

Concord Hospital, Inc. and Subsidiaries

Audited Consolidated Financial Statements

*Years Ended September 30, 2023 and 2022
With Independent Auditors' Report*

Baker Newman & Noyes LLC
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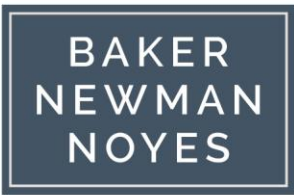
CONCORD HOSPITAL, INC. AND SUBSIDIARIES

Audited Consolidated Financial Statements

Years Ended September 30, 2023 and 2022

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Concord Hospital, Inc. and Subsidiaries

Opinion

We have audited the consolidated financial statements of Concord Hospital, Inc. and Subsidiaries (the System), which comprise the consolidated balance sheets as of September 30, 2023 and 2022, 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 (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the System as of September 30, 2023 and 2022, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the System adopted the provisions of Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, and all subsequent ASUs that modified Topic 842, effective October 1, 2022. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Baker Newman & Noyes LLC

Manchester, New Hampshire
December 8, 2023

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

September 30, 2023 and 2022

ASSETS
(In thousands)

	<u>2023</u>	<u>2022</u>
Current assets:		
Cash and cash equivalents	\$ 79,917	\$ 54,630
Short-term investments	46,394	15,322
Accounts receivable	91,318	110,525
Due from affiliates	1,443	1,099
Supplies	4,744	6,125
Prepaid expenses and other current assets	<u>11,247</u>	<u>12,255</u>
Total current assets	235,063	199,956
Assets whose use is limited or restricted:		
Board designated	388,305	340,058
Funds held by trustee for insurance reserves, escrows and construction funds	34,960	50,118
Donor-restricted funds and restricted grants	<u>44,094</u>	<u>43,514</u>
Total assets whose use is limited or restricted	467,359	433,690
Other noncurrent assets:		
Due from affiliates, net of current portion	467	533
Prepaid pension and other assets	<u>43,662</u>	<u>21,126</u>
Total other noncurrent assets	44,129	21,659
Property and equipment:		
Land and land improvements	8,435	8,359
Buildings	267,179	266,581
Equipment	278,585	260,992
Construction in progress	<u>10,620</u>	<u>11,807</u>
	564,819	547,739
Less accumulated depreciation	<u>(363,709)</u>	<u>(344,416)</u>
Net property and equipment	201,110	203,323
Operating lease right-of-use assets	<u>26,252</u>	<u>—</u>
	<u>\$ 973,913</u>	<u>\$ 858,628</u>

LIABILITIES AND NET ASSETS

(In thousands)

	<u>2023</u>	<u>2022</u>
Current liabilities:		
Accounts payable and accrued expenses	\$ 49,982	\$ 50,361
Accrued compensation and related expenses	46,827	49,107
Accrual for estimated third-party payor settlements	68,589	62,608
Current portion of long-term debt	6,144	4,147
Current portion of operating lease liabilities	<u>5,406</u>	<u>—</u>
Total current liabilities	176,948	166,223
Long-term debt, net of current portion	145,525	152,609
Operating lease liabilities, less current portion	21,091	—
Reserve for insurance	20,759	23,601
Accrued pension and other long-term liabilities	<u>18,278</u>	<u>26,490</u>
Total liabilities	382,601	368,923
Net assets:		
Without donor restrictions	544,486	443,500
With donor restrictions	<u>44,094</u>	<u>43,514</u>
Total Concord Hospital net assets	588,580	487,014
Noncontrolling interest in consolidated subsidiary	<u>2,732</u>	<u>2,691</u>
Total net assets	591,312	489,705
	<u>—————</u>	<u>—————</u>
	<u>\$ 973,913</u>	<u>\$ 858,628</u>

See accompanying notes.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF OPERATIONS**

Years Ended September 30, 2023 and 2022

(In thousands)

	<u>2023</u>	<u>2022</u>
Revenue and other support without donor restrictions:		
Patient service revenue	\$705,758	\$709,396
Other revenue	29,373	39,781
Disproportionate share revenue	30,212	29,744
Net assets released from restrictions for operations	<u>5,105</u>	<u>1,889</u>
Total revenue and other support without donor restrictions	770,448	780,810
Operating expenses:		
Salaries and wages	377,209	380,846
Employee benefits	81,591	92,363
Supplies and other	152,635	156,674
Purchased services	57,796	51,392
Professional fees	17,021	16,498
Depreciation and amortization	27,291	28,953
Medicaid enhancement tax	32,647	32,035
Interest	<u>4,275</u>	<u>4,568</u>
Total operating expenses	<u>750,465</u>	<u>763,329</u>
Income from operations	19,983	17,481
Nonoperating income (loss):		
Gifts and bequests without donor restrictions	346	261
Investment income (loss) and other	49,961	(48,917)
Other nonoperating expense	(856)	(856)
Net periodic benefit gain, other than service cost	<u>4,733</u>	<u>1,321</u>
Total nonoperating income (loss)	<u>54,184</u>	<u>(48,191)</u>
Consolidated excess (deficiency) of revenues and nonoperating income (loss) over expenses	74,167	(30,710)
Excess of revenues and nonoperating income (loss) over expenses attributable to noncontrolling interest in consolidated subsidiary	<u>(181)</u>	<u>(227)</u>
Excess (deficiency) of revenues and nonoperating income (loss) over expenses attributable to the System	<u>\$ 73,986</u>	<u>\$ (30,937)</u>

See accompanying notes.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years Ended September 30, 2023 and 2022

(In thousands)

	<u>2023</u>	<u>2022</u>
System net assets without donor restrictions:		
Excess (deficiency) of revenues and nonoperating income (loss) over expenses attributable to the System	\$ 73,986	\$ (30,937)
Net transfers from affiliates	97	343
Other changes	(339)	–
Net assets released from restrictions used for purchases of property and equipment	753	1,886
Pension adjustment	<u>26,489</u>	<u>(5,502)</u>
Increase (decrease) in System net assets without donor restrictions	100,986	(34,210)
System net assets with donor restrictions:		
Contributions and pledges with donor restrictions	2,704	5,057
Net investment gain (loss)	3,664	(3,923)
Contributions to affiliates and other community organizations	(302)	(243)
Unrealized gains (losses) on trusts administered by others	372	(2,505)
Net assets released from restrictions for operations	(5,105)	(1,889)
Net assets released from restrictions used for purchases of property and equipment	<u>(753)</u>	<u>(1,886)</u>
Increase (decrease) in System net assets with donor restrictions	<u>580</u>	<u>(5,389)</u>
Increase (decrease) in System net assets	101,566	(39,599)
Noncontrolling interest in consolidated subsidiary:		
Distributions to noncontrolling interest in consolidated subsidiary	(140)	(270)
Excess of revenues and nonoperating income (loss) over expenses attributable to noncontrolling interest in consolidated subsidiary	<u>181</u>	<u>227</u>
Increase (decrease) in noncontrolling interest in consolidated subsidiary	<u>41</u>	<u>(43)</u>
Increase (decrease) in total net assets	101,607	(39,642)
Net assets, beginning of year	<u>489,705</u>	<u>529,347</u>
Net assets, end of year	<u>\$591,312</u>	<u>\$489,705</u>

See accompanying notes.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended September 30, 2023 and 2022
(In thousands)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Increase (decrease) in total net assets	\$ 101,607	\$ (39,642)
Adjustments to reconcile increase (decrease) in total net assets to net cash provided (used) by operating activities:		
Contributions and pledges with donor restrictions	(2,704)	(5,057)
Depreciation and amortization	27,291	28,953
Net realized and unrealized (gains) losses on investments	(46,446)	63,991
Bond premium and issuance cost amortization	(940)	(968)
Equity in earnings of affiliates, net	(5,012)	(4,893)
Distributions to noncontrolling interest in consolidated subsidiary	140	270
Loss on disposal of property and equipment	—	(270)
Pension adjustment	(26,489)	5,502
Noncash lease expense	245	—
Changes in operating assets and liabilities:		
Accounts receivable	19,207	(15,805)
Supplies, prepaid expenses and other current assets	2,389	(1,149)
Prepaid pension and other assets	1,900	(4,022)
Due from affiliates	(278)	14
Accounts payable and accrued expenses	(379)	3,289
Accrued compensation and related expenses	(2,280)	5,125
Accrual for estimated third-party payor settlements	5,981	(33,795)
Accrued pension and other long-term liabilities	(5,665)	(19,403)
Reserve for insurance	<u>(2,842)</u>	<u>(5,331)</u>
Net cash provided (used) by operating activities	65,725	(23,191)
Cash flows from investing activities:		
Purchases of property and equipment	(25,078)	(22,032)
Proceeds from sale of property and equipment	—	11,362
Purchases of investments	(99,562)	(23,369)
Proceeds from sales of investments	81,450	67,838
Equity distributions from affiliates	<u>4,518</u>	<u>4,445</u>
Net cash (used) provided by investing activities	(38,672)	38,244
Cash flows from financing activities:		
Payments on long-term debt	(4,147)	(3,020)
Bond issuance costs	—	(26)
Distributions to noncontrolling interest in consolidated subsidiary	(140)	(270)
Contributions and pledges with donor restrictions	<u>2,521</u>	<u>5,171</u>
Net cash (used) provided by financing activities	<u>(1,766)</u>	<u>1,855</u>
Net increase in cash and cash equivalents	25,287	16,908
Cash and cash equivalents at beginning of year	<u>54,630</u>	<u>37,722</u>
Cash and cash equivalents at end of year	<u>\$ 79,917</u>	<u>\$ 54,630</u>

Supplemental disclosure of noncash transactions:
See Note 16 with respect to certain noncash activities related to leases.

