



**EASTERN MAINE HEALTHCARE SYSTEMS d/b/a
NORTHERN LIGHT HEALTH**

CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

With Independent Auditor's Report



EASTERN MAINE HEALTHCARE SYSTEMS d/b/a NORTHERN LIGHT HEALTH

Consolidated Financial Statements

September 30, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Eastern Maine Healthcare Systems d/b/a Northern Light Health
Brewer, Maine

We have audited the accompanying consolidated financial statements of Eastern Maine Healthcare Systems d/b/a Northern Light Health, which comprise the consolidated balance sheets as of September 30, 2020 and 2019, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Board of Directors
Eastern Maine Healthcare Systems d/b/a Northern Light Health
Brewer, Maine

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northern Light Health as of September 30, 2020 and 2019, and the consolidated results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Effect of Adopting New Accounting Standards

As discussed in Note 2, in 2020 Northern Light Health adopted new accounting guidance, Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-18, *Restricted Cash*, and FASB ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. Our opinion is not modified with respect to these matters.

Other Matter

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

Berry Dunn McNeil & Parker, LLC

Portland, Maine
December 16, 2020

EASTERN MAINE HEALTHCARE SYSTEMS d/b/a NORTHERN LIGHT HEALTH

Consolidated Balance Sheets

September 30, 2020 and 2019

ASSETS

(Dollars in thousands)	<u>2020</u>	<u>2019</u>
Current assets		
Cash and cash equivalents	\$ 151,470	\$ 90,229
Short-term investments	176,908	15,296
Assets whose use is limited or restricted	18,439	27,082
Patient and trade accounts receivable	215,726	220,853
Estimated third-party payor settlements	88,302	81,475
Other receivables	20,129	16,803
Inventory	26,487	17,650
Prepaid expenses and other current assets	<u>11,649</u>	<u>18,182</u>
Total current assets	<u>709,110</u>	<u>487,570</u>
Property and equipment – net	<u>753,984</u>	<u>745,950</u>
Noncurrent assets whose use is limited or restricted		
Internally designated by the Board of Directors		
Funded depreciation	215,889	228,827
Other designated funds	154,344	152,958
Self-insurance and other funds	44,726	39,932
Bond funds held by trustees	56,618	16,061
With donor restrictions	65,958	70,893
Beneficial interest in perpetual trusts	<u>15,427</u>	<u>14,302</u>
Total noncurrent assets whose use is limited or restricted	<u>552,962</u>	<u>522,973</u>
Intangibles and other assets	<u>22,528</u>	<u>22,469</u>
Total assets	\$ <u>2,038,584</u>	\$ <u>1,778,962</u>

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET ASSETS

(Dollars in thousands)	<u>2020</u>	<u>2019</u>
Current liabilities		
Accounts payable	\$ 118,990	\$ 96,492
Accrued expenses and other current liabilities	139,295	95,302
Estimated third-party payor settlements	17,954	4,554
Medicare advance payments	44,513	-
Line-of-credit borrowings	8,245	-
Current portion of long-term debt	10,812	11,128
Current portion of accrual for self-insurance	<u>15,650</u>	<u>15,623</u>
Total current liabilities	<u>355,459</u>	<u>223,099</u>
Noncurrent liabilities		
Long-term debt – net of current portion	551,771	520,645
Accrual for self-insurance and postretirement benefits	284,190	237,979
Medicare advance payments	133,538	-
Other liabilities	<u>6,036</u>	<u>8,398</u>
Total noncurrent liabilities	<u>975,535</u>	<u>767,022</u>
Total liabilities	<u>1,330,994</u>	<u>990,121</u>
Net assets (deficit)		
Without donor restrictions	626,250	703,673
With donor restrictions	<u>81,385</u>	<u>85,195</u>
Total controlling net assets	707,635	788,868
Without donor restrictions – noncontrolling interest	<u>(45)</u>	<u>(27)</u>
Total net assets	<u>707,590</u>	<u>788,841</u>
Total liabilities and net assets	<u>\$ 2,038,584</u>	<u>\$ 1,778,962</u>

EASTERN MAINE HEALTHCARE SYSTEMS d/b/a NORTHERN LIGHT HEALTH

Consolidated Statements of Operations

Years Ended September 30, 2020 and 2019

(Dollars in thousands)	<u>2020</u>	<u>2019</u>
Revenue		
Net patient service revenue	\$ 1,537,342	\$ 1,644,816
Sales and contract revenue	11,507	10,673
Other revenue	201,597	86,697
Net assets with donor restrictions released from restrictions - operations	<u>2,803</u>	<u>2,269</u>
Total revenue	<u>1,753,249</u>	<u>1,744,455</u>
Expenses		
Compensation and employee benefits	1,066,533	1,000,110
Supplies and other	687,898	631,710
Depreciation and amortization	59,072	57,799
Interest	<u>22,369</u>	<u>22,688</u>
Total expenses	<u>1,835,872</u>	<u>1,712,307</u>
(Loss) income from operations	<u>(82,623)</u>	<u>32,148</u>
Other gains (losses)		
Income tax benefit (expense)	608	(762)
Joint venture income	533	1,027
Gain on sale of Alliance Health Documentation, LLC, net	88	599
Contribution received in the acquisition of Mayo	12,924	-
Investment income and other, net	<u>9,802</u>	<u>2,336</u>
Total other gain - net	<u>23,955</u>	<u>3,200</u>
(Deficiency) excess of revenue and gains over expenses and losses	<u>(58,668)</u>	35,348
Noncontrolling interest	<u>(41)</u>	<u>(276)</u>
(Deficiency) excess of revenue and gains over expenses and losses – controlling interest	<u>(58,709)</u>	35,072
Other changes in net assets without donor restrictions		
Net assets with donor restrictions released from restrictions – capital acquisitions	14,105	6,859
Net unrealized gains on investments	-	20,378
Pension and postretirement plan – related adjustments	<u>(32,819)</u>	<u>(46,128)</u>
(Decrease) increase in net assets without donor restrictions – controlling interest	<u>\$ (77,423)</u>	<u>\$ 16,181</u>

The accompanying notes are an integral part of these financial statements.

EASTERN MAINE HEALTHCARE SYSTEMS d/b/a NORTHERN LIGHT HEALTH

Consolidated Statements of Changes in Net Assets

Years Ended September 30, 2020 and 2019

(Dollars in thousands)	Controlled Net Assets Without Donor Restrictions	Controlled Net Assets With Donor Restrictions	Total Controlled Net Assets	Total Noncontrolling Interest
Net assets – September 30, 2018	\$ <u>687,492</u>	\$ <u>86,927</u>	\$ <u>774,419</u>	\$ <u>(28)</u>
Excess of revenue and gains over expenses and losses	35,348	-	35,348	-
Noncontrolling interest	(276)	-	(276)	276
Noncontrolling dividends to member	-	-	-	(275)
Restricted contributions	-	6,540	6,540	-
Net assets released from restrictions				
Capital acquisition	6,859	(6,859)	-	-
Operations	-	(2,269)	(2,269)	-
Restricted investment income and realized net gains	-	558	558	-
Change in net unrealized gains on investments	20,378	298	20,676	-
Pension and postretirement plan – related adjustments	<u>(46,128)</u>	<u>-</u>	<u>(46,128)</u>	<u>-</u>
Increase (decrease) in net assets	<u>16,181</u>	<u>(1,732)</u>	<u>14,449</u>	<u>1</u>
Net assets – September 30, 2019	<u>703,673</u>	<u>85,195</u>	<u>788,868</u>	<u>(27)</u>
Deficiency of revenue and gains over expenses and losses	(58,668)	-	(58,668)	-
Noncontrolling interest	(41)	-	(41)	41
Noncontrolling dividends to member	-	-	-	(59)
Contribution received in the acquisition of Mayo	-	1,085	1,085	-
Restricted contributions	-	10,939	10,939	-
Net assets released from restrictions				
Capital acquisition	14,105	(14,105)	-	-
Operations	-	(2,803)	(2,803)	-
Restricted investment income and realized net gains	-	477	477	-
Change in net unrealized gains on investments	-	597	597	-
Pension and postretirement plan – related adjustments	<u>(32,819)</u>	<u>-</u>	<u>(32,819)</u>	<u>-</u>
Decrease in net assets	<u>(77,423)</u>	<u>(3,810)</u>	<u>(81,233)</u>	<u>(18)</u>
Net assets – September 30, 2020	<u>\$ 626,250</u>	<u>\$ 81,385</u>	<u>\$ 707,635</u>	<u>\$ (45)</u>

The accompanying notes are an integral part of these financial statements.

EASTERN MAINE HEALTHCARE SYSTEMS d/b/a NORTHERN LIGHT HEALTH

Consolidated Statements of Cash Flows

Years Ended September 30, 2020 and 2019

(Dollars in thousands)	<u>2020</u>	<u>2019</u>
Cash flow from operating activities		
(Decrease) increase in net assets	\$ (81,251)	\$ 14,450
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation, amortization, and accretion	57,860	56,716
Impairment losses on assets	938	-
Net gain on extinguishment of debt and interest rate swaps	(29)	-
Gain on sale of property and equipment	(271)	(32)
Gain on sale of Alliance Health Documentation, LLC	(88)	(599)
Net realized and unrealized gains on investments	(16,285)	(23,640)
Equity in earnings of joint venture	(533)	(1,027)
Fair value of net assets of acquired affiliates	(14,009)	-
Pension and postretirement plan-related adjustments	32,819	46,128
Contributions with donor restrictions	(10,940)	(6,540)
Change in operating assets and liabilities		
Patient and trade accounts receivable	8,085	(35,395)
Other current assets	(3,347)	12,861
Other assets	316	(1,007)
Estimated third-party payor settlements	8,973	(32,207)
Medicare advance payments	178,051	-
Accounts payable, accrued expenses, and other liabilities	53,356	8,700
Accrual for self-insurance and postretirement benefits	<u>13,421</u>	<u>(11,568)</u>
Net cash provided by operating activities	<u>227,066</u>	<u>26,840</u>
Cash flows from investing activities		
Purchase of property and equipment	(66,598)	(59,421)
Proceeds from sales of property and equipment	12,688	1,104
Proceeds from distributions of equity of joint ventures	1,735	535
Proceeds from sale of Alliance Health Documentation, LLC	88	599
Cash received in the acquisition of Mayo	2,584	-
Investment in joint ventures	(379)	(100)
Purchases of investments	(648,276)	(163,934)
Proceeds from sales of investments	498,641	146,503
Net changes in money market investments	<u>31,887</u>	<u>28,629</u>
Net cash used by investing activities	<u>(167,630)</u>	<u>(46,085)</u>
Cash flow from financing activities		
Proceeds from issuance of long-term debt	44,995	-
Repayment of long-term debt	(17,512)	(10,729)
Proceeds from lines-of-credit	8,245	-
Repayment on Mayo line-of-credit	(2,775)	-
Restricted contributions and investment income	11,418	7,098
Increase in pledges receivable restricted for long-term purposes	<u>(2,653)</u>	<u>(1,083)</u>
Net cash provided (used) by financing activities	<u>41,718</u>	<u>(4,714)</u>
Net increase (decrease) in cash and cash equivalents	101,154	(23,959)
Cash and cash equivalents and restricted cash – beginning of year	<u>104,786</u>	<u>128,745</u>
Cash and cash equivalents and restricted cash – end of year	\$ <u>205,940</u>	\$ <u>104,786</u>

The accompanying notes are an integral part of these financial statements.

EASTERN MAINE HEALTHCARE SYSTEMS d/b/a NORTHERN LIGHT HEALTH

Consolidated Statements of Cash Flows (Concluded)

Years Ended September 30, 2020 and 2019

(Dollars in thousands)	<u>2020</u>	<u>2019</u>
Composition of cash and cash equivalents and restricted cash – end of year		
Operating cash	\$ 151,470	\$ 90,229
Restricted cash – cash investments-bond funds, see Note 6	<u>54,470</u>	<u>14,557</u>
	<u>\$ 205,940</u>	<u>\$ 104,786</u>

Cash paid for interest approximated \$23,433 and \$23,930 for the years ended September 30, 2020 and 2019, respectively.

Noncash transactions

The System entered into capital leases in the amount of approximately \$59 during the year ended September 30, 2020.

The System refinanced \$45,331 of tax-exempt bonds during the year ended September 30, 2020.

The System refinanced notes payable of \$3,300 during the year ended September 30, 2020.

See Note 1 for disclosure of the contribution of Mayo.

See Note 7 for disclosure of purchases of property and equipment included in accounts payable.

The accompanying notes are an integral part of these financial statements.

EASTERN MAINE HEALTHCARE SYSTEMS d/b/a NORTHERN LIGHT HEALTH

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

1. Organization and Business

Eastern Maine Healthcare Systems (EMHS) d/b/a Northern Light Health is the parent company in an integrated healthcare delivery system. Northern Light Health controls its subsidiaries by means of stock ownership, corporate membership, or membership interests. Northern Light Health and its subsidiaries provide a broad range of healthcare and related services throughout Maine.

The primary function of Northern Light Health is to provide overall coordination and direction for the activities of the following corporations. Each affiliated organization is a tax-exempt charitable organization, unless otherwise noted.

Acadia Hospital, Corp. d/b/a Northern Light Acadia Hospital — Northern Light Acadia Hospital (Acadia) operates a 100-bed acute care, psychiatric hospital located in Bangor, Maine and provides outpatient mental health services. Acadia also provides mental health services through the use of tele-psychiatry to 16 Maine hospital emergency departments. Acadia is the sole corporate member of Acadia Healthcare, Inc. d/b/a Northern Light Acadia Healthcare. Northern Light Acadia Healthcare provides an alcohol and drug treatment program, adult and children's case management services, school-based services, mental health services integrated within primary care practices, and other mental health community services.

Affiliated Healthcare Systems (AHS) — AHS is a taxable holding company. AHS has several subsidiaries and is a member in several joint venture limited liability companies.

The following are subsidiaries of Affiliated Healthcare Systems:

Affiliated Laboratory, Inc. d/b/a Northern Light Laboratory — Northern Light Laboratory provides medical laboratory services to various Northern Light Health companies, physicians, and many unaffiliated healthcare clients in Northern New England. Northern Light Laboratory operates its core medical laboratory in Bangor and has various drawing stations throughout the State.

Affiliated Healthcare Management — Affiliated Healthcare Management provides various services to businesses throughout Northern New England including workforce training, employee assistance programs, and executive coaching to hospitals and other healthcare organizations.

Beacon Health, LLC — Beacon Health, LLC contracts with payors to provide population health management services and care coordination. Beacon Health, LLC is the sole member of Beacon Rural Health, LLC. Beacon Rural Health, LLC provides population health management services in the Medicare Shared Savings Program. Beacon Health, LLC is the sole shareholder of Beacon Direct, Inc. Beacon Direct, Inc. provides third party administrative, provider network management and wellness services.

