

Exeter Health Resources, Inc. and Subsidiaries

**Audited Consolidated Financial Statements
and Other Financial Information**

*Years Ended September 30, 2018 and 2017
With Independent Auditors' Report*

Over 100 Years of Service

MAINE | MASSACHUSETTS | NEW HAMPSHIRE
800.244.7444 | www.bnn CPA.com

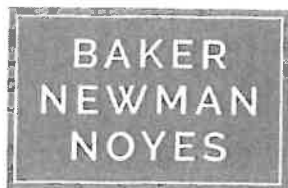
EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION**

September 30, 2018 and 2017

TABLE OF CONTENTS

Independent Auditors' Report	1
Audited Consolidated Financial Statements:	
Consolidated Balance Sheets	2
Consolidated Statements of Operations	4
Consolidated Statements of Changes in Net Assets	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7
Other Financial Information:	
Independent Auditors' Report on Other Financial Information	30
Year Ended September 30, 2018:	
Consolidating Balance Sheet	31
Consolidating Statement of Operations and Changes in Net Assets	33
Year Ended September 30, 2017:	
Consolidating Balance Sheet	34
Consolidating Statement of Operations and Changes in Net Assets	36



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Exeter Health Resources, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Exeter Health Resources, Inc. and Subsidiaries (the Corporation), which comprise the consolidated balance sheets as of September 30, 2018 and 2017, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' 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 auditors' 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 financial position of the Corporation as of September 30, 2018 and 2017, and the results of its operations, changes in net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Newman & Noyes LLC

Manchester, New Hampshire
December 5, 2018

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

September 30, 2018 and 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents	\$ 35,397,625	\$ 44,553,708
Short-term investments (notes 7 and 8)	6,348,590	5,713,473
Accounts receivable, less allowance for doubtful accounts of \$14,524,181 in 2018 and \$16,241,582 in 2017 (notes 4 and 6)	32,608,398	27,575,866
Inventories	4,349,200	3,663,197
Prepaid expenses and other current assets	6,400,984	6,423,422
Current portion of funds held by trustee under revenue bond and other financing agreements (notes 6, 7 and 8)	<u>5,431,077</u>	<u>7,430,031</u>
Total current assets	90,535,874	95,359,697
Investments, limited as to use (notes 7 and 8)	194,174,896	184,862,138
Funds held by trustee for professional liability claims (note 12)	3,362,518	3,475,452
Property, plant and equipment, net (notes 5 and 6)	92,864,599	90,377,522
Other assets	<u>17,328,900</u>	<u>15,323,536</u>
Total assets	<u>\$398,266,787</u>	<u>\$389,398,345</u>

LIABILITIES AND NET ASSETS

	<u>2018</u>	<u>2017</u>
Current liabilities:		
Accounts payable	\$ 15,772,840	\$ 12,854,075
Accrued salaries and payroll taxes	17,354,630	16,368,367
Due to third-party payors (note 3)	4,479,811	5,010,054
Current portion of long-term debt (note 6)	<u>3,990,989</u>	<u>3,527,297</u>
Total current liabilities	41,598,270	37,759,793
Accrued pension and other liabilities (notes 6, 8 and 9)	26,648,381	27,061,634
Long-term debt, less current portion (note 6)	46,766,222	49,161,851
Reserve for professional liability claims (notes 2 and 12)	3,970,425	5,631,034
Net assets:		
Unrestricted	258,318,979	248,946,880
Temporarily restricted	1,266,018	1,169,786
Permanently restricted (note 7)	<u>19,698,492</u>	<u>19,667,367</u>
	<u>279,283,489</u>	<u>269,784,033</u>
Total liabilities and net assets	<u>\$398,266,787</u>	<u>\$389,398,345</u>

See accompanying notes.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Net patient service revenues, net of contractual allowances and discounts (note 3)	\$345,232,398	\$318,816,936
Less provision for bad debts	<u>(9,392,322)</u>	<u>(8,240,171)</u>
Net patient service revenues less provision for bad debts	335,840,076	310,576,765
Disproportionate share funding (note 13)	5,046,360	6,461,110
Other revenues (note 3)	11,574,183	10,879,248
Net assets released from restrictions used for operations	<u>115,060</u>	<u>129,193</u>
Total revenues and other support	352,575,679	328,046,316
Operating expenses (note 11):		
Salaries and benefits (note 9)	201,456,291	190,526,848
Supplies and other	121,907,112	109,826,392
Depreciation	15,066,093	15,008,643
New Hampshire Medicaid enhancement tax (note 13)	12,615,694	11,570,541
Interest	<u>1,288,390</u>	<u>938,331</u>
Total operating expenses	<u>352,333,580</u>	<u>327,870,755</u>
Income from operations	242,099	175,561
Nonoperating gains (losses):		
Unrestricted contributions	120,891	85,568
Investment income and dividends (note 7)	2,370,402	1,894,158
Realized gains on investments, net (note 7)	11,434,192	13,192,074
Unrealized (losses) gains on investments, net (note 7)	(4,478,134)	2,096,431
Impact of interest rate swaps (note 6)	1,073,897	2,403,455
Contributions to community programs	(878,213)	(792,524)
Other, net	<u>238,130</u>	<u>(27,005)</u>
Nonoperating gains, net	<u>9,881,165</u>	<u>18,852,157</u>
Excess of revenues and other support, and nonoperating gains over expenses	10,123,264	19,027,718
Adjustment to pension liability (note 9)	<u>(751,165)</u>	<u>4,859,261</u>
Increase in unrestricted net assets	<u>\$ 9,372,099</u>	<u>\$ 23,886,979</u>

See accompanying notes.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years Ended September 30, 2018 and 2017

	Unrestricted <u>Net Assets</u>	Temporarily Restricted <u>Net Assets</u>	Permanently Restricted <u>Net Assets</u>	Total <u>Net Assets</u>
Balances at October 1, 2016	\$225,059,901	\$1,133,255	\$19,638,133	\$ 245,831,289
Excess of revenues and other support and nonoperating gains over expenses	19,027,718	—	—	19,027,718
Restricted gifts, bequests and contributions	—	165,724	—	165,724
Adjustment to pension liability	4,859,261	—	—	4,859,261
Net assets released from restrictions used for operations	—	(129,193)	—	(129,193)
Increase in market value of beneficial interest in perpetual trust held by others	<u>—</u>	<u>—</u>	<u>29,234</u>	<u>29,234</u>
Increase in net assets	<u>23,886,979</u>	<u>36,531</u>	<u>29,234</u>	<u>23,952,744</u>
Balances at September 30, 2017	248,946,880	1,169,786	19,667,367	269,784,033
Excess of revenues and other support and nonoperating gains over expenses	10,123,264	—	—	10,123,264
Restricted gifts, bequests and contributions	—	211,292	—	211,292
Adjustment to pension liability	(751,165)	—	—	(751,165)
Net assets released from restrictions used for operations	—	(115,060)	—	(115,060)
Increase in market value of beneficial interest in perpetual trust held by others	<u>—</u>	<u>—</u>	<u>31,125</u>	<u>31,125</u>
Increase in net assets	<u>9,372,099</u>	<u>96,232</u>	<u>31,125</u>	<u>9,499,456</u>
Balances at September 30, 2018	<u>\$258,318,979</u>	<u>\$1,266,018</u>	<u>\$19,698,492</u>	<u>\$ 279,283,489</u>

