

BAKER
NEWMAN
NOYES

Elliot Health System and Affiliates

Audited Consolidated Financial Statements
and Other Financial Information

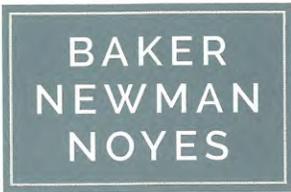
*Years Ended June 30, 2017 and 2016
With Independent Auditors' Report*

ELLIOT HEALTH SYSTEM AND AFFILIATES
AUDITED CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

June 30, 2017 and 2016

TABLE OF CONTENTS

Independent Auditors' Report	1
Audited Consolidated Financial Statements:	
Consolidated Balance Sheets	2
Consolidated Statements of Operations	4
Consolidated Statements of Changes in Net Assets	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7
Other Financial Information:	
Independent Auditors' Report on Other Financial Information	34
2017:	
Consolidating Balance Sheet	35
Consolidating Statement of Operations	37
2016:	
Consolidating Balance Sheet	38
Consolidating Statement of Operations	40



INDEPENDENT AUDITORS' REPORT

Board of Directors
Elliot Health System

We have audited the accompanying consolidated financial statements of Elliot Health System and Affiliates (the System), which comprise the consolidated balance sheets as of June 30, 2017 and 2016, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2017 and 2016, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Newman + Noyes LLC

Manchester, New Hampshire
September 26, 2017

ELLIOT HEALTH SYSTEM AND AFFILIATES

CONSOLIDATED BALANCE SHEETS

June 30, 2017 and 2016

ASSETS

	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$114,998,559	\$ 89,573,694
Accounts receivable, less allowance for doubtful accounts of \$17,110,923 in 2017 and \$14,547,784 in 2016 (notes 2, 5 and 10)	57,962,645	56,430,389
Inventories	3,525,379	3,368,686
Other current assets (note 3)	7,037,896	8,172,455
Current portion of assets whose use is limited held by trustee under revenue bond and note agreements (note 5)	—	970,000
Total current assets	183,524,479	158,515,224
 Property, plant and equipment, less accumulated depreciation (notes 4, 5 and 11)	 179,655,905	 183,426,960
 Other assets (note 2)	 10,201,993	 8,661,923
 Assets whose use is limited (notes 6 and 12):		
Board designated and donor restricted investments	124,120,250	117,191,914
Held by trustee under revenue bond and note agreements (note 5)	28,342,297	13,188,434
Employee benefit plans and other (note 2)	14,746,583	12,527,047
Beneficial interest in perpetual trusts (note 2)	7,152,232	6,746,553
	174,361,362	149,653,948
 Total assets	\$547,743,739	\$500,258,055

LIABILITIES AND NET ASSETS

	<u>2017</u>	<u>2016</u>
Current liabilities:		
Accounts payable and accrued expenses	\$ 25,193,308	\$ 19,903,440
Accrued salaries, wages and related accounts	28,661,165	29,043,469
Accrued interest	1,788,209	1,927,263
Amounts payable to third-party payors (note 3)	12,936,549	8,186,619
Current portion of long-term debt (note 5)	<u>5,324,722</u>	<u>3,950,636</u>
Total current liabilities	73,903,953	63,011,427
Accrued pension (note 7)	85,966,612	101,371,112
Self-insurance reserves and other liabilities (note 2)	30,354,660	26,351,579
Long-term debt, less current portion (note 5)	<u>167,668,207</u>	<u>140,890,628</u>
Total liabilities	357,893,432	331,624,746
Elliot Health System net assets:		
Unrestricted	172,241,725	152,108,056
Temporarily restricted	3,222,948	2,585,053
Permanently restricted	<u>13,856,046</u>	<u>13,463,507</u>
Total Elliot Health System net assets	189,320,719	168,156,616
Noncontrolling interests in consolidated affiliates	<u>529,588</u>	<u>476,693</u>
Total net assets	<u>189,850,307</u>	<u>168,633,309</u>
Total liabilities and net assets	<u>\$547,743,739</u>	<u>\$500,258,055</u>

See accompanying notes.

ELLIOT HEALTH SYSTEM AND AFFILIATES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Net patient service revenues (net of contractual allowances and discounts) (notes 2, 3, 8 and 13)	\$ 545,629,818	\$528,316,255
Provision for bad debts (notes 2, 3 and 8)	<u>(26,745,940)</u>	<u>(20,512,702)</u>
Net patient service revenues less provision for bad debts	518,883,878	507,803,553
Investment income (note 6)	2,912,408	2,475,413
Other revenues (note 3)	<u>22,865,496</u>	<u>24,529,804</u>
Total revenues	544,661,782	534,808,770
Expenses (note 9):		
Salaries, wages and fringe benefits (note 7)	337,491,831	316,421,193
Supplies and other expenses (note 11)	149,883,603	146,143,029
Depreciation and amortization	17,419,254	16,994,639
New Hampshire Medicaid Enhancement Tax (note 13)	21,273,658	21,584,396
Interest	<u>7,732,382</u>	<u>8,277,963</u>
Total expenses	<u>533,800,728</u>	<u>509,421,220</u>
Income from operations	10,861,054	25,387,550
Nonoperating (losses) gains, net:		
Loss on bond refunding (note 5)	(21,117,864)	-
Investment return, net (notes 2 and 6)	7,959,791	(4,916,540)
Other (notes 2 and 8)	<u>1,313,228</u>	<u>1,307,110</u>
Nonoperating losses, net	<u>(11,844,845)</u>	<u>(3,609,430)</u>
Consolidated (deficiency) excess of revenues and nonoperating losses over expenses before discontinued operations	(983,791)	21,778,120
Loss from discontinued operations (note 14)	<u>(324,224)</u>	<u>(1,455,359)</u>
Consolidated (deficiency) excess of revenues and nonoperating losses over expenses	(1,308,015)	20,322,761
Noncontrolling interest in the net gain of consolidated affiliates	<u>(52,895)</u>	<u>(50,921)</u>
(Deficiency) excess of revenues and nonoperating losses over expenses attributable to Elliot Health System	(1,360,910)	20,271,840
Pension adjustment (note 7)	<u>21,494,579</u>	<u>(32,135,760)</u>
Increase (decrease) in unrestricted net assets attributable to Elliot Health System	<u>\$ 20,133,669</u>	<u>\$ (11,863,920)</u>

See accompanying notes.

ELLIOT HEALTH SYSTEM AND AFFILIATES
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years Ended June 30, 2017 and 2016

	<u>Elliot Health System</u>			Total Elliot Health System Net Assets	Non- controlling Interests in Consolidated Affiliates	Total Net Assets
	<u>Unrestricted Net Assets</u>	Tempo- rarily Restricted Net Assets	Perma- nently Restricted Net Assets			
Balances at July 1, 2015	\$163,971,976	\$ 2,214,472	\$13,556,290	\$179,742,738	\$425,772	\$180,168,510
Excess of revenues and nonoperating (losses) gains over expenses	20,271,840	-	-	20,271,840	50,921	20,322,761
Restricted gifts and bequests	-	391,254	-	391,254	-	391,254
Investment return, net (note 6)	-	12,074	(92,783)	(80,709)	-	(80,709)
Net unrealized loss on investments (notes 2 and 6)	-	(32,747)	-	(32,747)	-	(32,747)
Pension adjustment (note 7)	<u>(32,135,760)</u>	<u>-</u>	<u>-</u>	<u>(32,135,760)</u>	<u>-</u>	<u>(32,135,760)</u>
(Decrease) increase in net assets	<u>(11,863,920)</u>	<u>370,581</u>	<u>(92,783)</u>	<u>(11,586,122)</u>	<u>50,921</u>	<u>(11,535,201)</u>
Balances at June 30, 2016	152,108,056	2,585,053	13,463,507	168,156,616	476,693	168,633,309
(Deficiency) excess of revenues and nonoperating losses over expenses	(1,360,910)	-	-	(1,360,910)	52,895	(1,308,015)
Restricted gifts and bequests	-	527,394	-	527,394	-	527,394
Investment return, net (note 6)	-	10,151	392,539	402,690	-	402,690
Net unrealized gain on investments (notes 2 and 6)	-	100,350	-	100,350	-	100,350
Pension adjustment (note 7)	<u>21,494,579</u>	<u>-</u>	<u>-</u>	<u>21,494,579</u>	<u>-</u>	<u>21,494,579</u>
Increase in net assets	<u>20,133,669</u>	<u>637,895</u>	<u>392,539</u>	<u>21,164,103</u>	<u>52,895</u>	<u>21,216,998</u>
Balances at June 30, 2017	<u>\$172,241,725</u>	<u>\$ 3,222,948</u>	<u>\$13,856,046</u>	<u>\$189,320,719</u>	<u>\$529,588</u>	<u>\$189,850,307</u>

See accompanying notes.

