

BAKER
NEWMAN
NOYES

**Exeter Health Resources, Inc.
and Subsidiaries**

Audited Consolidated Financial Statements
and Other Financial Information

*Years Ended September 30, 2020 and 2019
With Independent Auditors' Report*

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

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

September 30, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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 10, 2020

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

September 30, 2020 and 2019

ASSETS

	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 46,405,715	\$ 27,561,573
Short-term investments (notes 7 and 9)	4,403,891	4,397,140
Accounts receivable, less allowance for doubtful accounts of \$15,506,878 in 2020 and \$16,532,616 in 2019 (notes 4 and 6)	35,181,607	36,342,342
Inventories	6,042,608	4,482,425
Prepaid expenses and other current assets	6,386,319	6,385,022
Current portion of funds held by trustee under revenue bond and other financing agreements (notes 6, 7 and 9)	<u>8,300,985</u>	<u>7,101,096</u>
Total current assets	106,721,125	86,269,598
Investments, limited as to use (notes 7 and 9)	197,033,978	187,352,327
Funds held by trustee for professional liability claims (note 13)	5,282,332	5,016,714
Property, plant and equipment, net (notes 5 and 6)	113,191,566	106,553,604
Other assets	<u>20,152,463</u>	<u>18,601,718</u>
Total assets	<u>\$442,381,464</u>	<u>\$403,793,961</u>

LIABILITIES AND NET ASSETS

	<u>2020</u>	<u>2019</u>
Current liabilities:		
Accounts payable	\$ 22,832,746	\$ 19,533,741
Accrued salaries and payroll taxes	21,585,916	18,480,353
Due to third-party payors (notes 2 and 3)	11,120,166	5,602,312
Current portion of long-term debt (note 6)	<u>4,331,626</u>	<u>4,161,045</u>
Total current liabilities	59,870,454	47,777,451
Accrued pension and other liabilities (notes 2, 3, 6, 9 and 10)	78,752,594	35,495,835
Long-term debt, less current portion (note 6)	38,336,431	42,637,622
Reserve for professional liability claims (notes 2 and 13)	4,898,560	4,898,560
Net assets:		
Without donor restrictions	235,388,832	251,796,200
With donor restrictions (note 8)	<u>25,134,593</u>	<u>21,188,293</u>
	<u>260,523,425</u>	<u>272,984,493</u>
Total liabilities and net assets	<u>\$442,381,464</u>	<u>\$403,793,961</u>

See accompanying notes.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Net patient service revenues, net of contractual allowances and discounts (note 3)	\$344,569,474	\$370,196,559
Less provision for bad debts	<u>(11,373,261)</u>	<u>(12,933,872)</u>
Net patient service revenues less provision for bad debts	333,196,213	357,262,687
Disproportionate share funding (note 14)	6,591,068	5,193,628
Other revenues (note 2)	25,477,768	11,606,815
Net assets released from restrictions used for operations	<u>418,941</u>	<u>153,176</u>
Total revenues and other support	365,683,990	374,216,306
Operating expenses (note 12):		
Salaries and benefits (note 10)	216,573,109	207,649,272
Supplies and other	137,550,148	132,418,565
Depreciation	16,728,695	15,557,211
New Hampshire Medicaid enhancement tax (note 14)	14,433,658	13,723,449
Interest	<u>974,764</u>	<u>1,491,004</u>
Total operating expenses	<u>386,260,374</u>	<u>370,839,501</u>
(Loss) income from operations	(20,576,384)	3,376,805
Nonoperating gains (losses):		
Unrestricted contributions	122,266	4,998,191
Investment income and dividends, net (note 7)	1,079,030	1,762,823
Realized gains on investments, net (note 7)	739,845	15,374,202
Unrealized gains (losses) on investments, net (note 7)	12,932,798	(12,637,007)
Impact of interest rate swaps (note 6)	(2,257,679)	(3,006,625)
Contributions to community programs	(474,052)	(1,263,838)
Other, net	394,950	831,542
Net periodic pension (cost) gain (note 10)	<u>(80,566)</u>	<u>179,967</u>
Nonoperating gains, net	<u>12,456,592</u>	<u>6,239,255</u>
(Deficiency) excess of revenues and other support, and nonoperating gains over expenses	(8,119,792)	9,616,060
Net assets released from restriction used for capital	-	264,413
Transfer of balances between funds	(3,549,208)	(23,998)
Adjustment to pension liability (note 10)	<u>(4,738,368)</u>	<u>(16,379,254)</u>
Decrease in net assets without donor restrictions	\$ <u>(16,407,368)</u>	\$ <u>(6,522,779)</u>

See accompanying notes.

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

Years Ended September 30, 2020 and 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Net Assets</u>
Balances at September 30, 2018	\$258,318,979	\$20,964,510	\$ 279,283,489
Excess of revenues and other support and nonoperating gains over expenses	9,616,060	–	9,616,060
Restricted gifts, bequests and contributions	–	595,749	595,749
Adjustment to pension liability	(16,379,254)	–	(16,379,254)
Net assets released from restrictions used for operations	–	(153,176)	(153,176)
Net assets released from restriction used for capital	264,413	(264,413)	–
Transfer of balances between funds	(23,998)	23,998	–
Increase in market value of beneficial interest in perpetual trust held by others	–	<u>21,625</u>	<u>21,625</u>
(Decrease) increase in net assets	<u>(6,522,779)</u>	<u>223,783</u>	<u>(6,298,996)</u>
Balances at September 30, 2019	251,796,200	21,188,293	272,984,493
Deficiency of revenues and other support and nonoperating gains over expenses	(8,119,792)	–	(8,119,792)
Restricted gifts, bequests and contributions	–	798,463	798,463
Adjustment to pension liability	(4,738,368)	–	(4,738,368)
Net assets released from restrictions used for operations	–	(418,941)	(418,941)
Transfer of balances between funds	(3,549,208)	3,549,208	–
Increase in market value of beneficial interest in perpetual trust held by others	–	<u>17,570</u>	<u>17,570</u>
(Decrease) increase in net assets	<u>(16,407,368)</u>	<u>3,946,300</u>	<u>(12,461,068)</u>
Balances at September 30, 2020	<u>\$235,388,832</u>	<u>\$25,134,593</u>	<u>\$ 260,523,425</u>