EASTERN MAINE HEALTHCARE SYSTEMS d/b/a NORTHERN LIGHT HEALTH

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

Blue Hill Memorial Hospital d/b/a Northern Light Blue Hill Hospital — Northern Light Blue Hill Hospital (Blue Hill) operates a 25-bed, critical access hospital located in Blue Hill, Maine and has family and specialty practices in Blue Hill, Castine, Deer Isle-Stonington, and Bucksport.

Charles A. Dean Memorial Hospital d/b/a Northern Light CA Dean Hospital — Northern Light CA Dean Hospital (CA Dean) operates a 25-bed critical access hospital and skilled care facility in Greenville, Maine and has family and specialty practices in Greenville, Monson, and Sangerville.

Eastern Maine Medical Center d/b/a Northern Light Eastern Maine Medical Center — Northern Light Eastern Maine Medical Center (EMMC) operates a 411-bed acute care medical center located in Bangor, Maine, which provides a variety of inpatient and ambulatory healthcare services. EMMC is the sole corporate member of Eastern Maine Medical Center Auxiliary which raises funds to benefit EMMC.

M Drug, LLC d/b/a Northern Light Pharmacy — Effective December 15, 2019, EMMC became the sole member of M Drug, LLC d/b/a Northern Light Pharmacy. M Drug, LLC was formerly a subsidiary of Affiliated Healthcare Systems and Affiliated Healthcare Management. Northern Light Pharmacy operates five retail pharmacies in Bangor, Brewer, and Portland, Maine. Northern Light Pharmacy also operates a division that provides mail order and specialty medications.

LTC, LLC — EMMC is the sole member of LTC, LLC. LTC, LLC provides or supports a continuum of nonacute healthcare services. LTC, LLC is a 50% partner in eight separate partnerships, each of which owns and operates a nursing home or residential facility. On a combined basis, the nursing homes offer 321 long-term care beds, 54 assisted living units, 26 specialized care beds, and a 111-bed Alzheimer unit to the residents of Central and Northern Maine.

EMHS Foundation d/b/a Northern Light Health Foundation — Northern Light Health Foundation holds and manages funds without donor restrictions and funds with donor restrictions for the benefit of various Northern Light Health companies and other exempt organizations in Maine. The amount of assets held for the benefit of unrelated organizations is not material.

Inland Hospital d/b/a Northern Light Inland Hospital — Northern Light Inland Hospital (Inland) operates a 48-bed hospital located in Waterville, Maine. Inland is the sole member of Lakewood d/b/a Northern Light Continuing Care, Lakewood (Lakewood) which operates a 105-bed long-term care facility.

Maine Coast Regional Health Facilities d/b/a Northern Light Maine Coast Hospital — Northern Light Maine Coast Hospital (Maine Coast) operates a 64-bed acute care hospital located in Ellsworth, Maine.

Mercy Hospital d/b/a Northern Light Mercy Hospital — Northern Light Mercy Hospital (Mercy) operates a 200-bed acute care hospital with two campuses located in Portland, Maine. Mercy provides inpatient and outpatient medical, surgical, obstetrical/gynecological care and has family and specialty practices in the greater Portland area.

EASTERN MAINE HEALTHCARE SYSTEMS d/b/a NORTHERN LIGHT HEALTH

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

On April 17, 2019, Mercy received approval for a \$75,000,000 Certificate of Need (CON) from the State of Maine Department of Health and Human Services (DHHS) to consolidate its hospital campus at its Fore River location. Construction for the project commenced during the spring of 2020.

Northern Light Health — Northern Light Health includes the operation of the home office as well as a wholly-owned subsidiary, WorkHealth, LLC.

WorkHealth, LLC — WorkHealth, LLC provides occupational and workplace healthcare services. Northern Light Health is the sole member of WorkHealth, LLC.

Northern Light Medical Transport — Northern Light Medical Transport provides emergency and non-emergency medical transportation services, including 911 response, in over 40 Maine communities.

Rosscare — Rosscare serves as a holding organization for the Sylvia Ross Trust whose purpose is to fund rental subsidies to qualifying patients for living units at Sylvia Ross Assisted Living Home. The subsidies are distributed based upon applicant financial need contingent on the financial performance of the Trust.

Sebasticook Valley Health d/b/a Northern Light Sebasticook Valley Hospital — Northern Light Sebasticook Valley Hospital (SVH) operates a 25-bed critical access hospital located in Pittsfield, Maine and has family practices in Pittsfield, Newport, and Clinton, Maine, as well as specialty practices in Pittsfield and Detroit, Maine.

The Aroostook Medical Center d/b/a Northern Light A.R. Gould Hospital — Northern Light A.R. Gould Hospital (A.R. Gould) operates a community hospital in Presque Isle, Maine with 89 licensed beds and a nursing home in Mars Hill, Maine with 72 beds. A.R. Gould has family and specialty practices in Caribou, Fort Fairfield, Presque Isle, and Mars Hill, Maine.

VNA Home Health & Hospice d/b/a Northern Light Home Care & Hospice — Northern Light Home Care & Hospice provides home health, inpatient and community-based hospice, telehealth, palliative care, and community health services statewide.

MRH Corp. d/b/a Northern Light Mayo Hospital (Mayo) — On March 1, 2020 Hospital Administrative District No. 4 d/b/a Mayo Regional Hospital, merged into MRH Corp., a Maine nonprofit corporation, doing business as Northern Light Mayo Hospital, of which Northern Light Health is the sole corporate member. Northern Light Mayo Hospital is a 25 bed, critical access hospital located in Dover-Foxcroft, Maine. The purpose of the affiliation is to promote improved efficiencies in healthcare delivery, access, and population health in Piscataquis County Maine.

The transaction was accounted for as an acquisition in accordance with Accounting Standards Update (ASU) No. 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions*, which requires the assets and liabilities of Mayo to be accounted for at fair value as of the date of the acquisition. The fair value of the net assets at the date of acquisition was recognized as a contribution received in the acquisition of Mayo as part of other gains, and net assets with donor restrictions. There was no monetary consideration transferred in connection with the transaction.

EASTERN MAINE HEALTHCARE SYSTEMS d/b/a NORTHERN LIGHT HEALTH

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

As of March 1, 2020, the effective date of the transaction, the fair value of each major class of assets and liabilities was as follows (dollars in thousands):

Assets	
Current assets	\$ 10,268
Property and equipment	11,124
Other assets	<u>10,732</u>
 Total assets	 <u>32,124</u>
Liabilities	
Current liabilities	(16,426)
Long-term liabilities	<u>(1,689)</u>
 Total liabilities	 <u>(18,115)</u>
 Contribution	 <u>\$ 14,009</u>

The contribution received was recorded as follows:

Net assets without donor restriction: Contribution received in the acquisition of Mayo	\$ 12,924
Net assets with donor restriction	<u>1,085</u>
 Total contribution	 <u>\$ 14,009</u>

The fair value of property and equipment is based on the cost approach and market (comparable sales) approach.

The consolidated statement of operations for the year ended September 30, 2020 includes the results of Mayo for the seven month period ended September 30, 2020. Mayo had revenue of \$32,372, income from operations of \$1,170, and excess of revenue and gains over expenses and losses of \$1,261 for that seven month period.

The following supplemental pro forma information is for the year ended September 30, 2019.

(dollars in thousands)	Northern Light Health <u>(as previously reported)</u>	<u>Mayo</u>	Pro Forma <u>2019</u>
Revenue	\$ 1,744,455	\$ 53,920	\$ 1,798,375
Excess (deficiency) of revenue and gains over expenses and losses	35,348	(2,818)	32,530
Increase (decrease) in net assets without donor restriction	16,181	(2,776)	13,405
(Decrease) in net assets with donor restriction	(1,732)	(14)	(1,746)

EASTERN MAINE HEALTHCARE SYSTEMS d/b/a NORTHERN LIGHT HEALTH

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Northern Light Health and its controlled affiliates. The consolidated financial statements include 100% of the assets and liabilities of majority-owned subsidiaries. Material intercompany accounts and transactions among the affiliated organizations have been eliminated in preparing the consolidated financial statements.

The accompanying consolidated financial statements have been presented in conformity with U.S. generally accepted accounting principles (GAAP) consistent with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 954, Health Care Entities, and other pronouncements applicable to healthcare organizations.

For purposes of display, transactions deemed by management to be ongoing and central to the provision of healthcare services are reported as revenue and expenses. Peripheral or incidental transactions are reported as other gains and losses.

Northern Light Health reports its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of Northern Light Health. These net assets may be used at the discretion of Northern Light Health's management and the Board of Directors (Board).

Net assets with donor restrictions: Net assets that are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Northern Light Health or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of operations and the statement of changes in net assets.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP 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 revenue and expenses during the period. Actual results could differ from those estimates. Significant estimates are made in the areas of patient accounts receivable, the valuation of investments and acquisitions, the determination of impairment of long-lived assets, self-insurance reserves, accrued retirement benefits, revenue recognized from the Coronavirus Aid, Relief, and Economic Security (CARES) Act Funding, and amounts receivable and payable under reimbursement regulations.

EASTERN MAINE HEALTHCARE SYSTEMS d/b/a NORTHERN LIGHT HEALTH

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with a maturity of three months or less at the date of purchase, excluding amounts classified as assets whose use is limited or restricted.

Northern Light Health maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. Northern Light Health has not experienced any losses on such accounts. Northern Light Health believes it is not exposed to any significant credit risk on cash.

Investments and Investment Income

In 2020, Northern Light Health adopted FASB ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The main provisions require equity investments to be measured at fair value with changes in fair value recognized in excess of revenues, gains, and other support over expenses and losses. Equity investments that do not have readily determinable fair values can be carried at cost less impairment, adjusted for observable events that provide evidence of fair value.

Investments are stated at fair value. Realized gains or losses on the sale of investments are determined by use of average cost. Realized and unrealized gains and losses on investments are reported as other gains (losses). Northern Light Health periodically reviews its investments in non-equity securities to identify those individual investments for which fair value is below cost. Northern Light Health then makes a determination as to whether the investment should be considered other than temporarily impaired. There were no significant impairments at September 30, 2020 and 2019.

The recorded value of investments in hedge funds and limited partnerships is based on fair value as estimated by management using information provided by external investment managers. Northern Light Health has applied the provisions of ASU No. 2009-12, *Investments in Certain Entities that Calculate Net Asset Value (NAV) per Share (or its Equivalent)*. This standard allows for the estimation of the fair value of investments in investment companies for which fair value is not readily determinable using NAV per share or its equivalent as a practical expedient. Northern Light Health has utilized the NAV reported by each of the underlying funds as a practical expedient to estimate the value of the investment for each of these funds. Management believes that these valuations are a reasonable estimate of fair value as of September 30, 2020 and 2019, but are subject to uncertainty and, therefore, may differ from the value that would have been used had a market for the investments existed. Such differences could be material. Certain of the hedge fund and limited partnership investments have restrictions on the withdrawal of the funds (see Note 14).

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

Several Northern Light Health organizations own interests in joint venture entities. Ownership interests between 20% and 50% in a joint venture are accounted for by using the equity method of accounting. Using the equity method, the investment is increased by Northern Light Health

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organization's share of the entity's income and additional investments. The investment is decreased by Northern Light Health organization's share of the entity's losses and distributions.

Derivative Instruments

Northern Light Health recognizes derivative instruments as either assets or liabilities and measures those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. For a derivative instrument designated as a cash flow hedge, the effective portion of the derivative's gain or loss is initially reported as an unrealized gain or loss on investments and subsequently reclassified into earnings when the hedged exposure affects earnings.

Inventory

Northern Light Health records inventory at the lower of cost or market using the first-in, first-out, or average cost methods.

Assets Whose Use Is Limited or Restricted

Assets whose use is limited or restricted include Board designated assets, assets held in trust under debt agreements, self-insurance trust arrangements, and assets that are donor-restricted. Donor restricted trusts held by unrelated entities for the benefit of various Northern Light Health organizations are reported as beneficial interest in perpetual trusts. Board-designated assets may be used at the Board's discretion.

Property and Equipment

Property and equipment are initially recorded at cost or, in the case of gifts, at fair market value at the date of the gift. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the related assets.

Buildings and equipment under capital lease obligations are amortized using the straight-line method over the shorter period of the lease term or estimated useful life of the building or equipment. Such amortization is included in depreciation and amortization in the consolidated statements of operations.

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as an increase in net assets without donor restrictions (excluded from the excess (deficiency) of revenue and gains over expenses and losses), 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 an increase in net assets 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.

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Impairment of Long-Lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value, less cost to sell.

Asset Retirement Obligations

Northern Light Health recognizes the liability for conditional asset retirement obligations when a legal obligation to perform asset retirement activities exists. The fair value of the liability for the legal obligation associated with an asset retirement is recorded in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement is capitalized.

Substantially all of the asset retirement obligations recorded relate to estimated costs to remove asbestos that is contained within Northern Light Health's facilities. The adjustments to the carrying amount of the asset retirement obligation were approximately \$(336,000) and \$105,000 in 2020 and 2019, respectively, and were primarily attributable to revised estimates, accretion expense, and sale of the Mercy State Street Campus.

Costs of Borrowing

Interest costs incurred on borrowed funds during the period of construction of capital assets, net of investment income on borrowed assets held by trustees, are capitalized as a component of the cost of acquiring those assets. There was no capitalized interest in 2020. The amount of interest that was capitalized totaled approximately \$258,000 in 2019. Deferred financing costs and original issue premiums and discounts are amortized over the period the related obligation is outstanding using the effective interest rate method.

Endowment

Northern Light Health has interpreted state law as requiring realized and unrealized gains of net assets with donor restrictions to be retained in a net asset with donor restriction classification until appropriated by the Board and expended. As a result of this interpretation, Northern Light Health classifies as net assets with donor restrictions (a) the original value of the gifts donated to the endowment when explicit donor stipulations requiring permanent maintenance of the historical fair value are present, and (b) the original value of the subsequent gifts to the endowment when explicit donor stipulations requiring permanent maintenance of the historical fair value are present. The remaining portion of the donor-restricted endowment fund composed of accumulated gains not required to be maintained in perpetuity is classified as net asset with donor restriction until those amounts are appropriated for expenditure in a manner consistent with the donor's stipulations.

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Northern Light Health administers a formal spending policy consistent with state law to appropriate the net appreciation of net assets with donor restrictions as is deemed prudent by the Board considering Northern Light Health's long-term and short-term needs, price-level trends, and general economic conditions. Under this policy, Northern Light Health maintains an annual spending level generally in the range of 3%-6%, with a target of 5%, of each endowment fund's moving five-year average market value. Endowment assets are invested in a manner to generate returns at least equal to the planned spending plus inflation over the long term. To satisfy its long-term rate-of-return objectives, Northern Light Health targets a diversified asset allocation that places a greater emphasis on equity-based investments within prudent risk constraints. Realized and unrealized gains on net assets with donor restrictions, which are not specifically restricted by donors, are reported as a net asset with donor restriction until appropriated by the Board and expended.