ELLIOT HEALTH SYSTEM AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating activities and net gains:		
Increase (decrease) in net assets	\$ 21,216,998	\$ (11,535,201)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities and net gains (losses):		
Depreciation and amortization	17,419,254	16,994,639
Loss on disposal of property, plant and equipment	554,826	135,671
Restricted investment (income) loss and net (gain) loss on investments	(402,690)	80,709
Restricted gifts and bequests	(527,394)	(391,254)
Pension adjustment	(21,494,579)	32,135,760
Net realized and unrealized (gains) losses on investments	(7,674,855)	5,304,462
Loss on bond refunding	21,117,864	-
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,532,256)	(5,127,225)
Inventories	(156,693)	(115,233)
Other current and noncurrent assets	(405,511)	17,876,040
Accounts payable and accrued expenses	6,587,217	668,308
Accrued salaries, wages and related accounts	(382,304)	(1,936,327)
Accrued interest	810,239	(10,743)
Accrued pension	6,090,079	2,104,105
Self-insurance reserves and other liabilities	4,034,821	(10,895,991)
Amounts payable to third-party payors	<u>4,749,930</u>	<u>2,717,765</u>
Net cash provided by operating activities and net gains (losses)	50,004,946	48,005,485
Investing activities:		
Acquisition of property, plant and equipment	(18,894,460)	(16,730,352)
Proceeds from the sale of property, plant and equipment	3,473,690	-
Net change in assets whose use is limited	<u>(16,062,559)</u>	<u>(11,944,876)</u>
Net cash used by investing activities	(31,483,329)	(28,675,228)
Financing activities:		
Proceeds from issuance of long-term debt, net of bond issuance costs	146,509,205	2,100,000
Repayment of long-term debt	(144,923,124)	(5,899,698)
Original issue premium/discount	16,616,991	-
Restricted investment income (expense) and net gain (loss) on investments	402,690	(80,709)
Restricted gifts and bequests	527,394	391,254
Deposit to refunding bond escrow	<u>(12,229,908)</u>	<u>-</u>
Net cash provided (used) by financing activities	<u>6,903,248</u>	<u>(3,489,153)</u>
Increase in cash and cash equivalents	25,424,865	15,841,104
Cash and cash equivalents at beginning of year	<u>89,573,694</u>	<u>73,732,590</u>
Cash and cash equivalents at end of year	<u>\$ 114,998,559</u>	<u>\$ 89,573,694</u>
Noncash investing and financing activities:		
Fixed asset additions in accounts payable at year end	\$ -	\$ 1,329,089
Financing of equipment with a capital lease	-	95,491

See accompanying notes.

ELLIOT HEALTH SYSTEM AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

I. Organization

Elliot Health System and Affiliates (the System) consists of Elliot Health System (EHS), a not-for-profit corporation which functions as a parent company to several not-for-profit and for-profit health care entities, and its wholly-owned subsidiaries. EHS is the sole member of the following not-for-profit entities: Elliot Hospital, a provider of health care services whose affiliates also include Elliot Physician Network (EPN), a network of primary care physicians, and Elliot Professional Services (EPS), a network of specialty care physicians (collectively referred to as the Hospital); Visiting Nurse Association of Manchester and Southern New Hampshire, Inc. and Affiliates (the VNA), a provider of home health care and hospice services; and Mary and John Elliot Charitable Foundation, a charitable foundation which supports the System. EHS is also the sole stockholder of Elliot Health System Holdings, Inc. and Subsidiaries, a for-profit corporation which owns interests in health care related and real estate development partnerships and provides real estate and business management services.

Elliot Hospital (excluding EPN and EPS) and EHS comprise the Obligated Group as defined under a Master Trust Indenture dated November 1, 2016 (as amended) related to the 2009, 2013 and 2016 bond offerings. See note 5.

The System also participates in certain strategic affiliation and joint operating agreements with outside entities.

2. Significant Accounting Policies

The accounting policies that affect the more significant elements of the financial statements of the System are summarized below:

Principles of Consolidation

The financial statements include the accounts of EHS and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in the consolidation. Noncontrolling interests in less-than-wholly-owned subsidiaries of the System are presented as a component of total net assets to distinguish between the interests of the System and the interests of the noncontrolling owners. Revenues, expenses and nonoperating losses from these subsidiaries are included in the amounts presented on the statements of operations. (Deficiency) excess of revenues and nonoperating losses over expenses attributable to the System separately presents the amounts attributable to the controlling interest for each of the years presented.

Noncontrolling Interests

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

ELLIOT HEALTH SYSTEM AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

2. Significant Accounting Policies (Continued)

Charity Care

The System's patient acceptance policy is based on its mission and its community service responsibilities. Accordingly, the System accepts patients in immediate need of care, regardless of their ability to pay. It does not pursue collection of amounts determined to qualify as charity care based on established policies. These policies define charity care as those services for which no payment is due for all or a portion of the patient's bill. For financial reporting purposes, charity care is excluded from net patient service revenue.

In estimating the cost of providing charity care, the System uses the ratio of average patient care cost to gross charges and then applies that ratio to the gross uncompensated charges associated with providing charity care.

Cash and Cash Equivalents

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

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

Net Patient Service Revenues and Accounts Receivable

The System has agreements with third-party payors that provide for payments at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, per diem payments and fee schedules. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Changes in these estimates are reflected in the financial statements in the year in which they occur.

The System recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients, the System provides a discount approximately equal to that of its largest private insurance payors.

The provision for bad debts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in health care coverage, and other collection indicators. The System records a provision for bad debts in the period services are provided related to self-pay patients, including both insurance patients and patients with deductible and copayment balances due for which third-party coverage exists for a portion of their balance.

ELLIOT HEALTH SYSTEM AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

2. Significant Accounting Policies (Continued)

Periodically throughout the year, management assesses the adequacy of the allowance for doubtful accounts based upon historical write-off experience. The results of this review are then used to make any modifications to the provision for bad debts to establish an appropriate allowance for doubtful accounts. The increase in the provision for bad debts in 2017 is driven primarily by an overall increase in self pay revenues. Accounts receivable are written off after collection efforts have been followed in accordance with internal policies.

Income Taxes

The System and all related entities, with the exception of Elliot Health System Holdings, Inc. and Subsidiaries, are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Management evaluated the System's tax positions and concluded the System has maintained its tax-exempt status, does not have any significant unrelated business income and had taken no uncertain tax positions that require adjustment to the financial statements. Elliot Health System Holdings, Inc. is a holding company and its subsidiaries are for-profit companies subject to federal and state taxation. Income taxes are recorded based upon the asset and liability method.

At June 30, 2017, the System has recorded \$254,565 of prepaid federal and state income taxes in other current assets and, at June 30, 2016, the System has recorded \$117,577 of accrued federal and state income taxes recorded in accounts payable and accrued expenses. The total provision for federal and state current tax expense is recorded in other nonoperating (losses) gains and is \$340,258 and \$110,936 at June 30, 2017 and 2016, respectively. At June 30, 2017, the System has a deferred tax asset of \$3,064,832 which is included in other assets, mainly relating to depreciation differences between book and tax on property, plant and equipment. A valuation allowance that was previously established to offset the deferred tax asset was reversed in 2017, as a history of cumulative taxable income indicating the realizability of the deferred tax asset in future years become probable. As a result of the valuation allowance reversal, the System recognized a deferred tax benefit of \$3,064,382 in nonoperating (losses) gains.

Elliot Health System Holdings, Inc. believes that it has appropriate support for the income tax positions taken and to be taken on tax returns, and that their accruals for tax liabilities are adequate for all open tax years based on an assessment of many factors including experience and interpretations of tax laws applied to the facts of each matter. Elliot Health System Holdings, Inc. has concluded there are no significant uncertain tax positions requiring disclosure and there is no material liability for unrecognized tax benefits. Elliot Health System Holdings, Inc.'s policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in income tax expense.

Performance Indicator

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

ELLIOT HEALTH SYSTEM AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

2. Significant Accounting Policies (Continued)

The statements of operations also include (deficiency) excess of revenues and nonoperating losses over expenses attributable to both controlling and noncontrolling interests. Changes in unrestricted net assets which are excluded from (deficiency) excess of revenues and nonoperating losses over expenses, consistent with industry practice, include net assets released from restriction for capital purchases, and pension adjustments.

Gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of donated assets. Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. When a donor restriction expires (when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations as either net assets released from restrictions (for noncapital related items) or as net assets released from restrictions used for capital purchases (capital related items). Permanently restricted net assets have been restricted by donors to be maintained in perpetuity.

Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Investments and Investment Income

Investments, including funds held by trustee under revenue bond and note agreements, are measured at fair value in the balance sheets. Interest and dividend income on unlimited use investments and operating cash is reported within operating revenues. Investment income or loss on assets whose use is limited (including realized and unrealized gains and losses on investments, and interest and dividends) is reported as nonoperating (losses) gains. The System has elected to reflect changes in the fair value of investments and assets whose use is limited, including both increases and decreases in value whether realized or unrealized in nonoperating gains or losses.

Beneficial Interest in Perpetual Trusts

The System has an irrevocable right to receive income earned on certain trust assets established for its benefit. Distributions received by the System are restricted by the donor for use in nursing education and women's and children's services. The System's interest in the fair value of the trust assets is included in assets whose use is limited. Changes in the market value of beneficial trust assets are reported as increases or decreases to permanently restricted net assets.