See accompanying notes.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2023 and 2022

(In thousands)

1. Description of Organization and Summary of Significant Accounting Policies

Organization

Concord Hospital, Inc. (the Hospital), located in Concord, New Hampshire, is a not-for-profit acute care hospital. The Hospital provides inpatient, outpatient, emergency care and physician services for residents within its geographic region. Admitting physicians are primarily practitioners in the local area. The Hospital is controlled by Capital Region Health Care Corporation (CRHC).

In 1985, the then Concord Hospital underwent a corporate reorganization in which it was renamed and became CRHC. At the same time, the Hospital was formed as a new entity. All assets and liabilities of the former hospital, now CRHC, with the exception of its endowments and restricted funds, were conveyed to the new entity. The endowments were held by CRHC for the benefit of the Hospital, which is the true party in interest. Effective October 1, 1999, CRHC transferred these funds to the Hospital.

In March 2009, the Hospital created The Concord Hospital Trust (the Trust), a separately incorporated, not-for-profit organization to serve as the Hospital's philanthropic arm. In establishing the Trust, the Hospital transferred philanthropic funds with donor restrictions, including board designated funds, endowments, indigent care funds and specific purpose funds, to the newly formed organization together with the stewardship responsibility to direct monies available to support the Hospital's charitable mission and reflect the specific intentions of the donors who made these gifts.

Subsidiaries of the Hospital are as follows:

Capital Region Health Care Development Corporation (CRHCDC) is a not-for-profit real estate corporation that owns and operates medical office buildings and other properties.

Capital Region Health Ventures Corporation (CRHVC) is a not-for-profit corporation that engages in health care delivery partnerships and joint ventures. It operates ambulatory surgery and diagnostic facilities independently and in cooperation with other entities.

NH Cares ACO, LLC (NHC) and Concord Hospital ACO (CH-ACO) are both single member limited liability companies that engage in providing medical services to Medicare beneficiaries as accountable care organizations. NHC has a perpetual life and is subject to termination in certain events. During 2022, NHC was transferred to an unrelated entity for no consideration and the Hospital formed CH-ACO, which operates in a manner consistent with NHC and had minimal activity during fiscal years 2022 and 2023.

Concord Hospital – Laconia (CH-Laconia) is a not-for-profit corporation formed to operate a licensed hospital providing inpatient, outpatient, emergency care and physician services for residents within its geographic region of Laconia, New Hampshire. The CH-Laconia facility includes 137 acute care beds and was designated a Rural Referral Center in 1986, and a Sole Community Hospital in 2009. Admitting physicians are primarily practitioners in the local area.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2023 and 2022

(In thousands)

1. Description of Organization and Summary of Significant Accounting Policies (Continued)

Concord Hospital – Franklin (CH-Franklin) is a not-for-profit corporation formed to operate a licensed hospital providing inpatient, outpatient, emergency care and physician services for residents within its geographic region of Franklin, New Hampshire. The CH-Franklin facility was designated a Critical Access Hospital effective July 1, 2004, and includes 25 acute care beds. CH-Franklin also operates a 10 bed designated psychiatric receiving facility. Admitting physicians are primarily practitioners in the local area.

Granite Shield Insurance Exchange and Subsidiaries (GSIE) was formed on December 20, 2010, in the State of Vermont as an industrial insured reciprocal insurance entity and unincorporated association. GSIE commenced underwriting activities on January 1, 2011. GSIE was formed to provide healthcare professional liability, general liability and medical stop loss insurance to its subscribers through GSI Services, LLC (GSI), the attorney-in-fact. GSI was formed in the State of Vermont as a limited liability company on December 14, 2010, and acts as an agent to enable the subscribers of GSIE to exchange insurance contracts. Through December 31, 2020, GSI was equally controlled by each of the subscribers of GSIE, all of which were health systems located in the State of New Hampshire, inclusive of the Hospital. Effective January 1, 2021, the Hospital became the sole voting member of GSIE, resulting in all activity of GSIE being recorded within the accompanying consolidated financial statements.

GSIE discontinued writing coverages effective October 1, 2022, and its current operations consist of runoff claims for a previously withdrawn subscriber, as well as the current subscriber, CRHC.

Concord Hospital Insurance Group, LLC (CHIG) is a Vermont domiciled single parent captive entity and operates in a manner and conducts activities similar to GSIE, as described above. CHIG began operations in late 2022. GSIE entered into a loss portfolio transfer agreement with CHIG in September 2022, whereas GSIE would transfer all of its existing and future claims to CHIG, with the exception of acts prior to CRHC. This transfer was completed prior to September 30, 2023.

Concord Endoscopy Center, LLC (CEC) is a New Hampshire limited liability company that engages in providing gastrointestinal services, including the diagnosis and treatment of digestive and liver diseases. CEC has a perpetual life and is subject to termination in certain events. CRHVC holds a majority interest and control of CEC.

Capital Region Healthcare Services Corporation (CRHSC) is a for-profit provider of health care services, including an eye surgery center and assisted living facility. CRHSC became a subsidiary of the Hospital effective October 1, 2022.

The Hospital, its subsidiaries and the Trust are collectively referred to as the System. The consolidated financial statements include the accounts of the Hospital, the Trust, CRHCDC, CRHVC, NHC, CH-ACO, CH-Laconia, CH-Franklin, GSIE, CHIG, CEC and CRHSC. All significant intercompany balances and transactions have been eliminated in consolidation. The Hospital, the Trust, CH-Laconia and CH-Franklin constitute the Obligated Group at September 30, 2023 and 2022 to certain debt described in Note 7.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2023 and 2022

(In thousands)

1. **Description of Organization and Summary of Significant Accounting Policies (Continued)**

Principles of Consolidation

Noncontrolling interests in less-than-wholly-owned consolidated subsidiaries of the System are presented as a component of total net assets to distinguish between the interests of the System and the interests of the noncontrolling owners. Revenues, expenses and nonoperating income (loss) from these subsidiaries are included in the consolidated amounts presented on the consolidated statements of operations. Excess (deficiency) of revenues and nonoperating income (loss) over expenses attributable to the System separately presents the amounts attributable to the controlling interest.

Noncontrolling Interests

Noncontrolling interests represent the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. The System's accompanying consolidated financial statements include all assets, liabilities, revenues and expenses at their consolidated amounts, which include the amounts attributable to the System and the noncontrolling interest. The System recognizes as a separate component of net assets and earnings the portion of income or loss attributable to noncontrolling interests based on the portion of the entity not owned by the System.

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. Actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments which subject the System to credit risk consist primarily of cash equivalents, accounts receivable and investments. The risk with respect to cash equivalents is minimized by the System's policy of investing in financial instruments with short-term maturities issued by highly rated financial institutions. The System's accounts receivable are primarily due from third-party payors and amounts are presented net of expected explicit and implicit price concessions, including estimated implicit price concessions from uninsured patients. The System's investment portfolio consists of diversified investments, which are subject to market risk. The System's investment in one fund, the Vanguard Institutional Index Fund, exceeded 10% of total System investments as of September 30, 2023 and 2022.

Cash and Cash Equivalents

Cash and cash equivalents include money market funds with original maturities of three months or less, excluding assets whose use is limited or restricted. The System maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The System has not experienced any losses on such accounts.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2023 and 2022

(In thousands)

1. **Description of Organization and Summary of Significant Accounting Policies (Continued)**

Supplies

Supplies are carried at the lower of cost, determined on a weighted-average method, or net realizable value.

Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted include assets held by trustees for insurance reserves, escrows, construction funds, designated assets set aside by the Board of Trustees (over which the Board retains control and may, at its discretion, subsequently use for other purposes), and donor-restricted investments.

Investments and Investment Income (Loss)

Investments are carried at fair value in the accompanying consolidated balance sheets. Investment income (loss) (including realized gains and losses on investments, interest and dividends) and the net change in unrealized gains and losses on investments are included in the excess (deficiency) of revenues and nonoperating income (loss) over expenses in the accompanying consolidated statements of operations, unless the income or loss is restricted by donor or law.

Beneficial Interest in Perpetual Trusts

The System has an irrevocable right to receive income earned on certain trust assets established for its benefit. Distributions received by the System are without donor restrictions. The System's interest in the fair value of the trust assets is included in assets whose use is limited or restricted and as net assets with donor restrictions. Changes in the fair value of beneficial trust assets are reported as increases or decreases to net assets with donor restrictions.

Investment Policies

The System's investment policies provide guidance for the prudent and skillful management of invested assets with the objective of preserving capital and maximizing returns. The invested assets include endowment, specific purpose and board designated funds.

Endowment funds are identified as perpetual in nature, intended to provide support for current or future operations and other purposes identified by the donor. These funds are managed with disciplined longer-term investment objectives and strategies designed to accommodate relevant, reasonable, or probable events.