See accompanying notes.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating activities and net gains:		
Decrease in net assets	\$ (12,461,068)	\$ (6,298,996)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities and net gains from operations:		
Depreciation	16,728,695	15,557,211
Net realized and unrealized gains on investments	(13,672,643)	(2,737,195)
Restricted gifts, bequests and contributions	(798,463)	(595,749)
Adjustment to pension liability	4,738,368	16,379,254
Increase in reserve for professional liability claims	-	928,135
Adjustment of interest rate swaps to fair value	1,150,331	2,188,241
Changes in operating assets and liabilities:		
Accounts receivable, net	1,160,735	(3,733,944)
Inventories	(1,560,183)	(133,225)
Prepaid expenses, other current and noncurrent assets	(1,521,607)	(1,256,856)
Accounts payable	3,299,005	3,760,901
Accrued salaries and payroll taxes	3,105,563	1,125,723
Accrued pension and other liabilities	37,368,060	(9,720,041)
Due to third-party payors	<u>5,517,854</u>	<u>1,122,501</u>
Net cash provided by operating activities and net gains	43,054,647	16,585,960
Investing activities:		
Purchase of property, plant and equipment, net of disposals	(23,366,657)	(29,246,216)
Increase in funds held by trustee	(1,465,507)	(3,324,215)
Net sales of investments, limited as to use	3,990,992	9,559,764
(Increase) decrease in short-term investments	<u>(6,751)</u>	<u>1,951,450</u>
Net cash used by investing activities	(20,847,923)	(21,059,217)
Financing activities:		
Repayment of long-term debt	(4,161,045)	(3,958,544)
Restricted gifts, bequests and contributions	<u>798,463</u>	<u>595,749</u>
Net cash used by financing activities	<u>(3,362,582)</u>	<u>(3,362,795)</u>
Increase (decrease) in cash and cash equivalents	18,844,142	(7,836,052)
Cash and cash equivalents at beginning of year	<u>27,561,573</u>	<u>35,397,625</u>
Cash and cash equivalents at end of year	<u>\$ 46,405,715</u>	<u>\$ 27,561,573</u>

See accompanying notes.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

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.

In May 2019, the Corporation and Massachusetts General Hospital finalized a definitive agreement to affiliate the organizations. This definitive agreement is one step in a potential lengthy process that may include due diligence, review and final approval of each member's Board of Directors, and federal and state regulatory approval processes. Expected benefits of the affiliation include expanding the Corporation's primary and specialty services in New Hampshire, strengthening and growing clinical programs in the New Hampshire seacoast community, and increasing competition by delivering higher-quality, lower cost care.

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.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

2. Significant Accounting Policies (Continued)

Classification of Net Assets

Gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of donated assets. Net assets with donor restrictions 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), net assets with donor restrictions are reclassified as net assets without donor restrictions 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). Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained by the Corporation in perpetuity. During fiscal 2020 and 2019, 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 net assets with donor restrictions, including net realized and unrealized appreciation on investments, is included in the consolidated statements of operations as unrestricted resources.

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 statements of operations also includes (deficiency) excess of revenues and other support, and nonoperating gains over expenses. Changes in net assets without restrictions which are excluded from (deficiency) excess of revenues and other support, and nonoperating gains over expenses, consistent with industry practice, include pension liability adjustments, net assets released from restrictions used for capital and certain other fund transfers.

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.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

2. Significant Accounting Policies (Continued)

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.

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, 2020 and 2019 were \$838,947 and \$1,178,145, respectively. There were no funds received from gifts and grants to subsidize charity care services provided for the years ended September 30, 2020 or 2019.

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.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

2. Significant Accounting Policies (Continued)

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.

The Corporation's allowance for doubtful accounts for self-pay patients decreased from 89% of self-pay accounts receivable at September 30, 2019 to 88% of self-pay accounts receivable at September 30, 2020. The Corporation's self-pay bad debt writeoffs increased \$15,000 from \$6,281,000 in 2019 to \$6,296,000 in 2020. The net change in the 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 (deficiency) 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 net assets with donor restrictions.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

2. Significant Accounting Policies (Continued)

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, Inc. 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).

In December 2019, the Corporation adopted an endowment funds spending policy. As a result of the implementation of this policy, cumulative funds were transferred from net assets without donor restriction to net assets with donor restriction as of September 30, 2020. In accordance with this policy, future interest income and realized and unrealized gains and losses attributable to the endowment funds will be directly recorded as net assets with restrictions. Additionally, the Board of Trustees will approve an annual spend of the net assets with restrictions which will be released to net assets without restrictions to offset operating expenses and/or capital purchases of the Corporation.

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 for 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.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

2. Significant Accounting Policies (Continued)

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.

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 13 related to contingencies and litigation.

Reclassifications

Certain 2019 amounts have been reclassified to permit comparison with the 2020 consolidated financial statements presentation format.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

2. Significant Accounting Policies (Continued)

Subsequent Events

Management of the Corporation evaluated events occurring between the end of its fiscal year and December 10, 2020, the date the consolidated financial statements were available to be issued.

Risks and Uncertainties

On March 11, 2020, the World Health Organization declared the outbreak of coronavirus (COVID-19) a pandemic. Patient volumes and the related revenues for most services were significantly impacted in the last two weeks of March 2020 and continued to be impacted in the third and fourth quarter of 2020 as various policies were implemented by federal, state and local governments in response to the COVID-19 pandemic that have caused many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective surgical procedures by health care facilities.

While some of these restrictions have been eased across the U.S. and the State of New Hampshire has lifted limitations on non-emergent procedures, some restrictions remain in place, and some state and local governments are re-imposing certain restrictions due to increasing rates of COVID-19 cases. While consolidated patient volumes and revenues experienced gradual improvement beginning in the latter part of April and continuing through the end of the third and fourth quarter, uncertainty still exists as the future is unpredictable. The Corporation's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. The Corporation has taken precautionary steps to enhance its operational and financial flexibility, and react to the risks the COVID-19 pandemic presents in its operations, including the following:

- Implemented certain cost reduction initiatives;
- Reduced certain planned projects and capital expenditures;
- During the third quarter of fiscal 2020, the Corporation received approximately \$34.2 million of accelerated Medicare payments and approximately \$10,288,000 in general Provider Relief Fund distributions, as provided for under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act.

The Corporation believes the extent of the COVID-19 pandemic's adverse impact on operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, government-imposed or recommended suspensions of elective procedures, continued declines in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure. Because of these and other uncertainties, the Corporation cannot estimate the length or severity of the impact of the pandemic on its operations. Decreases in cash flows and results of operations may have an impact on the inputs and assumptions used in significant accounting estimates, including the allowance for doubtful accounts related to uninsured patient accounts, and professional and general liability reserves.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

2. Significant Accounting Policies (Continued)

Distributions from the Provider Relief Fund are not subject to repayment, provided the Corporation is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for healthcare-related expenses or lost revenue attributable to COVID-19. Such payments are accounted for as government grants, and are recognized on a systematic and rational basis as other income once there is reasonable assurance that the applicable terms and conditions required to retain the funds will be met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the impact of the pandemic on operating results through September 30, 2020, the Corporation recognized \$10,288,000 related to these general distribution funds, and these payments are recorded within other revenues in the consolidated statements of operations and changes in net assets for the year ended September 30, 2020.

