Appendix A-6

Monadnock Community Hospital Annual Financial Statements
for the year ended September 30, 2022

BAKER
NEWMAN
NOYES

The Monadnock Community Hospital

Audited Financial Statements

Years Ended September 30, 2022 and 2021
With Independent Auditors' Report

Baker Newman & Noyes LLC
MAINE | MASSACHUSETTS | NEW HAMPSHIRE
800.244.7444 | www.bnncpa.com

THE MONADNOCK COMMUNITY HOSPITAL

Audited Financial Statements

Years Ended September 30, 2022 and 2021

Table of Contents

BAKER NEWMAN NOYES

Baker Newman & Noyes LLC
MAINE I MASSACHUSETTS I NEW HAMPSHIRE
800.244.7444 I www.bnncpa.com

INDEPENDENT AUDITORS' REPORT

Board of Trustees
The Monadnock Community Hospital

Opinion

We have audited the financial statements of The Monadnock Community Hospital (the Hospital), which comprise the balance sheets as of September 30, 2022 and 2021, the related statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Hospital as of September 30, 2022 and 2021, and the results of its operations, changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 Hospital 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.

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 Hospital'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.

Board of Trustees
The Monadnock Community Hospital

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 Hospital'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 Hospital'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
January 11, 2023

THE MONADNOCK COMMUNITY HOSPITAL

BALANCE SHEETS

September 30, 2022 and 2021

ASSETS

	2022	2021
Current assets:		
Cash and cash equivalents	$ 31,146,583	$ 28,190,129
Accounts receivable	6,450,584	5,642,463
Current portion of notes receivable	81,249	13,442
Other receivables	310,365	705,668
Inventories	1,448,643	1,456,783
Prepaid expenses and other current assets	1,278,329	984,702
Total current assets	40,715,753	36,993,187
Assets limited as to use	85,695,382	102,021,202
Medical office building and related assets, net of accumulated depreciation of $2,450,354 in 2022 and $2,364,718 in 2021	1,132,753	1,218,817
Property and equipment, net	35,647,718	34,961,264
Notes receivable, less current portion	540,898	466,726
Other:		
Other assets	689,567	206,896
Total assets	$164,422,071	$175,868,092

LIABILITIES AND NET ASSETS

	2022	2021
Current liabilities:		
Accounts payable and accrued expenses	$ 7,504,455	$ 5,791,261
Accrued payroll and related accounts	3,774,854	4,199,369
Estimated third-party payor settlements	28,372,836	27,127,670
Current portion of long-term debt and capital lease obligations	808,808	775,616
Total current liabilities	40,460,953	37,893,916
Long-term debt and capital lease obligations, less current portion	21,294,858	22,036,526
Interest rate swap agreements	144,803	2,665,795
Other long-term liabilities	–	551,097
Total liabilities	61,900,614	63,147,334
Commitments and contingencies		
Net assets:		
Without donor restrictions	88,730,215	95,668,147
With donor restrictions	13,791,242	17,052,611
Total net assets	102,521,457	112,720,758
Total liabilities and net assets	$164,422,071	$175,868,092

See accompanying notes.

THE MONADNOCK COMMUNITY HOSPITAL

STATEMENTS OF OPERATIONS

Years Ended September 30, 2022 and 2021

	2022	2021
Operating revenues:		
Patient service revenue	$ 85,805,659	$ 80,177,775
Disproportionate share funding	5,700,000	4,325,004
Other revenue	4,798,653	8,324,417
Net assets released from restrictions for operations	501,720	408,503
Total operating revenues	96,806,032	93,235,699
Expenses:		
Salaries and benefits	47,990,907	41,946,502
Supplies and other	35,713,504	33,889,533
Insurance	842,033	700,949
Depreciation and amortization	4,225,134	4,266,537
Interest	914,630	958,169
New Hampshire Medicaid enhancement tax	4,221,892	3,194,153
Total expenses	93,908,100	84,955,843
Income from operations	2,897,932	8,279,856
Nonoperating (losses) gains:		
Investment (loss) income, net	(13,351,474)	13,454,018
Contributions without donor restrictions, net of fundraising expenses	1,232,120	1,230,279
Other expense	(679,779)	(1,540,089)
Nonoperating (losses) gains, net	(12,799,133)	13,144,208
(Deficiency) excess of revenue, support and nonoperating (losses) gains over expenses	(9,901,201)	21,424,064
Net unrealized losses on investments	(123,781)	(34,405)
Change in fair value of interest rate swap agreements, qualifying as hedges	2,520,992	1,290,839
Net assets released from restrictions used to purchase property and equipment	566,058	232,503
(Decrease) increase in net assets without donor restrictions	$ (6,937,932)	$ 22,913,001

See accompanying notes.

THE MONADNOCK COMMUNITY HOSPITAL

STATEMENTS OF CHANGES IN NET ASSETS

Years Ended September 30, 2022 and 2021

	2022	2021
Net assets without donor restrictions:		
(Deficiency) excess of revenue, support and nonoperating (losses) gains over expenses	$ (9,901,201)	$ 21,424,064
Net unrealized losses on investments	(123,781)	(34,405)
Change in fair value of interest rate swap agreements, qualifying as hedges	2,520,992	1,290,839
Net assets released from restrictions used to purchase property and equipment	566,058	232,503
(Decrease) increase in net assets without donor restrictions	(6,937,932)	22,913,001
Net assets with donor restrictions:		
Donor-restricted contributions	595,517	320,441
Investment (loss) income, net	(1,509,781)	1,723,590
Change in perpetual trusts	(1,279,327)	991,407
Net assets released from restrictions for operations	(501,720)	(408,503)
Net assets released from restrictions used to purchase property and equipment	(566,058)	(232,503)
(Decrease) increase in net assets with donor restrictions	(3,261,369)	2,394,432
(Decrease) increase in net assets	(10,199,301)	25,307,433
Net assets, beginning of year	112,720,758	87,413,325
Net assets, end of year	$102,521,457	$112,720,758

See accompanying notes.