Specific purpose funds are temporary in nature, restricted as to time or purpose as identified by the donor or grantor. These funds have various intermediate/long-term time horizons associated with specific identified spending objectives.

Board designated funds have various intermediate/long-term time horizons associated with specific spending objectives as determined by the Board of Trustees.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2023 and 2022

(In thousands)

1. **Description of Organization and Summary of Significant Accounting Policies (Continued)**

Management of these assets is designed to increase, with minimum risk, the inflation adjusted principal and income of the endowment funds over the long term. The System targets a diversified asset allocation that places emphasis on achieving its long-term return objectives within prudent risk constraints.

Spending Policy for Appropriation of Assets for Expenditure

In accordance with the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA), the System 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.

Spending policies may be adopted by the System, from time to time, to provide a stream of funding for the support of key programs. The spending policies are structured in a manner to ensure that the purchasing power of the assets is maintained while providing the desired level of annual funding to the programs. The System has a current spending policy on various funds currently equivalent to 5% of twelve-quarter moving average of the funds' total market value.

Accounts Receivable

Patient accounts receivable for which the unconditional right to payment exists are receivables if the right to consideration is unconditional and only the passage of time is required before payment of that consideration is due. Accounts receivable at September 30, 2023 and 2022 reflect the fact that any estimated uncollectible amounts are generally considered implicit price concessions that are a direct reduction to accounts receivable rather than allowance for doubtful accounts. At September 30, 2023 and 2022, estimated implicit price concessions of \$26,391 and \$29,203, respectively, had been recorded as reductions to accounts receivable balances to enable the System to record revenues and accounts receivable at the estimated amounts expected to be collected.

Accounts receivable as of September 30, 2023, 2022 and 2021 are \$91,318, \$110,525 and \$94,720, respectively.

Property and Equipment

Property and equipment is stated at cost at time of purchase, or at fair value at time of donation for assets contributed, less any reductions in carrying value for impairment and less accumulated depreciation. The System's policy is to capitalize expenditures for major improvements and charge maintenance and repairs currently for expenditures which do not extend the lives of the related assets. Depreciation is computed using the straight-line method in a manner intended to amortize the cost of the related assets over their estimated useful lives. For the years ended September 30, 2023 and 2022, depreciation expense was \$27,291 and \$28,953, respectively.

The System has also capitalized certain costs associated with property and equipment not yet in service. Construction in progress includes amounts incurred related to major construction projects, other renovations, and other capital equipment purchased but not yet placed in service. There was no interest expense capitalized during 2023 or 2022.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2023 and 2022

(In thousands)

1. Description of Organization and Summary of Significant Accounting Policies (Continued)

Gifts of long-lived assets such as land, buildings or equipment are reported as support without donor restrictions, and are excluded from the excess (deficiency) of revenues and nonoperating income (loss) over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Intangible Assets

The System reviews its intangible and other long-lived assets annually to determine whether the carrying amount of such assets is impaired. Upon determination that an impairment has occurred, these assets are reduced to fair value. There were no impairments recorded for the years ended September 30, 2023 or 2022.

Intangible assets are included within other noncurrent assets in the accompanying consolidated balance sheets at cost less accumulated amortization. Amortizable intangible assets consist of the following at September 30:

	<u>2023</u>	<u>2022</u>
Cost	\$ 8,556	\$ 8,556
Accumulated amortization	<u>(2,140)</u>	<u>(1,284)</u>
Amortizable intangible assets, net	<u>\$ 6,416</u>	<u>\$ 7,272</u>

Amortization expense was \$856 during the years ended September 30, 2023 and 2022 and is recorded within other nonoperating expense in the accompanying consolidated statements of operations.

Expected amortization of intangible assets through their useful lives is as follows:

2024	\$ 856
2025	856
2026	856
2027	856
2028	856
Thereafter	<u>2,136</u>
	<u>\$ 6,416</u>

Federal Grant Revenue and Expenditures

Revenues and expenses under federal grant programs are recognized as the grant expenditures are incurred.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2023 and 2022

(In thousands)

1. Description of Organization and Summary of Significant Accounting Policies (Continued)

Bond Issuance Costs/Original Issue Discount or Premium

Bond issuance costs incurred to obtain financing for construction and renovation projects and the original issue discount or premium are amortized to interest expense using the straight-line method, which approximates the effective interest method, over the life of the respective bonds. The original issue discount or premium and bond issuance costs are presented as a component of bonds payable.

Charity Care

The System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates (Note 12). Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The System uses an industry standard approach in calculating the costs associated with providing charity care. Funds received from gifts and grants to subsidize charity services provided for the years ended September 30, 2023 and 2022 were approximately \$130 and \$133, respectively.

Net Assets With Donor Restrictions

Gifts are reported as restricted support if they are received with donor stipulations that limit the use of donated assets. Donated investments, supplies and equipment are reported at fair value at the date of receipt. Unconditional promises to give cash and other assets are reported at fair value at the date of receipt of the promise. 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 statement of operations as either net assets released from restrictions for operations (for noncapital related items) or as net assets released from restrictions used for purchases of property and equipment (capital related items). Some net assets with donor restrictions have been restricted by donors to be maintained by the System in perpetuity.

Patient Service Revenue

Revenues generally relate to contracts with patients in which the System's performance obligations are to provide health care services to patients. Revenues are recorded during the period obligations to provide health care services are satisfied. Performance obligations for inpatient services are generally satisfied over a period of days. Performance obligations for outpatient services are generally satisfied over a period of less than one day. The contractual relationships with patients, in most cases, also involve a third-party payor (Medicare, Medicaid, managed care health plans and commercial insurance companies, including plans offered through the health insurance exchanges) and the transaction prices for the services provided are dependent upon the terms provided by Medicare and Medicaid or negotiated with managed care health plans and commercial insurance companies, the third-party payors. The payment arrangements with third-party payors for the services provided to related patients typically specify payments at amounts less than standard charges. Medicare generally pays for inpatient and outpatient services at prospectively determined rates based on clinical, diagnostic and other factors. Services provided to patients having Medicaid coverage are generally paid at prospectively determined rates per discharge, per identified service or per covered member. Agreements with commercial insurance carriers, managed care and preferred provider organizations generally provide for payments based upon predetermined rates per diagnosis, per diem rates or discounted fee-for-service rates. Management continually reviews the revenue recognition process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms resulting from contract renegotiations and renewals.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2023 and 2022

(In thousands)

1. **Description of Organization and Summary of Significant Accounting Policies (Continued)**

The collection of outstanding receivables for Medicare, Medicaid, managed care payers, other third-party payors and patients is the System's primary source of cash and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts, including patient accounts for which the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient responsibility amounts (deductibles and copayments) remain outstanding. Implicit price concessions relate primarily to amounts due directly from patients. Estimated implicit price concessions are recorded for all uninsured accounts, regardless of the aging of those accounts. Accounts are written off when all reasonable internal and external collection efforts have been performed. The estimates for implicit price concessions are based upon management's assessment of historical write-offs and expected net collections, business and economic conditions, trends in federal, state and private employer health care coverage and other collection indicators. Management relies on the results of detailed reviews of historical write-offs and collections at facilities that represent a majority of hospital revenues and accounts receivable (the "hindsight analysis") as a primary source of information in estimating the collectability of accounts receivable. Management performs the hindsight analysis regularly, utilizing rolling twelve-months accounts receivable collection and write-off data. Management believes its regular updates to the estimated implicit price concession amounts provide reasonable estimates of revenues and valuations of accounts receivable. These routine, regular changes in estimates have not resulted in material adjustments to the valuations of accounts receivable or period-to-period comparisons of operations.

The System 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. Differences between amounts previously estimated and amounts subsequently determined to be recoverable or payable are included in patient service revenues in the year that such amounts become known. For the years ended September 30, 2023 and 2022, patient service revenue in the accompanying consolidated statements of operations increased by approximately \$4,700 and \$5,100, respectively, due to actual settlements and changes in assumptions underlying estimated future third-party settlements.

Revenues from the Medicare and Medicaid programs accounted for approximately 40% and 5% and 39% and 6% of the System's patient service revenue for the years ended September 30, 2023 and 2022, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation.

Excess (Deficiency) of Revenues and Nonoperating Income (Loss) Over Expenses

The System has deemed all activities as ongoing, major or central to the provision of health care services and, accordingly, they are reported as operating revenue and expenses, except for contributions and pledges without donor restrictions, the related philanthropy expenses and investment income which are recorded as nonoperating income (loss).

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2023 and 2022

(In thousands)

1. **Description of Organization and Summary of Significant Accounting Policies (Continued)**

The consolidated statements of operations also include excess (deficiency) of revenues and nonoperating income (loss) over expenses. Changes in net assets without donor restrictions which are excluded from excess (deficiency) of revenues and nonoperating income (loss) over expenses, consistent with industry practice, include the permanent transfers of assets to and from affiliates for other than goods and services, pension adjustments and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Estimated Workers' Compensation, Malpractice and Health Care Claims

The provision for estimated workers' compensation, malpractice and health care claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Functional Expense Allocation

The costs of providing program services and other activities have been summarized on a functional basis in Note 11. Accordingly, costs have been allocated among program services and supporting services benefitted.