See accompanying notes.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating activities and net gains:		
Increase in net assets	\$ 9,499,456	\$ 23,952,744
Adjustments to reconcile increase in net assets		
to net cash provided by operating activities		
and net gains from operations:		
Depreciation	15,066,093	15,008,643
Net realized and unrealized gains on investments	(6,956,058)	(15,288,505)
Restricted gifts, bequests and contributions	(211,292)	(165,724)
Adjustment to pension liability	751,165	(4,859,261)
(Decrease) increase in reserve for professional liability claims	(1,660,609)	1,479,036
Adjustment of interest rate swaps to fair value	(2,172,922)	(3,826,801)
Changes in operating assets and liabilities:		
Accounts receivable, net	(5,032,532)	(898,000)
Inventories	(686,003)	(519,393)
Prepaid expenses, other current and noncurrent assets	(1,948,569)	(1,526,921)
Accounts payable	2,918,765	(1,711,820)
Accrued salaries and payroll taxes	986,263	1,171,556
Accrued pension and other liabilities	1,008,504	1,834,924
Due to third-party payors	<u>(530,243)</u>	<u>(744,180)</u>
Net cash provided by operating activities and net gains	11,032,018	13,906,298
Investing activities:		
Purchase of property, plant and equipment, net of disposals	(15,826,812)	(11,124,055)
Decrease in funds held by trustee	2,111,888	3,429,788
Net purchases of investments, limited as to use	(2,356,700)	(1,589,018)
(Increase) decrease in short-term investments	<u>(635,117)</u>	<u>8,841,746</u>
Net cash used by investing activities	(16,706,741)	(441,539)
Financing activities:		
Repayment of long-term debt	(3,692,652)	(3,184,447)
Restricted gifts, bequests and contributions	<u>211,292</u>	<u>165,724</u>
Net cash used by financing activities	<u>(3,481,360)</u>	<u>(3,018,723)</u>
(Decrease) increase in cash and cash equivalents	(9,156,083)	10,446,036
Cash and cash equivalents at beginning of year	<u>44,553,708</u>	<u>34,107,672</u>
Cash and cash equivalents at end of year	\$ <u>35,397,625</u>	\$ <u>44,553,708</u>
Noncash financing activities:		
Financing of equipment with a capital lease	\$ <u>1,726,358</u>	\$ <u>—</u>

See accompanying notes.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

1. Organization

Exeter Health Resources, Inc. (Resources) was organized to carry on planning and fundraising activities and manage related investments. Resources functions as the parent company to Exeter Hospital, Inc. (the Hospital) and Core Physicians LLC (Core), providers of health care services; Rockingham Visiting Nurse Association & Hospice (RVNA&H), a provider of home care, hospice and community health services; Exeter Med Real, Inc. (Med Real), owner of medical office buildings and other real estate; and Matrix Health, Inc. (Matrix) (not active), organized to manage investments and other resources. Resources was also the sole stockholder of Convergent Health Systems, Inc. (Convergent) which was dissolved in the year ended September 30, 2017.

2. Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Resources and its wholly-owned subsidiaries, all of which are referred to as the "Corporation" herein. Significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used when accounting for the allowance for doubtful accounts, long-lived assets, insurance costs, employee benefit plans, contractual allowances, interest rate swap liabilities, third-party payor settlements and the assessment of litigation and contingencies. It is reasonably possible that actual results could differ from those estimates.

Classification of Net Assets

Gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of donated assets. Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. When a donor restriction expires (when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of operations as either net assets released from restrictions (for noncapital related items) or as net assets released from restrictions used for capital purchases (capital related items). Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity. During fiscal 2018 and 2017, the Corporation appropriated all earnings on these funds to offset the costs of patient care activities in accordance with the intent of the donor. Income earned on permanently restricted net assets, including net realized and unrealized appreciation on investments, is included in the consolidated statement of operations as unrestricted resources.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

2. Significant Accounting Policies (Continued)

In accordance with the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA), the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (a) the duration and preservation of the fund; (b) the purpose of the organization and the donor-restricted endowment fund; (c) general economic conditions; (d) the possible effect of inflation and deflation; (e) the expected total return from income and the appreciation of investments; (f) other resources of the organization; and (g) the investment policies of the organization.

Performance Indicator

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenue and expenses. Peripheral transactions are reported as nonoperating gains or losses.

The consolidated statement of operations also includes excess of revenues and other support, and nonoperating gains over expenses. Changes in unrestricted net assets which are excluded from excess of revenues and other support, and nonoperating gains over expenses, consistent with industry practice, include pension liability adjustments.

Income Taxes

Resources, the Hospital, RVNA&H, Core and Matrix (inactive) are not-for-profit organizations as described in Section 501(c)(3) of the Internal Revenue Code (the Code), and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Med Real is a not-for-profit organization as described in Section 501(c)(25) of the Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Management evaluated the tax positions of these entities and has concluded that they have maintained their tax-exempt status, do not have any significant unrelated business income, and have taken no uncertain tax positions that require adjustment to the consolidated financial statements.

Net Patient Service Revenues

The Corporation has agreements with third-party payors that provide for payments to the Corporation at amounts different from its established rates and also provides a discount for patients without insurance from these 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 payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive 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. Changes in these estimates are reflected in the consolidated financial statements in the year in which they occur.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

2. Significant Accounting Policies (Continued)

Charity Care

The Corporation has a formal charity care policy under which patient care is provided without charge or at amounts less than its established rates to patients who meet certain criteria. The Corporation rendered charity care in accordance with its formal charity care policy. The Corporation does not pursue collection of amounts determined to qualify as charity care, and therefore such amounts are not reported as revenue.

The Corporation determines the costs associated with providing charity care by calculating a ratio of cost to gross charges, and then multiplying that ratio by the gross uncompensated charges associated with providing care to patients eligible for free care. The estimated costs of caring for charity care patients for the years ended September 30, 2018 and 2017 were \$1,070,311 and \$1,179,866, respectively. There were no funds received from gifts and grants to subsidize charity care services provided for the years ended September 30, 2018 or 2017.

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments and secured repurchase agreements which have an original maturity of three months or less when purchased.

The Corporation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Corporation has not experienced any losses on such accounts.

Accounts Receivable and the Allowance for Doubtful Accounts

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Corporation analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Corporation analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Corporation records a significant provision for bad debts in the period of service on the basis of its past experience, which accounts for patients who are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

2. Significant Accounting Policies (Continued)

The Corporation's allowance for doubtful accounts for self-pay patients decreased from 97% of self-pay accounts receivable at September 30, 2017 to 89% of self-pay accounts receivable at September 30, 2018. The Corporation's self-pay bad debt writeoffs increased \$118,000 from \$6,104,000 in 2017 to \$6,222,000 in 2018. The net change in the allowance as a percentage of self-pay accounts receivable and bad debt writeoffs was a result of collection trends and a shift in payor mix.

Inventories

Inventories of supplies and pharmaceuticals are carried at the lower of cost determined on a first-in, first-out method or net realizable value.

Funds Held by Trustee Under Revenue Bond and Other Financing Agreements

Funds held by trustee under revenue bond, equipment financing, and interest rate swap collateral asset agreements are recorded at fair value and are comprised of short-term investments, guaranteed investment contracts and United States Government obligations.

Investments and Investment Income

Investments are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized and unrealized gains and losses on investments, and interest and dividends) is included in the excess of revenues and other support, and nonoperating gains over expenses, as the Corporation has elected to reflect changes in fair value of investments and investments limited as to use in nonoperating gains, including both increases and decreases in value whether realized or unrealized, unless the income or loss is restricted by donor or law, in which case it would be reported as a change in temporarily or permanently restricted net assets.

Endowment, Investment and Spending Policies

The Corporation has adopted the investment policy for the management and investment of board designated and endowment funds as approved by the Executive Committee (the Committee) of the Exeter Health Resources Board of Trustees.

The goal of the board designated and endowment funds is to support the Corporation's future capital expenditures and other major program needs and to generally increase the financial strength of the organization.

Under the investment policy, the board designated and endowment funds are invested in a prudent manner with regard to preserving principal in real terms while achieving returns which at least rank in the top one-quarter of an appropriate peer group of actively managed portfolios, exceed an appropriate benchmark index (net of management fees) and rank in the top one-quarter of the Cambridge Associates universe of comparable managers (where appropriate).

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

2. Significant Accounting Policies (Continued)

Property, Plant and Equipment

Property, plant and equipment is stated at cost at time of purchase, or fair value at time of donation, less reductions in carrying value based upon impairment and less accumulated depreciation. The Corporation's policy is to capitalize expenditures for major improvements and charge maintenance and repairs as expenditures which do not extend the lives of the related assets. The provision for depreciation is computed on the straight-line method at rates intended to amortize the cost of the related assets over their estimated useful lives. Assets which have been purchased but not yet placed in service are included in construction and projects in progress and no depreciation expense is recorded.

Bond Issuance Costs

The bond issuance costs incurred to obtain financing, or refinancing for construction and renovation programs, are being amortized by the bonds outstanding method over the life of the bonds. Bond issuance costs are presented as a reduction of long-term debt.