THE MONADNOCK COMMUNITY HOSPITAL

STATEMENTS OF CASH FLOWS

Years Ended September 30, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
(Decrease) increase in net assets	$(10,199,301)	$ 25,307,433
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,225,134	4,266,537
Bond issuance costs amortization	6,279	11,031
Realized and unrealized losses (gains) on investments and perpetual trusts, net	17,759,978	(14,899,435)
Change in fair value of interest rate swap agreements	(2,520,992)	(1,290,839)
Restricted contributions and investment loss/income	914,264	(2,044,031)
Loss on disposal of property and equipment	17,469	–
Changes in operating assets and liabilities:		
Accounts receivable	(808,121)	14,504
Inventories	8,140	(110,434)
Prepaid expenses and other current assets	(293,627)	(61,378)
Notes and other receivables	253,324	2,955,897
Other assets	(482,671)	–
Accounts payable and accrued expenses	1,713,194	(2,511,909)
Accrued payroll and related accounts	(424,515)	1,642,480
Estimated third-party payor settlements	1,245,166	(2,511,109)
Other long-term liabilities	(551,097)	(9,587,138)
Net cash provided by operating activities	10,862,624	1,181,609
Cash flows from investing activities:		
Purchases of property and equipment	(4,766,920)	(2,998,153)
Proceeds on sale of investments	430,685	538,278
Purchases of investments	(1,864,843)	(4,748,000)
Net cash used by investing activities	(6,201,078)	(7,207,875)
Cash flows from financing activities:		
Principal payments on long-term debt and capital lease obligations	(790,828)	(768,182)
Restricted contributions and investment loss/income	(914,264)	2,135,654
Net cash (used) provided by financing activities	(1,705,092)	1,367,472
Net increase (decrease) in cash and cash equivalents	2,956,454	(4,658,794)
Cash and cash equivalents at beginning of year	28,190,129	32,848,923
Cash and cash equivalents at end of year	$ 31,146,583	$ 28,190,129
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 908,351	$ 947,138
During 2022, the Hospital entered into capital lease obligations to finance certain equipment totaling $76,073.		

See accompanying notes.

THE MONADNOCK COMMUNITY HOSPITAL

NOTES TO FINANCIAL STATEMENTS

September 30, 2022 and 2021

1. Description of Organization and Summary of Significant Accounting Policies

Organization

The Monadnock Community Hospital (the Hospital) is a not-for-profit, acute care hospital located in Peterborough, New Hampshire.

On December 30, 2016, the Hospital became affiliated with Catholic Medical Center (CMC), a 330-bed acute care hospital in Manchester, New Hampshire, and Huggins Hospital (HH), a 25-bed critical access hospital in Wolfeboro, New Hampshire, through the formation of a common parent, GraniteOne Health (GraniteOne). GraniteOne is a New Hampshire voluntary corporation that is recognized as being a Section 501(c)(3) tax-exempt and "supporting organization" within the meaning of Section 509(a)(3) of the Internal Revenue Code of 1986, as amended (the Code). GraniteOne serves as the sole member of the Hospital and HH and co-member of CMC, along with CMC Healthcare System, Inc. GraniteOne is governed by a thirteen-member Board of Trustees appointed by each of the respective hospitals within the GraniteOne system. The GraniteOne Board of Trustees governs the GraniteOne system through the existence and execution of reserved powers to approve certain actions by the Boards of Trustees of each of the hospitals. Through GraniteOne, this more integrated healthcare system enhances the affiliated hospitals' ability to coordinate the delivery of patient care, implement best practices, eliminate inefficiencies and collaborate on regional healthcare planning. These efforts strengthen the hospitals' ability to meet the healthcare needs of their respective communities and provide for a more seamless patient experience across the continuum of care. The accompanying financial statements do not include the accounts and activity of GraniteOne, HH and CMC.

Subsequent to year end, the Board of Trustees authorized and approved the Hospital's withdrawal without cause from GraniteOne as permitted by the affiliation agreement.

On September 30, 2019, GraniteOne, CMC, CMC Healthcare System (CMCHS), certain subsidiaries of CMCHS, HH and the Hospital entered into a combination agreement (the Agreement) with Dartmouth-Hitchcock Health (D-HH) to combine GraniteOne and D-HH and its members into a more fully integrated healthcare delivery system.

On December 30, 2019, GraniteOne, CMC, HH and the Hospital submitted a Joint Notice of Change of Control to the New Hampshire Attorney General (AG), Director of Charitable Trusts pursuant to New Hampshire RSA 7:19-b beginning the regulatory review and approval process of the combination. During fiscal year 2022, the AG objected to the proposed affiliation transaction and the combination agreement was canceled. The Hospital incurred approximately $326,000 and $1.3 million in affiliation costs for the years ended September 30, 2022 and 2021, respectively, which amounts are reflected within nonoperating (losses) gains in the accompanying statements of operations.

Basis of Accounting

The accompanying financial statements have been prepared on an accrual basis of accounting.

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less at the date of purchase, excluding donor-restricted amounts and assets whose use is limited by Board designation or other arrangements under trust agreements. The Hospital maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Hospital has not experienced any losses on such accounts.

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, 2022 and 2021 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, 2022 and 2021, estimated implicit price concessions of $6,359,541 and $6,568,803, respectively, have been recorded as reductions to accounts receivable balances to enable the Hospital to record revenues and accounts receivable at the estimated amounts expected to be collected.

