

**SOUTHEASTERN REGIONAL MEDICAL CENTER
AND RELATED ORGANIZATIONS**

Financial Statements

**For the Years Ended
September 30, 2019 and 2018**

Southeastern Regional Medical Center and Related Organizations
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September 30, 2019 and 2018

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S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

To the Board of Trustees
Southeastern Regional Medical Center
and Related Organizations
Lumberton, North Carolina

We have audited the accompanying combined financial statements of Southeastern Regional Medical Center and Related Organizations (a North Carolina nonprofit health care corporation) which comprise the combined balance sheets as of September 30, 2019 and 2018, and the related combined statements of operations, combined statements of changes in net assets, combined statements of cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southeastern Regional Medical Center and Related Organizations as of September 30, 2019 and 2018, and the results of its operations, changes in net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A to the combined financial statements, in 2019 the Hospital adopted Financial Accounting Standards Board Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), requiring a change in the presentation of the provision for uncollectible accounts and enhanced financial statement disclosures, and ASU 2016-14, Presentation of Financial Statements for Not-For-Profit Entities, requiring a change in the presentation of net assets and enhanced financial statement disclosures. Our opinion is not modified with respect to these matters.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.



Lumberton, North Carolina
January 24, 2020

Southeastern Regional Medical Center and Related Organizations
Combined Balance Sheets
September 30, 2019 and 2018

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 13,247,930	\$ 3,583,768
Current portion of assets limited as to use	7,843,651	8,072,566
Patient accounts receivable, net of allowance	39,352,860	40,197,042
Other receivables	8,427,144	6,282,655
Inventories	7,105,013	7,617,029
Prepaid expenses	1,213,290	2,181,105
Total current assets	77,189,888	67,934,165
Property and equipment, net	220,782,018	233,858,352
Other assets		
Investments, assets limited as to use, net of current portion	78,756,428	86,713,217
Long-term investments	2,234,150	2,391,516
Total other assets	80,990,578	89,104,733
Total assets	\$ 378,962,484	\$ 390,897,250
 Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	\$ 2,852,498	\$ 2,522,498
Accounts payable	8,479,592	8,551,738
Accrued expenses	26,321,057	17,889,057
Estimated third-party payer settlements	1,170,483	4,058,104
Total current liabilities	38,823,630	33,021,397
Long-term liabilities, net of current portion:		
Long-term debt	83,471,765	86,403,711
Accrued pension expense	23,322,103	15,140,432
Share of deficiency in assets of Southeastern Ambulatory Surgery Center, LLC	6,282,476	5,161,373
Total long-term liabilities, net of current portion	113,076,344	106,705,516
Total liabilities	151,899,974	139,726,913
Net assets		
Without donor restrictions	222,873,034	247,194,544
With donor restrictions	4,189,476	3,975,793
Total net assets	227,062,510	251,170,337
Total liabilities and net assets	\$ 378,962,484	\$ 390,897,250

See accompanying notes.

Southeastern Regional Medical Center and Related Organizations
Combined Statements of Operations and Net Assets
For the Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Net assets without donor restrictions		
Net patient service revenue	\$ 283,593,984	\$ 340,586,097
Provision for bad debts	-	(63,055,896)
Net patient service revenue less provision for bad debts	<u>283,593,984</u>	<u>277,530,201</u>
Other revenue	<u>26,526,030</u>	<u>22,761,996</u>
Total unrestricted revenue	310,120,014	300,292,197
Operating expenses		
Salaries and benefits	183,410,079	173,224,095
Medical supplies and drugs	54,005,158	50,165,719
Insurance	1,210,188	2,199,946
Depreciation and amortization	23,208,088	23,001,304
Interest expense	3,182,581	3,472,998
Other expenses	71,089,489	79,480,336
Total operating expenses	<u>336,105,583</u>	<u>331,544,398</u>
Operating income	<u>(25,985,569)</u>	<u>(31,252,201)</u>
Nonoperating revenue and expenses		
Loss on extinguishment of debt	-	(274,822)
Interest and dividends	3,352,389	4,149,000
Realized gains (losses)	4,083,450	7,804,592
Unrealized gains (losses)	994,002	(5,383,788)
Investment fees	(424,022)	(467,704)
Total nonoperating revenue and expenses	<u>8,005,819</u>	<u>5,827,278</u>
Excess of revenue over expenses	(17,979,750)	(25,424,923)
Pension adjustment	(6,341,759)	5,318,939
Net assets released from restrictions used for purchase of property and equipment	<u>12,752</u>	<u>36,955</u>
(Decrease) increase in net assets without donor restrictions	<u>(24,308,757)</u>	<u>(20,069,029)</u>
Changes in net assets with donor restrictions		
Gifts, grants and bequests	1,125,711	826,809
Net assets released from restrictions - operations	(1,050,081)	(781,757)
Investment income	138,052	125,787
Net assets released from restrictions - property and equipment	<u>(12,752)</u>	<u>(36,955)</u>
Increase (decrease) in net assets with donor restrictions	<u>200,930</u>	<u>133,884</u>
Increase (decrease) in net assets	(24,107,827)	(19,935,145)
Net assets, beginning of year	<u>251,170,337</u>	<u>271,105,482</u>
Net assets, end of year	<u>\$ 227,062,510</u>	<u>\$ 251,170,337</u>

See accompanying notes.

Southeastern Regional Medical Center and Related Organizations
Combined Statements of Cash Flows
For the Years Ended September 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Increase (decrease) in net assets	\$ (24,107,827)	\$ (19,935,145)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	23,208,088	23,001,304
Provision for bad debts	-	63,555,896
Net realized and unrealized gains on investments	(5,077,452)	(2,420,804)
Amortization of original issue discount, premium and bond issue costs	(281,946)	163,267
Equity earnings in affiliate	1,121,103	1,774,065
Change in funded status of pension plan	8,181,671	(2,797,606)
Cash flows from (increase) decrease in:		
Receivables	(1,300,307)	(65,871,212)
Inventories	512,016	(74,383)
Prepaid expenses	967,815	(211,497)
Cash flows from increase (decrease) in:		
Accounts payable	(72,146)	3,765,463
Accrued expenses	8,432,000	1,906,826
Third-party payer settlement	(2,887,621)	422,682
Net cash provided (used) by operating activities	8,695,394	3,278,856
Cash flows from investing activities		
Purchase of property and equipment	(10,131,754)	(56,815,914)
(Increase) decrease in assets limited as to use	13,263,156	34,785,350
(Increase) decrease in other long-term investments	157,366	(799,899)
Net cash provided (used) by investing activities	3,288,768	(22,830,463)
Cash flows from financing activities		
Payment on line of credit	-	(10,000,000)
Payment on non-revolving line of credit	-	(27,471,733)
Principal payments on capital lease obligations	-	(1,602,990)
Issuance of long-term debt	-	57,335,000
Bond issuance costs	-	(382,554)
Redemption of bonds	-	(17,000,000)
Principal payments on long-term debt	(2,320,000)	(1,595,000)
Net cash provided (used) by financing activities	(2,320,000)	(717,277)
Net increase (decrease) in cash and cash equivalents	9,664,162	(20,268,884)
Cash and cash equivalents, beginning of year	3,583,768	23,852,652
Cash and cash equivalents, end of year	\$ 13,247,930	\$ 3,583,768

Cash paid for interest in 2019 and 2018 was \$3,440,464 and \$3,373,719, respectively.