Pension Plan

The Corporation has a contributory account balance defined benefit plan which covers substantially all employees of the Hospital and Resources. The Corporation's funding policy is to contribute annually at a rate intended to provide for the cost of benefits earned during the year determined in accordance with funding requirements of the Department of Labor. The plan benefits are based on the employee's annual compensation during the term of employment. For financial reporting purposes, an allocation of the projected benefit obligation, the fair value of plan assets, the funded status of the plan, and benefit costs is made by an independent actuary based upon former and current employees of the Corporation covered by the plan.

Employee Fringe Benefits

The Corporation has an earned time plan. Under this plan, each employee earns paid leave for each period worked. These hours of paid leave may be used for vacations, holidays or illnesses. Hours earned but not used are vested with the employee and are paid to the employee upon termination. The Corporation accrues a liability for such paid leave as it is earned.

Professional Liability Loss Contingencies

Effective December 11, 2003, the Corporation created a revocable self-insurance trust to fund the related actuarially-determined liability for incurred but unpaid claims. The trust fund and related liability are included in the accompanying consolidated balance sheets. The possibility exists, as a normal risk of doing business, that professional liability claims in excess of the trust fund and insurance coverage may be asserted against the Corporation.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

2. Significant Accounting Policies (Continued)

With respect to all litigation matters, the Corporation considers the likelihood of a negative outcome. If the Corporation determines the likelihood of a negative outcome is probable and the amount of the loss can be reasonably estimated, the Corporation records an estimated loss for the expected outcome of the litigation. If the likelihood of a negative outcome is not considered to be probable but is considered to be reasonably possible and the Corporation is able to determine an estimate of the possible loss or a range of loss, the Corporation discloses that fact together with the estimate of the possible loss or range of loss. However, it is difficult to predict the outcome or estimate a possible loss or range of loss in some instances because litigation is subject to significant uncertainties. The Corporation's policy is to record legal and professional fees as incurred.

See also note 12 related to contingencies and litigation.

Subsequent Events

Management of the Corporation evaluated events occurring between the end of its fiscal year and December 5, 2018, the date the consolidated financial statements were available to be issued.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which requires revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the Corporation expects to be entitled in exchange for those goods and services. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. ASU 2014-09 is effective for the Corporation on October 1, 2019. ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. The Corporation is evaluating the impact that ASU 2014-09 will have on the consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02 *Leases (Topic 842)* (ASU 2016-02). Under ASU 2016-02, at the commencement of a long-term lease, lessees will recognize a liability equivalent to the discounted payments due under the lease agreement, as well as an offsetting right-of-use asset. ASU 2016-02 is effective for the Corporation on October 1, 2020, with early adoption permitted. Lessees (for capital and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees may not apply a full retrospective transition approach. The Corporation is currently evaluating the impact of the pending adoption of ASU 2016-02 on the consolidated financial statements.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

2. Significant Accounting Policies (Continued)

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities (Topic 958)* (ASU 2016-14). Under ASU 2016-14, the existing three-category classification of net assets (i.e., unrestricted, temporarily restricted and permanently restricted) will be replaced with a simplified model that combines temporarily restricted and permanently restricted into a single category called "net assets with donor restrictions". ASU 2016-14 also enhances certain disclosures regarding board designations, donor restrictions and qualitative information regarding management of liquid resources. In addition to reporting expenses by functional classifications, ASU 2016-14 will also require the consolidated financial statements to provide information about expenses by their nature, along with enhanced disclosures about the methods used to allocate costs among program and support functions. ASU 2016-14 is effective for the Corporation's fiscal year ending September 30, 2019, with early adoption permitted. The Corporation is currently evaluating the impact of the pending adoption of ASU 2016-14 on the consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (ASU 2017-07). ASU 2017-07 will require that an employer report the service cost component of net periodic pension cost in the same line item as other compensation costs arising from services rendered by employees during the period. The other components of net periodic pension cost are required to be presented in the income statement separately and outside a subtotal of income from operations, if one is presented. ASU 2017-07 is effective for the Corporation on October 1, 2019, with early adoption permitted. The Corporation is currently evaluating the impact of the pending adoption of ASU 2017-07 on the consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). Due to diversity in practice, ASU 2018-08 clarifies the definition of an exchange transaction as well as the criteria for evaluating whether contributions are unconditional or conditional. ASU 2018-08 is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. The Corporation is currently evaluating the impact that ASU 2018-08 will have on the consolidated financial statements.

3. Patient Service and Other Revenues

The following summarizes net patient service revenues for the years ended September 30:

	<u>2018</u>	<u>2017</u>
Gross patient service revenues	\$ 781,529,515	\$ 712,857,816
Less contractual allowances and discounts	<u>(436,297,117)</u>	<u>(394,040,880)</u>
Net patient service revenues, net of contractual allowances and discounts	<u>\$ 345,232,398</u>	<u>\$ 318,816,936</u>

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

3. Patient Service and Other Revenues (Continued)

An estimated breakdown of net patient service revenue, net of contractual allowances and discounts recognized in 2018 and 2017 from major payor sources, is as follows:

	<u>2018</u>	<u>2017</u>
Private payor	\$212,765,064	\$ 196,343,025
Medicare	115,885,697	105,691,468
Medicaid	12,537,405	12,363,276
Self-pay	<u>4,044,232</u>	<u>4,419,167</u>
	345,232,398	318,816,936
Provision for bad debts	<u>(9,392,322)</u>	<u>(8,240,171)</u>
Net patient service revenues less provision for bad debts	<u>\$335,840,076</u>	<u>\$ 310,576,765</u>

The Corporation maintains contracts with the Social Security Administration (Medicare) and the State of New Hampshire Division of Health and Human Services (Medicaid). The Corporation is paid a prospectively determined fixed price for Medicare and Medicaid inpatient acute care services depending on the patient's diagnostic related group classification. Medicare's payment methodology for outpatient services is based upon a prospective standard rate for procedures performed or services rendered. Capital costs and certain Medicaid outpatient and hospice services are also reimbursed on a prospectively determined fixed price. The Corporation receives payment for other Medicaid outpatient services on a reasonable cost basis which are settled with retroactive adjustments upon completion and audit of related cost finding reports. The percentage of net patient service revenue earned from the Medicare and Medicaid programs was 34% and 4%, respectively, in 2018 and 33% and 4%, respectively, in 2017.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs. The Corporation believes that it is in substantial compliance with all applicable laws and regulations. There is at least a reasonable possibility that recorded estimates could change by a material amount in the near term. Differences between amounts previously estimated and amounts subsequently determined to be recoverable or payable are included in net patient service revenues in the year that such amounts become known. Such differences increased net patient service revenue by approximately \$1,400,000 for the year ended September 30, 2017. Prior year settlements had no impact to net patient service revenue for the year ended September 30, 2018.

The Corporation also maintains contracts with Anthem Health Plans of New Hampshire (Anthem) and various other payors which pay the Corporation for services based on charges with varying discounts.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

4. Concentration of Credit Risk

The Corporation grants credit without collateral to its patients, most of whom are local area residents and are insured under third-party payor agreements. The mix of receivables for the Corporation from patients and third-party payors at September 30 was as follows:

	<u>2018</u>	<u>2017</u>
Medicare	11%	11%
Medicaid	3	2
Other third party payors	50	45
Patients	<u>36</u>	<u>42</u>
	<u>100%</u>	<u>100%</u>

5. Property, Plant and Equipment

Property, plant and equipment at September 30 consists of the following:

	<u>2018</u>	<u>2017</u>
Land and land improvements	\$ 5,996,258	\$ 5,933,280
Buildings	142,325,382	142,266,299
Equipment	67,208,097	62,681,786
Construction and projects in progress	<u>7,493,725</u>	<u>2,206,874</u>
	223,023,462	213,088,239
Less accumulated depreciation	<u>(130,158,863)</u>	<u>(122,710,717)</u>
Net property, plant and equipment	<u>\$ 92,864,599</u>	<u>\$ 90,377,522</u>

6. Long-Term Debt

Long-term debt at September 30 consists of the following:

	<u>2018</u>	<u>2017</u>
New Hampshire Health and Education Facilities Authority (the Authority) - Revenue Bonds:		
Series 2012 bonds with variable interest rates as defined in the agreement (3.38% at September 30, 2018). Principal is payable in annual installments ranging from \$1,270,000 to \$2,665,000 through October 1, 2031. The bonds have an initial optional tender date of February 9, 2022 and may be redeemed in whole or in part commencing on various dates as defined in the Bond Indenture for no premium	\$26,530,000	\$27,725,000