Accounts receivable as of September 30, 2022, 2021 and 2020 are $6,450,584, $5,642,463 and $5,656,967, respectively.

Inventories

Inventories of supplies and pharmaceuticals are carried at the lower of cost or net realizable value. Costs are determined on the first-in, first-out (FIFO) basis.

Assets Limited as to Use

Assets limited as to use include assets held by trustees under indenture agreements, 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.

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

Investments and Investment (Loss) Income

Investments are carried at fair value in the accompanying balance sheets. See note 15 for further discussion regarding fair value measurements. Investment (loss) income (including realized gains and losses on investments, interest and dividends) and the net change in unrealized gains and losses on equity securities, are included in the (deficiency) excess of revenue, support and nonoperating (losses) gains over expenses in the accompanying statements of operations, unless the income or loss is restricted by donor or law. The change in net unrealized gains and losses on debt securities is reported as a separate component of the change in net assets without donor restrictions, except declines that are determined by management to be other than temporary, which are reported as an impairment charge (included in the (deficiency) excess of revenue, support and nonoperating (losses) gains over expenses). No such losses were recorded in 2022 or 2021.

Property and Equipment

Property and equipment, including the medical office building, is stated at cost or, if donated, at fair value at the date of donation, less accumulated depreciation. The Hospital's policy is to capitalize expenditures for major improvements and charge maintenance and repairs currently for expenditures which do not extend the life of the related assets. When assets are retired or disposed of, the assets and related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is reflected in the accompanying statements of operations.

Depreciation is computed using the straight-line method in a manner intended to amortize the cost of the assets over their estimated useful lives. Costs of construction and acquisition of assets not yet placed in service are included in capital improvements and no depreciation expense is recorded.

Bond Issuance Costs

Bond issuance costs are being amortized to interest expense using the straight-line method, which approximates the effective interest method, over the life of the respective bonds. Bond issuance costs are presented as a reduction of long-term debt.

Earned Time

The Hospital provides and accrues for paid time off for vacation, holiday and sick leave under an earned time system for nonexempt employees. Hours earned, but not used, are capped and vested with the employee.

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

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 the 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 noncapital related items) or as net assets released from restrictions to purchase property and equipment (capital related items). Some net assets with donor restrictions have been restricted by donors to be maintained by the Hospital in perpetuity.

Except for contributions related to capital purchases, donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions within net assets without donor restrictions in the accompanying financial statements.

Endowment, Investment and Spending Policies

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

The Hospital'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. The Finance Committee of the Board of Trustees of the Hospital determines the method to be used to appropriate endowment funds for expenditure. As a guideline, approximately 4% of the total value of the three year quarterly average of available funds is intended to be distributed annually. The Finance Committee has the ability to distribute up to 5.99% of the total market value of the three-year quarterly average of available funds. Distributions of 6% or over must be approved by a vote of the Board of Trustees. The corresponding calculated spending allocations are distributed in equal quarterly installments from the current net total or accumulated net total investment returns for individual endowment funds. In establishing this policy, the Board of Trustees considered the expected long term rate of return on its endowment.

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.

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

Board designated funds have various intermediate/long-term time horizons associated with specific spending objectives as determined by the Board of Trustees. Assets limited as to use at September 30, 2022 and 2021 includes board designated funds of $71,905,806 and $84,967,028, respectively, that are subject to board authorization before being spent.

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

(Deficiency) Excess of Revenue, Support and Nonoperating (Losses) Gains Over Expenses

The accompanying statements of operations include (deficiency) excess of revenue, support and nonoperating (losses) gains over expenses. Changes in net assets without donor restrictions which are excluded from (deficiency) excess of revenue, support and nonoperating (losses) gains over expenses, consistent with industry practice, include net assets released from restrictions used for the purposes of acquiring long-lived assets, net unrealized gains/losses on debt investments and the changes in the fair value of interest rate swap agreements deemed to be effective hedges.

Patient Service Revenue

Revenues generally relate to contracts with patients in which the Hospital'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 under a cost reimbursement methodology. Services provided to patients having Medicaid coverage are generally paid on a prospectively determined fixed price depending on the diagnosis for inpatient services and under a cost reimbursement methodology for outpatient services. 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.

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 Hospital'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 provides 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 Hospital receives payment for Medicare and Medicaid inpatient and outpatient services on a reasonable cost basis which are settled with retroactive adjustments upon completion and audit of related cost reports. Differences between amounts previously estimated and amounts subsequently determined to be recoverable or payable are included in patient service revenue in the year that such amounts become known. For the years ended September 30, 2022 and 2021, patient service revenue in the accompanying statements of operations increased by approximately $3.2 million and $3.6 million, 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 60% and 8% and 61% and 6% of the Hospital's patient service revenue for the years ended September 30, 2022 and 2021, respectively.

Financial Assistance Program

The Hospital accepts all patients regardless of their ability to pay. A patient is classified as a financial assistance patient by reference to certain established policies of the Hospital. Essentially, these policies define the financial assistance program as those services for which no payment is anticipated. In assessing a patient's inability to pay, the Hospital utilizes federally established poverty guidelines. The financial assistance program is measured based on the Hospital's established rates. These charges are not included in patient service revenue. The costs and expenses incurred in providing these services are included in operating expenses. The cost is estimated by utilizing a ratio of cost to gross charges applied to the gross uncompensated charges associated with providing charity care. See note 14.

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

Self-Insurance Programs

The Hospital self-insures its employee health and dental benefits and has estimated and accrued amounts to meet its expected obligations under the program. 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 Hospital recognizes revenue for services provided to employees of the Hospital during the year. Stop loss insurance coverage is in effect which mitigates the Hospital's exposure to loss on an individual and aggregate basis. Estimated unpaid claims, and those claims incurred but not reported at September 30, 2022 and 2021, have been recorded as a liability of approximately $550,000 within accrued payroll and related accounts in the accompanying balance sheets.