Investment Policies

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

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

ELLIOT HEALTH SYSTEM AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

2. Significant Accounting Policies (Continued)

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

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

Management of these assets is designed to maximize total return while preserving the capital values of the funds, protecting the funds from inflation and providing liquidity as needed. The objective is to provide a real rate of return that meets inflation, plus 4.5%, over a long-term time horizon (greater than 7 to 10 years).

The System targets a diversified asset allocation that places emphasis on achieving its long-term return objectives within prudent risk constraints.

Spending Policy for Appropriation of Assets for Expenditure

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

Spending policies may be adopted by the System, from time to time, to provide a stream of funding for the support of key programs. The spending policies are structured in a manner to ensure that the purchasing power of the assets is maintained while providing the desired level of annual funding to the programs. The System currently has a policy allowing interest and dividend income earned on investments to be used for operations with the goal of keeping principal, including its appreciation, intact.

Inventories

Inventories of supplies and pharmaceuticals are carried at the lower of cost, determined on a weighted-average method, or market.

Bond Issuance Costs/Original Issue Premium or Discount

The bond issuance costs incurred to obtain financing for construction and renovation programs and the original issue premium or discount are being amortized over the life of the bonds. The original issue premium or discount and bond issuance costs are presented as a component of the face amount of bonds payable.

ELLIOT HEALTH SYSTEM AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

2. Significant Accounting Policies (Continued)

Property, Plant and Equipment

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

Federal Grant Revenue and Expenditures

Revenues and expenses under federal grant programs are recognized as the related expenditure is incurred.

Advertising Expense

Advertising costs are expensed as incurred and totaled approximately \$1,678,000 and \$1,523,000 in 2017 and 2016, respectively.

Retirement Benefits

The System maintains a defined benefit pension plan for certain of its employees, the Elliot Health System Pension Plan (the Plan).

Effective July 1, 2006, the Plan was amended to close the Plan to employees hired after June 30, 2006. Eligible employees hired prior to July 1, 2006 are grandfathered under the Plan and will continue to accrue benefits as long as they remain at a participating System entity and in an eligible status.

The System's funding policy is to contribute amounts to the Plan sufficient to meet minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, plus such additional amounts as might be determined to be appropriate from time to time. The Plan is intended to constitute a plan described in Section 414(k) of the Internal Revenue Code, under which benefits derived from employer contributions are based on the separate account balances of participants in addition to the defined benefits under the Plan.

The System provides a defined contribution program for all eligible employees hired on or after July 1, 2006. Under this program, eligible employees may receive annual employer contributions to a System sponsored 403(b) plan or 401(k) plan up to 3% of annual base pay.

The System also provides matching contributions at the discretion of the System to a 403(b) plan or 401(k) plan for eligible employees hired on or after July 1, 2006 equal to up to one-half of the employee's contribution to a maximum of 4% of their annual base pay. Total expense incurred by the System was \$3,627,654 and \$3,857,289 under these defined contribution plans for the years ended June 30, 2017 and 2016, respectively.

ELLIOT HEALTH SYSTEM AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

2. Significant Accounting Policies (Continued)

The System sponsors deferred compensation plans for certain qualifying employees. The amounts ultimately due to employees are to be paid upon the employees attaining certain criteria, including age. At June 30, 2017 and 2016, \$14,746,583 and \$12,527,047, respectively, is reflected in assets whose use is limited and \$14,746,583 and \$12,527,047, respectively, in other long-term liabilities related to such agreements.

Workers' Compensation

The System is self-insured for workers' compensation. The System has secured its obligation through a surety bond. The System maintains an excess insurance policy to limit its exposure on claims to \$650,000 per occurrence. Reserves for claims made and potential unreported claims have been established to provide for incurred but unpaid claims. The amount of the reserve has been determined by an actuarial consultant.

Employee Health and Dental Insurance

The System maintains its own self-insurance plan for employee health and dental. Under the terms of the plan, employees meeting certain eligibility requirements and their dependents are eligible for participation and, as such, the System is responsible for the administration of the plan and any resultant liability incurred. The System maintains individual stop-loss insurance coverage.

Employee Fringe Benefits

Most of the System's entities have an earned time plan. Under this plan, each qualifying employee earns paid leave for each pay period worked. These hours of paid leave may be used for vacations, holidays or illnesses. Hours earned but not used are vested with the employee and are paid to the employee upon termination subject to certain limits. The System accrues a liability for such paid leave as it is earned and was approximately \$13,453,000 and \$12,387,000 at June 30, 2017 and 2016, respectively, and is recorded in accrued salaries, wages and related accounts on the accompanying balance sheets.

Malpractice Loss Contingencies

The System is insured against malpractice loss contingencies under claims-made insurance policies. A claims-made policy provides specific coverage for claims made during the policy period. The System maintains excess professional and general liability insurance policies to cover claims in excess of liability retention levels. At June 30, 2017, there were no known malpractice claims outstanding for the System which, in the opinion of management, will be settled for amounts in excess of insurance coverage, nor were there any unasserted claims or incidents which required specific loss accruals. The System has established reserves to cover professional liability exposures for incurred but unpaid or unreported claims. The amounts of the reserves have been determined by actuarial consultants. The possibility exists, as a normal risk of doing business, that malpractice claims in excess of insurance coverage may be asserted against the System.

ELLIOT HEALTH SYSTEM AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

2. Significant Accounting Policies (Continued)

Effective February 1, 2011 through December 31, 2014, the System insured its medical malpractice risks through a multiprovider captive insurance company. The captive retained and funded up to actuarial expected loss amounts, and obtained reinsurance at various attachment points for individual and aggregate claims in excess of funding in accordance with industry practices. On December 31, 2014, the System exited the captive and, in 2016, a final settlement agreement was reached. The System realized a gain on exit of the captive totaling \$2,216,605 in 2016 which is included in other nonoperating (losses) gains on the statements of operations.

In accordance with Accounting Standards Update (ASU) No. 2010-24, "*Health Care Entities*" (Topic 954): *Presentation of Insurance Claims and Related Insurance Recoveries* (ASU 2010-24), at June 30, 2017 and 2016, the System recorded a liability of \$13,924,488 and \$11,887,355, respectively, related to estimated professional liability losses relating to reported cases as well as potentially incurred but not reported claims. At June 30, 2017 and 2016, the System also recorded a receivable of \$1,685,575 and \$3,265,599, respectively, related to estimated recoveries under insurance coverage for recoveries of the potential losses. These amounts are included in self-insurance reserves and other liabilities, and other assets, respectively, on the balance sheets.

Litigation

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

Fair Value of Financial Instruments

The fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. Financial instruments consist of cash and cash equivalents, investments, accounts receivable, assets whose use is limited, accounts payable, amounts payable to third-party payors and long-term debt.

The fair value of all financial instruments other than long-term debt approximates their relative book value as these financial instruments have short-term maturities or are recorded at fair value as disclosed in note 12. The fair value of the System's long-term debt is estimated using discounted cash flow analyses, based on the System's current incremental borrowing rates for similar types of borrowing arrangements, and is disclosed in note 5 to the financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used when accounting for the allowance for doubtful accounts, insurance costs, alternative investment funds, employee benefit plans, contractual allowances, amounts payable to third-party payors and contingencies. It is reasonably possible that actual results could differ from those estimates. Adjustments made with respect to the use of estimates often relate to improved information not previously available.

ELLIOT HEALTH SYSTEM AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

2. Significant Accounting Policies (Continued)

Reclassifications

Certain 2016 amounts have been reclassified to permit comparison with the 2017 financial statements presentation format.

Subsequent Events

Events occurring after the balance sheet date are evaluated by management to determine whether such events should be recognized or disclosed in the financial statements. Management has evaluated subsequent events through September 26, 2017 which is the date the financial statements were available to be issued.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which requires revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the System expects to be entitled in exchange for those goods and services. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. ASU 2014-09 is effective for the System on July 1, 2018. ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. The System is evaluating the impact that ASU 2014-09 will have on its financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires that lease arrangements longer than twelve months result in an entity recognizing an asset and liability. The pronouncement is effective for the System beginning July 1, 2020, with early adoption permitted. The guidance may be adopted retrospectively. Management is currently evaluating the impact this guidance will have on the System's financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). Under ASU 2016-14, there is a change in presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in net asset classes, investment return, expenses, liquidity and availability of resources and presentation of operating cash flows. ASU 2016-14 is effective for the System on July 1, 2018, with early adoption permitted. The System is currently evaluating the impact of the pending adoption of ASU 2016-14 on its financial statements.