Income Taxes

The Hospital, CH-Laconia, CH-Franklin, CRHCDC, CRHVC, and the Trust are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code, and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. NHC was organized as a single member limited liability company and has elected to be treated as a disregarded entity for federal and state income tax reporting purposes. Accordingly, all income or losses and applicable tax credits are reported on the member's income tax returns, with the exception of taxes due to the State of New Hampshire. Management evaluated the System's tax positions and concluded the System has maintained its tax-exempt status, does not have any significant unrelated business income and had taken no uncertain tax positions that require adjustment to or disclosure in the accompanying consolidated financial statements. GSIE, CHIG, NHC, CH-ACO, CEC and CRHSC account for income taxes in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*. FASB ASC 740 is an asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the tax and financial reporting basis of certain assets and liabilities. Resulting income tax expense and the temporary differences between the tax and financial reporting basis are not material.

Advertising Costs

The System expenses advertising costs as incurred, and such costs totaled \$247 and \$168 for the years ended September 30, 2023 and 2022, respectively.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2023 and 2022

(In thousands)

1. **Description of Organization and Summary of Significant Accounting Policies (Continued)**

Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases*. The standard, including subsequently issued amendments, collectively referred to as Accounting Standards Codification (ASC) 842, *Leases*, established the principles that lessees and lessors will apply to report useful information to users of financial statements about the amount, timing and uncertainty of cash flows arising from a lease. ASC 842 did not have a significant impact on lessor accounting. The System adopted this standard using the modified retrospective transition approach as applied to leases existing as of or entered into after the adoption date (October 1, 2022) in fiscal year 2023. See Note 16 for a discussion of the System's adoption of this standard and its impact on the consolidated financial statements and related disclosures.

At the inception of an arrangement, the System determines whether the arrangement is, or contains, a lease based on the unique facts and circumstances present in the arrangement. A lease is a contract, or part of a contract, that conveys the right to control the use of identified property or equipment (an identified asset) for a period of time in exchange for consideration. The System determines if the contract conveys the right to control the use of an identified asset for a period of time. The System assesses throughout the period of use whether the System has both of the following: (1) the right to obtain substantially all of the economic benefits from use of the identified asset, and (2) the right to direct the use of the identified asset. This determination is reassessed if the terms of the contract are changed.

Leases are classified as operating or finance leases based on the terms of the lease agreement and certain characteristics of the identified asset. Leases with a term greater than one year are recognized on the balance sheet as right-of-use assets and lease obligations, as applicable.

The interest rate implicit in lease contracts is typically not readily determinable. As a result, the System has elected to utilize a risk-free rate as the rate to discount lease payments.

Lease liabilities are initially recorded based on the present value of lease payments over the expected remaining lease term. Lease payments are comprised of fixed and in-substance fixed contract consideration. The System has made a policy election not to separate lease components, nonlease components, and noncomponents. The right-of-use asset is based on the lease liability, adjusted for certain items such as lease prepayments or lease incentives received. Finance lease assets are amortized on a straight-line basis, with interest costs reported separately, over the lesser of the useful life of the leased asset or lease term. Operating lease expense is recognized on a straight-line basis. Variable lease payments are expensed as incurred.

The System assesses at the commencement of a lease any options to extend or terminate the lease agreement, and will include in the lease term any extensions or renewals which it determines it is reasonably certain to exercise. Assumptions made at the lease commencement date are re-evaluated upon the occurrence of certain events, including a lease modification. A lease modification results in a separate contract when the modification grants the lessee an additional right-of-use not included in the original lease and when lease payments increase commensurate with the standalone price for the additional right-of-use. When a lease modification results in a separate contract, it is accounted for in the same manner as a new lease.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2023 and 2022

(In thousands)

1. **Description of Organization and Summary of Significant Accounting Policies (Continued)**

Risks and Uncertainties

On March 11, 2020, the World Health Organization declared the outbreak of coronavirus (COVID-19) a pandemic. The COVID-19 pandemic has significantly affected employees, patients, systems, communities and business operations, as well as the U.S. economy and financial markets. Since the declaration of the pandemic, the System has received approximately \$57,885 of accelerated Medicare payments (see Note 6), approximately \$30,668 related to the *Coronavirus Aid, Relief and Economic Security Act* (CARES Act) Provider Relief Funds (PRF) and approximately \$8,800 in rural payments related to the *American Rescue Plan Act* (ARPA). Distributions from the PRF and ARPA are not subject to repayment, provided the System 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 PRF and ARPA and the impact of the pandemic on operating results through September 30, 2022, the System recognized approximately \$10,000 related to PRF and ARPA, and these payments were recorded within other revenue in the accompanying consolidated statements of operations for the year ended September 30, 2022. No amounts related to PRF or ARPA were recognized within other revenues during the year ended September 30, 2023. The remaining funds were recognized within other revenues during previous years.

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 to be deferred until December 2021, and the remaining half until December 2022. At September 30, 2022, the System had deferred balances of payroll taxes totaling \$4,646 which were recorded within accrued compensation and related expenses on the accompanying 2022 consolidated balance sheet. Amounts were fully repaid during the year ended September 30, 2023.

The System will continue to monitor compliance with the terms and conditions of the PRF, ARPA and other potential assistance programs and available grants, and the impact of the pandemic on revenues and expenses. If the System is unable to attest to or comply with current or future terms and conditions, the System's ability to retain some or all of the distributions received may be impacted.

Reclassifications

Certain 2022 amounts have been reclassified to permit comparison with the 2023 consolidated financial statements presentation format.

Subsequent Events

Management of the System evaluated events occurring between the end of the System's fiscal year and December 8, 2023, the date the consolidated financial statements were available to be issued.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2023 and 2022

(In thousands)

2. Transactions With Affiliates

The System provides funds to CRHC and its affiliates which are used for a variety of purposes. The System records the transfer of funds to CRHC and the other affiliates as either receivables or directly against net assets, depending on the intended use and repayment requirements of the funds. Generally, funds transferred for start-up costs of new ventures or capital related expenditures are recorded as charges against net assets. For the years ended September 30, 2023 and 2022, transfers received from affiliates were \$97 and \$343, respectively.

Amounts due the System, primarily from joint ventures, totaled \$1,910 and \$1,632 at September 30, 2023 and 2022, respectively. Amounts have been classified as current or long-term depending on the intentions of the parties involved. Beginning in 1999, the Hospital began charging interest on a portion of the receivables (\$467 and \$533 at September 30, 2023 and 2022, respectively) with principal and interest (6.75% at September 30, 2023) payments due monthly. Interest income amounted to \$34 and \$52 for the years ended September 30, 2023 and 2022, respectively.

A brief description of CRHC's affiliated entities is as follows:

- Granite VNA (formerly Concord Regional Visiting Nurse Association, Inc. and Subsidiary) provides home health care services.
- Riverbend Community Mental Health, Inc. provides behavioral health services.

Contributions to affiliates and other community organizations from net assets with donor restrictions were \$302 and \$243 in 2023 and 2022, respectively.

3. Financial Assets and Liquidity Resources

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, consisted of the following at September 30, 2023:

Cash and cash equivalents	\$ 79,917
Short-term investments	46,394
Accounts receivable	91,318
Funds held by trustee for insurance reserves, debt service and construction costs	<u>18,380</u>
	<u>\$236,009</u>

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2023 and 2022

(In thousands)

3. Financial Assets and Liquidity Resources (Continued)

To manage liquidity, the System maintains sufficient cash and cash equivalent balances to support daily operations throughout the year. Cash and cash equivalents and short-term investments include bank deposits, money market funds, and other similar vehicles that generate a return on cash and provide daily liquidity to the System. In addition, the System 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, 2023, the balance of liquid investments in board-designated assets was \$343,827.

4. Investments and Assets Whose Use is Limited or Restricted

Short-term investments totaling \$46,394 and \$15,322 at September 30, 2023 and 2022, respectively, are comprised primarily of cash and cash equivalents. Assets whose use is limited or restricted are carried at fair value and consist of the following at September 30:

	<u>2023</u>	<u>2022</u>
Board designated funds:		
Cash and cash equivalents	\$ 25,295	\$ 2,771
Fixed income securities	22,124	21,839
Marketable equity and other securities	326,500	301,116
Inflation-protected securities	<u>14,386</u>	<u>14,332</u>
	388,305	340,058
Held by trustee for workers' compensation reserves:		
Fixed income securities	2,967	2,501
Self-insurance escrows and construction funds:		
Cash and cash equivalents	1,255	8,648
Fixed income securities	13,357	24,074
Marketable equity securities	<u>17,381</u>	<u>14,895</u>
	31,993	47,617
Donor-restricted funds and restricted grants:		
Cash and cash equivalents	5,857	7,553
Fixed income securities	1,372	1,606
Marketable equity securities	24,965	23,091
Inflation-protected securities	1,100	1,020
Trust funds administered by others	10,208	9,836
Other	<u>592</u>	<u>408</u>
	<u>44,094</u>	<u>43,514</u>
	<u>\$467,359</u>	<u>\$433,690</u>

Included in marketable equity and other securities above are \$205,295 and \$203,040 at September 30, 2023 and 2022, respectively, in so called alternative investments and collective trust funds. See also Note 15.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2023 and 2022

(In thousands)

4. Investments and Assets Whose Use is Limited or Restricted (Continued)

Investment income (loss), net realized gains and losses and net unrealized gains and losses on assets whose use is limited or restricted, cash and cash equivalents, and other investments are as follows at September 30:

	<u>2023</u>	<u>2022</u>
Net assets without donor restrictions:		
Interest and dividends	\$ 7,904	\$ 7,099
Investment income from trust funds administered by others	541	599
Net realized gains on sales of investments	5,383	4,079
Net unrealized gains (losses) on investments	<u>37,459</u>	<u>(61,177)</u>
	51,287	(49,400)
 Net assets with donor restrictions:		
Interest and dividends	432	465
Net realized gains on sales of investments	395	608
Net unrealized gains (losses) on investments	<u>3,209</u>	<u>(7,501)</u>
	<u>4,036</u>	<u>(6,428)</u>
	 <u>\$55,323</u>	 <u>\$ (55,828)</u>

In compliance with the System's spending policy, portions of investment income and related fees are recognized in other operating revenue on the accompanying consolidated statements of operations. Investment income reflected in other operating revenue was \$1,767 and \$2,300 in 2023 and 2022, respectively.