Functional Expense Allocation

The costs of providing program services and other activities have been summarized on a functional basis in note 13. Accordingly, costs have been allocated among program services and supporting services benefitted.

Income Taxes

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Management evaluated the Hospital's tax positions and concluded the Hospital 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 financial statements.

Advertising Costs

The Hospital expenses advertising costs as incurred, and such costs totaled approximately $59,000 and $74,000 for the years ended September 30, 2022 and 2021, respectively.

Derivatives and Hedging Activities

The interest rate swap agreements held by the Hospital meet the definition of derivative instruments and, consequently, the Hospital is required to record as an asset or liability the fair value of the interest rate swap agreements described in note 7. The Hospital is exposed to repayment loss equal to any net amounts receivable under the swap agreements (not the notional amounts) in the event of nonperformance of the other parties to the swap agreements. However, the Hospital does not anticipate nonperformance and does not obtain collateral from the other parties.

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

Related Party Activity

The Hospital has engaged in various transactions with GraniteOne and CMC. The Hospital recognized revenue from these related parties of approximately $296,000 and $273,000 for the years ended September 30, 2022 and 2021, respectively, which amounts are reflected in other revenue in the accompanying statements of operations. The Hospital also incurred expenses to these related parties of approximately $3.1 million and $4.2 million for the years ended September 30, 2022 and 2021, respectively, of which $2.8 million and $2.9 million, respectively, is reflected within operating expenses. Additionally, approximately $270,000 and $1.3 million in related party expenses is reflected within nonoperating (losses) gains in the accompanying statements of operations for the years ended September 30, 2022 and 2021, respectively. These transactions resulted in a net amount due to related parties of approximately $612,000 and $294,000 at September 30, 2022 and 2021, respectively, which amounts are reflected within accounts payable and accrued expenses in the accompanying balance sheets.

Reclassifications

Certain 2021 amounts have been reclassified to permit comparison with the 2022 financial statements presentation format.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. Under ASU 2016-02, at the commencement of a long-term lease, lessees will recognize a liability equivalent to the discounted payments due under the lease agreement, as well as an offsetting right-of-use asset. ASU 2016-02 is effective for the Hospital on October 1, 2022. Lessees (for capital and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees may not apply a full retrospective transition approach. Management expects the adoption of this ASU to result in the recognition of a liability and offsetting right-of-use asset totaling approximately $500,000.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets.* ASU 2020-07 enhances the presentation of disclosure requirements for contributed nonfinancial assets. ASU 2020-07 requires entities to present contributed nonfinancial assets as a separate line item in the statement of operations and disclose the amount of contributed nonfinancial assets recognized within the statement of operations by category that depicts the type of contributed nonfinancial assets, as well as a description of any donor-imposed restrictions associated with the contributed nonfinancial assets and the valuation techniques used to arrive at a fair value measure at initial recognition. ASU 2020-07 was effective for the Hospital beginning October 1, 2021. The adoption of this ASU did not have a significant impact on the Hospital's financial statements.

Subsequent Events

Management has evaluated subsequent events occurring between the end of its fiscal year and January 11, 2023, the date the financial statements were available to be issued.

2. 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. While some restrictions have been eased across the U.S. and the State of New Hampshire has lifted limitations on non-emergent procedures, some restrictions remain in place. Consolidated patient volumes and revenues experienced gradual improvement beginning in the latter part of April 2020, and continuing, but at times impacted through fiscal year 2022, however uncertainty still exists as the future is unpredictable. The Hospital's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. The Hospital has taken precautionary steps to enhance its operational and financial flexibility, and react to the risks the COVID-19 pandemic presents in its operations.

Since the declaration of the pandemic, the Hospital received approximately $10.7 million of accelerated Medicare payments (Note 3) as provided for under the *Coronavirus Aid, Relief and Economic Security Act* (CARES Act).

During 2022, the Hospital received approximately $1.9 million of *American Rescue Plan Act* (ARPA) rural payments, approximately $225,000 of Provider Relief Funds (PRF) under the CARES Act, and approximately $75,000 from the Governor's Office of Emergency Relief and Recovery (GOFERR) under the CARES Act. Distributions from ARPA, PRF and GOFERR are not subject to repayment provided the Hospital 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 cumulative funding through September 30, 2022, the Hospital recognized approximately $1.3 million of the funding in 2022, and these payments are recorded within other revenue in the accompanying statement of operations for the year ended September 30, 2022. Approximately $2 million is included in estimated third-party settlements in the accompanying 2022 balance sheet, and represents amounts to be recognized prospectively. The Hospital also received PRF and GOFERR funding in previous years. Based on an analysis of the compliance and reporting requirements of the cumulative funding through September 30, 2021, the Hospital recognized approximately $4.2 million related to these funds, and these payments were recorded within other revenue in the statement of operations for the year ended September 30, 2021. Approximately $1 million was included in estimated third-party settlements in the accompanying 2021 balance sheet, and represented amounts to be recognized prospectively, all of which was recognized in fiscal year 2022.

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 and 2021, the Hospital had deferred approximately $600,000 and $1.2 million, respectively, of payroll taxes, of which approximately $600,000 is recorded within accrued payroll and related accounts in the accompanying 2022 and 2021 balance sheets. Further, approximately $600,000 of deferred payroll taxes was recorded within other long-term liabilities in the accompanying 2021 balance sheet.