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

ELLIOT HEALTH SYSTEM AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

3. Patient Service and Other Revenues

An estimated breakdown of patient service revenue, net of contractual allowances, discounts and provision for bad debts recognized in 2017 and 2016 from major payor sources, is as follows:

	Gross Patient Service Revenues	Contractual Allowances and Discounts	Provision for Bad Debts	Net Patient Service Revenues Less Provision for Bad Debts
2017				
Private payors (includes coinsurance and deductibles)	\$ 540,931,290	\$ 198,407,319	\$ 18,747,977	\$ 323,775,994
Medicaid	151,842,625	104,584,479	602,123	46,656,023
Medicare	447,815,359	303,498,958	2,114,477	142,201,924
Self-pay	<u>21,958,082</u>	<u>10,426,782</u>	<u>5,281,363</u>	<u>6,249,937</u>
	<u>\$1,162,547,356</u>	<u>\$616,917,538</u>	<u>\$26,745,940</u>	<u>\$ 518,883,878</u>
2016				
Private payors (includes coinsurance and deductibles)	\$ 525,558,669	\$ 188,888,877	\$ 12,549,670	\$ 324,120,122
Medicaid	167,363,009	116,295,840	1,571,274	49,495,895
Medicare	412,787,230	280,144,004	1,591,785	131,051,441
Self-pay	<u>15,213,312</u>	<u>7,277,244</u>	<u>4,799,973</u>	<u>3,136,095</u>
	<u>\$1,120,922,220</u>	<u>\$592,605,965</u>	<u>\$20,512,702</u>	<u>\$ 507,803,553</u>

Various entities of the System maintain contracts with the Social Security Administration (Medicare) and the State of New Hampshire Department of Health and Human Services (Medicaid). The entities are paid a prospectively determined fixed price for Medicare and Medicaid inpatient acute care services depending on the type of illness or the patient's diagnostic related group classification. Reimbursement for Medicare for outpatient services is based upon a prospective standard rate for procedures performed or services rendered. Home health care and hospice services are reimbursed prospectively on a per episode or per diem basis. Physician services are reimbursed on established and/or negotiated fee schedules. Capital costs and certain Medicare and Medicaid outpatient services are also reimbursed on a prospectively determined fixed rate. The entities receive payment for other Medicare and Medicaid inpatient and outpatient services on a reasonable cost basis which are settled with retroactive adjustments upon completion and audit of related cost finding reports. The percentage of net patient service revenue earned from the Medicare and Medicaid programs was 26% and 9%, respectively, in 2017 and 25% and 10%, respectively, in 2016.

ELLIOT HEALTH SYSTEM AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

3. Patient Service and Other Revenues (Continued)

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs. The System believes that it is in substantial compliance with all applicable laws and regulations. However, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term. Differences between amounts previously estimated and amounts subsequently determined to be recoverable or payable are included in net patient service revenues in the year that such amounts become known. The differences between amounts previously estimated and amounts subsequently determined to be recoverable from third-party payors increased net patient service revenues by approximately \$2,857,000 and \$1,341,000 in 2017 and 2016, respectively.

The various System entities also maintain contracts with Anthem Blue Cross, Cigna, Harvard Pilgrim Health Care, certain commercial carriers, managed care plans and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge and per day, discounts from established charges and fee schedules.

Electronic Health Records Incentive Payments

The CMS Electronic Health Records (EHR) incentive programs provide a financial incentive for the "meaningful use" of certified EHR technology to achieve health and efficiency goals. To qualify for incentive payments, eligible organizations must successfully demonstrate meaningful use of certified EHR technology through various stages defined by CMS. The System filed certain Stage I Year 2 meaningful use attestations with CMS. Revenue totaling approximately \$632,000 and \$483,000 associated with these meaningful use attestations was recorded as other revenue for the years ended June 30, 2017 and 2016, respectively. In addition, receivable amounts of \$157,302 and \$416,615 were recorded in other current assets at June 30, 2017 and 2016, respectively.

ELLIOT HEALTH SYSTEM AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

4. Property, Plant and Equipment

The major categories of property, plant and equipment are as follows at June 30:

	<u>2017</u>	<u>2016</u>
Operating properties:		
Land and land improvements	\$ 11,421,151	\$ 12,907,709
Buildings and fixed equipment	205,201,112	202,319,840
Major movable equipment	178,556,940	164,273,750
Construction and projects in progress	<u>7,246,108</u>	<u>9,024,710</u>
	402,425,311	388,526,009
Less accumulated depreciation	<u>(252,749,988)</u>	<u>(237,497,117)</u>
	149,675,323	151,028,892
Rental properties:		
Land and land improvements	6,360,294	7,360,295
Buildings and fixed equipment	45,523,160	45,461,039
Major movable equipment	125,759	124,961
Construction and projects in progress	<u>1,060,743</u>	<u>718,767</u>
	53,069,956	53,665,062
Less accumulated depreciation	<u>(23,089,374)</u>	<u>(21,266,994)</u>
	<u>29,980,582</u>	<u>32,398,068</u>
Net property, plant and equipment	<u>\$ 179,655,905</u>	<u>\$ 183,426,960</u>

5. Debt

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

	<u>2017</u>	<u>2016</u>
Business Finance Authority of the State of New Hampshire - Revenue Bonds:		
Elliot Hospital Obligated Group Series 2009A Bonds with interest ranging from 4.0% to 6.125% per year and required sinking fund installments of amounts ranging from \$735,000 to \$10,840,000 through October 1, 2039. Refunded in November 2016	\$ -	\$127,440,000
Less unamortized original issue discount	<u>-</u>	<u>(1,712,446)</u>
	-	125,727,554

ELLIOT HEALTH SYSTEM AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

5. Debt (Continued)

	<u>2017</u>	<u>2016</u>
New Hampshire Health and Education Facilities Authority - Revenue Bonds:		
Elliot Hospital Obligated Group Series 2016 Bonds with interest ranging from 2.00% to 5.00% per year. Principal payments commence in October 2017 and are payable in annual installments ranging from \$2,555,000 to \$10,915,000 through October 2038	\$147,020,000	\$ -
Plus unamortized original issue premium/discount	<u>16,638,511</u>	<u>-</u>
	163,658,511	-
Elliot Hospital Obligated Group Series 2013 bonds with a fixed interest rate of 2.05% per year and a total monthly payment of \$217,925 of principal and interest through October 1, 2020	8,415,888	10,828,700
Notes payable – see below	1,450,000	9,755,323
Capital lease obligations – see note 11	<u>87,716</u>	<u>221,997</u>
	173,612,115	146,533,574
Less current portion	(5,324,722)	(3,950,636)
Less net unamortized bond issuance costs	<u>(619,186)</u>	<u>(1,692,310)</u>
	<u>\$167,668,207</u>	<u>\$140,890,628</u>

On November 15, 2016, the Hospital refunded its existing 2009 Series Bonds outstanding of \$126,470,000 through the issuance of \$147,020,000 in fixed rate New Hampshire Health and Education Facilities Authority Revenue Bonds with interest rates ranging from 2.00% to 5.00%. Although the refunding transaction will reduce the Hospital's total interest costs through the maturity of the refunded bonds, the Hospital has realized an accounting loss in the accompanying 2017 financial statements primarily as a result of establishing the refunding escrow for the 2009 Series Bonds, as well as the write-off of certain prior deferred financing costs and the remaining original issue discount. The loss on bond refunding recognized for the year ended September 30, 2017 was \$21,117,864. As of June 30, 2017, the balance of defeased 2009 Series Bonds payable not included in the accompanying balance sheets was \$126,470,000.

Prior to the refunding of the existing 2009 Series Bond, debt service and interest funds were required to provide for payment of principal and interest if the Obligated Group failed to make required payments. The funds were held by a trustee. At June 30, 2016 the balance in the debt service interest fund was \$2,658,589 and the balance in the debt service reserve fund was \$11,499,845.

The Obligated Group's agreement with the New Hampshire Health and Education Facilities Authority for the 2016 and 2013 Bonds grants the Authority a security interest in the Hospital's gross receipts and a mortgage on the Hospital's existing and future facilities and equipment. In addition, under the terms of the master indenture, the Obligated Group is required to meet certain covenants requirements. For the years ended June 30, 2017 and 2016, the Hospital was in compliance with all required financial covenants.

ELLIOT HEALTH SYSTEM AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

5. Debt (Continued)

The System had a mortgage payable to a bank in the amount of \$3,649,165 with an interest rate of 1.95% at June 30, 2016. This mortgage was paid in full during 2017. The System also had a secured note with a bank in the amount of \$2,056,158 at June 30, 2016 at a fixed interest rate of 3.08%. This note was paid in full during 2017.

The System has a note payable in the amount of \$1,450,000 at June 30, 2017 (\$1,550,000 at June 30, 2016), the proceeds of which were used for certain property improvements. Interest is payable annually at the fixed rate of 4.61% for the first 10 years, after which it will become variable. Principal and interest are payable annually through the maturity date of December 29, 2031.

In 2011, Elliot Hospital entered into a \$2,500,000 note payable to finance a land purchase. This note was refinanced with a bank in 2014. The outstanding principal balance of the refinanced note was paid in full in November 2016. Interest was payable annually at the rate of LIBOR plus 1.50%.

Interest paid totaled \$7,871,434 and \$8,318,472 for the years ended June 30, 2017 and 2016, respectively. There was no interest capitalized for the year ended June 30, 2017 or 2016.

Aggregate annual principal payments required under the bonds, note and capital lease agreements for each of the five years ending June 30 are approximately as follows: 2018 - \$5,325,000; 2019 - \$5,347,000; 2020 - \$5,543,000; 2021 - \$5,784,000; and 2022 - \$6,065,000.