Investment management fees expensed and reflected in investment income (loss) and other were \$857 and \$922 for the years ended September 30, 2023 and 2022, respectively.

5. Retirement Plans

The System sponsors a defined contribution plan qualified under Section 403(b) of the U.S. Internal Revenue Code (IRC) covering eligible employees of the System. Participants are allowed to make pre-tax or post-tax Roth 403(b) contributions, or a combination of the two. The System does not make matching contributions. Effective January 1, 2024, the System elected to amend this plan to institute employer nonelective and matching contributions, based on certain eligibility requirements, as well as implementing an automatic deferral arrangement equal to 3% of eligible compensation, as further defined in the amendment.

The System sponsors two noncontributory defined benefit retirement plans (the Retirement Plan for Employees of Concord Hospital (CH Plan) and the Retirement Plan for Employees of Concord Hospital – Laconia (CH-Laconia Plan)), (collectively, the Plans), which cover substantially all employees of the System. The Plans provide benefits based on an employee's years of service, age and compensation over those years. The System's funding policy for the plans is to contribute annually the amount needed to meet or exceed actuarially determined minimum funding requirements of the *Employee Retirement Income Security Act of 1974* (ERISA).

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2023 and 2022

(In thousands)

5. Retirement Plans (Continued)

The System accounts for its defined benefit pension plans under ASC 715, *Compensation Retirement Benefits*, which requires entities to recognize an asset or liability for the overfunded or underfunded status of their benefit plans in their financial statements.

On September 26, 2022, the Plans were amended to offer certain participants age 62 and older the option to receive a lump-sum distribution as payment for grandfathered benefits. The eligible participants had 180 days to elect this benefit, beginning October 1, 2022.

During fiscal year 2022, the CH-Laconia Plan incurred a settlement charge due to lump sums paid in excess of the settlement threshold for the Plan year. The settlement charge totaled \$450 and is reflected as a component of net periodic benefit gain, other than service cost.

On October 24, 2022, the Board of Trustees approved a merger of the CH Plan into the CH-Laconia Plan. The merger of the Plans was effective December 31, 2022 and the surviving plan was named the Retirement Plan for Employees of Concord Hospital (Concord Hospital Plan).

Effective January 1, 2024, the Board of Trustees elected to amend the Concord Hospital Plan to discontinue future participation in the Plan by any employees who are hired or rehired after December 31, 2023, as further defined in the amendment.

The following table summarizes the Plans' funded status at September 30:

	<u>2023</u>	<u>2022</u>
Funded status:		
Fair value of plan assets	\$ 343,471	\$ 319,496
Projected benefit obligation	<u>(319,529)</u>	<u>(329,477)</u>
	<u>\$ 23,942</u>	<u>\$ (9,981)</u>
Activities for the year consist of:		
Benefit payments and administrative expenses paid	\$ 33,965	\$ 19,314
Net periodic benefit cost	8,565	15,198

The table below presents details about the Plans, including the funded status, components of net periodic benefit cost, and certain assumptions used in determining the funded status and cost:

	<u>2023</u>	<u>2022</u>
Change in benefit obligation:		
Projected benefit obligation at beginning of year	\$329,477	\$392,275
Service cost	13,298	16,519
Interest cost	18,596	13,217
Actuarial gain	(7,877)	(69,169)
Benefit payments and administrative expenses paid	(33,965)	(19,313)
Settlements and plan amendments	<u>—</u>	<u>(4,052)</u>
Projected benefit obligation at end of year	<u>\$319,529</u>	<u>\$329,477</u>

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2023 and 2022

(In thousands)

5. Retirement Plans (Continued)

	<u>2023</u>	<u>2022</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$319,496	\$375,094
Actual gain (loss) on plan assets	41,940	(59,286)
Employer contributions	16,000	27,900
Benefit payments and administrative expenses	(33,965)	(19,313)
Settlements	<u>—</u>	<u>(4,899)</u>
Fair value of plan assets at end of year	<u>\$343,471</u>	<u>\$319,496</u>
Funded status and amount recognized in noncurrent assets (liabilities) at September 30	<u>\$ 23,942</u>	<u>\$ (9,981)</u>

Amounts recognized as a change in net assets without donor restrictions during the years ended September 30, 2023 and 2022 consist of:

	<u>2023</u>	<u>2022</u>
Net actuarial (gain) loss	\$ (23,273)	\$ 15,858
Net amortized loss	(3,372)	(10,149)
Prior service credit amortization	156	243
Impact of settlement	<u>—</u>	<u>(450)</u>
Total amount recognized	<u>\$ (26,489)</u>	<u>\$ 5,502</u>

Pension Plan Assets

The fair values of the Plans' assets as of September 30, 2023 and 2022, by asset category are as follows (see Note 15 for level definitions). In accordance with ASC 820, *Fair Value Measurements*, certain investments that are measured using the net value per share practical expedient have not been classified in the fair value hierarchy.

	<u>2023</u>	<u>2022</u>
Short-term investments (Level 1):		
Money market funds	\$ 12,804	\$ 4,114
Equity securities (Level 1):		
Mutual funds – domestic	145,825	115,233
Mutual funds – international	—	10,302
Mutual funds – inflation hedge	12,946	12,909
Fixed income securities (Level 1):		
Mutual funds – fixed income	<u>37,877</u>	<u>45,965</u>
	<u>209,452</u>	<u>188,523</u>

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2023 and 2022

(In thousands)

5. Retirement Plans (Continued)

	<u>2023</u>	<u>2022</u>
Funds measured at net asset value:		
Equity securities:		
Funds-of-funds	\$ 81,170	\$ 81,961
Collective trust funds:		
Equities	46,327	40,727
Fixed income	<u>6,522</u>	<u>8,285</u>
	<u>52,849</u>	<u>49,012</u>
 Total investments at fair value	 <u>\$343,471</u>	 <u>\$319,496</u>

The Concord Hospital Plan's target asset policy guidelines include total short-term investments between 0% and 20%, total equity securities between 40%-80%, total fixed income securities between 5% and 80%, and other strategies between 0% and 30%. The CH Plan's target asset policy guidelines, prior to the merger of the Plans described above, included total short-term investments between 0% and 20%, total equity securities between 40%-80%, total fixed income securities between 5% and 80%, and other strategies between 0% and 30%. The CH-Laconia Plan's target asset policy guidelines, prior to the merger of the Plans described above, included total equity securities of 50% and total fixed income securities of 50%.

The Plans' asset allocations by asset category are as follows as of September 30:

	<u>2023</u>	<u>2022</u>
Short-term investments	4%	1%
Equity securities	70%	69%
Fixed income securities	13%	17%
Other	13%	13%

The funds-of-funds in the Concord Hospital Plan are invested with various investment managers and have various restrictions on redemptions. One manager holding amounts totaling approximately \$19 million at September 30, 2023 allows for semi-monthly redemptions, with 5 days' notice. One manager holding approximately \$9 million at September 30, 2023 allows for monthly redemptions, with 15 days' notice. Four managers holding amounts totaling approximately \$34 million at September 30, 2023 allow for quarterly redemptions, with notices ranging from 45 to 65 days. Two managers holding amounts totaling approximately \$16 million at September 30, 2023 allow for annual redemptions, with notices ranging from 60 to 90 days. One manager holding amounts totaling approximately \$3 million at September 30, 2023 allow for redemptions on a semi-annual basis, with a notice of 60 days. The collective trust funds allow for daily, weekly or monthly redemptions, with notices ranging from 6 to 10 days. Certain funds also may include a fee estimated to be equal to the cost the fund incurs in converting investments to cash, limit the percent of the investment that can be redeemed each redemption period, or are subject to certain lock periods.