3. Estimated Third-Party Settlements

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

Medicare

The Hospital was granted critical access hospital (CAH) designation on December 27, 2004. As a result of this designation, the Hospital is entitled to cost-based reimbursement from Medicare for services provided to Medicare beneficiaries. Inpatient acute care services rendered to Medicare program beneficiaries are paid under a cost reimbursement methodology. Outpatient services are paid based on a combination of rate schedules and reimbursed cost. The Hospital is reimbursed for cost reimbursable items at an interim rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. As of the date of these financial statements, the Hospital's Medicare cost reports have been final settled through September 30, 2015. The Hospital has received Final Notices of Reimbursement for the cost reports ending September 30, 2016 through 2018; however, the three year statutory period to reopen those cost reports by CMS has not expired.

Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology subject to certain limitations. The Hospital is reimbursed at an interim rate with final settlement determined after submission of annual costs reported by the Hospital and audits thereof by the State of New Hampshire Division of Audit. As of the date of these financial statements, the Hospital's Medicaid cost reports have been final settled through September 30, 2018.

Anthem

Inpatient and outpatient services rendered to Anthem subscribers are reimbursed at submitted charges less a discount withholding or through a per diem or fee schedule. The amounts paid to the Hospital are not subject to any retroactive adjustments.

Other

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

The Hospital has made a provision in the financial statements for estimated final settlements to be paid as a result of the retroactive provision for third-party reimbursement programs. Actual results could differ from those estimates.

3. Estimated Third-Party Settlements (Continued)

Medicaid Enhancement Tax and Medicaid Disproportionate Share Funding

Under the State of New Hampshire's tax code, the State imposes a MET equal to 5.4% of net patient service revenue in State fiscal years 2022 and 2021, with certain exclusions. The amount of tax incurred by the Hospital for fiscal 2022 and 2021 was $4,221,892 and $3,194,153, respectively. The Hospital has accrued $1,055,451 and $1,022,790 in MET at September 30, 2022 and 2021, respectively, within accounts payable and accrued expenses in the accompanying balance sheets.

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. In 2022 and 2021, the Hospital recognized disproportionate share revenues (net of related reserves) totaling $5,700,000 and $4,325,004, respectively, in the accompanying statements of operations. Currently, the State of New Hampshire makes disproportionate share hospital payments to support up to 75% of the actual uncompensated care costs for New Hampshire's hospitals with critical access designation.

The Centers for Medicare and Medicaid Services (CMS) has completed audits of the State's program and the DSH payments made by the State from 2011 through 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 Hospital has recorded reserves to address its potential exposure based on the audit results to date or any future redistributions.

Accelerated Medicare Payments

As discussed in note 2, during fiscal year 2020, the Hospital requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals, or up to three months of advance Medicare payments for other health care providers. One year from the date of receipt of the advance payments (beginning April 2021), 25% of the advances were to be recouped in the first eleven months. An additional 25% of the advances were to be recouped in the next six months, with the entire amount repayable in 29 months. Any outstanding balance after 29 months is repayable at a 4% interest rate. During the third and fourth quarters of fiscal 2020, the Hospital received approximately $10.7 million from these accelerated Medicare payment requests. The Hospital paid the accelerated Medicare payments in full during fiscal year 2021 and there was no remaining liability as of September 30, 2022 or 2021.

4. Concentration of Credit Risk

Financial instruments which subject the Hospital to credit risk consist of cash and cash equivalents, accounts receivable and investments. The risk with respect to cash equivalents is minimized by the Hospital's policy of investing in financial instruments with short-term maturities issued by highly rated financial institutions. Investments that exceeded 10% of investments include the Vanguard Total Stock Market Index Fund as of September 30, 2022 and the Vanguard Total Stock Market Index Fund and the Vanguard Total International Stock Index Fund as of September 30, 2021.

4. Concentration of Credit Risk (Continued)

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The Hospital's accounts receivable are primarily due from third-party payors. The mix of gross patient accounts receivable at September 30, 2022 and 2021 was as follows:

	2022	2021
Medicare	35%	33%
Medicaid	7	6
Anthem	9	8
Other third-party payors	21	25
Patients	28	28
	100%	100%

5. Assets Limited as to Use and Restricted Funds

The composition of assets limited as to use at September 30, 2022 and 2021 is set forth in the following table. Investments are stated at fair value.

	2022	2021
Board designated, donor restricted and long-term investments:		
Cash and cash equivalents	$ 1,644,108	$ 4,368,195
Marketable equity securities	41,049,000	48,860,567
Mutual funds	34,059,312	41,453,313
U.S. Treasury obligations	4,001,356	1,118,194
Interests in perpetual trusts	4,941,606	6,220,933
	$85,695,382	$102,021,202

Assets limited as to use are comprised of the following at September 30:

	2022	2021
Board designated for capital, working capital and community services	$71,905,806	$ 84,967,028
Donor-restricted	13,789,576	17,054,174
	$85,695,382	$102,021,202

As a result of bequests, the Hospital is the beneficiary of two trust funds, one of which is administered by an outside trustee and the other administered by the Hospital. The terms of the perpetual trusts require that income or a percentage of income be paid to the Hospital in perpetuity; however, distribution of principal is not permitted under the terms of the trusts. The amounts recorded in the accompanying balance sheets represent the fair values of the assets upon notification of the trusts' existence, which are adjusted annually to reflect the appreciation or depreciation in the fair value of the assets. Offsetting amounts are included in net assets with donor restrictions. Income distributed to the Hospital from these trusts is included in the accompanying statements of operations as investment income.