Revenue Recognition and Patient Accounts Receivable

Patient service revenue is reported at the amount that reflects the consideration to which Northern Light Health expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, Northern Light Health bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by Northern Light Health. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. Northern Light Health believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in hospitals receiving inpatient acute care services or patients receiving services in outpatient centers or in their homes. Northern Light Health measures the performance obligation from admission into the hospital or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to patients and customers in a retail setting (for example, pharmaceuticals) and Northern Light Health does not believe it is required to provide additional goods or services related to that sale.

Because all of its performance obligations relate to contracts with a duration of less than one year, Northern Light Health has elected to apply the optional exemption provided in FASB ASC 606-10-50-14 (a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

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Northern Light Health determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with Northern Light Health's policy, and implicit price concessions provided to uninsured patients.

Northern Light Health determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. Northern Light Health determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

Medicare

The acute care medical hospitals are subject to the federal Prospective Payment System (PPS) for Medicare inpatient hospital services, inpatient skilled nursing facility services, inpatient rehabilitation services, and for certain outpatient services. Under these prospective payment methodologies, Medicare pays a prospectively-determined per discharge, per day, per procedure, or per visit rate for non-physician services. These rates vary according to the applicable Diagnosis Related Group (DRG), Case-Mix Group, or Resource Utilization Group. Capital costs related to Medicare inpatient PPS services are paid based upon a standardized amount per discharge weighted by DRG. For most outpatient services, Medicare makes payment based upon the Ambulatory Payment Classification (APC) of each patient. Certain other outpatient services are reimbursed according to fee screens.

Northern Light Inland Hospital (through September 30, 2019), Northern Light Maine Coast Hospital, and Northern Light A.R. Gould Hospital participate in a Medicare Rural Community Hospital Demonstration Project and are therefore no longer subject to PPS payments for inpatient hospital services and associated capital costs for the duration of this program. During the first fiscal year of the program, Medicare paid for the full reasonable costs incurred for inpatient services provided. The payment for subsequent years is the lesser of reasonable costs or a target amount determined by increasing the first year program costs by the inpatient prospective payment factor update for each succeeding year. Northern Light Inland Hospital became eligible for Medicare Dependent Hospital status effective October 1, 2019, which provides for payments of inpatient services at the greater of a federal rate or a blend of a hospital specific rate. Effective April 1, 2020 Northern Light Maine Coast Hospital became designated as a sole-community hospital, and as such, receives enhanced outpatient reimbursement and is eligible to participate in the 340b program. Several Northern Light Health hospitals receive Disproportionate Share Hospital payments. These payments are made to qualifying hospitals to cover the costs of providing care to low income patients.

Providers of home health services to clients eligible for Medicare home health benefits are paid on a prospective basis, with no retrospective settlement. The prospective payment is based on the scoring attributed to the acuity level of the client at a rate determined by federal guidelines. Providers of hospice services to clients eligible for Medicare hospice benefits are paid on a fee-for-service basis, with no retrospective settlement, provided the Agency's aggregate annual Medicare

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reimbursement is below a predetermined aggregate capitated rate. Revenue is recognized as the services are performed based on the fixed rate amount.

MaineCare

MaineCare is the State of Maine's Medicaid program. Inpatient reimbursement for acute care medical hospitals is based upon prospectively-determined rates that vary according to the applicable DRG. Capital and physician service costs related to MaineCare inpatient services are paid based on a percentage of allowable costs. For most outpatient services, MaineCare makes payment based upon the APC of the patient. Outpatient physician services are paid on a percentage of allowable costs and certain other outpatient services are reimbursed according to fee screens. Acute hospitals receive interim payments for capital costs and physician services at a tentative rate with final settlement determined after completion of annual cost reports by the State. Nursing facilities are reimbursed partially on a prospectively-determined per diem rate for direct and routine services together with a fixed cost component that is subject to final settlement determined after completion of an annual cost report by the State.

As a specialty psychiatric hospital facility, Northern Light Acadia Hospital is reimbursed for Medicare inpatient services on a PPS basis. The prospective payment methodology for psychiatric facilities is based on a variable acuity per diem rate. Northern Light Acadia Hospital is reimbursed for MaineCare inpatient services based on a negotiated rate related to established charges. Outpatient services are reimbursed based on a percentage of cost.

Northern Light Blue Hill Hospital, Northern Light CA Dean Hospital, Northern Light Mayo Hospital, and Northern Light Sebasticook Valley Hospital have been granted Critical Access Hospital (CAH) status by the Medicare and MaineCare Programs. Each CAH is reimbursed a percentage of allowable costs for inpatient and outpatient services provided to Medicare and MaineCare patients.

Northern Light Health has entered into various health management contracts. The contracts provide shared gains and losses based on performance against cost benchmarks with adjustments for quality goals.

The State assesses a healthcare provider tax on the revenues of hospitals. The amount of tax assessed to Northern Light Health organizations was approximately \$31,848,000 and \$29,628,000 in 2020 and 2019, respectively. This amount has been reported in supplies and other expenses in the accompanying consolidated statements of operations.

Laws and regulations concerning government programs, including Medicare and MaineCare, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge Northern Light Health's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon Northern Light Health. In addition, the contracts

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Northern Light Health has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and Northern Light Health's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years become settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from changes in transaction price in 2020 and 2019 (decreased) increased patient service revenue by \$(2,072,000) and \$17,000,000, respectively.

Consistent with Northern Light Health's mission, care is provided to patients regardless of their ability to pay. Therefore, Northern Light Health has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts Northern Light Health expects to collect based on its collection history with those patients.

Patients who meet the Northern Light Health's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue. Northern Light Health estimates the costs associated with providing charity care by calculating a ratio of total cost to total gross charges, and then multiplying that ratio by the gross uncompensated charges associated with providing care to patients eligible for free care. The estimated cost of caring for charity care patients was \$14,777,400 and \$19,742,227 for 2020 and 2019, respectively. Funds received from gifts and grants to subsidize charity services provided were \$514,000 and \$592,000 for 2020 and 2019, respectively.

Northern Light Health has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors, service lines, method of reimbursement, and timing of when revenue is recognized. Tables providing details of these factors are presented in Note 5.

Patient and trade accounts receivable are stated at the amount management expects to collect from outstanding balances.

Contributions and Gifts

Unconditional promises to give cash and other assets to Northern Light Health are reported at fair value at the date the promise is received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is

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received. Gifts are reported as an increase in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as additions to net assets without donor restrictions in the accompanying consolidated financial statements.

Excess (Deficiency) of Revenue and Gains Over Expenses and Losses

The consolidated statements of operations include excess (deficiency) of revenue and gains over expenses and losses. Changes in net assets without donor restrictions which are excluded from excess (deficiency) of revenue and gains over expenses and losses, consistent with industry practice, include transfers of assets to and from affiliates for other than goods and services, pension and postretirement plan 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). In 2019, unrealized gains and losses on equity investments were also excluded.

Other Revenue

Investment income on operating assets without donor restrictions is included in other revenue in the year earned. Grant revenue, meaningful use incentives, 340B drug discount program revenue, cafeteria sales, and gift shop revenue are also included in other revenue.

Income Taxes

Northern Light Health, its hospitals, and certain other affiliates have been determined by the Internal Revenue Service to be tax-exempt charitable organizations as described in Section 501(c)(3) or 501(c)(2) of the Internal Revenue Code (the Code) and, accordingly, are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Accordingly, no provision for federal income taxes has been recorded in the accompanying consolidated financial statements for these organizations.

Tax-exempt charitable organizations could be required to record an obligation for income taxes as the result of a tax position they have historically taken on various tax exposure items including unrelated business income or tax status. Under guidance issued by FASB, assets and liabilities are established for uncertain tax positions taken or positions expected to be taken in income tax returns when such positions are judged to not meet the "more-likely-than-not" threshold, based upon the technical merits of the position. Estimated interest and penalties, if applicable, related to uncertain tax positions are included as a component of income tax expense. Northern Light Health has evaluated its tax position taken or expected to be taken on income tax returns and concluded the impact to be not material.

Certain of Northern Light Health's affiliates are taxable entities. Deferred taxes related to these entities are based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect in the years the differences are expected to reverse. The deferred tax assets and liabilities for these entities are not material.

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Accrual for Self-Insurance Liabilities

The liabilities for outstanding losses and loss-related expenses include estimates for malpractice losses incurred but not reported, as well as losses pending settlement. Insurance recoveries are included in other assets and are not netted against the liability. Such liabilities are necessarily based on estimates, and while management believes that the amounts provided are adequate, the ultimate liability may be in excess of or less than the amounts provided. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The methods for making such estimates and the resulting liability are actuarially reviewed on an annual basis and any adjustments are reflected in operations during the related period.

Northern Light Health also estimates and records a liability for claims incurred but not reported for employee health and dental benefits provided through self-insured plans. The liability is estimated based on prior claims experience and the expected time period from the date such claims are incurred to the date the related claims are submitted and paid.

Accounting for Defined Benefit Pension and Other Postretirement Plans

Northern Light Health recognizes the overfunded or underfunded status of its defined benefit and postretirement plans as an asset or liability in its consolidated balance sheets. Certain changes in the funded status of the plans are reported as a change in net assets without donor restrictions presented below the excess of revenue and gains over expenses and losses in the consolidated statements of operations and changes in net assets in the year in which the changes occur.

Recently Adopted Accounting Policies

During 2020, the Northern Light Health adopted FASB ASU No. 2016-18, *Restricted Cash*. This ASU requires an entity to present restricted deposits and funded reserves with operating cash in the statement of cash flows, rather than reporting the change as investing activities. A reconciliation of the operating cash and amounts generally described as restricted deposits and funded reserves in the statement of cash flows to the statement of financial position is also required. The impact of adoption in the consolidated statement of cash flows during the year ended September 30, 2019 is an increase in cash and cash equivalents and restricted cash, beginning of year of \$19,335 and an increase in net cash used by investing activities of \$4,778.

Recently Issued Accounting Pronouncement

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires a lessee to recognize a right-of-use asset and a lease liability for most leases, initially measured at the present value of the lease payments, in its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. The guidance also expands the required quantitative and qualitative disclosures surrounding leases. The ASU is effective for Northern Light Health in fiscal year 2021. Northern Light Health is evaluating the impact of the new guidance on the consolidated financial statements upon adoption in fiscal year 2021.

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COVID-19

In March 2020 the World Health Organization declared coronavirus disease (COVID-19) a global pandemic and the United States federal government declared COVID-19 a national emergency. Northern Light Health implemented an emergency response to ensure the safety of its patients, staff and the community. In an effort to reduce the spread of COVID-19 and in response to the urging of the CDC and the U.S. Surgeon General, elective and non-urgent care was postponed beginning in mid-March. Additional factors in this decision were the effort to reduce personal protective equipment (PPE) which was in critically short supply worldwide. Due to the potential need for additional hospital beds, certain member hospitals requested and were approved by the Maine Department of Health & Human Services to temporarily increase licensed beds by 235 in total. The temporary increase will expire 60 days after the Governor declares an end to the state of civil emergency.

The CARES Act established the Provider Relief Fund (PRF) to support healthcare providers in the battle against the COVID-19 outbreak. The PRF is being administered by HHS. The Organization received PRF in the amount of \$88,413,329 during the year ended September 30, 2020. These funds are to be used for qualifying expenses and to cover lost revenue due to COVID-19. The PRF are considered contributions and are recognized as income when qualifying expenditures have been incurred. Management believes the Organization met the conditions necessary to recognize these contributions in the amount of \$78,638,534 included in other revenue as of September 30, 2020. Management believes the position taken is a reasonable interpretation of the rules currently available. Due to the complexity of the reporting requirements and the continued issuance of clarifying guidance, there is at least a reasonable possibility the amount of income recognized related to the lost revenues may change by a material amount. Any difference between amounts previously estimated and amounts subsequently determined to be recoverable or payable will be included in income in the year that such amounts become known.

Northern Light Health recorded approximately \$178,051,000 in funds received from the Medicare Accelerated and Advance Payment Program which represents working capital financing which will be repaid through the provision of future services to the Medicare program. Beginning in April 2021, 25% of Medicare payments due Northern Light Health will be withheld to offset the liability. If amounts are not fully repaid by March 2022, the withheld amount will raise to 50%. All amounts are expected to be repaid by September 2022, the current deadline established by CMS. Amounts to be repaid of \$44,513,000 and \$133,538,000 are included in current and noncurrent liabilities, respectively, on the consolidated balance sheet.

The CARES Act also provided for an extension of time to remit payroll taxes for the period beginning March 27, 2020 and ending before January 1, 2021. Repayment is allowed over a two-year period with half due by December 31, 2021 and the remainder due by December 31, 2022. At September 30, 2020, approximately \$20,000,000 of deferred payroll taxes is included in accrued expenses and other current liabilities.

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Subsequent Events

For purposes of the preparation of these consolidated financial statements, Northern Light Health has considered transactions or events occurring through December 16, 2020, which was the date that the financial statements were issued.

3. Liquidity and Availability of Financial Assets

As of September 30, 2020 and 2019, Northern Light Health has a working average days (based on normal expenditures) cash (from all sources) on hand of 143.91 and 107.51, respectively.

Financial assets available for general expenditures within one year of the balance sheet date, consist of the following (dollars in thousands):

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 151,470	\$ 90,229
Short-term investments	176,908	15,296
Accounts receivable	215,726	220,853
Estimated third-party payor settlements	88,302	81,475
Other receivables	<u>20,129</u>	<u>16,803</u>
	<u>\$ 652,535</u>	<u>\$ 424,656</u>

Northern Light Health has other assets limited to use for donor-restricted purposes, debt service, and for the professional and general liability insurance program. Additionally, certain other Board-designated assets are designed for future capital expenditures and an operating reserve. These assets limited to use, which are more fully described in Note 6 are not for general expenditure within the next year and are not reflected in the amounts above. However, the Board-designated amounts could be made available, if necessary.

Northern Light Health maintains lines of credit totaling approximately \$150 million, as discussed in more detail in Note 9. As of September 30, 2020, approximately \$142 million remained available on the lines of credit. Management regularly monitors liquidity required to meet its operating needs and other contractual commitments.

4. Community Benefit

Northern Light Health provides a wide range of free or reduced cost programs and services to those who are sick, injured, or disabled. In addition, a vital role of Northern Light Health is to assess community needs and improve population health through prevention efforts.

Community benefits are provided via a broad range of community health improvement efforts. They are programs, services, and investments designed to improve the health of communities and increase access to healthcare in response to identified community health needs. These benefits are designed to improve access to healthcare services, enhance the health of the community, advance medical or healthcare knowledge, and relieve or reduce the burden of government or other community efforts.

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Community benefit activities are integral to the mission of Northern Light Health and are the basis of tax exemption. Northern Light Health provides community benefit in the form of community health improvement services, health professions education, research, cash and in-kind donations, community building activities, and low or no cost healthcare services to uninsured patients. Northern Light Health and its member organizations strive to improve population health and promote wellness for all who live, play, learn, and work in Northern Light Health communities through community benefit contributions.