The fair value, based on current market rates of the System's long-term debt, was approximately \$175,591,000 and \$166,455,000 as of June 30, 2017 and 2016, respectively.

During 2012, the System entered into a \$15,000,000 unsecured line of credit agreement with a bank which is due on demand. The line of credit agreement bears interest at LIBOR plus 1.15% (2.37% at June 30, 2017). At June 30, 2017 and 2016, there were no borrowings outstanding under this agreement.

6. Assets Whose Use is Limited

Assets whose use is limited at fair value are comprised of the following at June 30:

	<u>2017</u>	<u>2016</u>
Cash and equivalents	\$ 33,844,093	\$ 10,464,562
Marketable equity securities	67,785,239	55,586,634
U.S. Government obligations and corporate bonds	42,295,675	57,123,588
Employee benefit plans and other	14,746,583	12,527,047
Beneficial interest in perpetual trusts	7,152,232	6,746,553
Alternative investments	<u>8,537,540</u>	<u>8,175,564</u>
	<u>\$174,361,362</u>	<u>\$150,623,948</u>

ELLIOT HEALTH SYSTEM AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

6. Assets Whose Use is Limited (Continued)

Board designated and donor restricted investments of various System entities are pooled into the Elliot Common Trust Fund LLC, along with self-insured trust funds, and are comprised of the following at June 30:

	<u>2017</u>	<u>2016</u>
Board designated:		
Capital, working capital and community service	\$100,170,704	\$ 91,557,988
Self-insurance	<u>12,756,557</u>	<u>14,916,856</u>
	112,927,261	106,474,844
 Donor restricted and other		
	<u>11,192,989</u>	<u>10,717,070</u>
	<u>\$124,120,250</u>	<u>\$117,191,914</u>

Investment income, and realized and unrealized gains (losses) on investments are summarized as follows for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Unrestricted investment income and net gains (losses) on investments are summarized as follows:		
Investment income	\$ 2,912,408	\$ 2,475,413
Nonoperating investment income	385,286	355,175
Realized gain on sale of investments, net	806,815	1,288,952
Net unrealized gain (loss) on investments	<u>6,767,690</u>	<u>(6,560,667)</u>
	10,872,199	(2,441,127)
 Restricted investment income and net gains (losses) on investments are summarized as follows:		
Investment income (loss) and net income (loss) on investments	402,690	(80,709)
Net unrealized gain (loss) on investments	<u>100,350</u>	<u>(32,747)</u>
	<u>503,040</u>	<u>(113,456)</u>
 Total restricted and unrestricted	<u>\$11,375,239</u>	<u>\$ (2,554,583)</u>

ELLIOT HEALTH SYSTEM AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

7. Retirement Benefits

A reconciliation of the changes in the Elliot Health System Pension Plan's projected benefit obligation and the fair value of plan assets and a statement of funded status of the plan are as follows as of and for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Changes in benefit obligation:		
Projected benefit obligations, beginning of year	\$ (362,478,770)	\$ (300,691,792)
Service cost	(10,045,166)	(8,848,249)
Interest cost	(13,349,618)	(13,283,290)
Benefits paid	5,679,552	5,033,036
Actuarial gain (loss)	14,820,849	(45,633,161)
Administrative expenses paid	<u>1,476,802</u>	<u>944,686</u>
Projected benefit obligations, end of year	\$ <u>(363,896,351)</u>	\$ <u>(362,478,770)</u>
Changes in plan assets:		
Fair value of plan assets, beginning of year	\$ 261,107,658	\$ 233,560,545
Actual return on plan assets	13,978,435	23,524,835
Contributions by plan sponsor	10,000,000	10,000,000
Benefits paid	(5,679,552)	(5,033,036)
Actual administrative expense paid	<u>(1,476,802)</u>	<u>(944,686)</u>
Fair value of plan assets, end of year	\$ <u>277,929,739</u>	\$ <u>261,107,658</u>
Funded status:		
Fair value of plan assets	\$ 277,929,739	\$ 261,107,658
Projected benefit obligations	<u>(363,896,351)</u>	<u>(362,478,770)</u>
Funded status of the plan	\$ <u>(85,966,612)</u>	\$ <u>(101,371,112)</u>

The accumulated benefit obligation at June 30, 2017 and 2016 was \$343,923,589 and \$341,499,751, respectively.

Amounts recognized in the statements of financial position consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Net liability recognized	\$ <u>(85,966,612)</u>	\$ <u>(101,371,112)</u>

The weighted-average assumptions used to develop the projected benefit obligation are as follows as of June 30:

	<u>2017</u>	<u>2016</u>
Discount rate	3.91%	3.71%
Rate of compensation increase	3.75	3.75

ELLIOT HEALTH SYSTEM AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

7. Retirement Benefits (Continued)

In 2017, the System began using the MP-2016 mortality improvement scale which also had an impact on the projected benefit obligation.

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

	<u>2017</u>	<u>2016</u>
Net actuarial loss	\$74,687,978	\$96,152,508
Prior service cost	<u>7,551</u>	<u>37,600</u>
Total amount recognized	<u>\$74,695,529</u>	<u>\$96,190,108</u>

Pension Plan Assets

The fair values of the System's pension plan assets and target allocations as of June 30, 2017 by asset category are as follows (see note 12 for level definitions):

	Target Allo- cation <u>2017</u>	Total	Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Signif- icant Observ- able Inputs <u>(Level 2)</u>	Signif- icant Unob- servable Inputs <u>(Level 3)</u>
Short-term investments:	5%				
Money market fund		\$ 3,333,849	\$ 3,333,849	\$ —	\$ —
Equity securities:	40%				
Common stocks		42,206,812	42,206,812	—	—
Mutual funds		10,990,323	10,990,323	—	—
Other equities		30,306,319	30,306,319	—	—
Fixed income securities:	55%				
U.S. Government and agency obligations		49,409,932	—	49,409,932	—
Municipal bonds		9,037,831	—	9,037,831	—
Mutual funds - balanced		4,073,053	—	4,073,053	—
Corporate and foreign bonds		<u>127,549,274</u>	<u>—</u>	<u>127,549,274</u>	<u>—</u>
		276,907,393	<u>\$86,837,303</u>	<u>\$190,070,090</u>	<u>\$ —</u>
Unallocated insurance contract		<u>1,022,346</u>			
		<u>\$277,929,739</u>			

ELLIOT HEALTH SYSTEM AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

7. Retirement Benefits (Continued)

The fair values of the System's pension plan assets and target allocations as of June 30, 2016 by asset category are as follows (see note 12 for level definitions):

	Target Allo- cation <u>2016</u>	<u>Total</u>	Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Signif- icant Observ- able Inputs <u>(Level 2)</u>	Signif- icant Unob- servable Inputs <u>(Level 3)</u>
Short-term investments:	5%				
Money market fund		\$ 4,389,736	\$ 4,389,736	\$ -	\$ -
Equity securities:	40%				
Common stocks		52,299,615	52,299,615	-	-
Mutual funds		10,021,233	10,021,233	-	-
Other equities		22,055,665	22,055,665	-	-
Fixed income securities:	55%				
U.S. Government and agency obligations		42,473,973	-	42,473,973	-
Municipal bonds		9,664,358	-	9,664,358	-
Mutual funds - balanced		3,945,927	-	3,945,927	-
Corporate and foreign bonds		<u>115,197,239</u>	<u>-</u>	<u>115,197,239</u>	<u>-</u>
		260,047,746	<u>\$88,766,249</u>	<u>\$171,281,497</u>	<u>\$ -</u>
Unallocated insurance contract		<u>1,059,912</u>			
		<u>\$261,107,658</u>			

Management of the assets is designed to maximize total return while preserving the capital values of the fund, protecting the fund from inflation, and providing liquidity as needed for plan benefits. The objective is to provide a rate of return that meets inflation, plus 5.5%, over a long-term horizon.

In addition to the total return goal, the portfolio is constructed to hedge a portion of the interest rate risk of the Plan's liability. The portion of the interest rate risk hedged is the percent of assets allocated to fixed income investments multiplied by the Plan's funded status. The fixed income asset class is structured to reduce the volatility of the funded status by matching the duration of the Plan's liability which is currently approximately 15 years. The current strategic asset allocation target for the fixed income portfolio is 55% of total plan assets, which is designed to hedge approximately 35% of the plan liability.

ELLIOT HEALTH SYSTEM AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

7. Retirement Benefits (Continued)

These funds are managed as permanent funds with disciplined longer term investment objectives and strategies designed to meet cash flow requirements of the plan. Funds are managed in accordance with ERISA and all other regulatory requirements.