The Corporation will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the impact of the pandemic on revenues and expenses. If the Corporation is unable to attest to or comply with current or future terms and conditions the Corporation's ability to retain some or all of the distributions received may be impacted.

The CARES Act also provides for a deferral of payments of the employer portion of payroll tax incurred during the pandemic, allowing half of such payroll taxes be deferred until December 2021 and the remaining half until December 2022. At September 30, 2020, the Corporation had deferred \$4,370,703 of payroll taxes which is in "accrued pension and other liabilities" in the accompanying consolidated balance sheets.

Additionally, the CARES Act created a payroll tax credit designed to encourage organizations to retain employees during the pandemic. During the fourth quarter of fiscal 2020, the Corporation evaluated its eligibility for this credit and deemed no employee retention payroll tax credits pursuant to the CARES Act could be taken.

The Corporation also received an interest free loan totaling \$1.65 million from the Department of Health and Human Services in the third quarter of fiscal 2020 as part of the COVID-19 Emergency Healthcare System Relief Fund. The loan was to be payable 180 days after expiration of the State of Emergency declared by the State of New Hampshire. The agreement also contained a clause that allowed the loan to be forgiven if the Corporation used the funds to offset expenses incurred related to the pandemic and applied for forgiveness. In November 2020, the Corporation applied for and was granted full forgiveness of the loan. This payment is accounted for as a government grant and is reflected in other revenues in the accompanying consolidated statement of operations for the year ended September 30, 2020.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

2. Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

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. The Corporation adopted ASU 2017-07 effective October 1, 2019 and, as a result, a gain totaling \$179,967 previously included in the salaries and benefits was reclassified to net periodic pension gain on the consolidated statements of operations for the year ended September 30, 2019.

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 has been applied retrospectively to all periods presented and did not have a material impact on the consolidated financial statements.

Prospective Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement* (ASU 2018-13). The amendments in this ASU modify the disclosure requirements for fair value measurements for Level 3 assets and liabilities, and eliminate the requirement to disclose transfers between Levels 1 and 2 of the fair value hierarchy, among other modifications. ASU 2018-13 is effective for the Corporation on October 1, 2020, with early adoption permitted. The Corporation is currently evaluating the impact that ASU 2018-13 will have on its consolidated financial statements.

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, 2020. 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.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

2. Significant Accounting Policies (Continued)

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, 2022, 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.

3. Patient Service Revenues

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

	<u>2020</u>	<u>2019</u>
Gross patient service revenues	\$ 863,319,627	\$ 867,279,935
Less contractual allowances and discounts	<u>(518,750,153)</u>	<u>(497,083,376)</u>
Net patient service revenues, net of contractual allowances and discounts	<u>\$ 344,569,474</u>	<u>\$ 370,196,559</u>

An estimated breakdown of net patient service revenue, net of contractual allowances and discounts recognized in 2020 and 2019 from major payor sources, is as follows:

	<u>2020</u>	<u>2019</u>
Private payor	\$210,537,440	\$ 228,002,451
Medicare	118,880,125	123,656,165
Medicaid	11,401,391	14,566,023
Self-pay	<u>3,750,518</u>	<u>3,971,920</u>
	344,569,474	370,196,559
Provision for bad debts	<u>(11,373,261)</u>	<u>(12,933,872)</u>
Net patient service revenues less provision for bad debts	<u>\$333,196,213</u>	<u>\$ 357,262,687</u>

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

3. Patient Service Revenues (Continued)

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 35% and 3%, respectively, in 2020 and 33% and 4%, respectively, in 2019.

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. Prior year settlements had no impact to net patient service revenue for the years ended September 30, 2020 or 2019.

During the third quarter of fiscal 2020, the Corporation requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. One year from the date of receipt of the advance payments (beginning April 2021) 25% of the loan will be recouped in the first eleven months. An additional 25% of the loan will be recouped in the next six months with the entire amount repayable in 29 months. Any outstanding balance after 29 months is repayable at a 4% interest rate. During the third quarter of fiscal 2020, the Corporation received approximately \$34,180,000 from these accelerated Medicare payment requests, of which the current portion due within a year totaling approximately \$4,310,000 is recorded under the caption "due to third-party payors" and the long-term portion totaling approximately \$29,870,000 in the caption "accrued pension and other liabilities" in the accompanying consolidated balance sheets.

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, 2020 and 2019

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>2020</u>	<u>2019</u>
Medicare	10%	10%
Medicaid	3	3
Other third party payors	50	51
Patients	<u>37</u>	<u>36</u>
	<u>100%</u>	<u>100%</u>

5. Property, Plant and Equipment

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

	<u>2020</u>	<u>2019</u>
Land and land improvements	\$ 8,735,477	\$ 5,260,153
Buildings	156,322,066	142,622,070
Equipment	72,831,227	72,854,486
Construction and projects in progress	<u>3,685,933</u>	<u>8,766,598</u>
	241,574,703	229,503,307
Less accumulated depreciation	<u>(128,383,137)</u>	<u>(122,949,703)</u>
Net property, plant and equipment	<u>\$ 113,191,566</u>	<u>\$ 106,553,604</u>

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

6. Long-Term Debt

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

	<u>2020</u>	<u>2019</u>
New Hampshire Health and Education Facilities Authority (the Authority) - Revenue Bonds:		
Series 2012 bonds with variable interest rates as defined in the agreement (1.62% at September 30, 2020). Principal is payable in annual installments ranging from \$1,425,000 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	\$23,915,000	\$25,260,000
Series 2003 bonds with variable interest rates as defined in the original and 2015 reissuance agreements (0.79% at September 30, 2020). Principal is payable in annual installments ranging from \$695,000 to \$1,125,000 through October 1, 2033	12,530,000	13,200,000
Series 2001B bonds with variable interest rates as defined in the original and 2015 reissuance agreements (0.78% at September 30, 2020). Principal is payable in annual installments ranging from \$960,000 to \$1,095,000 through October 1, 2023	4,115,000	5,035,000
Equipment financing, interest at 2.13% payable in monthly installments of \$76,952, through March 2022	1,362,043	2,246,202
Equipment financing, interest at 1.90% payable in monthly installments of \$30,184 through April 2023	<u>883,660</u>	<u>1,225,546</u>
	42,805,703	46,966,748
Less current portion	(4,331,626)	(4,161,045)
Less unamortized bond issuance costs	<u>(137,646)</u>	<u>(168,081)</u>
	<u>\$38,336,431</u>	<u>\$42,637,622</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, 2020, 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.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

6. Long-Term Debt (Continued)

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>2020</u>	<u>2019</u>
Construction fund and other	\$ 990	\$ 1,096
Collateralized swap fund	<u>8,299,995</u>	<u>7,100,000</u>
	<u>\$8,300,985</u>	<u>\$7,101,096</u>