Northern Light Health's community health improvement services focus on ways to improve the health of communities outside the traditional walls of facilities and services. Community health improvement services respond to health needs in the communities it serves by providing community health education in the form of presentations, lectures, and activities and wellness initiatives such as nutritional improvement, physical activity, and substance use. Community-based clinics provide health screenings in the community. Healthcare support services focus on increasing access and quality of healthcare to those living in poverty and other vulnerable populations. Social and environmental improvement activities address social, economic, and physical environment such as improving availability of healthy food options, violence prevention, and economic development activities.

5. Net Patient Service Revenue

Net patient service revenue for the years ended September 30, 2020 and 2019 consisted of the following (dollars in thousands):

	<u>2020</u>	<u>2019</u>
Gross patient service revenue		
Inpatient services	\$ 1,524,215	\$ 1,500,938
Outpatient services	<u>2,279,262</u>	<u>2,261,029</u>
Gross patient service revenue	<u>3,803,477</u>	<u>3,761,967</u>
Less contractual allowances	(2,230,323)	(2,068,592)
Less charity care	<u>(35,812)</u>	<u>(48,559)</u>
	<u>(2,266,135)</u>	<u>(2,117,151)</u>
Net patient service revenue	<u>\$ 1,537,342</u>	<u>\$ 1,644,816</u>

In assessing collectability, Northern Light Health has elected the portfolio approach. This portfolio approach is being used as Northern Light Health has a large volume of similar contracts with similar classes of customers. Northern Light Health reasonably expects that the effect of applying a portfolio approach to a group of contracts would not differ materially from considering each contract separately. Management's judgment to group the contracts by portfolio is based on the payment behavior expected in each portfolio category. As a result, aggregating all of the contracts (which are at the patient level) by the particular payor or group of payors, will result in the recognition of the same amount of revenue as applying the analysis at the individual patient level.

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The composition of patient care service revenue based on its service lines, method of reimbursement, and timing of revenue recognition for the years ended September 31, 2020 and 2019 is as follows:

	September 30, 2020			
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Home Care And Hospice</u>	<u>Total</u>
Payor:				
Medicare	\$ 157,722	\$ 181,045	\$ 32,271	\$ 371,038
MaineCare	81,492	122,432	2,451	206,375
Managed care	77,514	95,359	7,447	180,320
Commercial insurers	224,502	504,472	4,206	733,180
Uninsured	14,622	19,422	197	34,241
Other	<u>7,042</u>	<u>5,146</u>	-	<u>12,188</u>
Total	<u>\$ 562,894</u>	<u>\$ 927,876</u>	<u>\$ 46,572</u>	<u>\$ 1,537,342</u>

	September 30, 2019			
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Home Care And Hospice</u>	<u>Total</u>
Payor:				
Medicare	\$ 188,654	\$ 211,062	\$ 33,000	\$ 432,716
MaineCare	83,142	131,710	2,407	217,259
Managed care	68,996	88,131	7,556	164,683
Commercial insurers	232,628	549,435	4,625	786,688
Uninsured	8,127	9,465	139	17,731
Other	<u>9,567</u>	<u>16,172</u>	-	<u>25,739</u>
Total	<u>\$ 591,114</u>	<u>\$ 1,005,975</u>	<u>\$ 47,727</u>	<u>\$ 1,644,816</u>

	<u>2020</u>	<u>2019</u>
Method of reimbursement:		
Fee for service	\$ 895,546	\$ 907,560
Cost reimbursed	87,080	117,273
Capitation and risk sharing	14,394	1,526
Discounted charges and other	<u>540,322</u>	<u>618,457</u>
	<u>\$ 1,537,342</u>	<u>\$ 1,644,816</u>

EASTERN MAINE HEALTHCARE SYSTEMS d/b/a NORTHERN LIGHT HEALTH

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

6. Investments and Assets Whose Use Is limited or Restricted

At September 30, 2020 and 2019, investments and assets whose use is limited or restricted consisted of the following (dollars in thousands):

	<u>2020</u>	<u>2019</u>
Short-term investments:		
Cash investments	\$ -	\$ 50
Fixed-income securities	<u>176,908</u>	<u>15,246</u>
Total short-term investments	<u>\$ 176,908</u>	<u>\$ 15,296</u>
Assets whose use is limited or restricted – current:		
Cash investments	\$ 12,941	\$ 20,939
Cash investments-bond funds	5,373	6,017
Interest in trusts and charitable gift annuities	<u>125</u>	<u>126</u>
Total assets whose use is limited or restricted - current	<u>\$ 18,439</u>	<u>\$ 27,082</u>
Assets whose use is limited or restricted - noncurrent:		
Cash investments	\$ 22,624	\$ 31,016
Cash investments-bond funds	49,097	8,539
Marketable equity securities	4,899	5,819
Mutual funds	54,443	48,491
Institutional funds, common/collective trust, and hedge funds	360,356	373,707
Guaranteed investment contracts	7,522	7,522
Fixed-income securities	30,189	27,871
Pledges and other receivables	6,840	4,189
Interest in trust and charitable gift annuities	1,565	1,517
Beneficial interest in perpetual trusts	<u>15,427</u>	<u>14,302</u>
Total assets whose use is limited or restricted - noncurrent	<u>\$ 552,962</u>	<u>\$ 522,973</u>

For the years ended September 30, 2020 and 2019, investment income consisted of the following (dollars in thousands):

	<u>2020</u>	<u>2019</u>
Interest and dividend income, net of fees	\$ 4,437	\$ 3,963
Realized gains and losses on sale of securities, net	50,610	2,964
Change in net unrealized gains (losses) on investments	(34,325)	20,676
Bifurcation of net periodic postretirement cost	<u>(2,215)</u>	<u>(792)</u>
Total	<u>\$ 18,507</u>	<u>\$ 26,811</u>

EASTERN MAINE HEALTHCARE SYSTEMS d/b/a NORTHERN LIGHT HEALTH

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

For the years ended September 30, 2020 and 2019, investment income was reported as follows (dollars in thousands):

	<u>2020</u>	<u>2019</u>
Consolidated statements of operations		
Other revenue	\$ 7,631	\$ 3,341
Investment income and other, net of fees	9,802	2,236
Change in net unrealized gains (losses) on investments	-	20,378
Consolidated statements of changes in net assets		
Net assets with donor restrictions –restricted investments income and realized and unrealized investment gains and losses	477	558
Net assets with donor restrictions – unrealized investment gains	<u>597</u>	<u>298</u>
Total	\$ <u>18,507</u>	\$ <u>26,811</u>

Pledges Receivable

Pledges receivable are reported at the net present value of future unconditional promises to give from donors. At September 30, 2020 and 2019, the future amounts receivable for unconditional promises to give are as follows (dollars in thousands):

	<u>2020</u>	<u>2019</u>
Due within one year	\$ 1,754	\$ 1,814
Due within two to five years	5,401	2,731
Thereafter	<u>-</u>	<u>10</u>
Total receivable	7,155	4,555
Less allowance for uncollectible pledges and discounts	<u>(372)</u>	<u>(425)</u>
Total net receivable	\$ <u>6,783</u>	\$ <u>4,130</u>

Annuity Agreements

Northern Light Health has entered into various charitable gift annuity agreements with donors with the assets held in trust and administered by Northern Light Health. These assets are included in assets whose use is limited or restricted in the accompanying consolidated balance sheets and totaled approximately \$1,398,000 and \$1,412,000 at September 30, 2020 and 2019, respectively. A contribution is recognized at the date the agreement is established. Liabilities associated with the agreements are recorded at the present value of estimated future payments to be made to the donors. The liabilities are included in noncurrent liabilities and accrued expenses in the

EASTERN MAINE HEALTHCARE SYSTEMS d/b/a NORTHERN LIGHT HEALTH

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

accompanying consolidated balance sheets and totaled approximately \$776,000 and \$809,000 at September 30, 2020 and 2019, respectively.

7. Property and Equipment

At September 30, 2020 and 2019, property and equipment consisted of the following (dollars in thousands):

	<u>2020</u>	<u>2019</u>
Land	\$ 20,039	\$ 19,481
Building and land improvements	573,939	576,288
Equipment, furniture, and fixtures	862,292	822,583
Leasehold improvements	<u>23,213</u>	<u>23,164</u>
	1,479,483	1,441,516
Less accumulated depreciation and amortization	<u>(779,727)</u>	<u>(737,459)</u>
	699,756	704,057
Construction in progress	<u>54,228</u>	<u>41,893</u>
Net property and equipment	<u>\$ 753,984</u>	<u>\$ 745,950</u>

Northern Light Health and its affiliates have commitments for facility expansions and other projects totaling approximately \$59,955,000 at September 30, 2020.

Construction in progress relates to the Enterprise Resource Planning (ERP) transformation and the Electronic Health Record (EHR) implementation. The ERP is a tool to manage core business, financial, supply chain, and human resource processes across a single, integrated system. The EHR integrates each patient's medical history, test results, clinicians' notes, plan of care, and revenue cycle in a single record accessible throughout Northern Light Health. The total costs of the projects are expected to be approximately \$97,856,000. Phase 1 of the ERP system implementation was completed October 1, 2018, and Phase 2 is expected to be complete in 2021. Management expects the EHR implementation will continue to be rolled out over the next several years. Due to COVID-19 several aspects of the EHR project have been delayed or deferred to future years. This reduced the budgeted 2020 capital spend by approximately \$10,000,000, which is expected to be incurred in future years.

Also included in construction in progress is the Mercy consolidation project. The project is funded through cash and bond issuance and is expected to be partially complete in 2021 and fully completed in 2022. The total costs of the project is expected to be approximately \$83,817,000. At September 30, 2020, there was approximately \$17,478,000 in construction in progress, and \$49,109,000 in construction commitments related to the CON. The remaining budgeted non-construction project costs are for engineering costs, information systems, equipment, and other fees.

EASTERN MAINE HEALTHCARE SYSTEMS d/b/a NORTHERN LIGHT HEALTH

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

At September 30, 2020 and 2019, \$8,223,000 and \$5,509,000, respectively, of property and equipment purchases and costs related to construction projects were included in accounts payable.

Property and equipment includes a building and equipment recorded under capital leases totaling \$1,395,000 and \$5,608,000 with related accumulated depreciation of \$1,220,000 and \$5,064,000 at September 30, 2020 and 2019, respectively.

8. Intangibles and Other Assets

At September 30, 2020 and 2019, intangibles and other assets consisted of the following (dollars in thousands):

	<u>2020</u>	<u>2019</u>
Investments in joint ventures:		
LTC, LLC interests	\$ 4,366	\$ 5,005
Advanced Collections Services, LLC	473	560
County Physical Therapy, LLC	123	318
LifeFlight of Maine, LLC	1,827	2,126
MedComm, LLC	(96)	(154)
Other joint ventures	<u>1,057</u>	<u>719</u>
Total investments in joint ventures	7,750	8,574
Intangibles resulting from acquisition of Mercy, Maine		
Coast and Mayo	3,477	3,427
Other receivables	3,186	3,475
Deferred tax assets	2,599	2,341
Customer lists	1,584	1,791
Other	<u>3,932</u>	<u>2,861</u>
	<u>\$ 22,528</u>	<u>\$ 22,469</u>

Northern Light Health's share of earnings in its joint ventures totaled \$533,000 and \$1,027,000 for the years ended September 30, 2020 and 2019, respectively. Distributions from these joint ventures totaled \$1,735,000 and \$535,000 for the years ended September 30, 2020 and 2019, respectively. In 2020 and 2019, Northern Light Health increased its investment in joint ventures by \$379,000 and \$100,000, respectively.

During the ordinary course of business, Northern Light Health may provide services to various joint ventures. This income is included in sales and contract revenue and was not material in 2020 and 2019.

EASTERN MAINE HEALTHCARE SYSTEMS d/b/a NORTHERN LIGHT HEALTH

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September 30, 2020 and 2019

Northern Light Health entities own 50% interests in several joint venture entities (except for a 33.3% interest in Penobscot Logistics Solutions, LLC and a 20% interest in Epsilon Strategic Hospital Consortium Fund LP). Selected financial information derived from the unaudited financial statements of each joint venture entity at September 30, 2020 and 2019 is as follows (dollars in thousands):

2020				
<u>Name of Joint Venture</u>	<u>Owner</u>	<u>Total Assets</u>	<u>Long-Term Debt</u>	<u>Net Equity</u>
Colonial Acres	LTC, LLC	\$ 2,320	\$ -	\$ 1,500
Dexter Health Care	LTC, LLC	2,226	-	972
Katahdin Health Care	LTC, LLC	1,972	259	826
Ross Manor Associates	LTC, LLC	16,761	9,179	3,786
Stillwater Health Care	LTC, LLC	3,829	1,200	1,394
Workman Terrace	LTC, LLC	1,787	-	86
Park East Villa	LTC, LLC	1,676	1,576	8
Hibbard Health Care	LTC, LLC	<u>7,451</u>	<u>5,288</u>	<u>160</u>
LTC, LLC		38,022	17,502	8,732
Advanced Collections Services, LLC	AHS	1,715	-	945
County Physical Therapy, LLC	AR Gould	1,112	620	247
LifeFlight of Maine, LLC	NLH	25,761	7,520	3,654
MedComm, LLC	AHS	427	265	(192)
Penobscot Logistics Solutions, LLC	AHS	5,319	3,345	1,532
Other joint ventures		<u>1,719</u>	<u>378</u>	<u>1,699</u>
Total		<u>\$ 74,075</u>	<u>\$ 29,630</u>	<u>\$ 16,617</u>
2019				
<u>Name of Joint Venture</u>	<u>Owner</u>	<u>Total Assets</u>	<u>Long-Term Debt</u>	<u>Net Equity</u>
Colonial Acres	LTC, LLC	\$ 2,594	\$ -	\$ 1,962
Dexter Health Care	LTC, LLC	1,880	-	1,208
Katahdin Health Care	LTC, LLC	1,511	295	882
Ross Manor Associates	LTC, LLC	16,415	9,806	4,422
Stillwater Health Care	LTC, LLC	3,214	1,279	1,300
Workman Terrace	LTC, LLC	1,742	-	41
Park East Villa	LTC, LLC	1,700	1,650	(20)
Hibbard Health Care	LTC, LLC	<u>7,125</u>	<u>5,465</u>	<u>237</u>
LTC, LLC		36,181	18,495	10,032
Advanced Collections Services, LLC	AHS	1,854	-	1,119
County Physical Therapy, LLC	AR Gould	980	95	636
LifeFlight of Maine, LLC	NLH	24,529	8,598	4,253
MedComm, LLC	AHS	447	124	(308)
Penobscot Logistics Solutions, LLC	AHS	5,484	3,629	1,372
Other joint ventures		<u>958</u>	<u>159</u>	<u>500</u>
Total		<u>\$ 70,433</u>	<u>\$ 31,100</u>	<u>\$ 17,604</u>