Net periodic pension cost includes the following components at June 30:

	<u>2017</u>	<u>2016</u>
Service cost	\$ 10,045,166	\$ 8,848,249
Interest cost	13,349,618	13,283,290
Expected return on plan assets	(17,251,991)	(15,610,464)
Amortization:		
Actuarial loss	9,917,237	5,552,981
Prior service cost	<u>30,049</u>	<u>30,049</u>
Net periodic pension cost - System	<u>\$ 16,090,079</u>	<u>\$ 12,104,105</u>

The weighted-average assumptions used to develop net periodic pension cost were as follows for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Discount rate	3.71%	4.46%
Expected return on plan assets	6.75	6.75
Rate of compensation	3.75	3.75

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

The loss and prior service credit amount expected to be recognized in net periodic benefit cost in 2018 are as follows:

Actuarial loss	\$5,974,526
Prior service cost	<u>7,551</u>
	<u>\$5,982,077</u>

Contributions

The System expects to contribute \$10 million to its pension plan in 2018.

ELLIOT HEALTH SYSTEM AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

7. Retirement Benefits (Continued)

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

<u>Fiscal Year</u>	<u>Pension Benefits</u>
2018	\$ 7,461,000
2019	8,769,300
2020	10,243,900
2021	11,518,100
2022	12,950,900
Years 2023 – 2027	80,649,500

8. Community Benefits

The mission of the System is to provide quality, accessible healthcare services to patients regardless of their ability to pay. The System subsidizes certain health care services, supports community-based healthcare providers, and provides outreach and educational programs.

Charity Care

The System provides services to patients who are uninsured or underinsured under its charity care policy at no charge or at amounts less than its established charges. The estimated costs of providing charity care services are determined using the ratio of average patient care costs to gross charges, and then applying that ratio to the gross charges associated with providing such services.

Community Programs and Subsidized Services

The System provides community health programs, health professional education through partnerships with local post-secondary organizations, health screenings, health publications and other health information services. Many of these services are provided at a financial loss and are subsidized by the System in order to meet important community needs that otherwise would not be available. In addition, supporting contributions and in-kind services are made to a number of community organizations for the promotion of health-related activities.

Government-Sponsored Programs

The System provides services to Medicare and Medicaid recipients. Reimbursement for such services is at rates substantially below cost.

ELLIOT HEALTH SYSTEM AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

8. Community Benefits (Continued)

The estimated costs of providing community benefits for the years ended June 30, 2017 and 2016 are summarized below:

	<u>2017</u>	<u>2016</u>
Charity care	\$ 7,158,000	\$ 8,734,000
Community programs and subsidized services	1,470,722	1,565,395
Government-sponsored programs	<u>93,948,417</u>	<u>102,277,676</u>
	<u>\$102,577,139</u>	<u>\$112,577,071</u>

In addition, the System provides a significant amount of uncompensated care to patients that are reported as bad debts. For the years ended June 30, 2017 and 2016, the System reported provisions for bad debts of \$26,745,940 and \$20,512,702, respectively.

9. Functional Expenses

The System provides general health care services to residents within its geographic location including inpatient, outpatient, physician, home care, and emergency care. Expenses related to providing these services are as follows for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Health care services	\$354,563,024	\$323,111,972
General and administrative	<u>179,237,704</u>	<u>186,309,248</u>
	<u>\$533,800,728</u>	<u>\$509,421,220</u>

10. Concentration of Credit Risk

The System grants credit without requiring collateral from its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Medicare	30%	30%
Medicaid	11	13
Managed care and other	25	26
Patients (self pay)	21	18
Anthem Blue Cross	<u>13</u>	<u>13</u>
	<u>100%</u>	<u>100%</u>

ELLIOT HEALTH SYSTEM AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

11. Leases

The System leases various office facilities and equipment from unrelated parties under noncancelable operating leases. Total rental expense for the years ended June 30, 2017 and 2016 was \$10,550,607 and \$9,133,944, respectively.

The System also leases equipment under lease agreements that are classified as capital leases. The cost of equipment under the capital leases was \$806,212 at both June 30, 2017 and 2016. Accumulated amortization of the leased equipment at June 30, 2017 and 2016 was \$723,734 and \$594,198, respectively. Amortization of assets under capital leases is included in depreciation and amortization expense.

Future minimum lease payments required under operating and capital leases and the present value of the net minimum lease payments as of June 30, 2017 is as follows:

	<u>Operating Leases</u>	<u>Capital Leases</u>	<u>Total</u>
Year Ending June 30:			
2018	\$ 5,625,805	\$ 76,908	\$ 5,702,713
2019	4,717,834	11,420	4,729,254
2020	3,950,538	-	3,950,538
2021	2,221,842	-	2,221,842
2022	2,094,134	-	2,094,134
Thereafter	<u>12,405,383</u>	<u>-</u>	<u>12,405,383</u>
Total minimum lease payments	<u>\$31,015,536</u>	88,328	<u>\$31,103,864</u>
Less amount representing interest		<u>(612)</u>	
Present value of net minimum lease payments		87,716	
Less current maturities of capital lease obligations		<u>(76,908)</u>	
Long-term capital lease obligations		<u>\$ 10,808</u>	

12. Fair Value Measurements

Fair value of a financial instrument is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the System uses various methods including market, income and cost approaches. Based on these approaches, the System often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The System utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the System is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

ELLIOT HEALTH SYSTEM AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

12. Fair Value Measurements (Continued)

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

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

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

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

The following are descriptions of the valuation methodologies used:

Marketable Equity Securities

Marketable equity securities are valued based on stated market prices and at the net asset value of shares held by the System at year end, which generally results in classification as Level 1 within the fair value hierarchy.

Fixed Income Securities

The fair value for debt instruments is determined by using broker or dealer quotations, external pricing providers, or alternative pricing sources with reasonable levels of price transparency. The System holds U.S. governmental and federal agency debt instruments, municipal bonds, corporate bonds, and foreign bonds which are primarily classified as Level 2 within the fair value hierarchy.

Alternative Investments

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

ELLIOT HEALTH SYSTEM AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

12. Fair Value Measurements (Continued)

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

Beneficial Interests in Perpetual Trusts

The System is the beneficiary of perpetual trusts held by a third party. Under the terms of the trusts, the System has the irrevocable right to receive the income earned on the assets of the trusts in perpetuity, but never receives the assets held in the trusts. The System has transparency into the holdings of the trusts. These investments are generally classified as Level 1 within the fair value hierarchy.

Employee Benefit Plan and Other

Underlying plan investments within these funds are stated at quoted market prices. These investments are generally classified as Level 1 within the fair value hierarchy.

Fair Value on a Recurring Basis

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

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>2017</u>				
Assets whose use is limited:				
Cash and equivalents	\$ 33,844,093	\$ 33,844,093	\$ –	\$ –
Marketable equity securities:				
Common stocks	67,785,239	67,785,239	–	–
Fixed income securities:				
U.S. Government obligations	7,987,596	–	7,987,596	–
Municipal bonds	274,435	–	274,435	–
Corporate bonds	32,684,659	–	32,684,659	–
Foreign bonds	1,348,985	–	1,348,985	–
Beneficial interests in perpetual trusts	7,152,232	7,152,232	–	–
Employee benefit plans and other	<u>14,746,583</u>	<u>14,746,583</u>	<u>–</u>	<u>–</u>
Assets whose use is limited	165,823,822	<u>\$123,528,147</u>	<u>\$42,295,675</u>	<u>\$ –</u>
Alternative investments	<u>8,537,540</u>			
Total assets	<u>\$174,361,362</u>			

ELLIOT HEALTH SYSTEM AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

12. Fair Value Measurements (Continued)

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>2016</u>				
Assets whose use is limited:				
Cash and equivalents	\$ 10,464,562	\$ 10,464,562	\$ –	\$ –
Marketable equity securities:				
Common stocks	55,586,634	55,586,634	–	–
Fixed income securities:				
U.S. Government obligations	23,313,138	–	23,313,138	–
Municipal bonds	277,123	–	277,123	–
Corporate bonds	33,115,563	–	33,115,563	–
Foreign bonds	417,764	–	417,764	–
Beneficial interests in perpetual trusts	6,746,553	6,746,553	–	–
Employee benefit plans and other	<u>12,527,047</u>	<u>12,527,047</u>	<u>–</u>	<u>–</u>
Assets whose use is limited	142,448,384	\$ <u>85,324,796</u>	\$ <u>57,123,588</u>	\$ <u>–</u>
Alternative investments	<u>8,175,564</u>			
Total assets	<u>\$150,623,948</u>			

The alternative investments consist of interests in six funds at both June 30, 2017 and 2016 that are not actively traded.