6. Property and Equipment

Property and equipment consists of the following at September 30:

	2022	2021
Land and land improvements	$ 4,686,848	$ 4,686,848
Building and building improvements	29,949,565	29,157,921
Equipment, including capital leases	60,837,482	59,186,833
Capital improvements in progress	2,972,772	2,306,413
	98,446,667	95,338,015
Less accumulated depreciation and amortization	(62,798,949)	(60,376,751)
	$ 35,647,718	$ 34,961,264

The cost of assets recorded under capital leases totaled $614,046 and $537,973 at September 30, 2022 and 2021, respectively. The cost of these assets has been included with property and equipment, and accumulated amortization is included with accumulated depreciation. Accumulated amortization associated with assets recorded under capital leases was $478,170 and $350,530 at September 30, 2022 and 2021, respectively.

7. Long-Term Debt and Capital Lease Obligations

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

	2022	2021
New Hampshire Business Finance Authority (NHBFA) in conjunction with Revenue Bonds Series 2013 with variable rate interest, amended and restated as of June 27, 2018, as described below	$21,949,717	$22,603,449
Capital lease obligations with interest rates ranging from 3.50% to 5.25%, due in monthly installments ranging from $3,277 to $7,495, maturity dates ranging from October 2023 to April 2024, collateralized by equipment (note 6)	155,175	216,198
	22,104,892	22,819,647
Less unamortized bond issuance costs	(1,226)	(7,505)
Less current portion	(808,808)	(775,616)
	$21,294,858	$22,036,526

On January 1, 2013, the Hospital refinanced its existing 2007 Series Bonds outstanding in the amount of $17,810,000 and its 2009 Series Bonds outstanding in the amount of $9,424,908 through the issuance of $27,240,000 in 2013 Series Bonds with NHBFA. The initial interest rate on the bonds through January 1, 2023 was a variable rate equal to 75% of the one-month LIBOR (London Interbank Offered Rate) plus 1.3125%. The final maturity of the bonds is January 1, 2043 and on January 1, 2028, the bonds are required to be remarketed upon a stipulated mandatory redemption. The Hospital expects to convert the underlying interest rate on the bonds from LIBOR to SOFR (Secured Overnight Financing Rate) by March 1, 2023. As part of this transaction, the Hospital will be extending the tender date of the bonds to 2033.

7. Long-Term Debt and Capital Lease Obligations (Continued)

On June 27, 2018, the 2013 Series Revenue Bonds with NHBFA were amended and restated. The original bonds were exchanged for amended bonds and the original bond issuance was cancelled. The amended 2013 Series Bonds with NHBFA were issued in the amount of $24,584,872, which was the amount of the outstanding balance of the original 2013 Series Bonds at the time of closing. The initial interest rate on the amended bonds through July 1, 2028 is a variable rate equal to the sum of 81.5% of the one-month LIBOR plus 1.45%. The interest rate at September 30, 2022 was 3.27%. The final maturity of the amended bonds remained January 1, 2043. On January 1, 2028, the amended bonds must be remarketed upon a stipulated mandatory redemption. The Hospital is also required to comply with certain financial and other covenants and has granted as security all gross receipts, together with all real and personal property, as defined. The amended Series 2013 Bonds require the same debt service payments as the original 2013 Series Bonds with payments ranging from $408,605 to $1,589,792 per year.

Concurrent with the 2007 NHBFA bond issuance, the Hospital executed an interest rate swap agreement to hedge its exposure to the volatility of interest payments on a portion of its variable rate Series 2007 Revenue Bonds. During 2013, the Series 2007 Revenue Bonds were refinanced through the issuance of Series 2013 Revenue Bonds, as previously discussed. All existing terms of the swap remained in effect. At September 30, 2022, an interest rate swap agreement was outstanding at a notional amount totaling approximately $7.2 million. The swap agreement hedged the Hospital's interest exposure by effectively converting interest payments from variable rates to a fixed rate of 3.57%. The swap agreement, which expires in October 2033, is designated as a cash flow hedge of the underlying variable rate interest payments, and changes in the fair value of the swap agreement are reported as a change in net assets without donor restrictions. The swap agreement had a fair value of $(398,574) and $(1,318,987) as of September 30, 2022 and 2021, respectively.

Concurrent with the amended and restated 2013 Series Revenue Bonds, the Hospital executed an interest rate swap agreement effective July 1, 2018 to hedge its exposure to the volatility of interest payments on a portion of its variable rate on the amended and restated 2013 Series Revenue Bonds. At September 30, 2022, an interest rate swap agreement was outstanding at a notional amount totaling approximately $12.7 million. The swap agreement hedges the Hospital's interest exposure by effectively converting interest payments from variable rates to a fixed rate of 2.64%. The swap agreement, which expires July 1, 2028, is designated as a cash flow hedge of the underlying variable interest payments, and changes in the fair value of the swap agreement are reported as a change in net assets without donor restrictions. The swap agreement had a fair value of $253,771 and $(1,346,808) as of September 30, 2022 and 2021, respectively.

During the year, the Hospital pays or receives the difference between the fixed and variable rates applied to the notional amounts of the above interest rate swap agreements. During 2022 and 2021, such charges were $468,385 and $603,697, respectively.

In connection with the amended and restated 2013 Series Revenue Bonds, the Hospital is required to comply with certain restrictive financial covenants including, but not limited to, debt service coverage and debt to equity ratios. At September 30, 2022, the Hospital was in compliance with these restrictive covenants.

7. Long-Term Debt and Capital Lease Obligations (Continued)

The scheduled maturities on long-term debt for the next five years ending September 30 and thereafter are as follows:

	Long-Term Debt	Capital Lease Obligations	Total
2023	$ 683,835	$124,973	$ 808,808
2024	714,684	30,202	744,886
2025	747,144	–	747,144
2026	781,078	–	781,078
2027	816,554	–	816,554
Thereafter	18,206,422	–	18,206,422
	$21,949,717	$155,175	$ 22,104,892

The Hospital also has an available $3,000,000 revolving demand line of credit with a financial institution. The line of credit bears no interest unless drawn at the Hospital's option in which case the rate is equal to the prime rate or 1, 2 or 3 month LIBOR plus 2.5% (6.25% at September 30, 2022). There was no balance outstanding under this agreement at September 30, 2022 or 2021. The line of credit was subject to renewal on September 30, 2022 and, as of the date of these financial statements, is in the process of being renewed with the bank.