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Notes to Consolidated Financial Statements

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9. Debt

Long-term debt at September 30, 2020 and 2019 consisted of the following (dollars in thousands):

	<u>2020</u>	<u>2019</u>
Bonds Payable:		
Mercy 2020 Series Bonds (due in varying amounts each April through the year 2050 with a fixed-interest rate of 2.25% per annum)	\$ 45,400	\$ -
EMMC 2019C Series Bonds (due in varying amounts each July through the year 2040 with a fixed-interest rate of 5.00% per annum)	34,391	-
Inland/Lakewood Series 2017B Bonds (due in varying amounts each July through the year 2037 with fixed-interest rates ranging from 3.50% to 5.00% per annum)	6,124	6,369
EMHS Series 2016A Bonds (due in varying amounts each July beginning 2037 through the year 2046 with a fixed-interest rate of 5.00% per annum)	170,825	170,825
EMHS Series 2016B Bonds (due in varying amounts each July through the year 2036 with fixed-interest rates ranging from 3.711% to 5.022% per annum)	75,855	77,155
Inland Series 2015A Bonds (due in varying amounts each July through the year 2030 with fixed-interest rates ranging from 3.00% to 5.00% per annum)	627	688
Mercy Series 2015 Bonds - Series 2015 Note (due in varying amounts each July through the year 2036 with a fixed-interest rate of 3.07% per annum)	47,880	50,160
Mercy Series 2015 Bonds - Series 2015 Taxable Note (due in varying amounts monthly through the year 2024 with a fixed-interest rate of 4.53% per annum)	3,448	4,335
EMMC Series 2013 Bonds (due in varying amounts each July through the year 2043 with fixed-interest rates ranging from 3.00% to 5.00% per annum)	141,120	141,440
SVH Finance Authority of Maine 2013 Revenue Obligation Bonds (due in varying amounts each January through the year 2029 with fixed interest rates ranging from 2.87% to 3.41% per annum)	5,415	6,200
Acadia/EMMC Series 2010A Bonds (due in varying amounts each July through the year 2040 with fixed-interest rates ranging from 4.00% to 5.25% per annum). The Series 2010A Bonds were refinanced by the EMMC 2019C Series Bonds in 2020.	-	46,637
	<u>531,085</u>	503,809
Net unamortized original issue premium	<u>30,762</u>	26,811
Bonds payable – net	561,847	530,620
Other long-term debt		
Installment loans and other	5,431	5,162
Capital lease obligations	<u>267</u>	609
Total long-term debt, before unamortized debt issuance cost	567,545	536,391
Less unamortized debt issuance costs	<u>(4,962)</u>	(4,618)
Total long-term debt	562,583	531,773
Less current portion	<u>(10,812)</u>	(11,128)
Long-term debt – net of current portion	<u>\$ 551,771</u>	\$ 520,645

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September 30, 2020 and 2019

EMHS Obligated Group

In conjunction with the issuance of the 2016 bond issues, all not-for-profit healthcare providers in Northern Light Health became part of the EMHS Obligated Group. The purpose of the obligated group is to simplify the debt structure of Northern Light Health and to allow Northern Light Health to make capital available to members with lower costs of capital and less restrictive debt covenants. The members of the EMHS Obligated Group are jointly liable for the debt service on the obligations issued under the Master Trust Indenture for the EMHS Obligated Group. On September 30, 2020 and 2019, the EMHS Obligated Group had obligations totaling approximately \$531,085,000 and \$503,809,000, respectively, which are covered under the Master Trust Indenture.

Debt obligations issued under the Master Trust Indenture require that the EMHS Obligated Group on a consolidated basis satisfy certain measures of financial performance (including a minimum debt service coverage ratio) as long as the obligations are outstanding. The EMHS Obligated Group complied with such covenants at September 30, 2020 and 2019.

Bonds Payable

Series 2020 Bonds — On September 1, 2020, Mercy Hospital issued \$45,400,000 in notes payable to secure tax-exempt revenue bonds issued by the Maine Health and Higher Educational Facilities Authority (the Authority) for the purpose of consolidating its hospital campus at its Fore River location. The Series 2020 bonds are collateralized by a security interest in its gross receipts.

Series 2019C Bonds — On November 1, 2019, Eastern Maine Medical Center issued \$42,350,000 in notes payable to secure tax-exempt revenue bonds issued by the Maine Health and Higher Educational Facilities Authority (the Authority) for the purpose of refunding the Series 2010A bonds. The Series 2019C bonds are collateralized by a security interest in its gross receipts.

Series 2017B Bonds — On December 1, 2017, Inland Hospital and Lakewood issued \$7,310,000 in notes payable to secure tax-exempt revenue bonds issued by the Maine Health and Higher Educational Facilities Authority (the Authority) for the purpose of refunding the Series 2007B bonds. The Series 2017B bonds are collateralized by substantially all of the real property of Inland Hospital and Lakewood and a security interest in their gross receipts.

Series 2016A Bonds and Series 2016B Taxable Bonds – On July 13, 2016, the EMHS Obligated Group issued \$170,825,000 in notes payable to secure tax-exempt Series 2016A revenue bonds issued by the Authority and \$79,450,000 in a Series 2016B Taxable Note pursuant to the Master Trust Indenture with U.S. Bank National Association as trustee. The 2016A bonds were issued for the second phase of the EMMC expansion and modernization project, expansion and modernization of an ambulatory care facility at CA Dean, and refunding of A.R. Gould Series 2012A bonds, A.R. Gould and Blue Hill Series 2010A bonds and Maine Coast Series 2008D, 2011C, and 2013A bonds. The 2016B bonds were issued for the purpose of refinancing certain line of credit borrowings and term loan indebtedness of Northern Light Health and other members of the Obligated Group, paying swap termination fees and financing certain transition costs related to members of the Obligated Group. The Series 2016A and 2016B bonds are collateralized by a security interest in the gross receipts of all members of the Obligated Group, as well as mortgages and/or security interests in certain real and/or personal property of certain members of the Obligated Group.

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The obligations under the 2016A and 2016B debt instruments were allocated to each of the members of the Obligated Group based on the member's percentage interest in the obligation.

Series 2015A Bonds — In 2015, Inland issued \$902,000 in notes payable to secure tax-exempt revenue bonds issued by the Authority for the purpose of refunding the Series 2006A bond. The Series 2015A bonds are collateralized by substantially all of the real property of Inland and a security interest in its gross receipts.

Series 2015 Note and Series 2015 Taxable Note — Were issued in conjunction with the consolidation of the Mercy Health System of Maine Obligated Group into the EMHS Obligated Group. The notes are collateralized under the 2015 EMHS Obligated Group Supplemental Master Trust Indenture by a first priority security interest in gross revenues and accounts receivable and a mortgage of certain EMHS Obligated Group facilities.

Series 2013 Bonds — In 2013, EMMC issued \$143,900,000 in notes payable to secure tax-exempt revenue bonds issued by the Authority for the purpose of financing a portion of the first phase of the expansion and modernization project. The Series 2013 bonds are collateralized by a security interest in its gross receipts, equipment, and a mortgage lien on its main campus.

Finance Authority of Maine 2013 Bonds — In 2013, SVH issued \$10,500,000 in notes payable to secure tax-exempt revenue bonds issued by the Finance Authority of Maine for the purpose of financing construction costs and refunding existing debt. The Series 2013 bonds are collateralized by a security interest in the pledged receipts.

Series 2010A Bonds — In 2010, Acadia and EMMC issued \$76,772,000 in notes payable to secure tax-exempt revenue bonds issued by the Authority for the purpose of refunding existing debt and financing new construction at EMMC. Northern Light Health, EMMC, and Acadia are jointly and severally obligated to pay principal and interest on the notes when due. The notes are collateralized by the pledged and assigned revenue of Northern Light Health, EMMC, and Acadia. The Series 2010A bonds are collateralized by a security interest in their gross receipts. In 2020, the Acadia Series 2010A bonds was paid in full and the EMMC Series 2010A bonds was refinanced by the EMMC 2019C Series bonds.

Derivative Financial Instruments

Northern Light Health participated in certain fixed-payor swap contracts related to underlying, variable rate debt obligations. The purpose of these contracts was to protect Northern Light Health against rising interest rates related to the variable rate debt. These contracts qualify for hedge accounting as a cash flow hedge. The combined change in unrealized gain (loss) amounted to \$208,000 during 2020 and \$(21,000) during 2019, and is included in investment income and other, net in the accompanying consolidated statements of operations. The net settlement related to the contracts is included in interest expense. As part of the loan refinancing AHS terminated its debt obligation and related swap contract and recognized a realized loss of \$181,000, which is included in investment income. The fair value of the interest rate swaps was a liability of \$208,000 at September 30, 2019 and is included in other liabilities in the accompanying consolidated balance sheets. There were no interest rate swaps at September 30, 2020.

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Notes to Consolidated Financial Statements

September 30, 2020 and 2019

Installment Loans

Several other Northern Light Health affiliates that are not members of the Obligated Group have mortgages, notes payable, and installment loans outstanding totaling \$5,431,000 and \$5,162,000 at September 30, 2020 and 2019, respectively. The notes bear interest at rates ranging between 3.250% and 5.000% per annum and are payable through 2026.

Letters and Lines-of-Credit

During 2020, Northern Light Health obtained a \$50,000,000 non-revolving line-of-credit arrangement with interest of 2.150% at September 30, 2020. The purpose of the line-of-credit is to increase available working capital funds due to COVID-19. The line-of-credit is collateralized pursuant to the terms of the Master Trust Indenture for the Northern Light Health Obligated Group and is set to expire on May 21, 2021. There were no borrowings in 2020.

During 2020, Northern Light Health obtained a \$50,000,000 non-revolving line-of-credit arrangement with interest of 2.098% at September 30, 2020. The purpose of the line-of-credit is to increase available working capital funds due to COVID-19. The line-of-credit is collateralized pursuant to the terms of the Master Trust Indenture for the Northern Light Health Obligated Group and is set to expire on June 4, 2021. There were no borrowings in 2020.

During 2020, Northern Light Health temporarily increased a \$30,000,000 non-revolving line-of-credit arrangement to \$50,000,000 through September 30, 2020. The original \$30,000,000 availability is set to expire on February 28, 2021. The interest was 2.100% and 3.116% at September 30, 2020 and 2019, respectively. The purpose of the line-of-credit is to provide working capital funds and the availability was increased in 2020 to provide additional funding due to COVID-19. The line-of-credit is collateralized pursuant to the terms of the Master Trust Indenture for the Northern Light Health Obligated Group. There were \$8,245,000 borrowings outstanding at September 30, 2020.

Beacon Health, LLC, EMMC and Mercy have letter of credit agreements with various maturities and interest rates. Maximum available borrowings under the agreements are \$5,323,852 and \$2,615,300 at September 30, 2020 and 2019, respectively. There were no borrowings outstanding at September 30, 2020 and 2019.

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Notes to Consolidated Financial Statements

September 30, 2020 and 2019

Principal Payments

Principal payments required on long-term debt, excluding capital lease obligations, for the next five years and thereafter, are as follows (dollars in thousands):

	<u>Bonds</u>	<u>Other Debt</u>	<u>Total</u>
Years Ending September 30:			
2021	\$ 8,993	\$ 1,651	\$ 10,644
2022	11,701	797	12,498
2023	13,584	810	14,394
2024	13,739	842	14,581
2025	14,326	876	15,202
Thereafter	<u>468,742</u>	<u>455</u>	<u>469,197</u>
Total	<u>\$ 531,085</u>	<u>\$ 5,431</u>	<u>\$ 536,516</u>

Capital Leases

Northern Light Health has capital lease obligations outstanding totaling \$267,000 and \$609,000 at September 30, 2020 and 2019, respectively. The obligations bear interest at rates ranging between 5.50% and 6.00% per annum and are payable through 2023.

Northern Light Health's future obligations under capital leases are as follows (dollars in thousands):

	<u>Amounts</u>
Years Ending September 30:	
2021	\$ 184
2022	97
2023	<u>5</u>
Total minimum lease payments	286
Less amounts representing interest	<u>(19)</u>
Present value of minimum lease payments	<u>\$ 267</u>

EASTERN MAINE HEALTHCARE SYSTEMS d/b/a NORTHERN LIGHT HEALTH

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

10. Net Assets with Donor Restrictions

At September 30, net assets with donor restrictions of temporary duration are available for the following purposes (dollars in thousands):

	<u>2020</u>	<u>2019</u>
Cancer care	\$ 3,315	\$ 3,238
Capital projects	10,846	19,877
Charity care	7,083	7,068
Education and research	1,988	1,799
Women's and children's care	2,720	2,763
Other healthcare services	<u>17,739</u>	<u>14,231</u>
 Total	 <u>\$ 43,691</u>	 <u>\$ 48,976</u>

At September 30, net assets with donor restrictions of permanent duration with restricted income are available for the following purposes (dollars in thousands):

	<u>2020</u>	<u>2019</u>
Cancer care	\$ 3,312	\$ 3,106
Capital projects	2,192	2,192
Charity care	3,895	3,848
Education and research	842	841
Women's and children's care	629	604
Other healthcare services	<u>11,397</u>	<u>11,326</u>
 Total	 <u>\$ 22,267</u>	 <u>\$ 21,917</u>

At September 30, net assets with donor restrictions of permanent duration with Board designated income are available for the following purposes (dollars in thousands):

	<u>2020</u>	<u>2019</u>
Capital projects	\$ 2,367	\$ 2,267
Other healthcare services	<u>13,060</u>	<u>12,035</u>
 Total	 <u>\$ 15,427</u>	 <u>\$ 14,302</u>
 Total net assets with donor restrictions	 <u>\$ 81,385</u>	 <u>\$ 85,195</u>

EASTERN MAINE HEALTHCARE SYSTEMS d/b/a NORTHERN LIGHT HEALTH

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

Endowment Funds

Northern Light Health's endowment funds were established for a variety of purposes. Endowment funds include both donor-restricted endowment funds and funds designated by the Board to function as endowment. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires Northern Light Health to retain as a fund in perpetuity. At September 30, 2020 and 2019, there were no funds with deficiencies.