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

6. Long-Term Debt (Continued)

	<u>2018</u>	<u>2017</u>
New Hampshire Health and Education Facilities Authority (the Authority) - Revenue Bonds (continued):		
Series 2003 bonds with variable interest rates as defined in the original and 2015 reissuance agreements (2.15% at September 30, 2018). Principal is payable in annual installments ranging from \$645,000 to \$1,125,000 through October 1, 2033	\$13,845,000	14,470,000
Series 2001B bonds with variable interest rates as defined in the original and 2015 reissuance agreements (2.14% at September 30, 2018). Principal is payable in annual installments ranging from \$875,000 to \$1,095,000 through October 1, 2023	5,910,000	6,770,000
Equipment financing, interest at 2.13% payable in monthly installments of \$76,952, through March 2022	3,111,734	3,959,031
Equipment financing, interest at 1.90% payable in monthly installments of \$30,184 through April 2023	<u>1,561,003</u>	<u>—</u>
	50,957,737	52,924,031
Less current portion	(3,990,989)	(3,527,297)
Less unamortized bond issuance costs	<u>(200,526)</u>	<u>(234,883)</u>
	<u>\$46,766,222</u>	<u>\$49,161,851</u>

Under the terms of the loan agreements of the Series 2012, 2003 and Series 2001B bonds and an amended and restated Master Trust Indentures dated February 1, 2012 and March 1, 2015 between the Hospital and a Master Trustee, the Hospital has granted the Authority a first security interest in all gross receipts and a mortgage lien on existing and future property, plant and equipment. In addition, under the terms of the respective loan agreements and Master Trust Indenture, the Hospital is required to meet certain covenant requirements. At September 30, 2018, the Hospital was in compliance with these requirements.

The Hospital has agreements with the Authority which provide for the establishment of various funds, the use of which is generally restricted to the payment of debt. These funds are administered by a trustee and income earned on certain of these funds is similarly restricted.

The funds held by the trustee under revenue bond, equipment financing and interest rate swap collateral asset agreements at September 30 are comprised of the following:

	<u>2018</u>	<u>2017</u>
Construction fund and other	\$ 1,077	\$ 31
Collateralized swap fund	<u>5,430,000</u>	<u>7,430,000</u>
	<u>\$5,431,077</u>	<u>\$7,430,031</u>

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

6. Long-Term Debt (Continued)

Aggregate annual principal payments required on long-term debt and equipment financing for the five years ending September 30 are as follows:

2019	\$3,990,989
2020	4,161,045
2021	4,331,626
2022	4,048,973
2023	3,590,103

In August 2005, the Hospital entered into an interest rate swap agreement that effectively converted the remaining Series 2001B bonds, excluding the approximate \$4.6 million originally allocated to a former affiliate of Resources, to a fixed rate through 2023 and also effectively converted the portion of the Series 2001B bonds previously swapped and all of the Series 2003 bonds to a fixed rate of 3.635% through October 2033.

In anticipation of the advance refunding of previously outstanding Series 2001A bonds during fiscal 2012 and the issuance of the Series 2012 variable rate bonds in February 2012, the Hospital entered into a forward interest rate swap agreement in August 2005, which became effective October 2011, that effectively converts all of the outstanding variable rate debt on the Series 2012 bonds to a fixed rate of 3.708% through October 2031. The swap agreement requires a portion of the exposure to be collateralized by the Hospital. At September 30, 2018 and 2017, there was a collateral asset in the amount of \$5,430,000 and \$7,430,000, respectively, required by the swap agreement included in the current portion of funds held by trustee under revenue bond agreements.

The interest rate swap agreements meet the definition of derivative instruments. Consequently, the fair value of the swaps (a liability of \$4,331,358 and \$6,504,280 at September 30, 2018 and 2017, respectively) is reported in accrued pension and other liabilities in the accompanying consolidated balance sheets and the increase in fair value of \$2,172,922 and \$3,826,801 for the years ended September 30, 2018 and 2017, respectively, is reported as nonoperating gains (losses) in the consolidated statements of operations. On a monthly basis, the Hospital pays or receives the difference between the fixed and variable rates as applied to the notional amount. The resulting difference is charged to nonoperating gains (losses). Such other charges totaled \$1,099,025 and \$1,423,346 for the years ended September 30, 2018 and 2017, respectively. The swaps, while serving as economic hedges, do not qualify as accounting hedges.

Total interest paid on long-term debt, exclusive of payments related to the swap agreements, was \$1,152,288 and \$801,631 for the years ended September 30, 2018 and 2017, respectively. No capitalized interest was recorded for the years ended September 30, 2018 and 2017.

The fair value of long-term debt approximates carrying value at September 30, 2018 and 2017.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

7. Investments and Assets Whose Use is Limited

Investments are stated at fair value as of September 30, 2018 and 2017, and are reported in the accompanying consolidated balance sheets as follows:

	<u>2018</u>	<u>2017</u>
Short-term investments	\$ 6,348,590	\$ 5,713,473
Funds held by trustee – current	5,431,077	7,430,031
Investments, limited as to use	194,174,896	184,862,138
Funds held by trustee – long term	<u>3,362,518</u>	<u>3,475,452</u>
	<u>\$209,317,081</u>	<u>\$201,481,094</u>

The composition of investments and funds held by trustee at fair value at September 30, 2018 and 2017 is set forth in the following table:

	<u>2018</u>	<u>2017</u>
Cash and short-term investments	\$ 13,078,724	\$ 21,810,477
Fixed income securities	29,466,674	35,138,769
Private equity investments	7,222,024	2,796,638
Marketable equity securities	13,823,656	34,849,571
Investments in limited partnerships and limited liability companies	116,175,044	79,513,804
Investments in offshore funds	29,790,873	27,919,926
Accrued interest and other	<u>(239,914)</u>	<u>(548,091)</u>
	<u>\$209,317,081</u>	<u>\$201,481,094</u>

Board designated and donor restricted investments at September 30, 2018 and 2017 are comprised of the following:

	<u>2018</u>	<u>2017</u>
Board designated for capital purchases, working capital and community service	\$173,210,386	\$164,024,985
Donor restricted	<u>20,964,510</u>	<u>20,837,153</u>
	<u>\$194,174,896</u>	<u>\$184,862,138</u>

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

7. Investments and Assets Whose Use is Limited (Continued)

Unrestricted investment income, and realized and unrealized gains on investments for the years ended September 30, 2018 and 2017 are summarized as follows:

	<u>2018</u>	<u>2017</u>
Investment income and dividends	\$ 2,370,402	\$ 1,894,158
Realized gains on investments, net	11,434,192	13,192,074
Unrealized (losses) gains on investments, net	<u>(4,478,134)</u>	<u>2,096,431</u>
Investment income and gains, net	<u>\$ 9,326,460</u>	<u>\$17,182,663</u>

Activity related to endowment funds within permanently restricted net assets is as follows for the years ended September 30:

	<u>2018</u>	<u>2017</u>
Balances, beginning of year	\$19,667,367	\$19,638,133
Change in market value of beneficial interest in perpetual trust held by others	<u>31,125</u>	<u>29,234</u>
Balances, end of year	<u>\$19,698,492</u>	<u>\$19,667,367</u>

8. Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, provides a framework for measuring fair value under generally accepted accounting principles. FASB ASC 820 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements.

As defined in FASB ASC 820, 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. In determining fair value, the Corporation uses various methods including market, income and cost approaches. Based on these approaches, the Corporation often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Corporation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Corporation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

8. Fair Value Measurements (Continued)

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

In determining the appropriate levels, the Corporation performs a detailed analysis of the assets and liabilities that are subject to FASB ASC 820. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The following is a description of the valuation methodologies used:

Fixed Income Securities (Debt Securities)

The fair value for debt instruments is determined by using broker or dealer quotations, external pricing providers, or alternative pricing sources with reasonable levels of price transparency. The Corporation mainly holds corporate bonds, municipal bonds, and U.S. governmental and federal agency debt instruments, which are generally classified as Level 1 within the fair value hierarchy.