The System considers various factors in estimating the expected long-term rate of return on plan assets. Among the factors considered include the historical long-term returns on plan assets, the current and expected allocation of plan assets, input from the System's actuaries and investment consultants, and long-term inflation assumptions. The System's expected allocation of plan assets is based on a diversified portfolio consisting of domestic and international equity securities, fixed income securities, and real estate.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2023 and 2022

(In thousands)

5. Retirement Plans (Continued)

The System's investment policy for its pension plans is to balance risk and returns using a diversified portfolio consisting primarily of high quality equity and fixed income securities. To accomplish this goal, plan assets are actively managed by outside investment managers with the objective of optimizing long-term return while maintaining a high standard of portfolio quality and proper diversification. The System monitors the maturities of fixed income securities so that there is sufficient liquidity to meet current benefit payment obligations. The System's Investment Committee provides oversight of the Plans' investments and the performance of the investment managers.

Amounts included in expense consist of the following for the years ended September 30:

	<u>2023</u>	<u>2022</u>
Components of net periodic benefit cost:		
Service cost	\$ 13,298	\$ 16,519
Interest cost	18,596	13,217
Expected return on plan assets	(26,545)	(24,894)
Amortization of prior service credit and loss	3,216	9,906
Settlements	<u>—</u>	<u>450</u>
Net periodic benefit cost	<u>\$ 8,565</u>	<u>\$ 15,198</u>

The accumulated benefit obligation for the Plans at September 30, 2023 and 2022 was \$313,562 and \$315,168, respectively.

	<u>2023</u>	<u>2022</u>
Weighted average assumptions to determine benefit obligation:		
Discount rate	6.11%	5.63%
Rate of compensation increase	3.00%	3.00%

Weighted average assumptions to determine net periodic benefit cost:		
Discount rate	5.63%	3.33%
Expected return on plan assets	7.60%	6.50% - 7.75%
Cash balance credit rate	3.00% - 5.00%	5.00%
Rate of compensation increase	3.00%	2.50% - 3.00%

In selecting the long-term rate of return on plan assets, the System considered the average rate of earnings expected on the funds invested or to be invested to provide for the benefits of the plans. This included considering the plans' asset allocation and the expected returns likely to be earned over the life of the plans, as well as the historical returns on the types of assets held and the current economic environment.

The System funds the pension plans and no contributions are made by employees. The System funds the plans annually by making a contribution of at least the minimum amount required by applicable regulations and as recommended by the System's actuary. However, the System may also fund the plans in excess of the minimum required amount.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(In thousands)

5. Retirement Plans (Continued)

Cash contributions in subsequent years will depend on a number of factors including performance of plan assets. However, the System expects to fund \$16,000 in cash contributions to the Concord Hospital Plan in 2024.

Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Year Ended September 30

2024	\$ 27,172
2025	24,447
2026	26,747
2027	28,696
2028	28,774
2029 – 2033	147,475

6. Estimated Third-Party Payor Settlements

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

Medicare

Inpatient and outpatient services rendered to Medicare program beneficiaries are primarily paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical diagnosis and other factors. In addition to this, the System is also reimbursed for medical education and other items which require cost settlement and retrospective review by the fiscal intermediary. Accordingly, the System files an annual cost report with the Medicare program after the completion of each fiscal year to report activity applicable to the Medicare program and to determine any final settlements.

The physician practices are reimbursed on a fee schedule basis.

Medicaid Enhancement Tax and Disproportionate Share Payment

Under the State of New Hampshire's (the State) tax code, the State imposes a Medicaid Enhancement Tax (MET) equal to 5.40% of net patient service revenues in State fiscal years 2023 and 2022. The amount of tax incurred by the System for 2023 and 2022 was \$32,647 and \$32,035, respectively.

In the fall of 2010, in order to remain in compliance with stated federal regulations, the State of New Hampshire adopted a new approach related to Medicaid disproportionate share funding (DSH) retroactive to July 1, 2010. Unlike the former funding method, the State's approach led to a payment that was not directly based on, and did not equate to, the level of tax imposed. As a result, the legislation created some level of losses at certain New Hampshire hospitals, while other hospitals realized gains. DSH payments from the State are recorded within revenue without donor restrictions and other support and amounted to \$30,212 in 2023 and \$29,744 in 2022, net of reserves referenced below.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

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6. Estimated Third-Party Payor Settlements (Continued)

The Centers for Medicare and Medicaid Services (CMS) has completed audits of the State's program and the disproportionate share payments made by the State from 2011 to 2019, the first years that those payments reflected the amount of uncompensated care provided by New Hampshire hospitals. It is possible that subsequent years will also be audited by CMS. The System has recorded reserves to address its potential exposure based on the audit results to date or any future redistributions.

Subsequent to year end, the Hospital filed suit against the NH Department of Health and Human Services over their plan for the redistribution of DSH payments from 2011 to 2017. All amounts related to the redistribution plan have been fully reserved for as of September 30, 2023.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under fee schedules and cost reimbursement methodologies subject to various limitations or discounts. The System is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicaid program.

The physician practices are reimbursed on a fee schedule basis.

Other

The System has also entered into payment agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment to the System under these agreements includes prospectively determined rates per discharge, discounts from established charges, fee schedules, and prospectively determined rates.

The accrual for estimated third-party payor settlements reflected on the accompanying consolidated balance sheets represents the estimated net amounts to be paid under reimbursement contracts with the Centers for Medicare and Medicaid Services (Medicare), the New Hampshire Department of Welfare (Medicaid) and any commercial payors with settlement provision. Settlements for the Hospital have been finalized through 2018 for Medicare and 2017 for Medicaid. Settlements for CH-Laconia have been finalized through 2019 for Medicare and Medicaid. Settlements for CH-Franklin have been finalized through 2021 for Medicare and 2019 for Medicaid.

During fiscal year 2020, the System requested accelerated Medicare payments as provided for in the CARES Act, which allowed 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 advances were recouped in the first eleven months. An additional 25% of the advances were recouped in the next six months, with the entire amount repayable in 29 months. Any outstanding balance after 29 months was repayable at a 4% interest rate. During the third quarter of fiscal 2020, the System received \$57,885 from these accelerated Medicare payment requests. At September 30, 2022, the current portion due within a year, totaling \$248 was recorded under the caption "accrual for estimated third-party payor settlements" in the accompanying 2022 balance sheet. Amounts were repaid in full during the year ended September 30, 2023.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

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(In thousands)

7. Long-Term Debt

Long-term debt consists of the following at September 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
New Hampshire Health and Education Facilities Authority (NHHEFA) Revenue bonds, Concord Hospital Issue, Series 2021A; interest ranging from 3.0% to 5.0% per year and principal payable in annual installments ranging from \$1,685 to \$3,095 through October 2042, including unamortized original issue premium of \$6,219 in 2023 and \$6,950 in 2022	\$ 46,280	\$ 48,610
2020A note payable to a bank, due October 1, 2026, interest at 1.57% per annum, payable in monthly and annual principal payments ranging from \$2,469 to \$2,580	10,093	12,520
2020B note payable to a bank, due October 1, 2035 (lender has the option to extend the maturity date through October 1, 2043), interest at 2.26% per annum, payable in monthly and annual principal payments ranging from \$991 to \$2,942 beginning October 2023. Final balloon payment of \$10,157 due October 1, 2035, if the maturity date is not extended by the lender. This note converted into tax-exempt revenue bonds effective July 6, 2022. As a result of the conversion, the interest rate was reduced to 1.84%	36,582	36,582
NHHEFA Revenue Bonds, Concord Hospital Issue, Series 2017; interest of 5.0% per year and principal payable in annual installments. Installments ranging from \$2,010 to \$5,965 beginning October 2032, including unamortized original issue premium of \$5,923 in 2023 and \$6,249 in 2022	<u>60,012</u>	<u>60,459</u>
	152,967	158,171
Less unamortized bond issuance costs	(1,298)	(1,415)
Less current portion	<u>(6,144)</u>	<u>(4,147)</u>
	<u>\$145,525</u>	<u>\$152,609</u>

In March 2020, the Hospital entered into a \$12,520 note payable agreement (2020A note) with a lender to advance refund \$11,780 of the Series 2011 NHHEFA Hospital Revenue Bonds. No amounts of the Series 2011 advance refunded bonds remained outstanding as of September 30, 2023 and 2022.

In March 2020, the Hospital entered into a \$36,582 note payable agreement (2020B note) with a lender to advance refund the Series 2013A NHHEFA Hospital Revenue Bonds. As of September 30, 2022 \$33,785 of the Series 2013A advance refunded bonds, which were considered extinguished for purposes of these consolidated financial statements, remained outstanding. No amounts of the Series 2013A advance refunded bonds remained outstanding as of September 30, 2023. In conjunction with the issuance of the 2020B note, in order to further reduce debt service obligations, the Hospital, NHHEFA and the lender entered into a forward purchase agreement. Under the forward purchase agreement, the Hospital had the option to request NHHEFA to issue tax-exempt revenue bonds on or after July 3, 2022 to refinance the 2020B note. The Hospital exercised this option on July 6, 2022, which resulted in the interest rate decreasing from 2.26% to 1.84%.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(In thousands)

7. Long-Term Debt (Continued)

In December 2017, \$62,004 (including an original issue premium of \$7,794) of NHHEFA Revenue Bonds, Concord Hospital Issue, Series 2017, were issued to pay for the construction of a new medical office building. In addition, the Series 2017 Bonds reimbursed the Hospital for capital expenditures incurred in association with the construction of a parking garage and the construction of a medical office building, as well as routine capital expenditures.