See accompanying notes.

Southeastern Regional Medical Center and Related Organizations
Notes to Financial Statements
September 30, 2019 and 2018

Note A - Organization and Summary of Significant Accounting Policies

Organization

Southeastern Regional Medical Center and Related Organizations (the Hospital) is a not-for-profit health care corporation, exempt from federal income tax under Section 501(a) of the Internal Revenue Code (the Code) as an organization described in Section 501(c)(3) whereby only unrelated business income as defined by Section 512(a)(1) of the Code, is subject to federal income tax. The Hospital, located in Lumberton, North Carolina, provides inpatient, outpatient, and emergency care services through acute care as well as primary and specialty care services for residents of southeastern North Carolina.

Combination Policy

The accompanying combined balance sheets, statements of operations, statements of changes in net assets, and statements of cash flows, referred to as "Southeastern Regional Medical Center and Related Organizations," include the accounts of Southeastern Regional Medical Center, Health Horizons, Inc., Southeastern Regional Medical Center Foundation, and Southeastern Regional Physician Services, all of which are under common management. Intercompany balances and transactions have been eliminated in the combination.

Controlled Affiliates of the Hospital

The following entities are controlled affiliates of the Hospital:

Health Horizons, Inc. is a 501(c)(3) not-for-profit corporation. Health Horizons, Inc. includes Southeastern Home Care Services which offers a complete range of skilled nursing care along with physical, occupational, and speech therapy services, as well as case management for eligible people in their homes; Southeastern Home Health which provides services after hospitalization; Southeastern Home Medical Equipment which provides medical, respiratory, and rehabilitation equipment and supplies and Southeastern Hospice which offers medical care and comfort for patients. The Hospital is the sole shareholder of Health Horizons, Inc.

Southeastern Regional Medical Center Foundation (the Foundation) is a 501(c)(3) not-for-profit corporation. The purpose of the Foundation is to: (a) receive grants, bequests, donations, and contributions on behalf of; (b) provide fund-raising and other support to; and (c) make contributions to the Hospital and its related tax-exempt corporations. The Hospital is the sole shareholder of the Foundation.

Southeastern Regional Physician Services (Physician Services) is a 501(c)(3) not-for-profit corporation. The purpose of Physician Services is to operate primary care, specialty, and urgent care clinics throughout Robeson, Bladen, Cumberland, and Scotland counties. The Hospital is the sole shareholder of Physician Services.

Executive Credit Collections is an inactive corporation.

Other Affiliates of the Hospital

The following entity is an affiliate of the Hospital, but is not controlled and is, therefore, not included within these combined financial statements.

Southeastern Ambulatory Surgery Center, LLC (ASC) was formed to operate an ambulatory surgery center focused on providing same-day surgical care, including diagnostic and preventive procedures to patients and is owned jointly by the Hospital and physicians practicing in the Lumberton area.

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 revenue and expenses during the reporting period. Actual results could differ from these estimates. Significant items subject to such estimates include the provision for contractual allowances and uncollectible accounts, fair value of financial instruments, reserves for employee benefit obligations, and malpractice and self-insurance reserves.

Southeastern Regional Medical Center and Related Organizations
Notes to Financial Statements
September 30, 2019 and 2018

Note A - Organization and Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with a maturity of three months or less, excluding amounts whose use is limited by board designation or other arrangements under trust agreements or with third-party payers.

The Hospital maintains cash and cash equivalents on deposit at financial institutions, which at times exceed the limits insured by the Federal Deposit Insurance Corporation. This exposes the Hospital to potential risk of loss in the event the financial institution becomes insolvent.

Allowance for Uncollectible Accounts

As a result of adopting Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09 as described in Note A, the Hospital continues to maintain an allowance for uncollectible accounts related to performance obligations satisfied prior to October 1, 2019. The Hospital estimates this allowance based on the aging of accounts receivable, historical collection experience, and other relevant factors. There are various factors that can impact the collection trends, such as changes in the economy, which in turn have an impact on unemployment rates and the number of uninsured and underinsured patients, the increased burden of co-insurance, and deductibles to be made by patients with insurance and business practices related to collection efforts. These factors continuously change and can have an impact on collection trends and the estimation process.

Assets Limited as to Use and Investments

Assets limited as to use are limited principally to certain funds established to be held and invested by a trustee. These funds are related to the issuance of the Hospital's Revenue Bonds, investments for capital improvements set aside by the Board of Trustees (the Board) over which the Board retains control and may at its discretion subsequently use for other purposes, self-insurance arrangements, and certain permanently restricted endowment assets.

The fair values of individual investments are based on quoted market prices of individual securities or investments or estimated amounts using quoted market prices of similar investments. Realized and unrealized investment returns from all unrestricted investments and assets limited as to use are included in the combined statements of operations as part of nonoperating gains and losses. Investment income (loss) on investments of temporarily or permanently restricted assets is added to or deducted from the appropriate restricted fund balance if the income is restricted. The cost of securities sold is based on the specific-identification method. Investments are classified as either current or noncurrent based on maturity dates and availability for current operations.

Substantially all investments are classified as trading securities, with unrealized gains and losses included in excess of unrestricted revenue and other support in excess of expenses.

Investment Risk and Uncertainties

The Hospital invests in professionally managed portfolios that contain corporate bonds, United States Government obligations, municipal obligations, asset-backed securities, marketable equity securities, and money market funds. Such investments are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

Liquidity

Cash and cash equivalents and accounts receivable are the primary liquid resources used by the Hospital to meet expected expenditure needs within the next year. Although intended to satisfy long-term obligations and capital needs, management estimates that approximately 86% of investments and virtually all of its current assets, as stated at September 30, 2019, could be utilized within a year if needed while continuing to satisfy bond covenants.