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

2021	\$4,331,626
2022	4,048,973
2023	3,590,104
2024	3,570,000
2025	2,605,000

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, 2020 and 2019, there was a collateral asset in the amount of \$8,299,995 and \$7,100,000, 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 \$7,669,930 and \$6,519,599 at September 30, 2020 and 2019, respectively) is reported in accrued pension and other liabilities in the accompanying consolidated balance sheets and the decrease in fair value of \$1,150,331 and \$2,188,241 for the years ended September 30, 2020 and 2019, respectively, is reported as nonoperating (losses) gains 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 (losses) gains. Such other charges totaled \$1,107,348 and \$818,384 for the years ended September 30, 2020 and 2019, respectively. The swaps, while serving as economic hedges, do not qualify as accounting hedges.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

6. Long-Term Debt (Continued)

Total interest paid on long-term debt, exclusive of payments related to the swap agreements, was \$849,689 and \$1,364,498 for the years ended September 30, 2020 and 2019, respectively. No capitalized interest was recorded for the years ended September 30, 2020 and 2019.

The fair value of long-term debt approximates carrying value at September 30, 2020 and 2019.

The Corporation entered into a revolving line of credit agreement with a bank on May 28, 2020 for \$20,000,000. The line of credit is available through May 26, 2021 and bears interest at LIBOR plus 1.70%. At September 30, 2020, there were no borrowings outstanding under this agreement.

7. Investments and Assets Whose Use is Limited

Investments are stated at fair value as of September 30, 2020 and 2019, and are reported in the accompanying consolidated balance sheets as follows:

	<u>2020</u>	<u>2019</u>
Short-term investments	\$ 4,403,891	\$ 4,397,140
Funds held by trustee – current	8,300,985	7,101,096
Investments, limited as to use	197,033,978	187,352,327
Funds held by trustee – long term	<u>5,282,332</u>	<u>5,016,714</u>
	<u>\$215,021,186</u>	<u>\$203,867,277</u>

The composition of investments and funds held by trustee at fair value at September 30, 2020 and 2019 is set forth in the following table:

	<u>2020</u>	<u>2019</u>
Cash and short-term investments	\$ 14,815,118	\$ 15,203,291
Fixed income securities	27,618,307	31,263,272
Private equity investments	285,922	182,384
Marketable equity securities	13,107,648	13,341,046
Investments in limited partnerships and limited liability companies	139,671,052	125,717,387
Investments in offshore funds	19,599,066	18,375,076
Accrued interest and other	<u>(75,927)</u>	<u>(215,179)</u>
	<u>\$215,021,186</u>	<u>\$203,867,277</u>

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

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

Board designated and donor restricted investments at September 30, 2020 and 2019 are comprised of the following:

	<u>2020</u>	<u>2019</u>
Board designated for capital purchases, working capital and community service	\$171,899,385	\$166,164,034
Donor restricted	<u>25,134,593</u>	<u>21,188,293</u>
	<u>\$197,033,978</u>	<u>\$187,352,327</u>

Unrestricted investment income, and realized and unrealized gains on investments for the years ended September 30, 2020 and 2019 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Investment income and dividends, net	\$ 1,079,030	\$ 1,762,823
Realized gains on investments, net	739,845	15,374,202
Unrealized gains (losses) on investments, net	<u>12,932,798</u>	<u>(12,637,007)</u>
Investment income and gains, net	<u>\$14,751,673</u>	<u>\$ 4,500,018</u>

Activity related to endowment funds within net assets with donor restrictions is as follows for the years ended September 30:

	<u>2020</u>	<u>2019</u>
Balances, beginning of year	\$19,720,117	\$19,698,492
Transfer of balances between funds	3,549,208	-
Change in market value of beneficial interest in perpetual trust held by others	<u>17,570</u>	<u>21,625</u>
Balances, end of year	<u>\$23,286,895</u>	<u>\$19,720,117</u>

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

8. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes at September 30:

	<u>2020</u>	<u>2019</u>
Purpose restriction:		
Health care services and capital projects	\$ 1,689,201	\$ 1,380,188
Other patient services	147,317	74,903
Scholarships	<u>11,180</u>	<u>13,085</u>
	1,847,698	1,468,176
Perpetual in nature:		
Investments, gains and income from which is donor restricted	<u>23,286,895</u>	<u>19,720,117</u>
Total net assets with donor restrictions	<u>\$25,134,593</u>	<u>\$21,188,293</u>

Net assets with donor restrictions are managed in accordance with donor intent and are invested in various portfolios.

9. 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:

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.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

9. Fair Value Measurements (Continued)

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 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 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. These funds are classified at net asset value.

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.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

9. Fair Value Measurements (Continued)

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>
2020				
Cash and short-term investments	\$14,815,118	\$ —	\$ —	\$ 14,815,118
Fixed income securities	27,618,307	—	—	27,618,307
Private equity investments	—	285,922	—	285,922
U.S. equities	236,763	481,638	—	718,401
Marketable equity securities	12,389,247	—	—	12,389,247
Accrued interest and other	<u>(75,927)</u>	<u>—</u>	<u>—</u>	<u>(75,927)</u>
	<u>\$54,983,508</u>	<u>\$767,560</u>	<u>\$ —</u>	55,751,068
Investment funds measured at net asset value:				
Equity funds				27,591,933
Emerging market funds				10,782,163
Developed market funds				9,516,834
Global equity funds				91,780,122
Offshore funds				<u>19,599,066</u>
				<u>159,270,118</u>
Total assets at fair value				<u>\$215,021,186</u>
Liabilities:				
Interest rate swap agreements	<u>\$ —</u>	<u>\$ —</u>	<u>\$7,669,930</u>	<u>\$ 7,669,930</u>

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

9. Fair Value Measurements (Continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
2019				
Cash and short-term investments	\$15,203,291	\$ –	\$ –	\$ 15,203,291
Fixed income securities	31,263,272	–	–	31,263,272
Private equity investments	–	182,384	–	182,384
U.S. equities	204,320	464,068	–	668,388
Marketable equity securities	12,672,658	–	–	12,672,658
Accrued interest and other	<u>(215,179)</u>	<u>–</u>	<u>–</u>	<u>(215,179)</u>
	<u>\$59,128,362</u>	<u>\$646,452</u>	<u>\$ –</u>	59,774,814
Investment funds measured at net asset value:				
Equity funds				22,649,844
Emerging market funds				10,416,136
Developed market funds				10,812,527
Global equity funds				81,838,880
Offshore funds				<u>18,375,076</u>
				<u>144,092,463</u>
Total assets at fair value				<u>\$203,867,277</u>
Liabilities:				
Interest rate swap agreements	<u>\$ –</u>	<u>\$ –</u>	<u>\$6,519,599</u>	<u>\$ 6,519,599</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, 2020 and 2019, the Corporation had unfunded commitments in private equity investments totaling approximately \$21,452,000 and \$22,615,000, respectively.