Marketable Equity Securities and Private Equity Investments

Marketable equity securities and private equity investments, including certain mutual funds, are valued either based on stated market prices and at the net asset value of shares held by the Corporation at year end, if available, or for investments that are not actively traded in a securities exchange, the fair value is stated at the value of proportionate share of total fund net assets. Underlying plan investments within these funds are readily available and stated at quoted market prices, which generally results in the classification as Level 1 or 2 within the fair value hierarchy.

Investments in Limited Partnerships, Limited Liability Companies and Offshore Funds

The Corporation invests in funds that consist of certain limited partnership interests in investment funds, which, in turn, invest in diversified portfolios predominantly comprised of equity and fixed income securities, as well as options, futures contracts, and some other less liquid investments. Management has approved procedures pursuant to the methods in which the Corporation values these investments at fair value, which ordinarily will be the amount equal to the pro-rata interest in the net assets of the limited partnership, as such value is supplied by, or on behalf of, each investment from time to time, usually monthly and/or quarterly by the investment manager.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

8. Fair Value Measurements (Continued)

Corporation management is responsible for the fair value measurements of investments reported in the consolidated financial statements. Such amounts are generally determined using audited financial statements of the funds and/or recently settled transactions. Because of inherent uncertainty of valuation of certain hedge funds, the estimate of the fund manager or general partner may differ from actual values, and differences could be significant. Management believes that reported fair values of its hedge funds at the balance sheet dates are reasonable.

Fair Value on a Recurring Basis

The following presents the balances of assets and liabilities measured at fair value on a recurring basis at September 30:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
2018				
Cash and short-term investments	\$13,078,724	\$ —	\$ —	\$ 13,078,724
Fixed income securities	29,466,674	—	—	29,466,674
Private equity investments	—	7,222,024	—	7,222,024
U.S. equities	202,712	442,446	—	645,158
Global equities	13,178,498	—	—	13,178,498
Accrued interest and other	(239,914)	—	—	(239,914)
	<u>\$55,686,694</u>	<u>\$7,664,470</u>	<u>\$ —</u>	63,351,164
Investment funds measured at net asset value:				
Equity funds				30,499,526
Emerging market funds				10,567,696
Developed market funds				13,182,372
Global equity funds				61,925,450
Offshore funds				<u>29,790,873</u>
				<u>145,965,917</u>
Total assets at fair value				<u>\$209,317,081</u>
Liabilities:				
Interest rate swap agreements	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 4,331,358</u>	<u>\$ 4,331,358</u>

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

8. Fair Value Measurements (Continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
2017				
Cash and short-term investments	\$21,810,477	\$ —	\$ —	\$ 21,810,477
Fixed income securities	35,138,769	—	—	35,138,769
Private equity investments	—	2,796,638	—	2,796,638
U.S. equities	6,806,380	415,065	—	7,221,445
Global equities	12,179,571	—	—	12,179,571
International equities:				
Developed markets	15,448,555	—	—	15,448,555
Accrued interest and other	<u>(548,091)</u>	<u>—</u>	<u>—</u>	<u>(548,091)</u>
	<u>\$90,835,661</u>	<u>\$3,211,703</u>	<u>\$ —</u>	<u>94,047,364</u>
Investment funds measured at net asset value:				
Equity funds				21,283,585
Emerging market funds				13,262,526
Developed market funds				14,615,938
Global equity funds				20,336,108
Inflation hedge funds				10,015,647
Offshore funds				<u>27,919,926</u>
				<u>107,433,730</u>
Total assets at fair value				<u>\$201,481,094</u>
Liabilities:				
Interest rate swap agreements	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6,504,280</u>	<u>\$ 6,504,280</u>

Investments, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. As such, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated balance sheets and consolidated statements of operations.

At September 30, 2018 and 2017, the Corporation had unfunded commitments in private equity investments totaling approximately \$15,681,000 and \$14,175,000, respectively.

A reconciliation of the fair value measurements using significant unobservable inputs (Level 3) is as follows:

	<u>Interest Rate Swaps</u>	
	<u>2018</u>	<u>2017</u>
Beginning balance	\$ (6,504,280)	\$ (10,331,081)
Change in fair value of interest rate swaps	<u>2,172,922</u>	<u>3,826,801</u>
	<u>\$ (4,331,358)</u>	<u>\$ (6,504,280)</u>

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

8. Fair Value Measurements (Continued)

Net Asset Value Per Share

In accordance with ASU 2015-07, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, the table below sets forth additional disclosures for alternative investments valued based on net asset value to further demonstrate the nature and risk of the investments by category at September 30, 2018 and 2017:

<u>Investment</u>	<u>Fair Value</u>	<u>Unfunded Commit- ment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
2018:				
Equity funds	\$13,097,990	\$ —	Daily	2 days
Global equities	39,801,588	—	Daily	2 days
Developed markets	7,280,324	—	Daily	2 days
Developed markets	5,902,048	—	Monthly	5 days
Emerging market funds	10,567,696	—	Monthly	10 - 30 days
Global equities	22,123,862	—	Monthly	15 days
Offshore funds	3,886,428	—	Monthly	45 days
Offshore funds	19,155,640	—	Quarterly	30 - 65 days
Offshore funds	6,748,805	—	Annually	45 - 60 days
Equity funds	17,401,536	—	Annually	30 days
2017:				
Developed markets	\$14,615,938	\$ —	Monthly	5 days
Emerging market funds	13,262,526	—	Monthly	10 - 30 days
Equity funds	6,547,105	—	Monthly	15 days
Global equities	20,336,108	—	Monthly	15 days
Inflation hedge funds	10,015,647	—	Monthly	22 days
Offshore funds	3,555,848	—	Monthly	45 days
Offshore funds	17,987,996	—	Quarterly	30 - 65 days
Offshore funds	6,376,082	—	Annually	30 - 60 days
Equity funds	14,736,480	—	Annually	30 days

Investment Strategies

Fixed Income Securities (Debt Securities)

The primary purpose of fixed income securities is to provide a highly predictable and dependable source of income, preserve capital, and reduce the volatility of the total portfolio and hedge against the risk of deflation or protracted economic contraction.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

8. Fair Value Measurements (Continued)

Marketable Equity Securities and Private Equity Investments

The primary purpose of the domestic and non-U.S. equity investments is to provide appreciation of principal and growth of income with the recognition that this requires the assumption of greater market volatility and risk of loss. The total equity portion of the portfolio will be broadly diversified according to economic sector, industry, number of holdings and other characteristics including style and capitalization. The Corporation may employ multiple equity investment managers, each of whom may have distinct investment styles. Accordingly, while each manager's portfolio may not be fully diversified, it is expected that the combined equity portfolio will be broadly diversified.

Investments in Limited Partnerships, Limited Liability Companies and Offshore Funds

The primary purpose of investments in limited partnerships, limited liability companies and offshore funds is to provide further portfolio diversification and to reduce overall portfolio volatility by investing in strategies that are less correlated with traditional equity and fixed income investments. These may provide access to strategies otherwise not accessible through traditional equities and fixed income such as derivative instruments, real estate, distressed debt and private equity and debt.

9. Pension Plan

A reconciliation of the changes in the Corporation's projected benefit obligation and the fair value of plan assets and a statement of funded status of the plan as of and for the years ended September 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Changes in benefit obligations:		
Projected benefit obligations, beginning of period	\$ 92,819,737	\$ 91,295,198
Service cost	3,013,741	2,669,575
Interest cost	3,409,141	3,127,059
Benefits paid	(4,771,824)	(5,387,662)
Plan amendments	1,224,469	—
Contributions by employees	1,878,562	1,763,425
Actuarial gain	<u>(2,113,551)</u>	<u>(647,858)</u>
Projected benefit obligations, end of period	\$ <u>95,460,275</u>	\$ <u>92,819,737</u>

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

9. Pension Plan (Continued)

	<u>2018</u>	<u>2017</u>
Changes in plan assets:		
Fair value of plan assets, beginning of period	\$ 77,657,606	\$ 71,999,327
Actual return on plan assets	2,549,794	7,338,128
Contributions by plan sponsor	3,085,720	2,500,000
Contributions by employees	1,878,562	1,763,425
Benefits paid	(4,771,824)	(5,387,662)
Expenses paid	<u>(677,603)</u>	<u>(555,612)</u>
Fair value of plan assets, end of period	\$ <u>79,722,255</u>	\$ <u>77,657,606</u>
Net pension liability	\$ <u>(15,738,020)</u>	\$ <u>(15,162,131)</u>

Amounts recognized in unrestricted net assets consist of the following at September 30:

	<u>2018</u>	<u>2017</u>
Prior service cost	\$ 1,477,290	\$ 586,586
Net actuarial loss	<u>22,734,118</u>	<u>22,987,287</u>
	\$ <u>24,211,408</u>	\$ <u>23,573,873</u>

The weighted-average assumptions used to determine the pension benefit obligation at September 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Discount rate	4.25%	3.75%
Rate of increase in future compensation levels	3.00%	3.00%

The accumulated benefit obligation as of the Plan's measurement date of September 30, 2018 and 2017, was \$88,494,403 and \$86,048,041, respectively.