Inventories

Inventories of materials and supplies are stated at the lower of cost (first-in, first-out method) or market.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Items acquired by gift are recorded at fair value at the

Southeastern Regional Medical Center and Related Organizations
Notes to Financial Statements
September 30, 2019 and 2018

Note A - Organization and Summary of Significant Accounting Policies (continued)

Property and Equipment (continued)

time of acquisition. Maintenance and repairs are expensed. The cost of land, buildings and equipment sold or retired and the related accumulated depreciation are removed from the records and any resulting gain or loss is recorded. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method.

Asset Impairment

The Hospital considers whether indicators of impairment are present and performs the necessary tests to determine if the carrying value of an asset is appropriate. Impairment write-downs are recognized in operating income at the time the impairment is identified. There was no impairment of long-lived assets in 2019 or 2018.

Premiums, Discounts and Deferred Financing Costs on Long-Term Debt

Premiums and discounts arising from the original issuance of long-term debt are amortized on the straight-line basis, which approximates the effective interest method, over the life of the debt. The unamortized portion of these premiums and discounts are included in long-term debt on the combining balance sheets. Deferred financing costs represent costs incurred in conjunction with the issuance of the Hospital's long-term debt. These costs are amortized on a straight-line basis, which approximates the effective interest method, over the life of the debt.

Net Assets

Net resources that are not restricted by donors are included in Net assets without donor restrictions. Gifts of long-lived assets, such as property and equipment, are reported as Net assets without donor restrictions and excluded from income. Resources restricted by donors for a specified time or purpose are reported as Net assets with donor restrictions.

When the specific purposes are met, either through passage of a stipulated time period or when the purpose for restriction is accomplished, they are released to Other operating revenues in the Statement of Operations and Changes in Net Assets. Resources restricted by donors for additions to property and equipment are initially reported as Net assets with donor restrictions and are transferred to Net assets with donor restrictions when expended. Donor-imposed restrictions, which stipulate that the resources be maintained permanently, are reported as net assets with donor restrictions.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital for patient services at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated adjustments under reimbursement agreements with third-party payers. Estimated adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. The Hospital also offers discounts to self pay patients.

The Hospital's revenues may be subject to adjustment as a result of examination by government agencies or contractors and as a result of differing interpretation of government regulations, medical diagnosis, charge coding, medical necessity, or other contract terms. The resolution of these matters, if any, often is not finalized until subsequent to the period during which the services were rendered.

Financial Assistance and Community Benefits

In support of its mission, the Hospital provides charity care to patients who lack financial resources and are deemed to be medically indigent. Policies have been established that define financial assistance and provide guidelines for assessing a patient's ability to pay. Evaluation procedures for financial assistance qualification have been established for those situations when previously unknown financial circumstances are revealed or when incurred charges are significant when compared to the individual patient's income and/or net assets. Because the Hospital does not pursue collection of amounts determined to qualify as financial assistance, they are not reported as revenue in the accompanying combined statements of operations and changes in net assets.

In addition, the Hospital provides services to other medically indigent patients under various state Medicaid programs that pay providers amounts less than the costs incurred for the services provided to recipients.

Southeastern Regional Medical Center and Related Organizations
Notes to Financial Statements
September 30, 2019 and 2018

Note A - Organization and Summary of Significant Accounting Policies (continued)

Financial Assistance and Community Benefits (continued)

Under current accounting standards, the Hospital is required to report the cost of providing financial assistance. The cost of financial assistance provided by the Hospital is based on the Hospital's aggregate cost to charge ratio and totaled \$14,934,619 and \$11,295,704 in 2019 and 2018, respectively.

In addition to its Financial Assistance policy, the Hospital has a long-standing commitment of supporting the community through the provision of outreach services designed to address identified health and social issues. Specifically, the Hospital provides a variety of screening and early detection tests, wellness activities, social support services and educational seminars. A majority of these services are provided at either nominal or no cost to community members.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose for the restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the Combined Statements of Operations and Changes in Net Assets as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as other revenue in the Combined Statements of Operations and Changes in Net Assets.

Unconditional promises to give cash or other assets are reported as other receivables and contributions with the appropriate net asset category. An allowance for uncollectible pledges receivable is estimated based on historical experience and other collection indicators.

Excess of Revenue over Expenses

The accompanying combined statements of operations and changes in net assets include the excess of revenue over expenses. Changes in net assets without donor restriction which are excluded from excess of revenues over expenses, consistent with industry practice, include, among other items, change in funded status of defined benefit plans, permanent transfers of assets to and from affiliates for other than goods or services, and contributions of long-lived assets (including assets acquired using contributions, which, by donor restriction, are to be used for the purposes of acquiring such assets).

Recent Accounting Pronouncements

Revenue Recognition – In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles (GAAP) upon implementation. The Hospital adopted this standard on October 1, 2018 under the cumulative effect transition method. Results for reporting periods beginning on or after October 1, 2018 are presented in accordance with the Hospital's historical accounting under *Revenue Recognition (Topic 605)*. The adoption of the standard resulted in a change in the presentation on the Combined Statements of Operations and Changes in Net Assets for the provision for uncollectible accounts and enhanced footnote disclosures. The adoption did not result in significant impact on the recognition of net patient service revenue.

Not-for-Profit Reporting – In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14)*, which, among other things requires a not-for-profit to: 1) present on the face of the combined balance sheets amounts for two classes of net assets at the end of the period, rather than for the previously required three classes. The two classes are net assets with donor restrictions and net assets without donor restrictions; 2) present on the face of the combined statements of operations and changes in net assets the amount of the change in each of the two classes of net assets; 3) continue to present on the face of the combined statement of cash flows using either the direct or indirect method; 4) provide various enhanced disclosures; 5) report investment return net of external and direct internal investment expenses and no longer require disclosure of those netted expenses; and 6) use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived assets and reclassify any amounts from

Southeastern Regional Medical Center and Related Organizations
Notes to Financial Statements
September 30, 2019 and 2018

Note A - Organization and Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements (continued)

Not-for Profit Reporting (continued)

net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption. The Hospital adopted ASU 2016-14 effective October 1, 2018. ASU 2016-14 was applied using a retrospective basis. As a result of adoption, temporarily restricted and permanently restricted net assets of \$1,079,094 and \$2,896,669, respectively, were combined to create net assets with donor restrictions in the 2018 combined financial statements.