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

	<u>Interest Rate Swaps</u>	
	<u>2020</u>	<u>2019</u>
Beginning balance	\$ (6,519,599)	\$ (4,331,358)
Change in fair value of interest rate swaps	<u>(1,150,331)</u>	<u>(2,188,241)</u>
	<u>\$ (7,669,930)</u>	<u>\$ (6,519,599)</u>

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

9. 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, 2020 and 2019:

<u>Investment</u>	<u>Fair Value</u>	<u>Unfunded Commit- ment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
2020				
Equity funds	\$17,103,359	\$21,452,000	Illiquid	Illiquid
Equity funds	10,488,574	—	Daily	2 days
Global equities	67,420,734	—	Daily	2 days
Developed markets	3,737,811	—	Daily	2 days
Developed markets	5,779,023	—	Monthly	5 days
Emerging market funds	10,782,163	—	Monthly	10 - 30 days
Global equities	24,359,388	—	Monthly	15 days
Offshore funds	5,030,030	—	Monthly	45 days
Offshore funds	10,847,069	—	Quarterly	30 - 65 days
Offshore funds	3,721,967	—	Annually	45 - 60 days
2019				
Equity funds	\$12,228,685	\$22,615,000	Illiquid	Illiquid
Equity funds	10,421,159	—	Daily	2 days
Global equities	59,934,460	—	Daily	2 days
Developed markets	5,119,561	—	Daily	2 days
Developed markets	5,692,966	—	Monthly	5 days
Emerging market funds	10,416,136	—	Monthly	10 - 30 days
Global equities	21,904,420	—	Monthly	15 days
Offshore funds	4,297,091	—	Monthly	45 days
Offshore funds	10,308,127	—	Quarterly	30 - 65 days
Offshore funds	3,769,858	—	Annually	45 - 60 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, 2020 and 2019

9. 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.

10. 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, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Changes in benefit obligations:		
Projected benefit obligations, beginning of period	\$111,003,332	\$ 95,460,275
Service cost	4,131,607	3,217,867
Interest cost	3,255,755	3,961,898
Benefits paid	(5,580,888)	(7,579,190)
Contributions by employees	2,057,307	2,006,695
Actuarial loss (gain)	<u>7,229,462</u>	<u>13,935,787</u>
Projected benefit obligations, end of period	<u>\$122,096,575</u>	<u>\$111,003,332</u>
Changes in plan assets:		
Fair value of plan assets, beginning of period	\$ 89,448,153	\$ 79,722,255
Actual return on plan assets	5,600,232	1,710,211
Contributions by plan sponsor	2,800,001	14,400,000
Contributions by employees	2,057,307	2,006,695
Benefits paid	(5,580,888)	(7,579,190)
Expenses paid	<u>(733,949)</u>	<u>(811,818)</u>
Fair value of plan assets, end of period	<u>\$ 93,590,856</u>	<u>\$ 89,448,153</u>
Net pension liability	<u>\$(28,505,719)</u>	<u>\$(21,555,179)</u>

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

10. Pension Plan (Continued)

Amounts recognized in net assets without donor restrictions consist of the following at September 30:

	<u>2020</u>	<u>2019</u>
Prior service cost	\$ 849,963	\$ 1,144,562
Net actuarial loss	<u>44,479,072</u>	<u>39,446,100</u>
	<u>\$45,329,035</u>	<u>\$40,590,662</u>

The weighted-average assumptions used to determine the pension benefit obligation at September 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Discount rate	2.50%	3.00%
Rate of increase in future compensation levels:		
2019	N/A	3.50%
2020	3.50%	N/A
2021-2022	2.00%	N/A
All future years	3.50%	N/A

The accumulated benefit obligation as of the Plan's measurement date of September 30, 2020 and 2019, was \$113,192,074 and \$102,907,349, respectively.

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

	<u>2020</u>	<u>2019</u>
Service cost, including administrative expense	\$ 4,931,607	\$ 4,017,867
Interest cost on projected benefit obligation	3,255,755	3,961,898
Expected return on plan assets	(5,799,446)	(5,553,369)
Amortization of actuarial loss	2,329,653	1,078,781
Amortization of prior service cost	<u>294,604</u>	<u>332,723</u>
	<u>\$ 5,012,173</u>	<u>\$ 3,837,900</u>

The weighted-average assumptions used to determine net periodic benefit cost as of September 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Discount rate	3.00%	4.25%
Rate of increase in future compensation levels	3.50%	3.00%
Expected long-term rate of return on plan assets	6.50%	7.00%

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

10. Pension Plan (Continued)

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%.

The fair value of the Corporation's pension plan assets at September 30, 2020 and 2019, by asset category are as follows (see Note 9 for level definitions).

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
2020				
Cash and cash equivalents	\$ 1,448,395	\$ -	\$ -	\$ 1,448,395
Accrued interest and other	64	-	-	64
Mutual funds	<u>15,377,097</u>	<u>-</u>	<u>-</u>	<u>15,377,097</u>
	<u>\$16,825,556</u>	<u>\$ -</u>	<u>\$ -</u>	16,825,556
Assets measured at net asset value:				
Limited partnerships, limited liability companies and offshore funds				<u>76,765,300</u>
Total assets at fair value				<u>\$93,590,856</u>

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

10. Pension Plan (Continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
2019				
Cash and cash equivalents	\$ 2,412,091	\$ –	\$ –	\$ 2,412,091
Accrued interest and other	16,317	–	–	16,317
Mutual funds	<u>13,901,370</u>	<u>–</u>	<u>–</u>	<u>13,901,370</u>
	<u>\$16,329,778</u>	<u>\$–</u>	<u>\$–</u>	16,329,778
Assets measured at net asset value:				
Limited partnerships, limited liability companies and offshore funds				<u>73,118,375</u>
Total assets at fair value				<u>\$89,448,153</u>

Contributions

The Corporation plans to contribute \$3,600,000 to its pension plan in the year ending September 30, 2021.