Substantially all the property and equipment relating to the aforementioned construction and renovation projects, as well as subsequent property and equipment additions thereto, are pledged as collateral for all outstanding long-term debt. In addition, the gross receipts of the Hospital, CH-Laconia and CH-Franklin are also pledged as collateral for all outstanding long-term debt. CH-Laconia and CH-Franklin also pledge gross receipts as collateral for the outstanding Series 2021A Revenue Bonds. The most restrictive financial covenants require a 1.10 to 1.0 ratio of aggregate income available for debt service to total annual debt service and a day's cash on hand ratio of 75 days. The System was in compliance with its debt covenants at September 30, 2023 and 2022.

The obligations of the Hospital under the above bond indentures are guaranteed by the Hospital, CH-Laconia and CH-Franklin and are not guaranteed by any of the subsidiaries or affiliated entities.

Interest paid on long-term debt amounted to \$5,215 and \$5,531 for the years ended September 30, 2023 and 2022, respectively.

The aggregate principal payments on long-term debt for the next five fiscal years ending September 30 and thereafter are as follows:

2024	\$ 6,144
2025	4,455
2026	5,181
2027	6,949
2028	4,516
Thereafter	<u>113,580</u>
	<u>\$140,825</u>

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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8. Commitments and Contingencies

Malpractice Loss Contingencies

The System insures its medical malpractice risks through GSIE, a multiprovider captive insurance company. As discussed in Note 1, during 2022, GSIE began the process of winding down operations and was replaced with CHIG.

GSIE and CHIG provide claims-made medical stop loss coverage to their subscriber health systems. Subsequent to December 31, 2020, the System is the sole remaining subscriber of GSIE. The System is also the only subscriber of CHIG. GSIE and CHIG purchase reinsurance from three reinsurers to limit potential exposure to the System. The reinsurance policies in place are subject to renewal on January 1, 2024, and, after the System's primary retained layer of \$2 million (GSIE) and \$3 million (CHIG) per occurrence and \$12 million aggregate, cover up to \$25 million per occurrence and aggregate per annum. The failure of reinsurers to honor their obligations could result in additional losses to GSIE and CHIG, and those losses could be significant to GSIE, CHIG and the System.

The reserve for unpaid losses and loss adjustment expenses and the related reinsurance recoverables includes case basis estimates of reported losses, plus supplemental reserves for incurred but not reported losses (IBNR) calculated based upon loss projections utilizing historical and industry data. An independent consulting actuary is involved in establishing this reserve and the related reinsurance recoverables. Management of the System believes that GSIE's and CHIG's aggregate reserve for unpaid losses and loss adjustment expenses and related reinsurance recoverables at year-end represent its best estimate, based on the available data, of the amount necessary to cover the ultimate cost of losses; however, because of the nature of the insured risks and limited historical experience, actual loss experience may not conform to the assumptions used in determining the estimated amounts for such liability and corresponding asset at the consolidated balance sheet date. Accordingly, the ultimate liability and corresponding asset could be significantly in excess of or less than the amount indicated in these consolidated financial statements. As adjustments to these estimates become necessary, such adjustments are reflected in current year operations. Amounts recoverable from reinsurers have been reduced to their net realizable value.

At September 30, 2023, there were no known malpractice claims outstanding for the System, which, in the opinion of management will be settled for amounts in excess of insurance coverage, nor were there any unasserted claims or incidents which require loss accruals. The System has established reserves for unpaid claim amounts for Hospital and Physician Professional Liability and General Liability reported claims and for unreported claims for incidents that have been incurred but not reported. The amounts of the reserves total \$17,690 and \$20,253 at September 30, 2023 and 2022, respectively, and are reflected in the accompanying consolidated balance sheets within reserves for insurance. The possibility exists, as a normal risk of doing business, that malpractice claims in excess of insurance coverage may be asserted against the System.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2023 and 2022

(In thousands)

8. Commitments and Contingencies (Continued)

In accordance with ASU No. 2010-24, "Health Care Entities" (Topic 954): *Presentation of Insurance Claims and Related Insurance Recoveries*, at September 30, 2023 and 2022, the System recorded a liability of approximately \$3,100 and \$3,300, respectively related to estimated professional liability losses. At September 30, 2023 and 2022, the System also recorded a receivable of \$3,100 and \$3,300, respectively, related to estimated recoveries under insurance coverage for recoveries of the potential losses. These amounts are included in reserve for insurance (\$3,100 at September 30, 2023 and \$3,300 at September 30, 2022), and other assets (\$3,100 at September 30, 2023 and \$3,300 at September 30, 2022), respectively, in the accompanying consolidated balance sheets.

Workers' Compensation

The System maintains workers' compensation insurance under a self-insurance plan. The plan offers, among other provisions, certain specific and aggregate stop-loss coverage to protect the System against excessive losses. The System has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Accrued workers' compensation losses of \$4,061 and \$3,888 at September 30, 2023 and 2022, respectively, are recorded within accounts payable and accrued expenses in the accompanying consolidated balance sheets and have been discounted at 3% (both years) and, in management's opinion, provide an adequate reserve for loss contingencies. A trustee held fund has been established as a reserve under the plan. Assets held in trust totaled \$2,967 and \$2,501 at September 30, 2023 and 2022, respectively, and are included in assets whose use is limited or restricted in the accompanying consolidated balance sheets.

Litigation

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

Health Insurance

The System has a self-funded health insurance plan. The plan is administered by an insurance company which assists in determining the current funding requirements of participants under the terms of the plan and the liability for claims and assessments that would be payable at any given point in time. The System recognizes revenue for services provided to employees of the System during the year. The System is insured above a stop-loss amount of \$550 on individual claims. Estimated unpaid claims, and those claims incurred but not reported at September 30, 2023 and 2022, have been recorded as a liability of \$13,631 and \$13,286, respectively, and are reflected in the accompanying consolidated balance sheets within accounts payable and accrued expenses.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2023 and 2022

(In thousands)

9. Net Assets With Donor Restrictions

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

	<u>2023</u>	<u>2022</u>
Purpose restriction:		
Health education and program services	\$ 18,770	\$ 18,991
Capital acquisitions	441	610
Indigent care	83	116
Pledges receivable with stipulated purpose and/or time restrictions	<u>575</u>	<u>391</u>
	<u>19,869</u>	<u>20,108</u>
 Perpetual in nature:		
Health education and program services	20,859	20,225
Capital acquisitions	803	803
Indigent care	2,105	2,105
Annuities to be held in perpetuity	<u>458</u>	<u>273</u>
	<u>24,225</u>	<u>23,406</u>
 Total net assets with donor restrictions	<u>\$44,094</u>	<u>\$43,514</u>

10. Patient Service Revenue

An estimated breakdown of patient service revenue for the System by major payor sources is as follows for the years ended September 30:

	<u>2023</u>	<u>2022</u>
Private payor (includes coinsurance and deductibles)	\$388,492	\$391,300
Medicare	282,111	276,967
Medicaid	34,880	40,340
Self-pay	<u>275</u>	<u>789</u>
	<u>\$705,758</u>	<u>\$709,396</u>

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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11. Functional Expenses

The System 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>Fund- raising</u>	<u>Total</u>
<u>2023</u>				
Salaries and wages	\$316,143	\$ 60,492	\$ 574	\$377,209
Employee benefits	68,381	13,086	124	81,591
Supplies and other	131,206	21,241	188	152,635
Purchased services	37,677	19,896	223	57,796
Professional fees	17,021	–	–	17,021
Depreciation and amortization	18,310	8,692	289	27,291
Medicaid enhancement tax	32,647	–	–	32,647
Interest	<u>2,868</u>	<u>1,362</u>	<u>45</u>	<u>4,275</u>
	<u>\$624,253</u>	<u>\$124,769</u>	<u>\$ 1,443</u>	<u>\$750,465</u>
 <u>2022</u>				
Salaries and wages	\$320,669	\$ 59,597	\$ 580	\$380,846
Employee benefits	77,767	14,455	141	92,363
Supplies and other	135,008	21,486	180	156,674
Purchased services	33,227	17,988	177	51,392
Professional fees	16,495	3	–	16,498
Depreciation and amortization	19,424	9,222	307	28,953
Medicaid enhancement tax	32,035	–	–	32,035
Interest	<u>3,065</u>	<u>1,455</u>	<u>48</u>	<u>4,568</u>
	<u>\$637,690</u>	<u>\$124,206</u>	<u>\$ 1,433</u>	<u>\$763,329</u>

The consolidated 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 based on square footage. 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. Employee benefits are allocated in accordance with the ratio of salaries and wages of the functional classes. Specifically identifiable costs are assigned to the function which they are identified to.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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12. Charity Care and Community Benefits (Unaudited)

The System maintains records to identify and monitor the level of charity care it provides. The System provides traditional charity care, as well as other forms of community benefits. The estimated cost of all such benefits provided is as follows for the years ended September 30:

	<u>2023</u>	<u>2022</u>
Government sponsored healthcare	\$ 35,353	\$ 36,515
Community health services	1,507	1,281
Health professions education	2,801	2,038
Subsidized health services	52,622	50,929
Research	306	131
Financial contributions	1,405	1,440
Community benefit operations	68	89
Community building activities	786	414
Charity care costs (see Note 1)	<u>3,465</u>	<u>3,389</u>
	<u>\$98,313</u>	<u>\$96,226</u>

The System incurred estimated costs for services to Medicare patients in excess of the payment from this program of \$82,230 and \$78,563 in 2023 and 2022, respectively.