Net Assets Value Per Share

In accordance with ASU 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, the table below sets forth additional disclosures for alternative investments valued based on net asset value to further demonstrate the nature and risk of the investments by category at June 30:

<u>Investment</u>	<u>Net Asset Value</u>	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
<u>2017</u>				
Equity fund	\$2,518,144	\$ –	Monthly	90 days
Multi-strategy hedge fund	591,142	–	Illiquid	N/A
Global equity fund	255,136	203,044	Liquid	N/A
Commingled REIT fund	481,263	1,971,361	Liquid	N/A
Multi-strategy hedge fund	1,547,280	–	Closed	
			Until 2018	N/A
Multi-strategy hedge fund	3,144,575	–	Quarterly	65 days

ELLIOT HEALTH SYSTEM AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

12. Fair Value Measurements (Continued)

<u>Investment</u>	<u>Net Asset Value</u>	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
<u>2016</u>				
Equity fund	\$2,218,457	\$ -	Monthly	90 days
Multi-strategy hedge fund	532,395	-	Illiquid	N/A
Global equity fund	407,975	206,403	Liquid	N/A
Commingled REIT fund	556,706	1,971,361	Liquid	N/A
Multi-strategy hedge fund	1,459,230	-	Closed	
			Until 2018	N/A
Multi-strategy hedge fund	3,000,801	-	Quarterly	65 days

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

Investment Strategies

Fixed Income Securities (Debt Instruments)

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

Marketable Equity Securities

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

Alternative Investments

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

ELLIOT HEALTH SYSTEM AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

13. Medicaid Enhancement Tax and Disproportionate Share Payment

Under the State of New Hampshire's tax code, the State imposes a Medicaid Enhancement Tax (MET) equal to 5.5% of the Hospital's net patient service revenues, with certain exclusions. The amount of tax incurred by the Hospital for fiscal 2017 and 2016 was \$21,273,658 and \$21,584,396, respectively.

In the fall of 2010, in order to remain in compliance with stated federal regulations, the State of New Hampshire adopted a new approach related to Medicaid disproportionate share funding retroactive to July 1, 2010. Unlike the former funding method, the State's approach led to a payment that was not directly based on, and did not equate to, the level of tax imposed. As a result, the legislation created some level of losses at certain New Hampshire hospitals, while other hospitals realized gains. The Hospital recorded \$18,631,257 and \$15,605,486 in disproportionate share revenue for the years ended June 30, 2017 and 2016, respectively, which is recorded in net patient service revenues.

CMS has completed the audits of the State's program and the disproportionate share payments made by the State in 2011 and 2012, the first years that those payments reflected the amount of uncompensated care provided by New Hampshire hospitals. It is possible that subsequent years will also be audited by CMS. The System has recorded reserves to address its exposure based on the audit results to date.

14. Discontinued Operations

Subsequent to June 30, 2016, the operations of Elliot Health Consulting, LLC, a wholly-owned subsidiary of the consolidated entity Elliot Health System Holdings, Inc., were discontinued. The decision to close the entity was based on performance factors. The operating results for the years ending June 30, 2017 and 2016 have been reclassified to discontinued operations.

The following is a reclassification of discontinued operations at June 30:

	<u>2017</u>	<u>2016</u>
Other revenues	\$ 562,578	\$ 1,803,594
Salaries, wages and fringe benefits	(671,036)	(2,874,371)
Supplies and other expenses	(196,006)	(354,816)
Interest	<u>(19,760)</u>	<u>(29,766)</u>
	<u>\$ (324,224)</u>	<u>\$ (1,455,359)</u>

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

Board of Directors
Elliot Health System

We have audited the consolidated financial statements of Elliot Health System and Affiliates (the System) as of and for the years ended June 30, 2017 and 2016, and have issued our report thereon which contains an unmodified opinion on those consolidated statements. See page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual companies and is 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 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Baker Newman + Noyes LLC

Manchester, New Hampshire
September 26, 2017

ELLIOT HEALTH SYSTEM AND AFFILIATES

CONSOLIDATING BALANCE SHEET

June 30, 2017

ASSETS

	<u>Obligated Group*</u>	<u>Elliot Health System</u>	<u>Elliot Hospital and Affiliates</u>	<u>Visiting Nurse Association of Manchester and Southern New Hampshire, Inc. and Affiliates</u>	<u>Elliot Health System Holdings and Subsidiaries</u>	<u>Mary and John Elliot Charitable Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
Current assets:								
Cash and cash equivalents	\$ 100,492,125	\$ 8,574	\$ 102,214,846	\$ 3,511,250	\$ 8,257,996	\$ 1,005,893	\$ -	\$ 114,998,559
Accounts receivable, net	47,462,178	-	54,565,923	1,570,595	1,826,127	-	-	57,962,645
Inventories	3,147,535	-	3,147,535	-	377,844	-	-	3,525,379
Amounts due from affiliates	3,422,173	-	197,596	-	651,159	26,369	(875,124)	-
Other current assets	<u>5,631,016</u>	<u>-</u>	<u>6,209,607</u>	<u>88,191</u>	<u>706,353</u>	<u>33,745</u>	<u>-</u>	<u>7,037,896</u>
Total current assets	160,155,027	8,574	166,335,507	5,170,036	11,819,479	1,066,007	(875,124)	183,524,479
Property, plant and equipment, net	153,502,050	-	153,624,166	656,889	25,374,428	422	-	179,655,905
Other assets:								
Investment in subsidiary	38,473,505	38,473,505	-	-	-	-	(38,473,505)	-
Other	<u>5,783,562</u>	<u>-</u>	<u>5,783,562</u>	<u>-</u>	<u>4,730,093</u>	<u>998</u>	<u>(312,660)</u>	<u>10,201,993</u>
	44,257,067	38,473,505	5,783,562	-	4,730,093	998	(38,786,165)	10,201,993
Assets whose use is limited:								
Board designated and donor restricted investments	107,099,437	-	107,099,437	8,069,779	1,163,260	7,787,774	-	124,120,250
Held by trustee under revenue bond and note agreements	28,342,297	-	28,342,297	-	-	-	-	28,342,297
Employee benefit plans and other	14,746,583	-	14,746,583	-	-	-	-	14,746,583
Beneficial interest in perpetual trusts	<u>7,152,232</u>	<u>-</u>	<u>7,152,232</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,152,232</u>
	<u>157,340,549</u>	<u>-</u>	<u>157,340,549</u>	<u>8,069,779</u>	<u>1,163,260</u>	<u>7,787,774</u>	<u>-</u>	<u>174,361,362</u>
Total assets	\$ 515,254,693	\$ 38,482,079	\$ 483,083,784	\$ 13,896,704	\$ 43,087,260	\$ 8,855,201	\$ (39,661,289)	\$ 547,743,739

* Includes Elliot Health System and Elliot Hospital, exclusive of affiliates

LIABILITIES AND NET ASSETS

	<u>Obligated Group*</u>	<u>Elliot Health System</u>	<u>Elliot Hospital and Affiliates</u>	<u>Visiting Nurse Association of Manchester and Southern New Hampshire, Inc. and Affiliates</u>	<u>Elliot Health System Holdings and Subsidiaries</u>	<u>Mary and John Elliot Charitable Foundation</u>	<u>Elimi- nations</u>	<u>Consol- idated</u>
Current liabilities:								
Accounts payable and accrued expenses	\$ 22,757,473	\$ -	\$ 23,269,408	\$ 264,717	\$ 1,482,312	\$ 176,871	\$ -	\$ 25,193,308
Accrued salaries, wages and related accounts	18,237,750	-	27,205,884	1,106,574	348,707	-	-	28,661,165
Accrued interest	1,783,786	-	1,783,786	-	67,083	-	(62,660)	1,788,209
Amounts payable to third-party payors	12,924,786	-	12,936,549	-	-	-	-	12,936,549
Amounts due to affiliates	-	-	-	365,250	509,874	-	(875,124)	-
Current portion of long-term debt	<u>5,186,845</u>	<u>-</u>	<u>5,186,845</u>	<u>-</u>	<u>387,877</u>	<u>-</u>	<u>(250,000)</u>	<u>5,324,722</u>
Total current liabilities	60,890,640	-	70,382,472	1,736,541	2,795,853	176,871	(1,187,784)	73,903,953
Accrued pension	75,853,540	-	83,175,833	2,790,779	-	-	-	85,966,612
Self-insurance reserves and other liabilities	30,194,659	-	30,194,659	-	-	160,001	-	30,354,660
Long-term debt, less current portion	<u>166,379,893</u>	<u>-</u>	<u>166,379,893</u>	<u>-</u>	<u>1,288,314</u>	<u>-</u>	<u>-</u>	<u>167,668,207</u>
Total liabilities	333,318,732	-	350,132,857	4,527,320	4,084,167	336,872	(1,187,784)	357,893,432
Elliot Health System net assets:								
Unrestricted/owners' equity	167,273,406	38,482,079	118,288,372	8,871,483	38,473,505	6,599,791	(38,473,505)	172,241,725
Temporarily restricted	1,269,569	-	1,269,569	34,841	-	1,918,538	-	3,222,948
Permanently restricted	<u>13,392,986</u>	<u>-</u>	<u>13,392,986</u>	<u>463,060</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,856,046</u>
Total Elliot Health System net assets	181,935,961	38,482,079	132,950,927	9,369,384	38,473,505	8,518,329	(38,473,505)	189,320,719
Noncontrolling interests in consolidated affiliates	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>529,588</u>	<u>-</u>	<u>-</u>	<u>529,588</u>
Total net assets	<u>181,935,961</u>	<u>38,482,079</u>	<u>132,950,927</u>	<u>9,369,384</u>	<u>39,003,093</u>	<u>8,518,329</u>	<u>(38,473,505)</u>	<u>189,850,307</u>
Total liabilities and net assets	<u>\$ 515,254,693</u>	<u>\$ 38,482,079</u>	<u>\$ 483,083,784</u>	<u>\$ 13,896,704</u>	<u>\$ 43,087,260</u>	<u>\$ 8,855,201</u>	<u>\$ (39,661,289)</u>	<u>\$ 547,743,739</u>