Estimated Future Benefit Payments

Benefit payments are estimated to be paid as follows:

2021	\$ 5,899,827
2022	6,031,353
2023	6,538,937
2024	6,954,043
2025	7,171,507
Years 2026 – 2030	45,701,425

11. 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, 2020 and 2019 was \$93,666,168 and \$80,557,395, respectively.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

12. Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows for the years ended September 30:

	<u>Health Services</u>	<u>General and Administrative</u>	<u>Total</u>
2020			
Salaries and benefits	\$183,899,179	\$32,673,930	\$216,573,109
Supplies and other	116,798,246	20,751,902	137,550,148
Depreciation	14,204,872	2,523,823	16,728,695
New Hampshire Medicaid Enhancement Tax	14,433,658	-	14,433,658
Interest	<u>827,672</u>	<u>147,092</u>	<u>974,764</u>
	<u>\$330,163,627</u>	<u>\$56,096,747</u>	<u>\$386,260,374</u>
2019			
Salaries and benefits	\$176,375,641	\$31,273,631	\$207,649,272
Supplies and other	112,572,796	19,845,769	132,418,565
Depreciation	13,225,628	2,331,583	15,557,211
New Hampshire Medicaid Enhancement Tax	13,723,449	-	13,723,449
Interest	<u>1,267,545</u>	<u>223,459</u>	<u>1,491,004</u>
	<u>\$317,165,059</u>	<u>\$53,674,442</u>	<u>\$370,839,501</u>

The financial statements report certain expense categories that are attributable to more than one healthcare service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, such as, depreciation and interest, are allocated to a function in accordance with the ratio of salaries and benefits of the functional classes. Supporting activities that are not directly identifiable with one or more healthcare programs are classified as general and administrative. If it is impossible or impractical to make a direct identification, allocation of the expenses were made according to management's estimates. Specifically identifiable costs are assigned to the function which they are identified to.

13. 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 per incident and \$10.0 million annual aggregate for the years ending September 30, 2020 and 2019. In addition, insurance coverage does not generally cover punitive damages.

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

14. Medicaid Enhancement Tax and Medicaid Disproportionate Share

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, 2020 and 2019 of the Hospital's patient service revenues, with certain exclusions. The amount of tax recognized by the Corporation for the fiscal years ended September 30, 2020 and 2019 was \$14,433,658 and \$13,723,449, respectively.

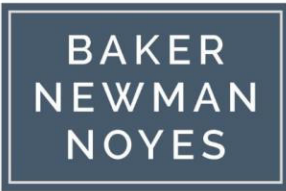
Historically, the State has provided disproportionate share payments (DSH) to hospitals based on a set percentage of uncompensated care provided. As part of the State's budget process for the period ended September 30, 2012, the State eliminated DSH payments to certain New Hampshire hospitals, including the Hospital. The State reinstated a portion of the DSH payments in the period ended September 30, 2014. The Hospital recorded DSH interim funding of \$6,591,068 and \$5,193,628 for the years ended September 30, 2020 and 2019, 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 2017 and a reserve has been established to cover potential audit adjustments for the years yet to be audited by the State or any future redistributions.

15. Financial Assets and Liquidity Resources

As of September 30, 2020 and 2019, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, consisted of the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$46,405,715	\$27,561,573
Short-term investments	4,403,891	4,397,140
Patient accounts receivable, net	35,181,607	36,342,342
Current portion of funds held by trustee under revenue bond and other financing agreements	<u>8,300,985</u>	<u>7,101,096</u>
	<u>\$94,292,198</u>	<u>\$75,402,151</u>

To manage liquidity, the Corporation maintains sufficient cash and cash equivalent balances to support daily operations throughout the year. Cash and cash equivalents include bank deposits, money market funds, and other similar vehicles that generate a return on cash and provide daily liquidity to the Corporation. Short-term investments without donor restrictions are also utilized to generate a higher yield on balances versus cash and cash equivalents, and to provide the Corporation with an additional layer of liquidity for daily operations if needed. As of September 30, 2020 and 2019, the balances held in cash and cash equivalents and short-term investments were \$50,809,606 and \$31,958,713, respectively. In addition, the Corporation has board-designated assets without donor restrictions that can be utilized at the discretion of management to help fund both operational needs and/or capital projects. As of September 30, 2020 and 2019, the balance in board-designated assets were \$171,899,385 and \$166,164,034, respectively.



**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, 2020 and 2019, and have issued our report thereon, which contains an unmodified opinion on those consolidated financial statements. See page I. 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 10, 2020

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

September 30, 2020

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	\$ 1,929,810	\$ 40,447,877	\$ 281,477	\$ 2,217,133	\$ 1,529,418	\$ -	\$ 46,405,715
Short-term investments	-	4,403,891	-	-	-	-	4,403,891
Accounts receivable, less allowance for doubtful accounts	-	26,209,607	-	6,462,789	2,509,211	-	35,181,607
Inventories	-	6,042,608	-	-	-	-	6,042,608
Due from related entities	717,756	2,237,187	-	-	-	(2,954,943)	-
Prepaid expenses and other current assets	196,499	4,140,126	83,551	1,894,507	71,636	-	6,386,319
Current portion of funds held by trustee under revenue bond and other financing agreements	-	8,300,985	-	-	-	-	8,300,985
Total current assets	2,844,065	91,782,281	365,028	10,574,429	4,110,265	(2,954,943)	106,721,125
Investment in subsidiaries	215,500,786	-	-	-	-	(215,500,786)	-
Investments, limited as to use	35,447,869	161,104,471	-	-	481,638	-	197,033,978
Funds held by trustee for professional liability claims	5,282,332	1,499,371	-	-	-	(1,499,371)	5,282,332
Property, plant and equipment, net	354,069	58,935,879	48,901,478	4,320,940	299,726	379,474	113,191,566
Other assets	13,909,290	1,523,314	17,496	4,699,789	2,574	-	20,152,463
Total assets	<u>\$273,338,411</u>	<u>\$314,845,316</u>	<u>\$49,284,002</u>	<u>\$19,595,158</u>	<u>\$ 4,894,203</u>	<u>\$(219,575,626)</u>	<u>\$442,381,464</u>

LIABILITIES AND NET ASSETS

	Exeter Health Resources, Inc.	Exeter Hospital, Inc.	Exeter Med Real, Inc.	Core Physicians, LLC	Rockingham VNA&H	Elimi- nations	Consol- idated
Current liabilities:							
Accounts payable	\$ 2,442,942	\$ 14,415,610	\$ 378,347	\$ 4,645,508	\$ 950,339	\$ -	\$ 22,832,746
Accrued salaries and payroll taxes	1,230,736	10,852,163	-	7,488,518	2,014,499	-	21,585,916
Due to third-party payors	-	10,160,864	-	959,302	-	-	11,120,166
Due to related entities	-	-	102,463	2,534,520	317,960	(2,954,943)	-
Current portion of long-term debt	-	4,331,626	-	-	-	-	4,331,626
Total current liabilities	3,673,678	39,760,263	480,810	15,627,848	3,282,798	(2,954,943)	59,870,454
Accrued pension and other liabilities	4,622,222	64,875,506	-	9,254,866	-	-	78,752,594
Long-term debt, less current portion	-	38,336,431	-	-	-	-	38,336,431
Reserve for professional liability claims	4,898,560	1,499,371	-	-	-	(1,499,371)	4,898,560
Net assets (deficit):							
Without donor restrictions	235,009,358	149,671,600	48,803,192	(5,415,247)	1,118,737	(193,798,808)	235,388,832
With donor restrictions	25,134,593	20,702,145	-	127,691	492,668	(21,322,504)	25,134,593
Total net assets (deficit)	260,143,951	170,373,745	48,803,192	(5,287,556)	1,611,405	(215,121,312)	260,523,425
Total liabilities and net assets	\$273,338,411	\$314,845,316	\$49,284,002	\$19,595,158	\$ 4,894,203	\$(219,575,626)	\$442,381,464