Reclassifications

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

Note B – Investments and Assets Limited as to Use

Assets measured at fair value are presented in the accompanying combined balance sheet under the following classifications:

	<u>2019</u>	<u>2018</u>
Assets limited as to use, current	\$ 7,843,651	\$ 8,072,566
Assets limited as to use, noncurrent	78,756,428	86,713,217
Long-term investments	<u>2,234,150</u>	<u>2,391,516</u>
	<u>\$ 88,834,229</u>	<u>\$ 97,177,299</u>

Current and long- term assets whose use is limited for 2019 and 2018 are classified as follows:

	<u>2019</u>	<u>2018</u>
Board designated assets, primarily construction and capital	\$ 78,027,707	\$ 79,700,199
Board designated assets, Epic escrow	-	3,665,511
Bond indenture agreement assets restricted by trustees	728,721	3,347,506
Self-insurance assets board designated	<u>7,843,651</u>	<u>8,072,566</u>
	<u>\$ 86,600,079</u>	<u>\$ 94,785,782</u>

Assets Limited as to Use

The composition of assets limited as to use at September 30 is set forth in the following table. Investments are stated at fair value.

	<u>2019</u>	<u>2018</u>
By board for capital improvements:		
Cash and short-term investments	\$ 6,243,186	\$ 2,712,789
Corporate bonds and other fixed income	34,581,343	32,451,878
Equity securities	20,439,729	29,916,220
Mutual funds	<u>16,763,449</u>	<u>18,284,824</u>
	<u>78,027,707</u>	<u>83,365,711</u>
Held by trustee:		
Cash and short-term investments	<u>728,721</u>	<u>3,347,506</u>
Self-insurance program:		
Cash and short-term investments	101,843	169,901
Equity securities	3,487,228	3,914,948
Corporate bonds and other fixed income	<u>4,254,580</u>	<u>3,397,717</u>
	<u>7,843,651</u>	<u>8,072,566</u>
Total investments, assets limited as to use	<u>\$ 86,600,079</u>	<u>\$ 94,785,782</u>

Southeastern Regional Medical Center and Related Organizations
Notes to Financial Statements
September 30, 2019 and 2018

Note C – Equity Method Investments

Southeastern Regional Medical Center and Related Organizations use the equity method to account for their financial interest in Southeastern Ambulatory Surgical Center, LLC (ASC). The operating agreement stipulates that ASC is to have Class A Members, which includes physicians practicing in the Lumberton area and Class B Members, which is the Hospital. ASC is managed by a Board of Managers, which is comprised of three representatives of the Class A Members and three representatives of the Class B Members, each entitled to one vote. ASC files an income tax return as a partnership. As of December 31, 2018, the Hospital owned 177 of the 190 outstanding ASC member units or 93.43%.

The Hospital is a guarantor on the indebtedness of ASC, therefore, the negative investment balance is shown in long-term liabilities on the balance sheet as “Share of Deficiency in Assets of Southeastern Ambulatory Surgery Center, LLC.”

Summarized financial information for ASC, accounted for under the equity method, as of September 30, 2019 and 2018, consists of the following:

	<u>2019</u>	<u>2018</u>
Total assets	\$ 1,701,096	\$ 1,892,290
Total liabilities	<u>(8,876,732)</u>	<u>(7,860,453)</u>
Members’ equity	<u>\$ (7,175,636)</u>	<u>\$ (5,968,163)</u>
Net patient revenue	\$ 2,798,799	\$ 2,256,355
Expenses before depreciation and interest expense	<u>(2,999,236)</u>	<u>(3,428,320)</u>
Net operating income	\$ (200,437)	\$ (1,171,965)
Depreciation and interest expense	<u>(755,638)</u>	<u>(777,568)</u>
Net income (loss)	<u>\$ (956,075)</u>	<u>\$ (1,949,533)</u>
Hospital’s share of deficiency in assets of ASC	<u>\$ (6,282,476)</u>	<u>\$ (5,161,373)</u>

Note D – Fair Value Measurements

The Hospital follows the requirements of ASC 820 in regards to measuring the fair value of certain assets and liabilities as well as disclosures about fair value measurements. ASC 820 defines fair value as the price that would be received for an asset or paid for a transfer of a liability in an orderly transaction on the measurement date.

The methodologies used to determine fair value of assets and liabilities reflect market participant objectives and are based on the applications of a three-level valuation hierarchy that prioritizes observable market inputs over unobservable inputs. The three levels are defined as follows:

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, 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 same term of the assets or liabilities.
- Level 3 – Inputs are unobservable inputs for the assets or liabilities, which are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value instrument.

Southeastern Regional Medical Center and Related Organizations
Notes to Financial Statements
September 30, 2019 and 2018

Note D – Fair Value Measurements (continued)

The following tables present the financial instruments measured at fair value on a recurring basis as of September 30, 2019 and 2018:

	<u>Fair Value as of September 30, 2019</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Cash and cash equivalents	\$ 13,247,930	\$ -	\$ -	\$ 13,247,930
Trading securities and other assets whose use is limited:				
Cash and cash equivalents	7,073,750	-	-	7,073,750
Corporate bonds and other fixed income	-	38,835,923	-	38,835,923
Equity securities	23,926,957	-	-	23,926,957
Mutual funds	16,763,449	-	-	16,763,449
Other	1,959,152	-	274,997	2,234,149
Total	<u>\$ 62,971,238</u>	<u>\$ 38,835,923</u>	<u>\$ 274,997</u>	<u>\$ 102,082,158</u>

	<u>Fair Value as of September 30, 2018</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 3,583,771	\$ -	\$ -	\$ 3,583,771
Trading securities and other assets whose use is limited:				
Cash and cash equivalents	6,230,196	-	-	6,230,196
Corporate bonds and other fixed income	-	36,439,594	-	36,439,594
Equity securities	33,831,168	-	-	33,831,168
Mutual funds	18,284,824	-	-	18,284,824
Other	1,985,999	-	405,517	2,391,516
Total	<u>\$ 63,915,958</u>	<u>\$ 36,439,594</u>	<u>\$ 405,517</u>	<u>\$ 100,761,069</u>

Valuation Techniques and Inputs

Investments - The fair value of Level 1 investments, which primarily includes equity securities, corporate bonds, mutual funds, and cash, is based on quoted market prices that are valued on a daily basis. Level 2 investments consist of U.S. government securities, corporate bonds and other fixed income investments. The fair value of the U.S. government securities and corporate bonds is established based on values obtained from nationally recognized pricing services that value the investments based on similar securities and matrix pricing of similar quality and maturity securities. Level 3 investments are valued at cost.