In May 2020, the Hospital entered into an additional $7,000,000 revolving demand line of credit with a financial institution. The line of credit bears no interest unless drawn at the Hospital's option in which case the rate is equal to one month LIBOR plus 1.75% (index floor of 1.00%). There was no balance outstanding under this agreement at September 30, 2021. The line of credit expired December 31, 2021 and was not renewed.

8. Net Assets With Donor Restrictions

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

	2022	2021
Subject to expenditure for specific purposes:		
Purchase of equipment	$ 148,061	$ 217,550
Health education and other	658,442	602,021
	806,503	819,571
Restricted endowments:		
General endowment to ensure the Hospital's long-term sustainability, its services and its many community outreach programs	8,043,133	10,012,107
Perpetual trusts (described below)	4,941,606	6,220,933
	$13,791,242	$17,052,611

8. Net Assets With Donor Restrictions (Continued)

Net assets with donor restrictions of $4,941,606 and $6,220,933 at September 30, 2022 and 2021, respectively, are to be held in perpetuity and include two perpetual trusts (note 5). The income and dividends on net assets held in perpetuity are generally expendable to support health care services and capital purchases at the discretion of the Hospital.

The Hospital's endowment funds are donor-restricted, and therefore exclude board-designated funds. The endowment net assets as of September 30, 2022 and 2021 are as follows:

	With Donor Restrictions	
	2022	2021
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	$4,220,482	$ 4,220,482
Accumulated investment gains	3,822,651	5,791,625
	$8,043,133	$10,012,107

Activity in fiscal 2022 and 2021 related to endowment funds was as follows:

	2022	2021
Balances, beginning of year	$10,012,107	$ 8,699,934
Investment (loss) return, net	(1,498,627)	1,736,787
Amounts released under spending policy	(331,992)	(301,665)
Appropriation for expenditure	(138,355)	(122,949)
Balances, end of year	$8,043,133	$10,012,107

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Hospital has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At September 30, 2022 and 2021, the Hospital had no underwater endowments.

9. Patient Service Revenue

An estimated breakdown of patient service revenues (including disproportionate share funding) by major payor sources is as follows for the years ended September 30:

	2022	2021
Private payors (includes coinsurance and deductibles)	$25,863,456	$25,163,289
Medicaid	7,562,189	5,089,462
Medicare	54,931,009	51,599,447
Self-pay	3,149,005	2,650,581
Patient service revenue	$91,505,659	$84,502,779

9. Patient Service Revenue (Continued)

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs.

10. Employee Benefit Plans

The Hospital has a tax-sheltered annuity plan covering substantially all of its employees. Participating employees become eligible for employer contributions following the completion of two years of service, as defined, and attainment of age 21. Employer contributions are determined based on a percentage of employees' salaries and are discretionary. Benefit expense related to this plan for the years ended September 30, 2022 and 2021 amounted to approximately $572,000 and $229,000, respectively.

The Hospital also offers to a select group of management or highly compensated employees the option to participate in an Internal Revenue Code Section 457 deferred compensation plan to which the Hospital may make a discretionary contribution. The Hospital made contributions to the plan for the years ended September 30, 2022 and 2021 totaling $50,700 and $17,500, respectively.

11. Commitments and Contingencies

Operating Leases

The Hospital has various operating leases relative to certain equipment and various office facilities. The future annual minimum lease payments under these noncancellable leases as of September 30, 2022 is $194,940 for the year ending September 30, 2023.

Rent expense was approximately $342,000 and $338,000 for the years ended September 30, 2022 and 2021, respectively.

Malpractice Loss Contingencies

The Hospital maintains malpractice insurance coverage on a claims-made basis. The claims-made policies, which are subject to retrospective adjustment and renewal on an annual basis, cover only claims made during the term of the policies, but not those occurrences for which claims may be made after expiration of the policies. The Hospital intends to renew its coverage and has no reason to believe that it will be prevented from renewing such coverage.

In accordance with ASU No. 2010-24, *"Health Care Entities" (Topic 954): Presentation of Insurance Claims and Related Recoveries*, the Hospital is required to record a liability related to estimated professional liability losses and also a receivable related to estimated recoveries under insurance coverage for recoveries of potential losses. At September 30, 2022 and 2021, management of the Hospital estimated that the Hospital did not have any significant exposure arising from estimated professional liability losses or significant estimated recoveries under insurance coverage for recoveries of potential losses.

12. Volunteer Services (Unaudited)

In 2022 and 2021, total volunteer service hours received by the Hospital were approximately 4,300 and 1,700, respectively. The volunteers provide nonspecialized services to the Hospital, none of which have been recognized as revenue or expense in the statements of operations.

13. Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses, excluding the New Hampshire Medicaid enhancement tax of $4,221,892 and $3,194,153 for 2022 and 2021, respectively, related to providing these services are as follows for the years ended September 30:

	Health Services	General and Administrative	Total
2022			
Salaries and benefits	$42,328,809	$ 5,662,098	$47,990,907
Supplies and other	32,396,534	3,316,970	35,713,504
Insurance	504,117	337,916	842,033
Depreciation and amortization	4,007,293	217,841	4,225,134
Interest	–	914,630	914,630
	$79,236,753	$10,449,455	$89,686,208
2021			
Salaries and benefits	$36,760,226	$ 5,186,276	$41,946,502
Supplies and other	31,107,494	2,782,039	33,889,533
Insurance	448,698	252,251	700,949
Depreciation and amortization	4,046,736	219,801	4,266,537
Interest	–	958,169	958,169
	$72,363,154	$ 9,398,536	$81,761,690

The financial statements report certain expense categories that are attributable to more than one healthcare service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, such as depreciation and interest, are allocated to a function 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.