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

Year Ended September 30, 2020

	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	\$	\$260,471,999	\$	\$ 65,420,476	\$18,676,999	\$	\$344,569,474
Less provision for bad debts	-	(10,363,605)	-	(1,014,125)	4,469	-	(11,373,261)
Net patient service revenues less provision for bad debts	-	250,108,394	-	64,406,351	18,681,468	-	333,196,213
Disproportionate share funding	-	6,591,068	-	-	-	-	6,591,068
Other revenues	13,449,593	11,597,002	6,390,314	12,583,318	1,276,440	(19,818,899)	25,477,768
Net assets released from restrictions used for operations	-	193,074	-	196,633	29,234	-	418,941
Total operating revenues	<u>13,449,593</u>	<u>268,489,538</u>	<u>6,390,314</u>	<u>77,186,302</u>	<u>19,987,142</u>	<u>(19,818,899)</u>	<u>365,683,990</u>
Operating expenses:							
Salaries and benefits	11,176,244	119,504,049	-	83,275,843	16,007,402	(13,390,429)	216,573,109
Supplies and other	2,153,233	103,987,460	3,675,779	29,683,139	4,479,007	(6,428,470)	137,550,148
Depreciation	88,289	11,781,480	3,473,957	1,286,597	98,372	-	16,728,695
New Hampshire Medicaid enhancement tax	-	14,433,658	-	-	-	-	14,433,658
Interest	-	974,764	-	-	-	-	974,764
Total operating expenses	<u>13,417,766</u>	<u>250,681,411</u>	<u>7,149,736</u>	<u>114,245,579</u>	<u>20,584,781</u>	<u>(19,818,899)</u>	<u>386,260,374</u>
(Loss) income from operations	<u>31,827</u>	<u>17,808,127</u>	<u>(759,422)</u>	<u>(37,059,277)</u>	<u>(597,639)</u>	<u>-</u>	<u>(20,576,384)</u>
Nonoperating gains (losses):							
Unrestricted contributions	-	-	-	-	122,266	-	122,266
Investment income and dividends	110,134	957,580	-	3,206	8,110	-	1,079,030
Realized gains on investments, net	192,427	547,418	-	-	-	-	739,845
Unrealized gains on investments, net	2,030,917	10,901,881	-	-	-	-	12,932,798
Impact of interest rate swaps	(4,600)	(2,257,679)	-	-	-	-	(2,257,679)
Contributions to community programs	(10,378,993)	(469,452)	-	-	-	10,378,993	-
Equity in earnings of subsidiaries	-	394,950	-	-	-	-	394,950
Other, net	-	20,938	-	-	-	-	(80,566)
Net periodic pension (cost) gain	(101,504)	10,095,636	-	3,206	130,376	-	12,456,592
Nonoperating gains (losses), net	<u>(8,151,619)</u>	<u>10,095,636</u>	<u>-</u>	<u>3,206</u>	<u>130,376</u>	<u>10,378,993</u>	<u>12,456,592</u>
(Deficiency) excess of revenues and other support and nonoperating gains (losses) over expenses	<u>(8,119,792)</u>	<u>27,903,763</u>	<u>(759,422)</u>	<u>(37,056,071)</u>	<u>(467,263)</u>	<u>10,378,993</u>	<u>(8,119,792)</u>
Transfers between affiliates	-	(38,329,295)	12,425,000	31,829,295	-	(5,925,000)	-
Adjustment to pension liability	(4,738,368)	(4,549,387)	-	-	-	4,549,387	(4,738,368)
Net assets released from restrictions used for operations	(418,941)	(193,074)	-	(196,633)	(29,234)	418,941	(418,941)
Restricted gifts, bequests and contributions	798,463	578,733	-	209,197	6,455	(794,385)	798,463
Increase in market value of beneficial interest in perpetual trust held by others	17,570	-	-	-	17,570	(17,570)	17,570
Total changes in net assets	<u>(12,461,068)</u>	<u>(14,589,260)</u>	<u>11,665,578</u>	<u>(5,214,212)</u>	<u>(472,472)</u>	<u>8,610,366</u>	<u>(12,461,068)</u>
Net assets (deficit) and stockholder's equity at beginning of year	<u>272,605,019</u>	<u>184,963,005</u>	<u>37,137,614</u>	<u>(73,344)</u>	<u>2,083,877</u>	<u>(223,731,678)</u>	<u>272,984,493</u>
Net assets (deficit) and stockholder's equity at end of year	<u>\$260,143,951</u>	<u>\$170,373,745</u>	<u>\$48,803,192</u>	<u>\$ (5,287,556)</u>	<u>\$ 1,611,405</u>	<u>\$(215,121,312)</u>	<u>\$260,523,425</u>

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

September 30, 2019

	<u>ASSETS</u>						
	<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 assets:							
Cash and cash equivalents	\$ 929,842	\$ 23,331,659	\$ 288,564	\$ 1,249,713	\$ 1,761,795	\$ -	\$ 27,561,573
Short-term investments	-	4,397,140	-	-	-	-	4,397,140
Accounts receivable, less allowance for doubtful accounts	-	27,914,696	-	6,118,431	2,309,215	-	36,342,342
Inventories	-	4,482,425	-	-	-	-	4,482,425
Due from related entities	2,368,619	1,081,885	-	-	-	(3,450,504)	-
Prepaid expenses and other current assets	237,615	4,517,053	171,083	1,397,015	62,256	-	6,385,022
Current portion of funds held by trustee under revenue bond and other financing agreements	-	7,101,096	-	-	-	-	7,101,096
Total current assets	3,536,076	72,825,954	459,647	8,765,159	4,133,266	(3,450,504)	86,269,598
Investment in subsidiaries	224,111,152	-	-	-	-	(224,111,152)	-
Investments, limited as to use	38,063,299	148,824,960	-	-	464,068	-	187,352,327
Funds held by trustee for professional liability claims	5,016,714	1,448,968	-	-	-	(1,448,968)	5,016,714
Property, plant and equipment, net	442,358	61,955,464	38,695,315	4,682,895	398,098	379,474	106,553,604
Other assets	<u>13,728,109</u>	<u>816,084</u>	<u>20,026</u>	<u>4,037,499</u>	<u>-</u>	<u>-</u>	<u>18,601,718</u>
Total assets	<u>\$284,897,708</u>	<u>\$285,871,430</u>	<u>\$39,174,988</u>	<u>\$17,485,553</u>	<u>\$ 4,995,432</u>	<u>\$(228,631,150)</u>	<u>\$403,793,961</u>