The carrying values of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and short-term borrowings are reasonable estimates of their fair values due to the short-term nature.

The estimated fair value of the Revenue Bonds, including the current portion, was \$87,814,978 and \$90,539,975 at September 30, 2019 and 2018, respectively. The fair value of this Level 2 liability is based on quoted market prices for the same or similar issues and the relationship of those bond yields with various market indices.

Southeastern Regional Medical Center and Related Organizations
Notes to Financial Statements
September 30, 2019 and 2018

Note E - Property and Equipment

A summary of property and equipment at September 30 follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 5,977,825	\$ 5,954,286
Land improvements	4,129,559	4,119,781
Buildings and improvements	208,166,607	191,064,349
Furniture and fixtures	23,324,132	23,837,363
Fixed equipment	21,989,003	22,053,669
Moveable equipment	220,718,209	211,848,499
Automobiles	2,274,074	2,274,074
Rental equipment	<u>2,722,118</u>	<u>2,704,061</u>
	489,301,527	463,856,082
Less - Accumulated depreciation and amortization	<u>274,400,594</u>	<u>252,681,814</u>
	214,900,933	211,174,268
Construction in progress	<u>5,881,085</u>	<u>22,684,084</u>
Property and equipment, net	<u>\$ 220,782,018</u>	<u>\$ 233,858,352</u>

Construction in progress consists of building construction and renovations and costs associated with a new system for integrated electronic health records. As these projects are completed, the related assets are transferred out of construction in progress and into the appropriate asset category and are depreciated over the applicable useful lives.

Depreciation expense for the years ended September 30, 2019 and 2018 amounted to \$23,208,088 and \$23,001,304, respectively.

Note F – Self-Insurance Liabilities and Related Insurance Recoverables

The Hospital retains certain levels of professional and general liability risks. For those risks, the Hospital has established trust funds to pay claims and related costs. The Hospital is required to maintain cash and investments sufficient to fund actuarially determined tail liabilities. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. The Hospital has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Accrued provision for malpractice losses in the amount of \$5,916,027 and \$6,477,489 for 2019 and 2018, respectively, are included in current liabilities to cover the Hospital's malpractice exposure.

Note G – Debt Obligations

Series 2012

In October 2012, the North Carolina Medical Care Commission issued Series 2012 Revenue Refunding Bonds on behalf of Southeastern Regional Medical Center with a face amount of \$40,210,000. The proceeds of the 2012 Bonds were used to refund the Series 1999 Revenue Bonds and the Series 2002 Revenue Bonds and to pay certain expenses incurred in connection with the issuance and sale of the 2012 Bonds. The 2012 Bonds were issued with a premium of \$4,049,963, which is being amortized over the life of the bonds. The accumulated amortization was \$1,619,984 and \$1,214,988 at September 30, 2019 and September 30, 2018, respectively.

Series 2017A

In December 2017, the North Carolina Medical Care Commission issued Series 2017A Hospital Revenue Bonds on behalf of Southeastern Regional Medical Center with a face amount of \$42,160,000. The proceeds of the 2017A Bonds, net of issuance expense and fund amounts deposited to cover interest payments on a portion of the bonds, were to be used to finance ongoing capital projects, and to repay an interim non-revolving line of credit with Branch Bank and Trust used to finance certain costs of ongoing capital projects.

Series 2017B

In December 2017, the North Carolina Medical Care Commission issued Series 2017B Hospital Revenue Refunding Bonds on behalf of Southeastern Regional Medical Center with a face amount of \$15,780,000. The proceeds of the 2017B Bonds and release of fund amounts deposited in the amount of \$1,341,160 net of issuance expense, were used to refund \$17,000,000 of outstanding debt related to the Series 2005 Hospital Revenue Bonds.

Southeastern Regional Medical Center and Related Organizations
Notes to Financial Statements
September 30, 2019 and 2018

Note G – Debt Obligations (continued)

Long-term debt as shown on the balance sheets consisted of the following at September 30:

	<u>2019</u>	<u>2018</u>
Series 2012 Hospital Revenue Refunding Bonds; principal maturing in varying annual amounts ranging from \$1,440,000 to \$2,860,000; interest rates ranging from 2% to 5%	\$ 28,720,000	\$ 30,370,000
Unamortized premium, net	<u>2,429,978</u>	<u>2,834,975</u>
	<u>31,149,978</u>	<u>33,204,975</u>
Series 2017A Hospital Revenue Bonds: principal maturing in varying annual amounts ranging from \$50,000 to \$3,230,000; interest rate 2.78%	<u>42,110,000</u>	<u>42,160,000</u>
Series 2017B Hospital Revenue Bonds; principal maturing in varying annual amounts ranging from \$605,000 to 1,005,000; interest rates variable based on LIBOR index rate	<u>14,555,000</u>	<u>15,175,000</u>
Totals	87,814,978	90,539,975
Current portion bond principle	(2,650,000)	(2,320,000)
Current portion bond premium amortization	(202,498)	(202,498)
Unamortized cost of issuance	<u>(1,490,715)</u>	<u>(1,613,766)</u>
Long-term portion	<u>\$ 83,471,765</u>	<u>\$ 86,403,711</u>

Scheduled principal and interest repayments on long-term debt and lease obligations, excluding premium, for the next five years are as follows:

	<u>Long-term debt</u>	
	<u>Principal</u>	<u>Interest</u>
2020	\$ 2,650,000	\$ 2,907,645
2021	2,815,000	2,804,783
2022	2,890,000	2,731,468
2023	2,955,000	2,653,988
2024	3,080,000	2,531,948

Under the terms of the Bond Indenture, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included with assets whose use is limited in the financial statements. The provisions under the Bond Indenture require the Hospital to maintain reporting, financial, and other covenants. The Hospital was in compliance with these provisions at September 30, 2019.

Note H - Pension Benefits

The Hospital has a defined benefit plan that covers substantially all of its employees. The plan benefits are based on years of service and the employees' compensation during the last five years of covered employment. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. The plan was amended, effective January 1, 2005, so that no eligible employee hired or rehired on or after January 1, 2005 can become a participant in the plan or accrue any benefits under the plan. Effective December 31, 2009, the plan was amended to cease benefit accruals.