14. Financial Assistance Program and Community Benefits (Unaudited)

The Hospital maintains records to identify and monitor the level of financial assistance it provides. These records include the amount of charges foregone for services and supplies furnished under its financial assistance program, the estimated cost of those services and supplies, and equivalent service statistics. The following information measures the level of financial assistance provided during the years ended September 30, 2022 and 2021:

	2022	2021
Charges foregone, based on established rates (note 1)	$665,000	$1,021,000
Estimated costs incurred to provide financial assistance	$485,000	$ 646,000
Equivalent percentage of financial assistance services to all services	0.39%	0.65%

In addition to the financial assistance identified above, the Hospital does not receive full payment from the Medicare and Medicaid programs for the cost of services to certain poor and elderly patients served. In 2022 and 2021, the Hospital incurred costs in excess of payments in these programs amounting to approximately $7,499,000 and $5,247,000, respectively.

The Hospital also provides other services to the community at no cost or reduced cost, such as screenings, clinics, etc. The cost of providing these services was approximately $3,408,000 and $4,001,000 for the years ended September 30, 2022 and 2021, respectively.

The Hospital also has direct subsidies of approximately $5,425,000 and $4,866,000 for primary care and various specialty practices for the years ended September 30, 2022 and 2021, respectively.

15. Fair Value of Financial Instruments

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 Hospital uses various methods including market, income and cost approaches. Based on these approaches, the Hospital 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 Hospital 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 Hospital 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.

15. Fair Value of Financial Instruments (Continued)

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 Hospital performs a detailed analysis of the assets and liabilities that are subject to fair value measurements. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

For the fiscal year ended September 30, 2022, the application of valuation techniques applied to similar assets and liabilities has been consistent with prior years.

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

	Total	Level 1	Level 2	Level 3
2022				
Assets:				
Assets limited as to use:				
Cash and cash equivalents	$ 1,644,108	$ 822,660	$ 821,448	$ –
U.S. Treasury obligations	4,001,356	4,001,356	–	–
U.S. common stock:				
Technology	12,234,160	12,234,160	–	–
Healthcare	4,407,208	4,407,208	–	–
Consumer goods	9,785,644	9,785,644	–	–
Industrial goods	4,246,664	4,246,664	–	–
Services	7,518,924	7,518,924	–	–
Financial	1,288,200	1,288,200	–	–
Utilities	1,568,200	1,568,200	–	–
Mutual funds:				
Domestic	11,210,480	11,210,480	–	–
International	6,695,510	6,695,510	–	–
Fixed income	16,153,322	16,153,322	–	–
Investments in perpetual trusts	4,941,606	–	4,941,606	–
	$ 85,695,382	$79,932,328	$5,763,054	$ –
Interest rate swap agreements	$ 144,803	$ –	$ –	$ 144,803

15. Fair Value of Financial Instruments (Continued)

	Total	Level 1	Level 2	Level 3
2021				
Assets:				
Assets limited as to use:				
Cash and cash equivalents	$ 4,368,195	$ 835,957	$3,532,238	$ –
U.S. Treasury obligations	1,118,194	1,118,194	–	–
U.S. common stock:				
Technology	14,705,084	14,705,084	–	–
Healthcare	4,945,880	4,945,880	–	–
Consumer goods	13,142,236	13,142,236	–	–
Industrial goods	3,900,420	3,900,420	–	–
Services	9,334,195	9,334,195	–	–
Financial	1,380,132	1,380,132	–	–
Utilities	1,452,620	1,452,620	–	–
Mutual funds:				
Domestic	13,674,142	13,674,142	–	–
International	8,937,864	8,937,864	–	–
Fixed income	18,841,307	18,841,307	–	–
Investments in perpetual trusts	6,220,933	–	6,220,933	–
	$102,021,202	$92,268,031	$9,753,171	$ –
Liabilities:				
Interest rate swap agreements	$ 2,665,795	$ –	$ –	$2,665,795

The valuation of the interest rate swap agreements is estimated by a third party based on the anticipated cash flows under the swap agreements over their duration at market interest rates at September 30, 2022 and 2021.

There were no significant purchases, issues or transfers into or out of Level 3 for the years ended September 30, 2022 or 2021.

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 balance sheets and statements of operations.

The following methods and assumptions were used by the Hospital in estimating the "fair value" of other financial instruments in the accompanying financial statements and notes thereto:

Cash and cash equivalents: The carrying amounts reported in the accompanying statements of financial position for these financial instruments approximate their fair values.

15. Fair Value of Financial Instruments (Continued)

Accounts and other receivables, pledges receivable, notes receivable, accounts payable and estimated third-party payor settlements: The carrying amounts reported in the accompanying statements of financial position approximate their respective values as these financial instruments have short-term maturities or are recorded at amounts that approximate fair value.

Long-term debt: The carrying value of substantially all long-term debt approximates its fair value due to the variable rate interest terms.

16. 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 not financed with debt, consisted of the following at September 30, 2022:

Cash and cash equivalents	$31,146,583
Accounts receivable	6,450,584
Other receivables	310,365
	$37,907,532

To manage liquidity, the Hospital maintains sufficient cash and cash equivalent balances to support daily operations throughout the year. Cash and cash equivalents include bank deposits, money market funds, and other similar vehicles that generate a return on cash and provide daily liquidity to the Hospital. In addition, the Hospital 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, 2022, the balance in board-designated assets was approximately $71.9 million.