LIABILITIES AND NET ASSETS

	Exeter Health Resources, Inc.	Exeter Hospital, Inc.	Exeter Med Real, Inc.	Core Physicians, LLC	Rockingham VNA&H	Elimi- nations	Consol- idated
Current liabilities:							
Accounts payable	\$ 1,964,909	\$ 11,405,436	\$ 1,987,984	\$ 2,910,261	\$ 1,265,151	\$ -	\$ 19,533,741
Accrued salaries and payroll taxes	976,149	8,780,048	-	7,390,614	1,333,542	-	18,480,353
Due to third-party payors	-	5,111,975	-	490,337	-	-	5,602,312
Due to related entities	-	-	49,390	3,088,252	312,862	(3,450,504)	-
Current portion of long-term debt	-	<u>4,161,045</u>	-	-	-	-	<u>4,161,045</u>
Total current liabilities	2,941,058	29,458,504	2,037,374	13,879,464	2,911,555	(3,450,504)	47,777,451
Accrued pension and other liabilities	4,453,071	27,363,331	-	3,679,433	-	-	35,495,835
Long-term debt, less current portion	-	42,637,622	-	-	-	-	42,637,622
Reserve for professional liability claims	4,898,560	1,448,968	-	-	-	(1,448,968)	4,898,560
Net assets:							
Without donor restrictions	251,416,726	167,643,054	37,137,614	(188,471)	1,586,003	(205,798,726)	251,796,200
With donor restrictions	<u>21,188,293</u>	<u>17,319,951</u>	<u>-</u>	<u>115,127</u>	<u>497,874</u>	<u>(17,932,952)</u>	<u>21,188,293</u>
Total net assets	<u>272,605,019</u>	<u>184,963,005</u>	<u>37,137,614</u>	<u>(73,344)</u>	<u>2,083,877</u>	<u>(223,731,678)</u>	<u>272,984,493</u>
Total liabilities and net assets	<u>\$284,897,708</u>	<u>\$285,871,430</u>	<u>\$39,174,988</u>	<u>\$17,485,553</u>	<u>\$ 4,995,432</u>	<u>\$(228,631,150)</u>	<u>\$403,793,961</u>

EXETER HEALTH RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

Year Ended September 30, 2019

	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	\$ -	\$276,765,622	\$ -	\$74,252,146	\$19,178,791	\$ -	\$370,196,559
Less provision for bad debts	-	(11,369,405)	-	(1,479,211)	(85,256)	-	(12,933,872)
Net patient service revenues less provision for bad debts	-	265,396,217	-	72,772,935	19,093,535	-	357,262,687
Disproportionate share funding	-	5,193,628	-	-	-	-	5,193,628
Other revenues	13,389,658	2,910,148	5,197,497	8,626,075	12,540	(18,529,103)	11,606,815
Net assets released from restrictions used for operations	-	126,131	-	18,944	8,101	-	153,176
Total operating revenues	<u>13,389,658</u>	<u>273,626,124</u>	<u>5,197,497</u>	<u>81,417,954</u>	<u>19,114,176</u>	<u>(18,529,103)</u>	<u>374,216,306</u>
Operating expenses:							
Salaries and benefits	10,583,038	112,959,879	-	82,408,167	15,028,421	(13,330,233)	207,649,272
Supplies and other	2,890,883	101,113,219	2,941,926	25,767,607	4,903,800	(5,198,870)	132,418,565
Depreciation	110,936	11,359,995	2,825,011	1,127,661	133,608	-	15,557,211
New Hampshire Medicaid enhancement tax	-	13,723,449	-	-	-	-	13,723,449
Interest	-	1,491,004	-	-	-	-	1,491,004
Total operating expenses	<u>13,584,857</u>	<u>240,647,546</u>	<u>5,766,937</u>	<u>109,303,435</u>	<u>20,065,829</u>	<u>(18,529,103)</u>	<u>370,839,501</u>
Income (loss) from operations	<u>(195,199)</u>	<u>32,978,578</u>	<u>(569,440)</u>	<u>(27,885,481)</u>	<u>(951,653)</u>	<u>-</u>	<u>3,376,805</u>
Nonoperating gains (losses):							
Unrestricted contributions	-	4,930,322	-	-	67,869	-	4,998,191
Investment income and dividends	226,139	1,522,525	-	5,650	8,509	-	1,762,823
Realized gains on investments, net	3,377,752	11,996,450	-	-	-	-	15,374,202
Unrealized losses on investments, net	(3,069,143)	(9,567,864)	-	-	-	-	(12,637,007)
Impact of interest rate swaps	-	(3,006,625)	-	-	-	-	(3,006,625)
Contributions to community programs	(4,500)	(1,259,338)	-	-	-	-	(1,263,838)
Equity in earnings of subsidiaries	9,300,777	-	-	-	-	(9,300,777)	-
Other, net	-	831,542	-	-	-	-	831,542
Net periodic pension gain (cost)	(19,766)	199,733	-	-	-	-	179,967
Nonoperating gains (losses), net	<u>9,811,259</u>	<u>5,646,745</u>	<u>-</u>	<u>5,650</u>	<u>76,378</u>	<u>(9,300,777)</u>	<u>6,239,255</u>
Excess (deficiency) of revenues and other support and nonoperating gains (losses) over expenses	9,616,060	38,625,323	(569,440)	(27,879,831)	(875,275)	(9,300,777)	9,616,060
Transfers between affiliates	-	(28,675,636)	7,125,000	27,427,881	-	(5,877,245)	-
Adjustment to pension liability	(16,379,254)	(15,330,745)	-	-	-	15,330,745	(16,379,254)
Net assets released from restrictions used for operations	(153,176)	(126,131)	-	(18,944)	(8,101)	153,176	(153,176)
Restricted gifts, bequests and contributions	595,749	443,194	-	110,072	37,790	(591,056)	595,749
Increase in market value of beneficial interest in perpetual trust held by others	21,625	-	-	-	21,625	(21,625)	21,625
Total changes in net assets	<u>(6,298,996)</u>	<u>(5,063,995)</u>	<u>6,555,560</u>	<u>(360,822)</u>	<u>(823,961)</u>	<u>(306,782)</u>	<u>(6,298,996)</u>
Net assets and stockholder's equity at beginning of year	<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>
Net assets (deficit) and stockholder's equity at end of year	<u>\$272,605,019</u>	<u>\$184,963,005</u>	<u>\$37,137,614</u>	<u>\$ (73,344)</u>	<u>\$ 2,083,877</u>	<u>\$ (223,731,678)</u>	<u>\$272,984,493</u>