Southeastern Regional Medical Center and Related Organizations
Notes to Financial Statements
September 30, 2019 and 2018

Note H – Pension Benefits (continued)

The following table sets forth the changes in benefit obligations, changes in plan assets, and components of net periodic benefit cost for the years ended September 30:

	2019	2018
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 99,792,367	\$ 106,408,649
Service cost	-	-
Interest cost	4,201,008	4,075,403
Actuarial (gain) loss	12,719,913	(6,018,495)
Benefits paid	(4,972,806)	(4,673,190)
Projected benefit obligation at end of year	<u>\$ 111,740,482</u>	<u>\$ 99,792,367</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 84,651,935	\$ 88,470,611
Actual return on plan assets	9,360,226	1,385,107
Employer contributions	-	-
Expenses paid	(620,976)	(530,593)
Benefits paid	(4,972,806)	(4,673,190)
Fair value of plan assets at end of year	<u>88,418,379</u>	<u>84,651,935</u>
Funded status	<u>\$ (23,322,103)</u>	<u>\$ (15,140,432)</u>
Amounts recognized in the balance sheet:		
Non-current liabilities	<u>(23,322,103)</u>	<u>(15,140,432)</u>
Total Asset/ (Liability)	<u>\$ (23,322,103)</u>	<u>\$ (15,140,432)</u>
Amounts recognized in Accumulated Other Comprehensive Income:		
Net transition (obligation)/ asset	\$ -	\$ -
Prior service (cost)/ credit	-	-
Net actuarial gain/ (loss)	(30,900,137)	(24,558,379)
Total	<u>\$ (30,900,137)</u>	<u>\$ (24,558,379)</u>

The accumulated benefit obligation for the plan was \$111,740,482 and \$99,792,367 at September 30, 2019 and 2018, respectively.

**Components of Net Periodic Benefit Cost and Other Amounts
Recognized in Other Comprehensive Income:**

	2019	2018
Net Periodic Benefit Cost:		
Service costs	\$ -	\$ -
Interest cost in projected benefit obligation	4,201,008	4,075,403
Expected return on assets	(4,809,573)	(5,021,303)
Expected administrative expenses	620,976	530,593
Amortization of transition obligation (asset)	-	-
Amortization of prior service cost	-	-
Amortization of net (gain) loss	1,827,502	2,936,640
Curtailment expense	-	-
Net periodic benefit cost	<u>\$ 1,839,913</u>	<u>\$ 2,521,333</u>

The estimated net transition obligation (asset), prior service cost (credit), and estimated net loss (gain) for the plan that are expected to be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are \$0, \$0, and \$3,002,428 respectively.

Southeastern Regional Medical Center and Related Organizations
Notes to Financial Statements
September 30, 2019 and 2018

Note H - Pension Benefits (continued)

Assumptions:	2019	2018
Weighted-average assumptions used to determine benefit obligation at September 30		
Discount rate	3.26%	4.32%
Expected long-term rate of return	5.75%	5.75%
Rate of compensation increase	N/A	N/A
Weighted-average assumptions used to determine net periodic benefit cost for years ended September 30		
Discount rate	4.32%	3.92%
Expected long-term return on plan assets	5.75%	6.00%
Rate of compensation increase	N/A	N/A

Plan assets have been invested in equities, fixed income, real estate, and money markets. The composition of plan assets for the past two years is shown below. The expected long-term rate of return of 6% has been determined by use of Aon Hewitt Investment Consulting's expectations of returns for various asset classes applied to the asset allocation listed below. Six percent is at the high end of the acceptable range. The intent of the investment policy is to add more liability-hedging assets over time, which will lead to a lower expected return over time. This will be monitored each year and the expectation is that the expected long-term rate of return will decline in future years.

Plan Assets

The composition of plan assets is as follows:

	Target Allocation	Percentage of Plan Assets September 30	
		2019	2018
Return-seeking securities	32-42%	40.7%	41.5%
Liability-hedging securities	68-58%	59.3%	58.5%

Investment policy guidelines for the Plan include a portfolio that will provide liquidity to meet the Plan's benefit payments and expenses payable from the Plan under ERISA, offer a reasonable probability of achieving a growth of assets that will assist in closing the Plan funding gap, and manage the Plan's assets in a liability framework. The mix of growth and liability matching assets is determined by the acceptable level of risk to the funded status.

The following table presents the Plan's financial instruments as of September 30, 2019 and 2018 measured at fair value on a recurring basis by the valuation hierarchy described in Note D:

	Plan Assets at Fair Value as of September 30, 2019			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 1,348,625	\$ -	\$ -	\$ 1,348,625
Mutual funds	-	87,069,754	-	87,069,754
	\$ 1,348,625	\$ 87,069,754	\$ -	\$ 88,418,379
	Plan Assets at Fair Value as of September 30, 2018			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 1,626,155	\$ -	\$ -	\$ 1,626,155
Mutual funds	-	83,025,780	-	83,025,780
	\$ 1,626,155	\$ 83,025,780	\$ -	\$ 84,651,935

The fair value of Level 1 investments, which consists of equity securities and certain mutual funds, is based on quoted market prices and are value on a daily basis. Level 2 investments consist of U.S. government securities, corporate bonds and fixed income instruments. The fair value of the U.S. government securities and corporate bonds is established based on values obtained from nationally recognized pricing services that value the investments based on similar securities and matrix pricing of similar quality and maturity services. Level 3 investments consist of limited partnership interests in real estate and are based on net asset value.

Southeastern Regional Medical Center and Related Organizations
Notes to Financial Statements
September 30, 2019 and 2018

Note H - Pension Benefits (continued)

Cash Flows

Contributions - The Hospital is not required to make a contribution to its pension plan in 2020.

Estimated Future Benefit Payments – The following benefit payments, which reflect future service, as appropriate, are expected to be paid:

2020	\$ 5,359,000
2021	5,530,000
2022	5,671,000
2023	5,788,000
2024	5,914,000
Years 2025 - 2029	30,965,000

Defined Contribution Plan

The Hospital has a defined contribution plan qualified under Internal Revenue Code Section 403(b) covering all employees. For employees hired before January 1, 2005, the Hospital matches 25% of the first 4% of compensation deferred by the employee, subject to Internal Revenue Service limitations.

For employees hired or rehired on or after January 1, 2005, there is a new enhanced 403 (b) plan. Effective January 1, 2010, all employees hired prior to January 1, 2005 became covered under the new enhanced 403(b) plan. After a one year waiting period, the Hospital contributes 2% of each eligible employee’s annual compensation to the plan, subject to a 3 year vesting period. In addition, the Hospital will match a percentage of the first 4% of compensation deferred by the employee based on years of service as of the immediately preceding December 31st, subject to Internal Revenue Service limitations. The percentages are 25% for the first 5 years of service, 50% for the next 5 years of service and 100% for each year of service thereafter. The amount of the contribution made by the Hospital is within its discretion and may vary. The Hospital’s contributions to the 403(b) plans were \$2,124,957 and \$2,015,186 for 2019 and 2018, respectively.