Net periodic pension cost includes the following components for the years ended September 30:

	<u>2018</u>	<u>2017</u>
Service cost, including administrative expense	\$ 3,813,741	\$ 3,469,575
Interest cost on projected benefit obligation	3,409,141	3,127,059
Expected return on plan assets	(5,620,371)	(5,088,502)
Amortization of actuarial loss	1,087,798	1,461,968
Amortization of prior service cost	<u>333,765</u>	<u>295,624</u>
	\$ <u>3,024,074</u>	\$ <u>3,265,724</u>

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

9. Pension Plan (Continued)

The weighted-average assumptions used to determine net periodic benefit cost as of September 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Discount rate	3.75%	3.50%
Rate of increase in future compensation levels:		
Current year	3.00%	3.50%
Years thereafter	3.00%	3.00%
Expected long-term rate of return on plan assets	7.25%	7.25%

Plan Assets

The primary investment objective of the Corporation's Retirement Plan is to provide pension benefits for its members and their beneficiaries by ensuring a sufficient pool of assets to meet the Plan's current and future benefit obligations. These funds are managed as permanent funds with disciplined longer-term investment objectives and strategies designed to meet cash flow requirements of the plan. Funds are managed in accordance with ERISA and all other regulatory requirements.

Management of plan assets is designed to maximize total return while preserving the capital values of the fund, protecting the fund from inflation, and providing liquidity as needed for plan benefits. The objective is to provide a rate of return that meets inflation plus 5%, over a long-term horizon.

The Plan aims to diversify its holdings among sectors, industries and companies. No more than 5% of the total stock portfolio valued at market may be invested in the common stock of any one corporation. No more than 5% of the outstanding shares of any one company may be held. No more than 20% of stock valued at market may be held in any one industry category as defined in the Standard & Poor's S&P 500 index. Fixed income securities of any one issuer shall not exceed 5% of the total bond portfolio at the time of purchase. Holdings of any individual issue must be 50% or less of the value of the total issue, excluding U.S. Treasury or other federal agencies or repurchase agreements involving such issues.

A periodic review is performed of the pension plan's investment in various asset classes. The current asset allocation target is 80% equities with an allowable range of 50% to 80%, and 20% fixed income with an allowable range of 20% to 50%.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

9. Pension Plan (Continued)

The fair value of the Corporation's pension plan assets at September 30, 2018 and 2017, by asset category are as follows (see Note 8 for level definitions).

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
2018				
Cash and cash equivalents	\$ 1,346,708	\$ —	\$ —	\$ 1,346,708
Accrued interest and other	3,352	—	—	3,352
Mutual funds	15,893,137	—	—	15,893,137
Common stocks	<u>1,489,389</u>	<u>—</u>	<u>—</u>	<u>1,489,389</u>
	<u>\$18,732,586</u>	<u>\$ —</u>	<u>\$ —</u>	18,732,586
Assets measured at net asset value:				
Common collective trusts:				
Real estate assets				5,230,243
Limited partnerships, limited liability companies and offshore funds				<u>55,759,426</u>
Total assets at fair value				<u>\$79,722,255</u>
2017				
Cash and cash equivalents	\$ 1,055,229	\$ —	\$ —	\$ 1,055,229
Accrued interest and other	2,521	—	—	2,521
Mutual funds	15,824,956	—	—	15,824,956
Common stocks	<u>2,070,271</u>	<u>—</u>	<u>—</u>	<u>2,070,271</u>
	<u>\$18,952,977</u>	<u>\$ —</u>	<u>\$ —</u>	18,952,977
Assets measured at net asset value:				
Common collective trusts:				
Real estate assets				4,912,437
Limited partnerships, limited liability companies and offshore funds				<u>53,792,192</u>
Total assets at fair value				<u>\$77,657,606</u>

Contributions

The Corporation plans to contribute \$3,500,000 to its pension plan in the year ending September 30, 2019.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

9. Pension Plan (Continued)

Estimated Future Benefit Payments

Benefit payments are estimated to be paid as follows:

2019	\$ 4,478,310
2020	4,902,757
2021	5,394,865
2022	5,790,554
2023	6,354,182
Years 2024 – 2028	40,847,370

10. Community Benefits (Unaudited)

The Corporation provides numerous community service programs such as patient transport, community education programs, health screenings, health publications and other health information services in addition to providing charitable services and funding the difference between Medicare and Medicaid reimbursement and the cost of providing those services. In addition, the Corporation also directly subsidizes area community health service agencies which are in support of the Corporation's mission to improve the health of the community. The net cost of providing such benefits, which includes Medicare and Medicaid unreimbursed cost, for the years ending September 30, 2018 and 2017 was \$75,770,894 and \$67,312,514, respectively.

11. Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	<u>2018</u>	<u>2017</u>
Health care services	\$307,108,016	\$286,687,830
General and administrative	<u>45,225,564</u>	<u>41,182,925</u>
	<u>\$352,333,580</u>	<u>\$327,870,755</u>

12. Contingencies and Litigation

The Corporation currently maintains professional malpractice liability insurance and general liability insurance coverage under a combination of policies. The insurance for the professional liability coverage is primarily written on a "claims-made" basis and the commercial general liability coverage is primarily maintained on an "occurrence" basis. These coverages apply after a self-insured retention of \$3.0 million and \$2.0 million per incident and \$10.0 million and \$6.0 million annual aggregate for the years ending September 30, 2018 and 2017, respectively. In addition, insurance coverage does not generally cover punitive damages.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

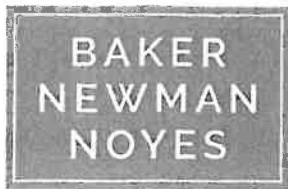
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

13. Medicaid Enhancement Tax

Under the State of New Hampshire's (the State) tax code, the State imposes a Medicaid enhancement tax (MET) equal to 5.40% for the fiscal years ended September 30, 2018 and 2017 of the Hospital's net patient service revenues, with certain exclusions. The amount of tax recognized by the Corporation for the fiscal years ended September 30, 2018 and 2017 was \$12,615,694 and \$11,570,541, respectively.

Historically, the State has provided disproportionate share payments (DSH) to hospitals based on a set percentage of uncompensated care provided. As part of the State's budget process for the period ended June 30, 2012, the State eliminated DSH payments to certain New Hampshire hospitals, including the Hospital. The State reinstituted a portion of the DSH payments in the period ended June 30, 2014. The Hospital recorded DSH interim funding of \$5,046,360 and \$6,461,110 for the years ended September 30, 2018 and 2017, respectively, which is subject to the State DSH annual audit and potential redistributions. The audit of the State's DSH program has been finalized through State fiscal year 2014 and a reserve has been established to cover potential audit adjustments for the years yet to be audited by the State.



