increase in Net Assets Without Donor Restrictions	<u>\$ 13,425</u>	<u>\$ 493,615</u>	<u>\$ -</u>	<u>\$ 507,040</u>

SoutheastHEALTH System, Inc.
Consolidating Schedule – SoutheastHEALTH Regional System Balance Sheet Information
December 31, 2019

Assets

	SoutheastHEALTH Center of Ripley	SoutheastHEALTH Center of Stoddard	SoutheastHEALTH Holding Company	SoutheastHEALTH Pharmacy	Total
Current Assets					
Cash and cash equivalents	\$ 52,403	\$ 679,761	\$ 1,795	\$ 104,920	\$ 838,879
Assets limited as to use - current	-	703,046	-	-	703,046
Patients accounts receivable	6,022	2,939,523	-	-	2,945,545
Estimated amounts due from third-party payers - current	88,703	-	-	-	88,703
Other accounts receivable	38,539	64,551	-	110,735	213,825
Supplies	-	286,504	-	212,712	499,216
Other	-	71,416	-	138	71,554
Total current assets	<u>185,667</u>	<u>4,744,801</u>	<u>1,795</u>	<u>428,505</u>	<u>5,360,768</u>
Assets Limited As To Use					
Held by trustee					
Debt service reserve funds	-	1,209,446	-	-	1,209,446
	-	1,209,446	-	-	1,209,446
Less amount required to meet current obligations	-	703,046	-	-	703,046
	-	506,400	-	-	506,400
Property and Equipment, Net	<u>-</u>	<u>18,484,532</u>	<u>-</u>	<u>-</u>	<u>18,484,532</u>
Other Assets					
Other assets	-	269,358	-	-	269,358
Estimated amounts due from third-party payers - noncurrent	646,124	1,893,853	-	-	2,539,977
	<u>646,124</u>	<u>2,163,211</u>	<u>-</u>	<u>-</u>	<u>2,809,335</u>
Total assets	<u>\$ 831,791</u>	<u>\$ 25,898,944</u>	<u>\$ 1,795</u>	<u>\$ 428,505</u>	<u>\$ 27,161,035</u>

SoutheastHEALTH System, Inc.
Consolidating Schedule – SoutheastHEALTH Regional System Balance Sheet Information
December 31, 2019

Liabilities and Net Assets

	SoutheastHEALTH Center of Ripley	SoutheastHEALTH Center of Stoddard	SoutheastHEALTH Holding Company	SoutheastHEALTH Pharmacy	Eliminations	Total
Current Liabilities						
Current maturities of long-term debt and capital lease obligations	\$ -	\$ 524,163	\$ -	\$ -	\$ -	\$ 524,163
Accounts payable	584,651	1,823,963	1,619	87,320	-	2,497,553
Accrued salaries and wages	24	1,064,536	-	12,037	-	1,076,597
Accrued interest payable	-	422,079	-	-	-	422,079
Other accrued liabilities	-	218,445	-	109	-	218,554
Estimated amounts due to third-party payers	172,603	446,455	-	-	-	619,058
	<u>757,278</u>	<u>4,499,641</u>	<u>1,619</u>	<u>99,466</u>	<u>-</u>	<u>5,358,004</u>
Total current liabilities	757,278	4,499,641	1,619	99,466	-	5,358,004
Long-Term Debt	-	22,615,961	-	-	-	22,615,961
Finance Lease Obligations	-	842,751	-	-	-	842,751
Other Long-Term Liabilities	32,715	237,810	-	-	-	270,525
	<u>789,993</u>	<u>28,196,163</u>	<u>1,619</u>	<u>99,466</u>	<u>-</u>	<u>29,087,241</u>
Total liabilities	789,993	28,196,163	1,619	99,466	-	29,087,241
Net Assets						
Without donor restrictions	41,798	(2,297,219)	176	329,039	-	(1,926,206)
	<u>41,798</u>	<u>(2,297,219)</u>	<u>176</u>	<u>329,039</u>	<u>-</u>	<u>(1,926,206)</u>
Total net assets	41,798	(2,297,219)	176	329,039	-	(1,926,206)
Total liabilities and net assets	<u>\$ 831,791</u>	<u>\$ 25,898,944</u>	<u>\$ 1,795</u>	<u>\$ 428,505</u>	<u>\$ -</u>	<u>\$ 27,161,035</u>

SoutheastHEALTH System, Inc.

Consolidating Schedule – SoutheastHEALTH Regional System Statement of Operations Information Year Ended December 31, 2019

	SoutheastHEALTH Center of Ripley	SoutheastHEALTH Center of Stoddard	SoutheastHEALTH Holding Company	SoutheastHEALTH Pharmacy	Eliminations	Total
Revenues, Gains and Other Support Without Donor Restrictions						
Patient service revenue	\$ -	\$ 32,183,185	\$ -	\$ -	\$ -	\$ 32,183,185
Other	-	1,225,550	-	1,995,265	-	3,220,815
Total revenues, gains and other support without donor restrictions	-	33,408,735	-	1,995,265	-	35,404,000
Expenses and Losses						
Salaries and wages	-	13,871,786	-	199,786	-	14,071,572
Employee benefits	-	2,346,022	-	26,855	-	2,372,877
Operating leases	-	363,818	-	5,585	-	369,403
Insurance	-	302,572	-	-	-	302,572
Purchased services, professional fees, supplies and other	-	14,941,487	-	1,694,738	-	16,636,225
Medicaid provider tax	-	980,261	-	59,015	-	1,039,276
Depreciation and amortization	-	1,986,202	-	-	-	1,986,202
Interest	-	1,508,803	-	20	-	1,508,823
Total expenses and losses	-	36,300,951	-	1,985,999	-	38,286,950
Operating Income (Loss)	-	(2,892,216)	-	9,266	-	(2,882,950)
Other Income						
Investment return, net	-	24,865	-	-	-	24,865
Total other income	-	24,865	-	-	-	24,865
Excess (Deficiency) of Revenues Over Expenses from Continuing Operations	-	(2,867,351)	-	9,266	-	(2,858,085)
Loss from Discontinued Operations of SoutheastHEALTH Center of Ripley County	495,641	-	-	-	-	495,641
Excess (Deficiency) of Revenues Over Expenses	495,641	(2,867,351)	-	9,266	-	(2,362,444)
Contributions of or for acquisition of property and equipment	-	100,000	-	-	-	100,000
Transfers from (to) affiliates	237,171	1,772,880	678,852	67,156	-	2,756,059
Increase (Decrease) in Net Assets Without Donor Restrictions	\$ 732,812	\$ (994,471)	\$ 678,852	\$ 76,422	\$ -	\$ 493,615