13. Concentration of Credit Risk

The System grants credit without collateral to its patients, most of whom are local residents of southern New Hampshire and are insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors as of September 30 is as follows:

	<u>2023</u>	<u>2022</u>
Patients	9%	8%
Medicare	38	42
Anthem Blue Cross	19	18
Cigna	3	3
Medicaid	10	11
Commercial	19	16
Workers' compensation	<u>2</u>	<u>2</u>
	<u>100%</u>	<u>100%</u>

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

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(In thousands)

14. Volunteer Services (Unaudited)

Total volunteer service hours received by the System were approximately 25,000 and 23,000 in 2023 and 2022, respectively. The volunteers provide various nonspecialized services to the System, none of which has been recognized as revenue or expense in the accompanying consolidated statements of operations.

15. Fair Value Measurements

Fair value of a financial instrument is defined as 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 System uses various methods including market, income and cost approaches. Based on these approaches, the System often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The System 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 System 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.

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 System performs a detailed analysis of the assets and liabilities. There have been no changes in the methodologies used at September 30, 2023 and 2022. In accordance with ASC 820, *Fair Value Measurements*, certain investments that are measured using the net value per share practical expedient have not been classified in the fair value hierarchy.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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15. Fair Value Measurements (Continued)

The following presents the balances of assets 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>
<u>2023</u>				
Cash and cash equivalents	\$ 78,801	\$ –	\$ –	\$ 78,801
Fixed income securities	25,471	10,177	–	35,648
Marketable equity and other securities	163,551	–	–	163,551
Inflation-protected securities and other	16,078	–	–	16,078
Trust funds administered by others	<u>–</u>	<u>–</u>	<u>10,208</u>	<u>10,208</u>
	<u>\$283,901</u>	<u>\$10,177</u>	<u>\$10,208</u>	304,286

Funds measured at net asset value:

Marketable equity and other securities 205,295

\$509,581

2022

Cash and cash equivalents	\$ 34,294	\$ –	\$ –	\$ 34,294
Fixed income securities	35,203	10,645	–	45,848
Marketable equity and other securities	136,062	–	–	136,062
Inflation-protected securities and other	15,760	–	–	15,760
Trust funds administered by others	<u>–</u>	<u>–</u>	<u>9,836</u>	<u>9,836</u>
	<u>\$221,319</u>	<u>\$10,645</u>	<u>\$ 9,836</u>	241,800

Funds measured at net asset value:

Marketable equity and other securities 203,040

\$444,840

In addition, for the years ended September 30, 2023 and 2022, there are certain investments totaling \$4,172 which are appropriately being carried at cost.

The System's Level 3 investments consist of funds administered by others. The fair value measurement is based on significant unobservable inputs.

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 statements of operations.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

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15. Fair Value Measurements (Continued)

A reconciliation of the fair value measurements using significant unobservable inputs (Level 3) is as follows for 2023 and 2022:

	<u>Trust Funds Administered by Others</u>
Balance at September 30, 2021	\$ 12,341
Net realized and unrealized losses	<u>(2,505)</u>
Balance at September 30, 2022	9,836
Net realized and unrealized gains	<u>372</u>
Balance at September 30, 2023	<u>\$ 10,208</u>

The table below sets forth additional disclosures for investment funds (other than mutual funds) valued based on net asset value to further understand the nature and risk of the investments by category:

	<u>Fair Value</u>	<u>Unfunded Commit- ments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
September 30, 2023:				
Funds-of-funds	\$ 22,628	\$ –	Semi-monthly	5 days
Funds-of-funds	12,007	–	Monthly	15 days
Funds-of-funds	44,264	–	Quarterly	45 – 65 days**
Funds-of-funds	13,621	–	Annual	60 - 90 days
Funds-of-funds	4,657	–	Semi-annual	60 days*
Funds-of-funds	47,870	32,327	Illiquid	N/A
Collective trust funds	7,032	–	Daily	10 days
Collective trust funds	7,641	–	Weekly	10 days
Collective trust funds	45,575	–	Monthly	6 – 10 days
September 30, 2022:				
Funds-of-funds	\$ 18,489	\$ –	Semi-monthly	5 days
Funds-of-funds	9,645	–	Monthly	15 days
Funds-of-funds	53,791	–	Quarterly	45 – 65 days**
Funds-of-funds	10,329	–	Annual	90 days
Funds-of-funds	8,250	–	Semi-annual	60 days*
Funds-of-funds	42,296	25,854	Illiquid	N/A
Collective trust funds	12,582	–	Daily	10 days
Collective trust funds	7,008	–	Weekly	10 days
Collective trust funds	40,650	–	Monthly	6 – 10 days

* Limited to 25% of the investment balance at each redemption. A full redemption of this fund is in progress as of September 30, 2023.

** One investment has a one-year lock period and redemption of one investment is limited to 12.5% of the investment balance at each redemption.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

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15. Fair Value Measurements (Continued)

Fixed Income Securities

The primary purpose of fixed income investments 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.

Marketable Equity and Other Securities

The primary purpose of marketable 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 marketable 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 System 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.

The System invests in other securities that are considered alternative investments that consist of 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 System 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. Collective trust funds are generally valued based on the proportionate share of total fund net assets.

System 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 and is estimated using the net asset value per share of the fund. Because of inherent uncertainty of valuation of certain alternative investments, 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 alternative investments at the balance sheet dates are reasonable.

The System has committed to invest up to \$73,183 with various investment managers, and had funded \$33,856 of that commitment as of September 30, 2023. As these investments are made, the System reallocates resources from its current investments resulting in an asset allocation shift within the investment pool.

Inflation-Protected Securities

The primary purpose of inflation-protected securities is to provide protection against the negative effects of inflation.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2023 and 2022

(In thousands)

15. Fair Value Measurements (Continued)

Fair Value of Other Financial Instruments

Other financial instruments consist of accounts and pledges receivable, accounts payable and accrued expenses, estimated third-party payor settlements, and long-term debt and notes payable. The fair value of all financial instruments other than long-term debt and notes payable approximates their relative book values as these financial instruments have short-term maturities or are recorded at amounts that approximate fair value.

16. Leases

Adoption of ASC Topic 842, Leases (ASC 842)

The System has various leases relative to its office and offsite locations. ASC 842 became effective for the System on October 1, 2022 and was adopted using the modified retrospective method for all leases that had commenced as of the effective date, along with certain available practical expedients. The System elected to recognize any effects of applying the new standard as a cumulative-effect adjustment to the opening balance of net assets in the period of adoption, which there were none. In addition, the System elected to adopt the package of practical expedients permitted under the transition guidance within the new standard. The practical expedient package applied to leases that commenced prior to the effective date of the new standard and permits a reporting entity not to: i) reassess whether any expired or existing contracts are or contain leases, ii) reassess the historical lease classification for any expired or existing leases, and iii) reassess initial direct costs for any existing leases. The reporting results for fiscal year 2023 reflect the application of ASC 842 guidance while the historical results for fiscal year 2022 were prepared under the guidance of ASC 840. The adoption of the new standard did not have a significant impact upon the System's consolidated statements of operations, changes in net assets and cash flows. The adoption of the new standard resulted in the following impact: the recording of right-of-use assets and corresponding lease liabilities pertaining to the System's operating leases on the accompanying 2023 consolidated balance sheet.

Operating lease right-of-use assets and operating lease liabilities are reported in the System's 2023 consolidated balance sheet as follows:

Operating lease right-of-use assets	<u>\$26,252</u>
Current portion of operating lease liabilities	\$ 5,406
Operating lease liabilities, less current portion	<u>21,091</u>
Total operating lease liabilities	<u>\$26,497</u>

During the year ended September 30, 2023, the total lease cost associated with the System's operating leases was \$6,319.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2023 and 2022

(In thousands)

16. Leases (Continued)

Supplemental Cash Flow Information

Supplemental cash flow information is as follows for the fiscal year ended September 30, 2023:

Operating leases – operating cash flows (fixed payments)	\$ 6,073
Operating leases - right-of-use assets and operating lease liabilities recorded upon adoption of ASU 842	28,636
Operating leases - right-of-use assets obtained in exchange for new operating lease liabilities	2,876

Lease Term and Discount Rate

Lease term and discount rate are as follows for the fiscal year ended September 30, 2023:

Weighted-average remaining lease term (in years)	6.97
Weighted-average discount rate	3.91%

As of September 30, 2023, maturities of operating lease liabilities for each of the following five years were as follows:

2024	\$ 6,324
2025	5,183
2026	4,091
2027	3,175
2028	3,091
Thereafter	<u>8,588</u>
Total minimum future lease payments	30,452
Less imputed interest	<u>(3,955)</u>
Total lease liabilities	<u>\$26,497</u>

As of September 30, 2022, future minimum lease payments prepared under the previous guidance of ASC 840 were as follows:

2023	\$ 8,078
2024	7,038
2025	5,590
2026	3,333
2027	2,967
Thereafter	<u>10,826</u>
	<u>\$37,832</u>

Rent expense was \$9,532 for the year ended September 30, 2022.