Note I – Net Assets with Donor Restrictions

Net assets with temporarily donor restrictions are available for the following purposes at September 30, 2019 and 2018:

	2019	2018
Healthcare services:		
Purchase of property and equipment	\$ 349,826	\$ 308,679
Support of health care services	742,020	770,415
	\$ 1,091,846	\$ 1,079,094

Net assets with permanent donor restrictions consist of investments to be held in perpetuity, the income from which is used to support health care services, was \$3,097,630 and \$2,896,699 for September 30, 2019 and 2018, respectively.

Note J - Net Patient Service Revenue

The Hospital has agreements with third party payers that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payers follows:

Medicare - Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services and defined capital and medical education costs related to medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the

Hospital and audits thereof by the Medicare fiscal intermediary. The Medicare fiscal intermediary has audited the Hospital's Medicare cost reports through September 30, 2015.

Southeastern Regional Medical Center and Related Organizations
Notes to Financial Statements
September 30, 2019 and 2018

Note J - Net Patient Service Revenue (continued)

Medicaid - Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Medicaid fiscal intermediary has audited the Hospital's Medicaid cost reports through September 30, 2016.

Revenue from the Medicare and Medicaid programs accounted for approximately 49.2% and 20.7%, respectively, of the hospital's net patient revenue for the year ended 2019, and 49.5% and 20.7%, respectively, of the hospital's net patient revenue for the year ended 2018. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, HMO's, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established covered charges, and prospectively determined daily rates.

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third party payer agreements. The mix of receivables from patients and third party payers consisted of the following at September 30:

	<u>2019</u>	<u>2018</u>
Medicare	31.5%	28.8%
Medicaid	12.7%	12.6%
Other third party payers	28.7%	30.8%
Self pay patients	27.1%	27.8%
	<u>100.0%</u>	<u>100.0%</u>

The Hospital records a provision for uncollectible accounts in the period of services on the basis of past experience, which has historically indicated that many patients are unresponsive or are otherwise unwilling to pay the portion of their bill for which they are financially responsible. As a result of adopting ASU 214-09 as described in Note A, the Hospital continues to maintain an allowance for uncollectible accounts related to performance obligations satisfied prior to October 1, 2019. Any provision for uncollectible in 2019 was considered an implicit price concession and is recorded directly to net patient service revenue. The estimates made and changes affecting those estimates for the years ended September 30, 2019 and 2018 are summarized below and relate solely to revenues recorded prior to October 1, 2019:

	<u>2019</u>	<u>2018</u>
Changes in allowance for uncollectible accounts:		
Allowance for uncollectible accounts at beginning of year	\$ 120,348,389	\$ 103,492,389
Write-off of uncollectible accounts, net of recoveries	(100,303,328)	(81,911,896)
Provision for uncollectible accounts	<u>-</u>	<u>63,055,896</u>
Allowance for uncollectible accounts at end of year	<u>\$ 20,045,061</u>	<u>\$ 120,348,389</u>

Note K – Functional Expenses

The Hospital provides general healthcare services primarily to residents within its geographic location. For the years ended September 30, 2019 and 2018, expenses related to providing these services were as follows:

	<u>2019</u>	<u>2018</u>
Healthcare services	\$ 305,748,844	\$ 304,212,832
Research and education	961,526	872,334
Fund-raising	408,981	413,617
General, administrative, and other	<u>28,986,232</u>	<u>26,045,615</u>
	<u>\$ 336,105,583</u>	<u>\$ 331,544,398</u>

Southeastern Regional Medical Center and Related Organizations
Notes to Financial Statements
September 30, 2019 and 2018

Note L - Commitments and Contingencies

Construction commitments. The Hospital has approved contracts for uncompleted construction and renovation with outstanding balances of \$603,551 and \$1,491,213 for the years ending September 30, 2019 and 2018, respectively.

Litigation. The Hospital is involved in litigation and regulatory investigations arising in the ordinary course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

Note M – Related Party Transactions

The Hospital leases office space to Southeastern Ambulatory Center, LLC (ASC). The terms of the lease are for twenty years a base rent of \$38,772 per month, plus actual common area maintenance charges and utilities. At September 30, 2019 the ASC owed the Hospital \$5,241,427 for services rendered.

Note N – Change in Accounting Estimate – Allowance for Bad Debts

During the September 30, 2019 fiscal year, the Hospital determined that there was an issue with the allowance for bad debts related to prior years. Based on the Hospital's reporting systems, there was a \$11,113,000 shortfall in actual collections versus expected cash collections – all prior to the current fiscal year. Due to the fact that this was a change in an accounting estimate based on new information, the adjustment was made in the current year and negatively impacted the Hospital's current year net patient revenue by that amount.

Note O – Subsequent Events

Management evaluation. Management has evaluated subsequent events through January 24, 2020, the date that the financial statements were available for issue.

Note P – Other Information

Federally Declared Disaster Area

The City of Lumberton, Robeson County and many surrounding counties have been declared Federal Disaster Areas twice in less than two years. First Hurricane Matthew devastated the area with massive flooding in early October of 2016; then, Hurricane Florence struck the area on September 14, 2018, dumping in excess of 20 inches of rain on the region causing massive flooding for a second time. Many residents in the area have lost their homes and a significant number have moved out of the area. The financial impact on the Hospital over the last three years has been significant but difficult to quantify.