Endowment Net Asset Composition and Changes in Endowment Net Assets

A summary of the endowment net asset composition by type of fund at September 30, 2020 and 2019, and the changes therein for the years then ended, is as follows (dollars in thousands):

	<u>September 30, 2020</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 57,971	\$ 57,971
Board-designated endowment funds	<u>7,679</u>	<u>-</u>	<u>7,679</u>
Total funds	<u>\$ 7,679</u>	<u>\$ 57,971</u>	<u>\$ 65,650</u>
	<u>September 30, 2019</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 56,925	\$ 56,925
Board-designated endowment funds	<u>7,866</u>	<u>-</u>	<u>7,866</u>
Total funds	<u>\$ 7,866</u>	<u>\$ 56,925</u>	<u>\$ 64,791</u>

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	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets – September 30, 2018	\$ <u>7,715</u>	\$ <u>58,389</u>	\$ <u>66,104</u>
Investment gain:			
Investment income	115	55	170
Net appreciation	190	1,350	1,540
Change in beneficial interest in perpetual trust	<u>-</u>	<u>(313)</u>	<u>(313)</u>
Total investment gain	305	1,092	1,397
Contributions	-	184	184
Appropriations of endowment assets for expenditure	(144)	(2,176)	(2,320)
Other	<u>(10)</u>	<u>(564)</u>	<u>(574)</u>
Endowment net assets – September 30, 2019	<u>7,866</u>	<u>56,925</u>	<u>64,791</u>
Investment gain:			
Investment income	104	48	152
Net (depreciation) appreciation	(160)	678	518
Change in beneficial interest in perpetual trust	<u>-</u>	<u>492</u>	<u>492</u>
Total investment (loss) gain	(56)	1,218	1,162
Contributions	-	791	791
Contributions received in acquisition of Mayo	-	1,085	1,085
Appropriations of endowment assets for expenditure	(121)	(1,524)	(1,645)
Other	<u>(10)</u>	<u>(524)</u>	<u>(534)</u>
Endowment net assets – September 30, 2020	\$ <u>7,679</u>	\$ <u>57,971</u>	\$ <u>65,650</u>

11. Self-Insurance and Other Contingencies

Professional and General Liability

Northern Light Health maintains a deductible program with underlying coverage provided by Medical Mutual Insurance Company of Maine and excess insurance coverage provided by various commercial insurance companies. The program serves as a mechanism to fund deductibles with funding determined by independent actuarial projections. For both professional and general liability, the program provides total limits of \$2,000,000 per claim and \$15,000,000 in the aggregate, subject to a deductible of \$1,000,000 per claim and \$5,000,000 in the aggregate. Additional excess coverage has been obtained. At September 30, 2020 and 2019, there were no known claims outstanding, which in the opinion of management, will be settled in excess of insurance coverage.

The investment assets and accrued self-insurance reserves of the professional and general liability trust were \$43,487,000 and \$34,145,000, respectively, as of September 30, 2020 and \$38,769,000 and \$33,645,000, respectively, as of September 30, 2019.

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Workers' Compensation

Northern Light Health maintains a common trust fund for a group workers' compensation program in accordance with the Maine Workers' Compensation Act. Because the common trust fund is regulated by the Maine Bureau of Insurance, neither the assets nor the liabilities of the trust are reflected in the accompanying consolidated financial statements. The assets of the trust were approximately \$22,133,000 and \$20,699,000 and the liabilities were approximately \$18,939,000 and \$19,313,000 at September 30, 2020 and 2019, respectively.

Employee Health Benefits

Employee health and dental benefits are provided through partially self-insured plans or commercially-acquired programs. The self-insured medical plan had stop loss coverage that provides reimbursement for claims other than those paid within Northern Light Health in excess of \$1,000,000 per individual as of September 30, 2020 and 2019.

Other Contingencies

Northern Light Health is party in various legal proceedings and potential claims arising in the ordinary course of business. In addition, the healthcare industry as a whole is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to government review and interpretation, as well as regulatory actions, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue, from patient services and exclusion from the Medicare and Medicaid programs. Such compliance in the healthcare industry has recently come under increased governmental scrutiny. Management does not believe that these matters will have a material adverse effect on Northern Light Health's consolidated financial position or results of operations.

12. Pension and Postretirement Healthcare Plans

Cash Balance Plan

Employees of certain Northern Light Health affiliates participate in a Defined Benefit, Cash Balance Plan (the Plan). At the close of every calendar year, participating employers credit the employee's core account with a contribution based on eligible pay, age, and years of credited service. The employee must be at least 21 years of age and have worked 1,000 hours in the current calendar year to receive the contribution for that year. The funding policy of the Plan is to make contributions at least equal to the minimum amount required under the law.

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The following table sets forth the Plan's funded status and amounts recognized in the consolidated balance sheets at September 30, 2020 and 2019 (dollars in thousands):

	<u>2020</u>	<u>2019</u>
Change in benefit obligation		
Benefit obligation – beginning of year	\$ 382,151	\$ 335,113
Service cost	20,659	17,481
Interest cost	11,686	13,558
Benefits paid	(17,912)	(22,382)
Actuarial loss (gain)	29,155	38,239
Net change in individual accounts	<u>485</u>	<u>142</u>
Benefit obligation – end of year	\$ <u>426,224</u>	\$ <u>382,151</u>
Change in Plan assets		
Fair value of Plan assets – beginning of year	\$ 262,992	\$ 247,379
Actual return on Plan assets	10,112	15,853
Employer contribution	14,300	22,000
Benefits paid	(17,912)	(22,382)
Net change in individual accounts	<u>485</u>	<u>142</u>
Fair value of Plan assets – end of year	\$ <u>269,977</u>	\$ <u>262,992</u>
Funded status at end of year	\$ <u>(156,247)</u>	\$ <u>(119,159)</u>
Cumulative amounts recognized in other changes in unrestricted net assets		
Prior-service costs	\$ 49	\$ 59
Actuarial loss	<u>160,698</u>	<u>131,078</u>
Total recognized in other changes in net assets without donor restrictions	\$ <u>160,747</u>	\$ <u>131,137</u>
Prepaid benefit cost	\$ <u>4,500</u>	\$ <u>11,978</u>
Accumulated benefit obligation	\$ <u>384,322</u>	\$ <u>345,826</u>

Northern Light Health's contribution to the Plan for 2020 and 2019 exceeded amounts required by the Employee Retirement Income Security Act of 1974 (ERISA). The Plan's Adjusted Funding Target Attainment Percentage under ERISA was 93% and 92% at September 30, 2020 and 2019, respectively. As a result, the Plan is not subject to ERISA benefit restrictions.

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For the years ended September 30, 2020 and 2019, net periodic pension cost for the Plan included the following components (dollars in thousands):

	<u>2020</u>	<u>2019</u>
Service cost for benefits earned during the year	\$ 20,659	\$ 17,481
Interest cost on projected benefit obligation	11,686	13,558
Expected return on Plan assets	(19,723)	(18,798)
Amortization of prior service cost	10	52
Amortization of net loss	<u>9,146</u>	<u>5,654</u>
Net periodic pension benefit cost	\$ <u>21,778</u>	\$ <u>17,947</u>

Net periodic pension costs of \$1,118,762 and \$466,563 are reported in other gains (losses) for the years ended September 30, 2020 and 2019, respectively. Service cost is reported in compensation and employee benefits in the statement of operations.

The significant losses related to changes in the benefit obligation for the years ended September 30, 2020 and 2019 were primarily due to the change in the discount rate assumption.

The following table sets forth the weighted-average assumptions used in determining the benefit obligations at September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Discount rate	2.50%	3.20%
Rate of increase in future compensation	3.00	3.00
Cash balance interest credit rate	4.50	4.50

The following sets forth the weighted-average assumptions used to determine net periodic benefit cost for the years ended September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Discount rate	3.20%	4.25%
Rate of increase in future compensation	3.00	3.00
Expected long-term rate of return on plan assets	7.50	7.50

The discount rate represents an estimate of the rate at which the pension benefits could be "effectively" settled. The rate of compensation increase represents a best estimate of long-term pay increases and reflects an inflation expectation consistent with the discount rate. The long-term rate of return on Plan assets represents an estimate of the rate of return on current assets, taking into account the Plan's asset allocation, and also reflects an inflation expectation consistent with the discount rate.

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Northern Light Health expects to make \$35,310,000 in contributions to the Plan during 2021. In addition, the following benefit payments, which reflect expected future services, as appropriate, are expected to be paid during the years ending (dollars in thousands):

2021	\$ 20,307
2022	25,243
2023	26,193
2024	27,610
2025	27,345
2026 – 2030	154,098

Northern Light Health has adopted a moderately growth-oriented investment policy for the Plan. It is anticipated that as the Plan matures, the policy should move toward a more conservative posture. Northern Light Health's overall strategy is to invest in high-grade securities and other assets with a minimum risk of market value fluctuation. In general, Northern Light Health's goal is to maintain the following allocation ranges:

	Allocation %		
	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Growth	46%	51%	56%
Risk Reducing/Diversifying	-	4	8
Liability Hedging	40	45	50

Defined Contribution Plans

Certain of Northern Light Health's affiliates sponsor defined contribution plans, which cover substantially all of their employees, and certain hospital-based physicians meeting the Plans' participation requirements. Expense for the years ended September 30, 2020 and 2019 was approximately \$16,193,000 and \$15,145,000, respectively. The affiliates fund the amount of the expense annually.

Deferred Compensation Plans

Several of Northern Light Health's affiliates sponsor deferred compensation plans for eligible employees and supplemental executive retirement plans (SERPs) for certain executives. Assets held by Northern Light Health to provide for the payments of contractual liabilities are subject to the claims of Northern Light Health's general creditors. The assets are invested in temporary cash investments, institutional mutual funds, and common/collective trusts. The investment assets and related liabilities of the deferred compensation and SERPs were \$55,583,000 and \$54,166,000, respectively, as of September 30, 2020 and \$49,631,000 and \$48,271,000, respectively, as of September 30, 2019.

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Postretirement Medical Benefits

Various Northern Light Health organizations provide certain medical benefits for retired employees. Employees of these various participating organizations may become eligible for these benefits if they reach normal retirement age while working for such organizations. Early retirement benefits are available to retirees with at least 15 years of vested service. Employees at participating organizations hired after January 1, 2005 and the employees of a nonparticipating company are not eligible for retiree medical benefits. The postretirement medical plan is not funded.

For the years ended September 30, 2020 and 2019, net periodic postretirement medical benefit cost consists of the components listed below (dollars in thousands):

	<u>2020</u>	<u>2019</u>
Service cost for benefits attributed to service during the year	\$ 67	\$ 48
Interest cost on accumulated postretirement benefit obligation	1,109	1,069
Amortization of prior service credit	(13)	(13)
Amortization of net gain	<u>-</u>	<u>(730)</u>
Net periodic postretirement medical benefit cost	<u>\$ 1,163</u>	<u>\$ 374</u>

Net periodic postretirement medical benefit cost of \$1,096 and \$326 are reported in other gains (losses) for the years ended September 30, 2020 and 2019, respectively. Service cost is reported in compensation and employee benefits in the statement of operations.

The following table sets forth the components of the accumulated postretirement benefit obligation shown in Northern Light Health's consolidated financial statements at September 30, 2020 and 2019 (dollars in thousands):

	<u>2020</u>	<u>2019</u>
Change in postretirement benefit obligation		
Benefit obligation – beginning of year	\$ 35,564	\$ 25,843
Service cost	67	48
Interest cost	1,109	1,069
Benefits paid	(1,458)	(1,304)
Plan amendments	2,253	-
Actuarial loss	<u>943</u>	<u>9,908</u>
Benefit obligation at September 30	<u>\$ 38,478</u>	<u>\$ 35,564</u>
Cumulative amounts recognized in other changes in net assets without donor restrictions		
Prior-service costs	\$ 2,252	\$ (13)
Actuarial loss (gain)	<u>2,615</u>	<u>1,672</u>
Total recognized in other changes in net assets without donor restrictions	<u>\$ 4,867</u>	<u>\$ 1,659</u>
Accrued benefit obligation	<u>\$ 33,611</u>	<u>\$ 33,905</u>

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Approximately \$1,980,000 and \$1,804,000 of the benefit obligation is included in current liabilities at September 30, 2020 and 2019, respectively.

There was no significant gain or loss related to changes in the benefit obligation for the year ended September 30, 2020. The significant loss related to changes in the benefit obligation for the year ended September 30, 2019 was primarily due to the decrease in the discount rate assumption and unfavorable claims experience.

In determining the accumulated postretirement medical benefit obligation, Northern Light Health used discount rates of 2.50% in 2020 and 3.20% in 2019. The Plan assumed annual rates of inflation in the per capita cost of covered healthcare benefits. The rates are assumed to decrease gradually down from 7.50% to 4.00% on a graded scale, becoming fixed in 2026.

Northern Light Health expects to contribute \$2,004,000 to the postretirement benefit plan during 2020.

The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid during the years ending (dollars in thousands):

Years Ending September 30:

2021	\$	2,004
2022		2,038
2023		2,088
2024		2,093
2025		2,150
2026 – 2030		10,802

Pension and Postretirement Plan-Related Adjustments

The components of pension and postretirement plan-related adjustments included in other changes in net assets without donor restrictions, net of amortization are as follows (dollars in thousands):

	<u>Cash</u> <u>Balance Plan</u>	<u>Postretirement</u> <u>Medical</u> <u>Benefits</u>	<u>Total</u>
For the year ended September 30, 2020			
Prior service costs (credit)	\$ 10	\$ (2,265)	\$ (2,255)
Net actuarial loss	<u>(29,620)</u>	<u>(943)</u>	<u>(30,563)</u>
	<u>\$ (29,610)</u>	<u>\$ (3,208)</u>	<u>\$ (32,818)</u>
For the year ended September 30, 2019			
Prior service costs (credit)	\$ 52	\$ (13)	\$ 39
Net actuarial loss	<u>(35,530)</u>	<u>(10,637)</u>	<u>(46,167)</u>
	<u>\$ (35,478)</u>	<u>\$ (10,650)</u>	<u>\$ (46,128)</u>

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13. Concentrations

Receivables

Various Northern Light Health affiliates grant credit without collateral to their patients, many of whom are insured under third-party payor agreements. At September 30, the accounts receivable from patients and third-party payors, net of contractual allowances, were as follows:

	<u>2020</u>	<u>2019</u>
Medicare and MaineCare	33%	21%
Commercial and other insurance	49	45
Patients	<u>18</u>	<u>34</u>
	<u>100%</u>	<u>100%</u>

Labor Force

Certain Northern Light Health hospitals have employees that are members of the Maine State Nurses Association. At EMMC, nurses comprising approximately 17% of the workforce have a contract running through September 2021. Maine Coast nurses and other healthcare employees covering approximately 23% of the workforce have a contract through February 2023. At A.R. Gould, the nurses' contract runs through March 2023 and covers approximately 14% of the workforce. In addition, approximately 9% of A.R. Gould's workforce is covered by a contract through the Teamsters Union.