**INDEPENDENT AUDITORS' REPORT
ON OTHER FINANCIAL INFORMATION**

Board of Trustees
Exeter Health Resources, Inc. and Subsidiaries

We have audited the consolidated financial statements of Exeter Health Resources, Inc. and Subsidiaries as of and for the years ended September 30, 2018 and 2017, and have issued our report thereon, which contains an unmodified opinion on those consolidated financial statements. See page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis rather than to present the financial position, results of operations and cash flows of the individual entities and is not a required part of the consolidated 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 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Baker Newman & Noyes LLC

Manchester, New Hampshire
December 5, 2018

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

September 30, 2018

ASSETS

	Exeter Health Resources, Inc.	Exeter Hospital, Inc.	Exeter Med Real, Inc.	Core Physicians, LLC	Rockingham VNA&H	Elimi- nations	Consol- idated
Current assets:							
Cash and cash equivalents	\$ 1,836,281	\$ 30,078,280	\$ 424,339	\$ 926,019	\$ 2,132,706	\$ -	\$ 35,397,625
Short-term investments	-	6,348,590	-	-	-	-	6,348,590
Accounts receivable, net	-	23,954,667	-	6,154,461	2,499,270	-	32,608,398
Inventories	-	4,349,200	-	-	-	-	4,349,200
Due from related entities	1,173,460	1,694,813	-	-	-	(2,868,273)	-
Prepaid expenses and other current assets	394,716	4,286,974	177,459	1,487,971	53,864	-	6,400,984
Current portion of funds held by trustee under revenue bond and other financing agreements	-	<u>5,431,077</u>	-	-	-	-	<u>5,431,077</u>
Total current assets	3,404,457	76,143,601	601,798	8,568,451	4,685,840	(2,868,273)	90,535,874
Investment in subsidiaries	223,804,370	-	-	-	-	(223,804,370)	-
Investments, limited as to use	43,777,876	149,954,577	-	-	442,443	-	194,174,896
Funds held by trustee for professional liability claims	3,362,518	1,490,810	-	-	-	(1,490,810)	3,362,518
Property, plant and equipment, net	553,294	57,304,245	30,466,042	3,669,107	492,437	379,474	92,864,599
Other assets	<u>12,998,893</u>	<u>753,871</u>	<u>22,555</u>	<u>3,553,581</u>	<u>-</u>	<u>-</u>	<u>17,328,900</u>
Total assets	<u>\$ 287,901,408</u>	<u>\$ 285,647,104</u>	<u>\$ 31,090,395</u>	<u>\$ 15,791,139</u>	<u>\$ 5,620,720</u>	<u>\$(227,783,979)</u>	<u>\$ 398,266,787</u>

LIABILITIES AND NET ASSETS

	<u>Exeter Health Resources, Inc.</u>	<u>Exeter Hospital, Inc.</u>	<u>Exeter Med Real, Inc.</u>	<u>Core Physicians, LLC</u>	<u>Rockingham VNA&H</u>	<u>Elimi- nations</u>	<u>Consol- idated</u>
Current liabilities:							
Accounts payable	\$ 108,440	\$ 11,784,795	\$ 286,026	\$ 2,368,973	\$ 1,224,606	\$ —	\$ 15,772,840
Accrued salaries and payroll taxes	885,128	8,192,265	—	7,027,688	1,249,549	—	17,354,630
Due to third-party payors	—	3,975,558	—	504,253	—	—	4,479,811
Due to related entities	—	—	222,315	2,407,231	238,727	(2,868,273)	—
Current portion of long-term debt	—	<u>3,990,989</u>	—	—	—	—	<u>3,990,989</u>
Total current liabilities	993,568	27,943,607	508,341	12,308,145	2,712,882	(2,868,273)	41,598,270
Accrued pension and other liabilities	4,033,400	19,419,465	—	3,195,516	—	—	26,648,381
Long-term debt, less current portion	—	46,766,222	—	—	—	—	46,766,222
Reserve for professional liability claims	3,970,425	1,490,810	—	—	—	(1,490,810)	3,970,425
Net assets:							
Unrestricted	257,939,505	172,886,944	30,582,054	287,478	2,461,277	(205,838,279)	258,318,979
Temporarily restricted	1,266,018	370,735	—	—	4,119	(374,854)	1,266,018
Permanently restricted	<u>19,698,492</u>	<u>16,769,321</u>	—	—	<u>442,442</u>	<u>(17,211,763)</u>	<u>19,698,492</u>
Total net assets	<u>278,904,015</u>	<u>190,027,000</u>	<u>30,582,054</u>	<u>287,478</u>	<u>2,907,838</u>	<u>(223,424,896)</u>	<u>279,283,489</u>
Total liabilities and net assets	<u>\$ 287,901,408</u>	<u>\$ 285,647,104</u>	<u>\$ 31,090,395</u>	<u>\$ 15,791,139</u>	<u>\$ 5,620,720</u>	<u>\$ (227,783,979)</u>	<u>\$ 398,266,787</u>

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

Year Ended September 30, 2018

	Exeter Health Resources, Inc.	Exeter Hospital, Inc.	Exeter Med Real, Inc.	Core Physicians, LLC	Rockingham VNA&H	Elimi- nations	Consol- idated
Net patient service revenues, net of contractual allowances and discounts	\$ —	\$ 252,081,116	\$ —	\$ 74,649,035	\$ 18,502,247	\$ —	\$ 345,232,398
Less provision for bad debts	—	(7,627,062)	—	(1,813,109)	47,849	—	(9,392,322)
Net patient service revenues less provision for bad debts	—	244,454,054	—	72,835,926	18,550,096	—	335,840,076
Disproportionate share funding	—	5,046,360	—	—	—	—	5,046,360
Other revenues	10,850,265	2,757,496	5,020,587	8,759,678	15,676	(15,829,519)	11,574,183
Net assets released from restrictions used for operations	—	106,634	—	2,781	5,645	—	115,060
Total revenues and other support	10,850,265	252,364,544	5,020,587	81,598,385	18,571,417	(15,829,519)	352,575,679
Operating expenses:							
Salaries and benefits	9,053,538	106,961,997	—	81,856,668	14,374,681	(10,790,593)	201,456,291
Supplies and other	1,728,318	94,327,402	2,482,854	24,212,582	4,194,882	(5,038,926)	121,907,112
Depreciation	121,876	11,044,869	2,768,686	984,417	146,245	—	15,066,093
New Hampshire Medicaid enhancement tax	—	12,615,694	—	—	—	—	12,615,694
Interest	—	1,288,390	—	—	—	—	1,288,390
Total operating expenses	10,903,732	226,238,352	5,251,540	107,053,667	18,715,808	(15,829,519)	352,333,580
Income (loss) from operations	(53,467)	26,126,192	(230,953)	(25,455,282)	(144,391)	—	242,099
Nonoperating gains (losses):							
Unrestricted contributions	—	59,771	—	—	61,120	—	120,891
Investment income and dividends	340,142	2,018,057	1	4,755	7,447	—	2,370,402
Realized gains on investments, net	2,565,509	8,868,683	—	—	—	—	11,434,192
Unrealized gains on investments, net	(1,001,610)	(3,476,524)	—	—	—	—	(4,478,134)
Impact of interest rate swaps	—	1,073,897	—	—	—	—	1,073,897
Contributions to community programs	(8,500)	(869,713)	—	—	—	—	(878,213)
Equity in earnings of subsidiaries	8,281,190	—	—	—	—	(8,281,190)	—
Other	—	237,630	—	500	—	—	238,130
Nonoperating gains (losses), net	10,176,731	7,911,801	1	5,255	68,567	(8,281,190)	9,881,165
Excess (deficiency) of revenues and other support and nonoperating gains (losses) over expenses	10,123,264	34,037,993	(230,952)	(25,450,027)	(75,824)	(8,281,190)	10,123,264
Transfers between affiliates	—	(27,565,598)	—	24,514,807	—	3,050,791	—
Pension liability adjustment	(751,165)	(578,119)	—	—	—	578,119	(751,165)
Net assets released from restrictions for operations	(115,060)	(106,634)	—	(2,781)	(5,645)	115,060	(115,060)
Restricted gifts, bequests and contributions	211,292	174,933	—	26,780	6,016	(207,729)	211,292
Increase in market value of beneficial interest in perpetual trust held by others	31,125	—	—	—	31,125	(31,125)	31,125
Total changes in net assets	9,499,456	5,962,575	(230,952)	(911,221)	(44,328)	(4,776,074)	9,499,456
Net assets and stockholder's equity at beginning of year	269,404,559	184,064,425	30,813,006	1,198,699	2,952,166	(218,648,822)	269,784,033
Net assets and stockholder's equity at end of year	\$ 278,904,015	\$ 190,027,000	\$ 30,582,054	\$ 287,478	\$ 2,907,838	\$ (223,424,896)	\$ 279,283,489