SUPPLEMENTARY INFORMATION

Southeastern Regional Medical Center and Related Organizations
Supplementary Combining Balance Sheet
September 30, 2019
(With Comparative Totals for 2018)

<u>Assets</u>	<u>Hospital</u>	<u>Home Care Services</u>	<u>Woodhaven</u>	<u>Physician Services</u>	<u>Foundation</u>	<u>2019 Totals</u>	<u>2018 Totals</u>
Current assets							
Cash and cash equivalents	\$ 9,230,807	\$ 169,765	\$ 514,222	\$ 399,686	\$ 2,933,450	\$ 13,247,930	\$ 3,583,768
Short term investments	7,843,651	-	-	-	-	7,843,651	8,072,566
Patient accounts receivable, net	33,444,156	1,317,151	1,440,911	3,150,642	-	39,352,860	40,197,042
Other receivables	8,422,250	-	-	-	4,894	8,427,144	6,282,655
Inventories	6,888,388	216,625	-	-	-	7,105,013	7,617,029
Prepaid expenses	1,213,290	-	-	-	-	1,213,290	2,181,105
Total current assets	67,042,542	1,703,541	1,955,133	3,550,328	2,938,344	77,189,888	67,934,165
Assets limited as to use							
By board, capital improvement	73,861,382	-	-	-	4,166,325	78,027,707	83,365,711
Held by trustee	728,721	-	-	-	-	728,721	3,347,506
Total assets limited as to use	74,590,103	-	-	-	4,166,325	78,756,428	86,713,217
Long term investments	2,234,150	-	-	-	-	2,234,150	2,391,516
Property and equipment, net	205,455,645	497,453	4,989,014	9,839,906	-	220,782,018	233,858,352
Total assets	\$ 349,322,440	\$ 2,200,994	\$ 6,944,147	\$ 13,390,234	\$ 7,104,669	\$ 378,962,484	\$ 390,897,250
Liabilities and Net Assets							
Current liabilities							
Current portion, long-term debt	\$ 2,650,000	\$ -	\$ -	\$ -	\$ -	\$ 2,650,000	\$ 2,522,498
Accounts payable	8,431,144	48,448	-	-	-	8,479,592	8,551,738
Third-party payer settlements	1,170,483	-	-	-	-	1,170,483	4,058,104
Accrued expenses	25,399,844	49,490	221,844	649,879	-	26,321,057	17,889,057
Total current liabilities	37,651,471	97,938	221,844	649,879	-	38,621,132	33,021,397
Long-term debt, less current portion	83,674,263	-	-	-	-	83,674,263	86,403,711
Share of deficiency in assets of ASC	6,282,476	-	-	-	-	6,282,476	5,161,373
Other long-term debt - liability for pension benefits	23,322,103	-	-	-	-	23,322,103	15,140,432
Total liabilities	150,930,313	97,938	221,844	649,879	-	151,899,974	139,726,913
Net assets							
Without donor restrictions	198,392,127	2,103,056	6,722,303	12,740,355	2,915,193	222,873,034	247,194,544
With donor restrictions	-	-	-	-	4,189,476	4,189,476	3,975,793
Total net assets	198,392,127	2,103,056	6,722,303	12,740,355	7,104,669	227,062,510	251,170,337
Total liabilities and net assets	\$ 349,322,440	\$ 2,200,994	\$ 6,944,147	\$ 13,390,234	\$ 7,104,669	\$ 378,962,484	\$ 390,897,250

Southeastern Regional Medical Center and Related Organizations
Supplementary Combining Statements of Operations and Changes in Net Assets
For the Year Ended September 30, 2019
(With Comparative Totals for 2018)

	Hospital	Home Care Services	Woodhaven	Physician Services	Foundation	2019 Totals	2018 Totals
Revenues and other support							
Net patient revenue	\$ 245,498,612	\$ 3,929,219	\$ 7,748,173	\$ 26,417,980	\$ -	\$ 283,593,984	\$ 277,530,201
Other revenue	24,368,247	27,717	754,657	1,092,797	282,612	26,526,030	22,761,996
Total revenues and other support	<u>269,866,859</u>	<u>3,956,936</u>	<u>8,502,830</u>	<u>27,510,777</u>	<u>282,612</u>	<u>310,120,014</u>	<u>300,292,197</u>
Expenses							
Salaries and benefits	140,158,167	1,817,266	6,421,043	35,013,603	-	183,410,079	173,224,095
Medical supplies and drugs	49,798,287	1,607,552	611,187	1,988,132	-	54,005,158	50,165,719
Insurance	1,158,934	13,500	24,000	13,754	-	1,210,188	2,199,946
Depreciation & amortization	21,309,579	249,000	467,932	1,181,577	-	23,208,088	23,001,304
Interest expense	3,182,581	-	-	-	-	3,182,581	3,472,998
Other expenses	61,701,557	659,039	2,223,844	6,505,049	-	71,089,489	79,480,336
Total expenses	<u>277,309,105</u>	<u>4,346,357</u>	<u>9,748,006</u>	<u>44,702,115</u>	<u>-</u>	<u>336,105,583</u>	<u>331,544,398</u>
Operating income (loss)	<u>(7,442,246)</u>	<u>(389,421)</u>	<u>(1,245,176)</u>	<u>(17,191,338)</u>	<u>282,612</u>	<u>(25,985,569)</u>	<u>(31,252,201)</u>
Other income							
Loss on extinguishment of debt	-	-	-	-	-	-	(274,822)
Interest and dividends	3,301,886	-	-	-	50,503	3,352,389	4,149,000
Realized gains (losses)	4,083,450	-	-	-	-	4,083,450	7,804,592
Unrealized gains (losses)	994,002	-	-	-	-	994,002	(5,383,788)
Investment fees	(424,022)	-	-	-	-	(424,022)	(467,704)
Total other income (loss)	<u>7,955,316</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,503</u>	<u>8,005,819</u>	<u>5,827,278</u>
Other expenses							
Pension related changes other than net periodic pension cost	6,341,759	-	-	-	-	6,341,759	(5,318,939)
Excess of revenues, other support, and other income over expenses	<u>\$ (5,828,689)</u>	<u>\$ (389,421)</u>	<u>\$ (1,245,176)</u>	<u>\$ (17,191,338)</u>	<u>\$ 333,115</u>	<u>\$ (24,321,509)</u>	<u>\$ (20,105,984)</u>
Donor restricted revenue over expense	-	-	-	-	75,630	75,630	8,099
Donor restricted investment income	-	-	-	-	138,052	138,052	125,787
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,953</u>
Increase (decrease) in restricted assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 213,682</u>	<u>\$ 213,682</u>	<u>\$ 170,839</u>
Net change in assets	(5,828,689)	(389,421)	(1,245,176)	(17,191,338)	546,797	(24,107,827)	(19,935,145)
Transfers	(20,090,296)	979,409	1,238,026	17,229,751	643,110	-	-
Beginning net assets	<u>224,311,112</u>	<u>1,513,068</u>	<u>6,729,453</u>	<u>12,701,942</u>	<u>5,914,762</u>	<u>251,170,337</u>	<u>271,105,482</u>
Ending net assets	<u>\$ 198,392,127</u>	<u>\$ 2,103,056</u>	<u>\$ 6,722,303</u>	<u>\$ 12,740,355</u>	<u>\$ 7,104,669</u>	<u>\$ 227,062,510</u>	<u>\$ 251,170,337</u>