14. Fair Value Measurements

GAAP establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 — Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 — Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3 — Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The following tables present the carrying amounts and estimated fair value for Northern Light Health's financial assets and liabilities as of September 30, 2020 and 2019 (dollars in thousands):

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	<u>Fair Value Measurements at September 30, 2020</u>			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Cash investments	\$ 90,035	\$ -	\$ -	\$ 90,035
Pledges and other receivables	-	6,840	-	6,840
Marketable equity securities	4,899	-	-	4,899
Guaranteed investment contracts	-	7,522	-	7,522
Mutual funds				
Participant driven (deferred compensation)	54,443	-	-	54,443
Fixed-income securities – U.S. government				
Treasury and agency obligations	-	96,471	-	96,471
Fixed-income securities – Corporate obligations	-	110,626	-	110,626
Interest in trusts and charitable gift annuities	-	-	1,690	1,690
Beneficial interest in perpetual trust	-	-	15,427	15,427
	<u>\$ 149,377</u>	<u>\$ 221,459</u>	<u>\$ 17,117</u>	387,953
Common/collective trusts				1,140
Institutional funds				323,676
Hedge funds				<u>35,540</u>
				<u>\$ 748,309</u>
Liabilities:				
Deferred compensation	\$ -	\$ 54,166	\$ -	\$ 54,166
Total	<u>\$ -</u>	<u>\$ 54,166</u>	<u>\$ -</u>	<u>\$ 54,166</u>
Cash Balance Pension Plan Assets (Note 12)				
Institutional mutual funds				
Participant driven (deferred compensation)	<u>\$ 5,704</u>	<u>\$ -</u>	<u>\$ -</u>	5,704
Common/collective trusts				120,844
Institutional funds				135,595
Hedge funds				<u>7,834</u>
				<u>\$ 269,977</u>

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	Fair Value Measurements at September 30, 2019			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Cash investments	\$ 66,561	\$ -	\$ -	\$ 66,561
Pledges and other receivables	-	4,189	-	4,189
Marketable equity securities	5,819	-	-	5,819
Guaranteed investment contracts	-	7,522	-	7,522
Mutual funds				
Participant driven (deferred compensation)	48,491	-	-	48,491
Fixed-income securities – U.S. government				
Treasury and agency obligations	-	13,809	-	13,809
Fixed-income securities – Corporate obligations	-	29,308	-	29,308
Interest in trusts and charitable gift annuities	-	-	1,643	1,643
Beneficial interest in perpetual trust	-	-	<u>14,302</u>	<u>14,302</u>
	<u>\$ 120,871</u>	<u>\$ 54,828</u>	<u>\$ 15,945</u>	191,644
Common/collective trusts				1,140
Institutional funds				339,669
Hedge funds				<u>32,898</u>
				<u>\$ 565,351</u>
Liabilities:				
Deferred compensation	\$ -	\$ 48,271	\$ -	\$ 48,271
Interest rate swap	-	<u>208</u>	-	<u>208</u>
Total	<u>\$ -</u>	<u>\$ 48,479</u>	<u>\$ -</u>	<u>\$ 48,479</u>
Cash Balance Pension Plan Assets (Note 12)				
Institutional mutual funds				
Participant driven (deferred compensation)	<u>\$ 5,569</u>	<u>\$ -</u>	<u>\$ -</u>	5,569
Common/collective trusts				115,492
Institutional funds				134,741
Hedge funds				<u>7,190</u>
				<u>\$ 262,992</u>

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The following is a reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining fair value (dollars in thousands):

	<u>Beneficial Interest in Perpetual Trust</u>	<u>Interest in Trust and Charitable Gift Annuities</u>	<u>Other Equity Investments</u>	<u>Total</u>
Balance at September 30, 2018	\$ 14,614	\$ 1,845	\$ -	\$ 16,459
Distributions	-	(123)	-	(123)
Dividends, net of fees	-	30	-	30
Unrealized losses	<u>(312)</u>	<u>(109)</u>	<u>-</u>	<u>(421)</u>
Balance at September 30, 2019	<u>14,302</u>	<u>1,643</u>	<u>-</u>	<u>15,945</u>
Contributions	566	-	-	566
Distributions	-	(124)	-	(124)
Dividends, net of fees	-	56	-	56
Unrealized gains	<u>559</u>	<u>115</u>	<u>-</u>	<u>674</u>
Balance at September 30, 2020	<u>\$ 15,427</u>	<u>\$ 1,690</u>	<u>\$ -</u>	<u>\$ 17,117</u>

Unrealized gains or losses on beneficial interest in perpetual trusts in Level 3 are included in the change in net unrealized gains or losses on investments in net assets with donor restrictions. Unrealized gains or losses on interest in trusts and charitable gift annuities in Level 3 are included in net unrealized gains or losses on investments in net assets with donor restrictions. Unrealized gains or losses on other equity investments in Level 3 are included in change in net unrealized gains or losses on investments in investment income.

Fair values of investments are provided by investment custodians, trustees, managers or advisors. The following is a description of the valuation methodologies used for assets and liabilities measured at fair value:

Cash Investments — The carrying value of cash investments approximates fair value as maturities are less than three months and/or include money market funds that are based on quoted prices and actively traded.

Pledges and Other Receivables — These are valued at the present value of cash expected to be collected in future years, discounted using a risk-free rate applicable to the year in which the pledge is received. Discount rates ranged from 0.14% to 0.27% at September 30, 2020 and 1.56% to 1.51% at September 30, 2019.

Marketable Equity Securities — The fair values of marketable securities are based on quoted market prices.

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Guaranteed Investment Contracts (GICs) — The estimated fair values of GICs approximate historical costs, as rates of return approximate current market rates.

Mutual Funds — The fair values of mutual funds and institutional mutual funds are based on quoted market prices.

Fixed-Income Securities — The estimated fair values of debt securities are based on quoted market prices and/or other market data for the same or comparable instruments and transactions.

Interest in Trusts and Charitable Gift Annuities — The fair values of the interest in trusts and charitable gift annuities are based on the underlying assets of the trusts and charitable gift annuities reported by the trustees, which all have readily determinable fair values based on quoted market prices of identical or comparable securities. The underlying investments are not readily available to Northern Light Health and therefore this is considered to be a Level 3 investment.

Beneficial Interest in Perpetual Trusts — The fair values of the beneficial interest in perpetual trusts are based on the underlying assets of the trusts reported by the trustee, which all have readily determinable fair values based on quoted market prices of identical or comparable securities. The underlying investments are not readily available to Northern Light Health and therefore this is considered to be a Level 3 investment.

Deferred Compensation Liability — The fair values of the deferred compensation liabilities are based on the related assets.

Interest Rate Swaps — Northern Light Health uses inputs other than quoted prices that are observable to value the interest rate swaps. Northern Light Health considers these inputs to be Level 2 inputs in the context of the fair value hierarchy. These values represent the estimated amounts Northern Light Health would receive or pay to terminate agreements, taking into consideration current interest rates and the current creditworthiness of the counterparty.

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Investments at Net Asset Values

Investments at NAV include common/collective trusts, institutional funds and hedge funds. The following tables set forth a summary of Northern Light Health's investments with a reported NAV as of September 30, 2020 and 2019 (dollars in thousands):

	<u>Fair Value Estimated Using net Asset Value Per Share September 30, 2020</u>				
	<u>Fair Value</u>	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Other Redemption Restrictions</u>	<u>Redemption Notice Period</u>
Investments					
Common/Collective trust					
Large Cap U.S. Equity	\$ <u>1,140</u>	None	Daily	None	1 business day
Institutional Funds					
Core Bond Funds	<u>192,694</u>	None	Daily	None	1 business day
Multi-Asset Funds	<u>110,846</u>	None	Daily	None	1 business day
Real Estate Equity Funds	<u>17,417</u>	None	Quarterly	None	45 business days
Short-Term Bonds	<u>2,719</u>	None	Monthly	Redemption on first day of the month	5 business days
	<u>323,676</u>				
Hedge Funds					
	<u>19,969</u>	None	Quarterly	None	30-90 business days
	<u>9,958</u>	None	Monthly	None	2-60 business days
	<u>828</u>	None	Semi-annually	None	90 business days
	<u>524</u>	None	Annually	None	60 business days
	<u>4,261</u>	None	Quarterly	Full redemption pays 95% with remaining 5% after completion of the fund's annual audit. Redemption fee for the redemption with 12 months of subscription date/redemption limited to 20% of NAV on dealing day.	65 business days
	<u>35,540</u>				
Total	<u>\$ 360,356</u>				
Pension Plan Investments					
Long-Term Bonds	\$ <u>9,741</u>	None	Daily	None	1 business day
Liability-Driven Investments	<u>111,103</u>	None	Daily	None	1 business day
Multi-Asset Funds	<u>135,595</u>	None	Daily	None	1 business day
Hedge Fund	<u>7,834</u>	None	Quarterly	Full redemption pays 95% with remaining 5% after completion of the fund's annual audit. Redemption fee for the redemption with 12 months of subscription date/redemption limited to 20% of NAV on dealing day.	65 days with a 30-day settlement period
Total	<u>\$ 264,273</u>				

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		Fair Value Estimated Using net Asset Value Per Share September 30, 2019			
	Fair Value	Unfunded Commitment	Redemption Frequency	Other Redemption Restrictions	Redemption Notice Period
Investments					
Common/Collective trust					
Large Cap U.S. Equity	\$ <u>1,140</u>	None	Daily	None	1 business day
Institutional Funds					
Core Bond Funds	208,712	None	Daily	None	1 business day
Multi-Asset Funds	110,926	None	Daily	None	1 business day
Real Estate Equity Funds	17,164	None	Quarterly	None	45 business days
Short-Term Bonds	<u>2,867</u>	None	Monthly	Redemption on first day of the month	5 business days
	<u>339,669</u>				
Hedge Funds					
	19,412	None	Quarterly	None	30-90 business days
	6,285	None	Monthly	None	2-45 business days
	2,491	None	Semi-annually	None	90 business days
	800	None	Annually	None	60 business days
	<u>3,910</u>	None	Quarterly	Full redemption pays 95% with remaining 5% after completion of the fund's annual audit. Redemption fee for the redemption with 12 months of subscription date/redemption limited to 20% of NAV on dealing day.	65 business days
	<u>32,898</u>				
 Total	 \$ <u>373,707</u>				
Pension Plan Investments					
Long-Term Bonds	\$ 9,344	None	Daily	None	1 business day
Liability-Driven Investments	106,148	None	Daily	None	1 business day
Multi-Asset Funds	134,741	None	Daily	None	1 business day
Hedge Fund	<u>7,190</u>	None	Quarterly	Full redemption pays 95% with remaining 5% after completion of the fund's annual audit. Redemption fee for the redemption with 12 months of subscription date/redemption limited to 20% of NAV on dealing day.	65 days with a 30- day settlement period
 Total	 \$ <u>257,423</u>				

EASTERN MAINE HEALTHCARE SYSTEMS d/b/a NORTHERN LIGHT HEALTH

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

Large Cap U.S. Equity — Seeks to provide long-term growth of capital by investing primarily in large cap equity securities and to achieve above average results over a market cycle. Large cap (large capitalization) investments involve stocks of companies generally having a market capitalization between \$10 billion and \$200 billion.

Core Bond Funds — Seeks to provide excess return over the benchmark through a variety of diversified strategies including sector rotation, modest interest rate timing, security selection, and tactical use of high yield and emerging market bonds.

Multi-Asset Funds — Seeks favorable returns and offers a convenient way to diversify a portfolio by combining funds and separate accounts investing in U.S. and non-U.S. stocks, bonds, global commodities, listed real estate, and infrastructure into one fund.

Real Estate Equity Funds — Employs a multi-advisor investment approach to private core and enhanced real estate. Seeks to provide stable and high levels of current income supported by strong property occupancy.

Short-Term Bonds — Employs a disciplined value-oriented approach, fully invested at all times in the most attractive sectors to produce high risk-adjusted returns.

Long-Term Bonds — Seeks favorable returns comparable to its index by combining diversified advisor styles and strategies over a full market cycle. The fund seeks to outperform the Barclays U.S. Long Government/Credit Bond Index.

Liability-Driven Investments — Seeks favorable returns comparable to its index by combining diversified advisor styles and strategies over a full market cycle.

Hedge Funds — Seeks to offer investors low correlation to traditional assets, and aims to provide diversification, lower volatility, and higher risk-adjusted returns at the portfolio level. The fund's underlying managers represent a range of hedge fund strategies, which invest in global developed and emerging market equities, debt, and currency markets.

EASTERN MAINE HEALTHCARE SYSTEMS d/b/a NORTHERN LIGHT HEALTH

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

15. Functional Expenses

Northern Light Health is a community-based health system dedicated to improving the health of the residents of its region. 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, including depreciation, amortization, interest, and other occupancy costs, are allocated to a function based on square-footage or units-of-service basis. Allocated healthcare services costs not allocated on a units-of-service basis are otherwise allocated based on revenue. The following is a schedule by year of functional expenses (dollars in thousands):

	<u>2020</u>		
	<u>Healthcare Service</u>	<u>Administrative Support</u>	<u>Total</u>
Salary, payroll taxes and fringe benefits	\$ 948,678	\$ 117,855	\$ 1,066,533
Supplies	335,847	14,678	350,525
Purchased services	275,240	29,556	304,796
Provider taxes	32,577	-	32,577
Depreciation and amortization	50,886	8,186	59,072
Interest expense	<u>21,306</u>	<u>1,063</u>	<u>22,369</u>
	<u>\$ 1,664,534</u>	<u>\$ 171,338</u>	<u>\$ 1,835,872</u>
	<u>2019</u>		
	<u>Healthcare Service</u>	<u>Administrative Support</u>	<u>Total</u>
Salary, payroll taxes and fringe benefits	\$ 894,608	\$ 105,502	\$ 1,000,110
Supplies	324,494	14,902	339,396
Purchased services	241,390	20,278	261,668
Provider taxes	30,646	-	30,646
Depreciation and amortization	49,603	8,196	57,799
Interest expense	<u>21,610</u>	<u>1,078</u>	<u>22,688</u>
	<u>\$ 1,562,351</u>	<u>\$ 149,956</u>	<u>\$ 1,712,307</u>

EASTERN MAINE HEALTHCARE SYSTEMS d/b/a NORTHERN LIGHT HEALTH

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

16. Operating Leases and Other Commitments

Operating Leases

Northern Light Health leases certain equipment, warehouse, hospital, and office space subject to various agreements. Lease expense charged to operations amounted to approximately \$11,921,000 in 2020 and \$13,140,000 in 2019.

The following is a schedule by year of future minimum lease payments under operating leases existing at September 30, 2020 (dollars in thousands):

Years Ending September 30:

2021	\$	8,964
2022		7,230
2023		5,830
2024		2,798
2025		2,104
Thereafter		<u>2,865</u>
	\$	<u>29,791</u>

Northern Light Health leases warehouse and office space from Penobscot Logistics Solutions, LLC, a related party. The lease requires annual payments of \$435,000 through April, 2023.

Other Commitments

Northern Light Health has agreements through 2027 with its clinical and ERP systems vendors for remote hosting services, and a perpetual license agreement for clinical systems vendors. The payments provide for the maintenance and support for the licensed software and hardware.