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

September 30, 2017

	<u>ASSETS</u>							
	<u>Exeter Health Resources, Inc.</u>	<u>Exeter Hospital, Inc.</u>	<u>Exeter Med Real, Inc.</u>	<u>Convergent Health Systems, Inc.</u>	<u>Core Physicians, LLC</u>	<u>Rockingham VNA&H</u>	<u>Elimi- nations</u>	<u>Consol- idated</u>
Current assets:								
Cash and cash equivalents	\$ 1,289,914	\$ 37,984,098	\$ 1,884,131	\$ —	\$ 1,182,004	\$ 2,213,561	\$ —	\$ 44,553,708
Short-term investments	—	5,713,473	—	—	—	—	—	5,713,473
Accounts receivable, net	—	19,106,438	—	—	6,070,717	2,398,711	—	27,575,866
Inventories	—	3,663,197	—	—	—	—	—	3,663,197
Due from related entities	655,590	1,705,944	—	—	—	—	(2,361,534)	—
Prepaid expenses and other current assets	478,277	4,379,763	159,863	—	1,351,046	54,473	—	6,423,422
Current portion of funds held by trustee under revenue bond and other financing agreements	—	7,430,031	—	—	—	—	—	7,430,031
Total current assets	2,423,781	79,982,944	2,043,994	—	8,603,767	4,666,745	(2,361,534)	95,359,697
Investment in subsidiaries	219,028,296	—	—	—	—	—	(219,028,296)	—
Investments, limited as to use	41,682,946	142,764,127	—	—	—	415,065	—	184,862,138
Funds held by trustee for professional liability claims	3,475,452	4,569,474	—	—	—	—	(4,569,474)	3,475,452
Property, plant and equipment, net	675,170	56,455,358	28,964,993	—	3,333,447	569,080	379,474	90,377,522
Other assets	<u>11,641,165</u>	<u>592,332</u>	<u>—</u>	<u>—</u>	<u>3,090,039</u>	<u>—</u>	<u>—</u>	<u>15,323,536</u>
Total assets	<u>\$ 278,926,810</u>	<u>\$ 284,364,235</u>	<u>\$ 31,008,987</u>	<u>\$ —</u>	<u>\$ 15,027,253</u>	<u>\$ 5,650,890</u>	<u>\$ (225,579,830)</u>	<u>\$ 389,398,345</u>

LIABILITIES AND NET ASSETS

	<u>Exeter Health Resources, Inc.</u>	<u>Exeter Hospital, Inc.</u>	<u>Exeter Med Real, Inc.</u>	<u>Convergent Health Systems, Inc.</u>	<u>Core Physicians, LLC</u>	<u>Rockingham VNA&H</u>	<u>Elimi- nations</u>	<u>Consol- idated</u>
Current liabilities:								
Accounts payable	\$ 105,160	\$ 9,492,009	\$ 133,461	\$ -	\$ 1,808,712	\$ 1,314,733	\$ -	\$ 12,854,075
Accrued salaries and payroll taxes	756,513	7,738,798	-	-	6,680,034	1,193,022	-	16,368,367
Due to third-party payors	-	4,510,264	-	-	499,790	-	-	5,010,054
Due to related entities	-	-	62,520	-	2,108,045	190,969	(2,361,534)	-
Current portion of long-term debt	-	3,527,297	-	-	-	-	-	3,527,297
Total current liabilities	861,673	25,268,368	195,981	-	11,096,581	2,698,724	(2,361,534)	37,759,793
Accrued pension and other liabilities	3,029,544	21,300,117	-	-	2,731,973	-	-	27,061,634
Long-term debt, less current portion	-	49,161,851	-	-	-	-	-	49,161,851
Reserve for professional liability claims	5,631,034	4,569,474	-	-	-	-	(4,569,474)	5,631,034
Net assets:								
Unrestricted	248,567,406	166,992,668	30,813,006	-	1,198,699	2,537,101	(201,162,000)	248,946,880
Temporarily restricted	1,169,786	302,436	-	-	-	3,748	(306,184)	1,169,786
Permanently restricted	19,667,367	16,769,321	-	-	-	411,317	(17,180,638)	19,667,367
Total net assets	269,404,559	184,064,425	30,813,006	-	1,198,699	2,952,166	(218,648,822)	269,784,033
Total liabilities and net assets	\$ 278,926,810	\$ 284,364,235	\$ 31,008,987	\$ -	\$ 15,027,253	\$ 5,650,890	\$ (225,579,830)	\$ 389,398,345

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

Year Ended September 30, 2017

	Exeter Health Resources, Inc.	Exeter Hospital, Inc.	Exeter Med Real, Inc.	Convergent Health Systems, Inc.	Core Physicians, LLC	Rockingham VNA&H	Elimi- nations	Consol- idated
Net patient service revenues, net of contractual allowances and discounts	\$ —	\$ 232,183,240	\$ —	\$ —	\$ 69,677,805	\$ 16,955,891	\$ —	\$ 318,816,936
Less provision for bad debts	—	(6,620,562)	—	—	(1,569,609)	(50,000)	—	(8,240,171)
Net patient service revenues less provision for bad debts	—	225,562,678	—	—	68,108,196	16,905,891	—	310,576,765
Disproportionate share funding	—	6,461,110	—	—	—	—	—	6,461,110
Other revenues	8,876,489	3,150,385	4,649,933	—	7,662,128	14,702	(13,474,389)	10,879,248
Net assets released from restrictions used for operations	—	124,480	—	—	—	4,713	—	129,193
Total revenues and other support	8,876,489	235,298,653	4,649,933	—	75,770,324	16,925,306	(13,474,389)	328,046,316
Operating expenses:								
Salaries and benefits	8,519,837	101,291,210	—	—	76,061,551	13,460,815	(8,806,565)	190,526,848
Supplies and other	353,051	85,315,855	2,338,033	2,778	22,647,532	3,836,967	(4,667,824)	109,826,392
Depreciation	84,368	10,942,861	2,900,438	—	957,294	123,682	—	15,008,643
New Hampshire Medicaid enhancement tax	—	11,570,541	—	—	—	—	—	11,570,541
Interest	—	938,331	—	—	—	—	—	938,331
Total operating expenses	8,957,256	210,058,798	5,238,471	2,778	99,666,377	17,421,464	(13,474,389)	327,870,755
(Loss) income from operations	(80,767)	25,239,855	(588,538)	(2,778)	(23,896,053)	(496,158)	—	175,561
Nonoperating gains (losses):								
Unrestricted contributions	—	45,879	—	—	25	39,664	—	85,568
Investment income and dividends	268,461	1,610,851	6	—	6,968	7,872	—	1,894,158
Realized gains on investments, net	2,955,105	10,236,969	—	—	—	—	—	13,192,074
Unrealized gains on investments, net	448,328	1,648,103	—	—	—	—	—	2,096,431
Impact of interest rate swaps	—	2,403,455	—	—	—	—	—	2,403,455
Contributions to community programs	(6,000)	(786,524)	—	—	—	—	—	(792,524)
Equity in earnings of subsidiaries	15,442,591	—	—	—	—	—	(15,442,591)	—
Other	—	(23,511)	—	—	(3,494)	—	—	(27,005)
Nonoperating gains (losses), net	19,108,485	15,135,222	6	—	3,499	47,536	(15,442,591)	18,852,157
Excess (deficiency) of revenues and other support and nonoperating gains (losses) over expenses	19,027,718	40,375,077	(588,532)	(2,778)	(23,892,554)	(448,622)	(15,442,591)	19,027,718
Transfers between affiliates	—	(23,099,770)	—	50,108	23,202,613	—	(152,951)	—
Pension liability adjustment	4,859,261	4,718,302	—	—	—	—	(4,718,302)	4,859,261
Net assets released from restrictions for operations	(129,193)	(109,802)	—	—	—	(4,713)	114,515	(129,193)
Restricted gifts, bequests and contributions	165,724	154,049	—	—	—	8,461	(162,510)	165,724
Increase in market value of beneficial interest in perpetual trust held by others	29,234	—	—	—	—	29,234	(29,234)	29,234
Total changes in net assets	23,952,744	22,037,856	(588,532)	47,330	(689,941)	(415,640)	(20,391,073)	23,952,744
Net assets and stockholder's equity (deficit) at beginning of year	245,451,815	162,026,569	31,401,538	(47,330)	1,888,640	3,367,806	(198,257,749)	245,831,289
Net assets and stockholder's equity at end of year	\$ 269,404,559	\$ 184,064,425	\$ 30,813,006	\$ —	\$ 1,198,699	\$ 2,952,166	\$ (218,648,822)	\$ 269,784,033