The following is a schedule by year of annual payments under remote hosting agreements, perpetual license agreements and hardware agreements existing at September 30, 2020 (dollars in thousands):

Years Ending September 30:

2021	\$	19,606
2022		22,237
2023		21,352
2024		17,204
2025		16,950
Thereafter		<u>32,062</u>
	\$	<u>129,411</u>

EASTERN MAINE HEALTHCARE SYSTEMS d/b/a NORTHERN LIGHT HEALTH

Consolidating Statement of Operations

Year Ended September 30, 2020

	Acadia Hospital (Consolidated)	Affiliated Healthcare Systems (Consolidated)	A.R. Gould Hospital	Beacon Health, LLC (Consolidated)	Blue Hill Hospital	C.A. Dean Hospital	Eastern Maine Medical Center (Consolidated)	Home Care and Hospice	Inland Hospital (Consolidated)	Maine Coast Hospital (Consolidated)	Mayo Hospital	Mercy Hospital	Northern Light Health (Consolidated)	Northern Light Health Foundation	Northern Light Medical Transport	Northern Light Pharmacy	Rosscare	Sebasticook Valley Hospital	Eliminations and Reclassifications	2020 NLH Consolidated	
REVENUE																					
Net patient service revenue	\$ 67,311,172	\$ 16,490,261	\$ 120,221,669	\$ -	\$ 31,544,098	\$ 17,043,140	\$ 803,716,946	\$ 46,572,120	\$ 68,131,565	\$ 67,786,485	\$ 24,190,986	\$ 198,559,068	\$ 776,898	\$ -	\$ 6,067,136	\$ 28,858,232	\$ -	\$ 40,874,010	\$ (802,068)	\$ 1,537,341,718	
Sales and contract revenue	4,138,597	28,402,456	303,562	10,007,172	386,701	7,480	9,942,695	821,211	427,219	231,390	4,088	355,810	183,012,923	4,192,329	1,877,786	2,057,428	-	44,681	(234,706,856)	11,506,672	
Other revenue	3,134,072	1,436,929	27,528,239	4,869,242	8,338,820	2,909,274	86,428,642	2,172,842	16,973,096	14,053,705	8,174,043	11,580,383	150,305,135	6,015	397,411	7,128,365	413,067	4,270,014	(148,521,991)	201,597,303	
Net assets released from restrictions - operations	113,534	-	100,281	-	92,681	8,185	1,265,083	210,919	69,129	137,862	3,305	614,371	-	172,251	-	-	-	15,913	-	2,803,514	
Total revenue	74,697,375	46,329,646	148,153,751	14,876,414	40,362,300	19,968,079	901,353,366	49,777,092	85,601,009	82,209,442	32,372,422	211,109,632	334,094,956	4,370,595	8,342,333	38,044,025	413,067	45,204,618	(384,030,915)	1,753,249,207	
EXPENSES																					
Compensation and employee benefits	50,625,626	17,913,959	82,003,483	9,414,066	19,450,914	12,052,173	434,915,357	37,853,995	42,612,954	44,585,774	20,257,352	117,153,838	145,042,945	3,337,071	4,561,259	5,402,782	3,606	20,468,858	(1,122,781)	1,066,533,231	
Supplies and other	14,920,324	30,997,100	62,452,860	4,328,871	17,280,157	5,976,025	458,490,235	11,599,999	42,935,394	40,825,631	9,747,831	97,595,765	215,405,553	1,008,265	3,782,346	32,967,733	195,697	20,296,172	(382,908,134)	687,897,824	
Depreciation and amortization	861,774	439,835	3,439,037	45,300	701,083	533,561	29,519,749	167,367	1,974,938	1,850,942	1,066,519	5,507,115	11,268,607	8,822	173,598	337,261	-	1,176,951	-	59,072,459	
Interest	55,948	172,633	835,816	115	78,827	146,009	14,494,281	-	634,513	453,849	130,699	2,053,780	2,817,588	-	-	2,240	288,454	203,972	-	22,368,724	
Total expenses	66,463,672	49,523,527	148,731,196	13,788,352	37,510,981	18,707,768	937,419,622	49,621,361	88,157,799	87,716,196	31,202,401	222,310,498	374,534,693	4,354,158	8,517,203	38,710,016	487,757	42,145,953	(384,030,915)	1,835,872,238	
Income (loss) from operations	8,233,703	(3,193,881)	(577,445)	1,088,062	2,851,319	1,260,311	(36,066,256)	155,731	(2,556,790)	(5,506,754)	1,170,021	(11,200,866)	(40,439,737)	16,437	(174,870)	(665,991)	(74,690)	3,058,665	-	(82,623,031)	
OTHER GAINS (LOSSES)																					
Income tax (expense) benefit	45,500	326,742	40,000	-	-	-	(78,983)	-	12,500	-	-	262,500	-	-	-	-	-	-	-	608,259	
Joint venture income (loss)	-	126,334	(194,492)	-	-	-	900,376	-	-	-	-	-	(299,316)	-	-	-	-	-	-	532,902	
Gain on sale of Alliance Health Documentation, LLC, net	-	88,207	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	88,207	
Contribution received in the acquisition of Mayo	-	-	-	-	-	-	-	-	-	-	12,924,052	-	-	-	-	-	-	-	-	12,924,052	
Investment income and other - net	(131,637)	(117,704)	29,483	(14,142)	(9,701)	(11,910)	497,018	-	25	10,129	90,927	307,582	6,074,177	276,059	(3,634)	-	(7,167)	393	2,811,442	9,801,340	
Other gains (losses) - net	(86,137)	423,579	(125,009)	(14,142)	(9,701)	(11,910)	1,318,411	-	12,525	10,129	13,014,979	570,082	5,774,861	276,059	(3,634)	-	(7,167)	393	2,811,442	23,954,760	
Excess (deficiency) of revenue and gains over expenses and losses	8,147,566	(2,770,302)	(702,454)	1,073,920	2,841,618	1,248,401	(34,747,845)	155,731	(2,544,265)	(5,496,625)	14,185,000	(10,630,784)	(34,664,876)	292,496	(178,504)	(665,991)	(81,857)	3,059,058	2,811,442	(58,668,271)	
Noncontrolling interest	-	(41,140)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(41,140)	
Excess (deficiency) of revenue and gains over expenses and losses - controlling interest	8,147,566	(2,811,442)	(702,454)	1,073,920	2,841,618	1,248,401	(34,747,845)	155,731	(2,544,265)	(5,496,625)	14,185,000	(10,630,784)	(34,664,876)	292,496	(178,504)	(665,991)	(81,857)	3,059,058	2,811,442	(58,709,411)	
Net assets released from restrictions - Capital acquisitions	(1,697)	-	408,630	-	21,618	60,000	5,533,233	-	34,968	266,677	-	7,781,840	-	-	-	-	-	-	-	14,105,269	
Net change in funds held at affiliates	459	-	36	-	44	355	48,150	12,186	65,282	(39,868)	-	(999,537)	286	-	-	-	-	1,460	911,147	-	
Interentity equity transfers	(500)	-	-	-	-	-	-	29,830	-	91,843	(9,561,531)	1,003,127	8,337,979	(991,992)	(305,013)	1,396,257	-	-	-	-	
Pension and postretirement plan related adjustments	(2,336,016)	(836,378)	-	(350,101)	(572,572)	(477,329)	(21,966,554)	-	-	-	-	-	(6,338,404)	-	(746,821)	-	(30,608)	-	836,378	(32,818,405)	
Dividends to members	-	(1,091,244)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,091,244	-	
Increase (decrease) in net assets without donor restriction — controlling interest	\$ 5,809,812	\$ (4,739,064)	\$ (293,788)	\$ 723,819	\$ 2,290,708	\$ 831,427	\$ (51,133,016)	\$ 197,747	\$ (2,444,015)	\$ (5,177,973)	\$ 4,623,469	\$ (2,845,354)	\$ (32,665,015)	\$ (699,496)	\$ (1,230,338)	\$ 730,266	\$ (112,465)	\$ 3,060,518	\$ 5,650,211	\$ (77,422,547)	

The above supplementary consolidating information is presented only for purposes of additional analysis and not as a presentation of the results of operations of each component of the consolidating group.

EASTERN MAINE HEALTHCARE SYSTEMS d/b/a NORTHERN LIGHT HEALTH

Consolidating Statement of Operations

Year Ended September 30, 2019

	Acadia Hospital (Consolidated)	Affiliated Healthcare Systems (Consolidated)	A.R. Gould Hospital	Beacon Health LLC (Consolidated)	Blue Hill Hospital	C.A. Dean Hospital	Eastern Maine Medical Center (Consolidated)	Home Care & Hospice	Inland Hospital (Consolidated)	Maine Coast Hospital (Consolidated)	Mercy Hospital	Northern Light Health (Consolidated)	Northern Light Health Foundation	Northern Light Medical Transport	Rosscare	Sebastcook Valley Hospital	Eliminations and Reclassifications	2019 Northern Light Health Consolidated
REVENUE																		
Patient service revenue (net of contractual allowances and discounts)	\$ 68,849,986	\$ 49,709,277	\$ 129,079,587	\$ -	\$ 36,740,962	\$ 18,530,012	\$ 860,579,895	\$ 47,726,987	\$ 75,410,329	\$ 83,475,969	\$ 230,171,848	\$ (1,741,364)	\$ -	\$ 5,793,313	\$ -	\$ 41,557,246	\$ (1,068,244)	\$ 1,644,815,803
Less provision for bad debts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net patient service revenue	68,849,986	49,709,277	129,079,587	-	36,740,962	18,530,012	860,579,895	47,726,987	75,410,329	83,475,969	230,171,848	(1,741,364)	-	5,793,313	-	41,557,246	(1,068,244)	1,644,815,803
Sales and contract revenue	3,978,345	31,599,502	402,005	8,025,040	220,869	7,300	18,209,109	626,987	215,044	336,578	427,974	139,817,904	4,067,906	1,666,540	(300)	40,465	(198,968,388)	10,672,880
Other revenue	1,979,342	7,395,784	10,452,710	4,338,163	2,542,442	1,353,640	47,155,825	102,141	5,833,178	679,197	3,358,371	140,836,448	21,327	211,374	256,753	2,555,880	(142,375,283)	86,697,292
Net assets released from restrictions - operations	52,466	-	87,240	-	78,088	2,735	1,188,399	132,941	68,044	214,538	354,399	-	64,168	-	-	26,116	-	2,269,134
Total revenue	74,860,139	88,704,563	140,021,542	12,363,203	39,582,361	19,893,687	927,133,228	48,589,056	81,526,595	84,706,282	234,312,592	278,912,988	4,153,401	7,671,227	256,453	44,179,707	(342,411,915)	1,744,455,109
EXPENSES																		
Compensation and employee benefits	49,270,932	27,769,101	82,267,398	7,726,394	20,442,444	11,881,721	433,401,629	37,415,477	42,663,705	43,177,960	117,314,216	103,538,644	2,977,100	177,916	14,790	21,372,663	(1,302,615)	1,000,109,475
Supplies and other	13,411,621	60,984,752	53,829,949	3,976,902	16,522,793	5,336,251	401,319,784	10,858,975	41,538,852	37,185,216	96,017,139	205,499,364	1,099,803	7,974,333	246,602	17,017,010	(341,109,300)	631,710,046
Depreciation and amortization	921,000	782,716	3,613,113	38,831	754,916	531,575	29,598,597	216,853	2,054,943	2,073,849	6,436,310	9,484,980	9,579	136,891	10	1,145,137	-	57,799,300
Interest	119,393	257,222	837,964	181	81,153	149,974	14,751,160	-	652,372	453,849	2,171,683	2,694,714	-	-	291,218	227,489	-	22,688,372
Total expenses	63,722,946	89,793,791	140,548,424	11,742,308	37,801,306	17,899,521	879,071,170	48,491,305	86,909,872	82,890,874	221,939,348	321,217,702	4,086,482	8,289,140	552,620	39,762,299	(342,411,915)	1,712,307,193
Income (loss) from operations	11,137,193	(1,089,228)	(526,882)	620,895	1,781,055	1,994,166	48,062,058	97,751	(5,383,277)	1,815,408	12,373,244	(42,304,714)	66,919	(617,913)	(296,167)	4,417,408	-	32,147,916
OTHER GAINS (LOSSES)																		
Income tax (expense) benefit	(45,500)	67,500	(40,000)	-	-	-	(468,907)	-	(12,500)	-	(262,500)	-	-	-	-	-	-	(761,907)
Joint venture income (loss)	-	293,444	(43,772)	-	-	-	930,192	-	-	-	-	(153,128)	-	-	-	-	-	1,026,736
Gain on sale of Alliance Health Documentation, LLC, net	-	599,272	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	599,272
Investment income and other, net	11,271	11,488	36,118	-	9,700	2,468	777,872	-	167	23,634	101,690	340,653	626,878	-	-	770	393,548	2,336,257
Other gains (losses) - net	(34,229)	971,704	(47,654)	-	9,700	2,468	1,239,157	-	(12,333)	23,634	(160,810)	187,525	626,878	-	-	770	393,548	3,200,358
Excess (deficiency) of revenue and gains over expenses and losses	11,102,964	(117,524)	(574,536)	620,895	1,790,755	1,996,634	49,301,215	97,751	(5,395,610)	1,839,042	12,212,434	(42,117,189)	693,797	(617,913)	(296,167)	4,418,178	393,548	35,348,274
Noncontrolling interest	-	(276,024)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(276,024)
Excess (deficiency) of revenue and gains over expenses and losses - controlling interest	11,102,964	(393,548)	(574,536)	620,895	1,790,755	1,996,634	49,301,215	97,751	(5,395,610)	1,839,042	12,212,434	(42,117,189)	693,797	(617,913)	(296,167)	4,418,178	393,548	35,072,250
Net assets released from restrictions - capital acquisitions	12,271	-	831,087	-	-	-	3,872,562	-	135,142	165,262	1,749,919	-	-	-	-	92,712	-	6,858,955
Change in unrealized gains on investments	-	20,595	-	-	-	-	379,780	-	-	-	-	19,855,977	142,610	-	-	-	(20,595)	20,378,367
Net change in funds held at affiliates	2,088	-	79	-	98	783	(295,275)	93,263	69,264	419,548	1,106,758	644	-	-	-	3,477	(1,400,727)	-
Interentity equity transfers	(246,999)	-	(518,466)	-	(161,178)	(68,009)	1,736,143	(162,149)	(328,559)	(343,130)	(1,992,430)	6,125,815	748,542	-	(4,613,056)	(176,524)	-	-
Pension and postretirement plan related adjustments	(3,178,040)	(2,531,143)	-	(408,436)	(697,975)	(433,358)	(30,591,635)	-	-	-	-	(10,751,033)	-	-	(68,238)	-	2,531,143	(46,128,715)
Increase (decrease) in net assets without donor restriction - controlling interest	\$ 7,692,284	\$ (2,904,096)	\$ (261,836)	\$ 212,459	\$ 931,700	\$ 1,496,050	\$ 24,402,790	\$ 28,865	\$ (5,519,763)	\$ 2,080,722	\$ 13,076,681	\$ (26,885,786)	\$ 1,584,949	\$ (617,913)	\$ (4,977,461)	\$ 4,337,843	\$ 1,503,369	\$ 16,180,857

The above supplementary consolidating information is presented only for purposes of additional analysis and not as a presentation of the results of operations of each component of the consolidating group.