* Includes Elliot Health System and Elliot Hospital, exclusive of affiliates

ELLIOT HEALTH SYSTEM AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS

Year Ended June 30, 2017

	Obligated Group*	Elliot Health System	Elliot Hospital and Affiliates	Visiting Nurse Association of Manchester and Southern New Hampshire, Inc. and Affiliates	Elliot Health System Holdings and Subsidiaries	Mary and John Elliot Charitable Foundation	Eliminations	Consolidated
Net patient service revenues (net of contractual allowances and discounts)	\$ 427,977,569	\$ —	\$ 513,358,032	\$ 17,666,234	\$ 14,605,552	\$ —	\$ —	\$ 545,629,818
Provision for bad debts	(20,508,340)	—	(25,910,157)	(11,748)	(824,035)	—	—	(26,745,940)
Net patient service revenues, less provision for bad debts	407,469,229	—	487,447,875	17,654,486	13,781,517	—	—	518,883,878
Investment income	2,509,466	—	2,509,700	162,296	94,124	146,288	—	2,912,408
Other revenues	24,861,650	—	22,648,547	407,505	8,766,845	687,341	(9,644,742)	22,865,496
Total revenues	434,840,345	—	512,606,122	18,224,287	22,642,486	833,629	(9,644,742)	544,661,782
Expenses:								
Salaries, wages and fringe benefits	212,546,385	—	318,830,248	14,107,788	4,110,039	443,756	—	337,491,831
Supplies and other expenses	138,239,651	62,602	143,402,526	3,103,564	14,455,286	565,826	(11,706,201)	149,883,603
Depreciation and amortization	15,052,313	—	15,319,510	158,279	1,941,236	229	—	17,419,254
New Hampshire Medicaid Enhancement Tax	21,273,658	—	21,273,658	—	—	—	—	21,273,658
Interest	7,601,484	—	7,601,484	—	139,770	—	(8,872)	7,732,382
Total expenses	394,713,491	62,602	506,427,426	17,369,631	20,646,331	1,009,811	(11,715,073)	533,800,728
Income (loss) from operations	40,126,854	(62,602)	6,178,696	854,656	1,996,155	(176,182)	2,070,331	10,861,054
Nonoperating (losses) gains:								
Loss on bond refunding	(21,117,864)	—	(21,117,864)	—	—	—	—	(21,117,864)
Investment return, net	7,016,113	—	7,016,113	467,751	—	475,927	—	7,959,791
Equity in net gain of subsidiary	4,049,171	4,049,171	—	—	—	—	(4,049,171)	—
Other	1,233,365	—	906,037	104,472	2,430,135	(57,085)	(2,070,331)	1,313,228
Nonoperating (losses) gains, net	(8,819,215)	4,049,171	(13,195,714)	572,223	2,430,135	418,842	(6,119,502)	(11,844,845)
Consolidated (deficiency) excess of revenues and nonoperating (losses) gains over expenses before discontinued operations	31,307,639	3,986,569	(7,017,018)	1,426,879	4,426,290	242,660	(4,049,171)	(983,791)
Loss from discontinued operations	—	—	—	—	(324,224)	—	—	(324,224)
Consolidated (deficiency) excess of revenues and nonoperating (losses) gains over expenses	31,307,639	3,986,569	(7,017,018)	1,426,879	4,102,066	242,660	(4,049,171)	(1,308,015)
Noncontrolling interests in net gain of consolidated affiliates	—	—	—	—	(52,895)	—	—	(52,895)
(Deficiency) excess of revenues and nonoperating (losses) gains over expenses attributable to Elliot Health System	31,307,639	3,986,569	(7,017,018)	1,426,879	4,049,171	242,660	(4,049,171)	(1,360,910)
Net transfers (to) from affiliates	(32,290,000)	5,623,289	(5,623,289)	—	5,552,289	—	(5,552,289)	—
Pension adjustment	19,218,531	—	20,720,803	773,776	—	—	—	21,494,579
Net assets released from restriction for capital purchases	20,806	—	20,806	—	—	(20,806)	—	—
Increase (decrease) in unrestricted net assets attributable to Elliot Health System	\$ 18,256,976	\$ 9,609,858	\$ 8,101,302	\$ 2,200,655	\$ 9,601,460	\$ 221,854	\$ (9,601,460)	\$ 20,133,669

* Includes Elliot Health System and Elliot Hospital, exclusive of affiliates

ELLIOT HEALTH SYSTEM AND AFFILIATES

CONSOLIDATING BALANCE SHEET

June 30, 2016

ASSETS

	<u>Obligated Group*</u>	<u>Elliot Health System</u>	<u>Elliot Hospital and Affiliates</u>	<u>Visiting Nurse Association of Manchester and Southern New Hampshire, Inc. and Affiliates</u>	<u>Elliot Health System Holdings and Subsidiaries</u>	<u>Mary and John Elliot Charitable Foundation</u>	<u>Elimi- nations</u>	<u>Consol- idated</u>
Current assets:								
Cash and cash equivalents	\$ 75,213,266	\$ 176	\$ 77,196,806	\$ 3,244,265	\$ 8,070,012	\$ 1,062,435	\$ -	\$ 89,573,694
Accounts receivable, net	45,685,255	-	53,029,655	1,894,803	1,505,931	-	-	56,430,389
Inventories	3,040,664	-	3,040,664	-	328,022	-	-	3,368,686
Amounts due from affiliates	2,689,532	-	307,446	-	2,984,937	13,603	(3,305,986)	-
Other current assets	6,581,261	-	7,216,512	136,890	782,160	36,893	-	8,172,455
Current portion of assets whose use is limited held by trustee under revenue bond and note agreements	<u>970,000</u>	<u>-</u>	<u>970,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>970,000</u>
Total current assets	134,179,978	176	141,761,083	5,275,958	13,671,062	1,112,931	(3,305,986)	158,515,224
Property, plant and equipment, net	156,840,796	-	157,016,770	764,072	25,645,467	651	-	183,426,960
Other assets:								
Investment in subsidiary	28,872,045	28,872,045	-	-	-	-	(28,872,045)	-
Other	<u>7,229,672</u>	<u>-</u>	<u>7,229,672</u>	<u>-</u>	<u>1,736,768</u>	<u>-</u>	<u>(304,517)</u>	<u>8,661,923</u>
	36,101,717	28,872,045	7,229,672	-	1,736,768	-	(29,176,562)	8,661,923
Assets whose use is limited:								
Board designated and donor restricted investments	102,547,342	-	102,547,342	6,441,166	1,163,144	7,040,262	-	117,191,914
Held by trustee under revenue bond and note agreements	13,188,434	-	13,188,434	-	-	-	-	13,188,434
Employee benefit plans and other	12,527,047	-	12,527,047	-	-	-	-	12,527,047
Beneficial interest in perpetual trusts	<u>6,746,553</u>	<u>-</u>	<u>6,746,553</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,746,553</u>
	<u>135,009,376</u>	<u>-</u>	<u>135,009,376</u>	<u>6,441,166</u>	<u>1,163,144</u>	<u>7,040,262</u>	<u>-</u>	<u>149,653,948</u>
Total assets	\$ 462,131,867	\$ 28,872,221	\$ 441,016,901	\$ 12,481,196	\$ 42,216,441	\$ 8,153,844	\$ (32,482,548)	\$ 500,258,055

* Includes Elliot Health System and Elliot Hospital, exclusive of affiliates

LIABILITIES AND NET ASSETS

	<u>Obligated Group*</u>	<u>Elliot Health System</u>	<u>Elliot Hospital and Affiliates</u>	<u>Visiting Nurse Association of Manchester and Southern New Hampshire, Inc. and Affiliates</u>	<u>Elliot Health System Holdings and Subsidiaries</u>	<u>Mary and John Elliot Charitable Foundation</u>	<u>Elimi- nations</u>	<u>Consol- idated</u>
Current liabilities:								
Accounts payable and accrued expenses	\$ 17,401,003	\$ —	\$ 17,709,621	\$ 375,010	\$ 1,646,810	\$ 171,999	\$ —	\$ 19,903,440
Accrued salaries, wages and related accounts	18,241,608	—	27,266,007	1,135,464	641,998	—	—	29,043,469
Accrued interest	1,922,028	—	1,922,028	—	59,752	—	(54,517)	1,927,263
Amounts payable to third-party payors	8,011,643	—	8,091,637	94,982	—	—	—	8,186,619
Amounts due to affiliates	—	—	—	336,893	2,969,093	—	(3,305,986)	—
Current portion of long-term debt	<u>3,444,062</u>	<u>—</u>	<u>3,444,062</u>	<u>—</u>	<u>756,574</u>	<u>—</u>	<u>(250,000)</u>	<u>3,950,636</u>
Total current liabilities	49,020,344	—	58,433,355	1,942,349	6,074,227	171,999	(3,610,503)	63,011,427
Accrued pension	89,731,351	—	98,000,994	3,370,118	—	—	—	101,371,112
Self-insurance reserves and other liabilities	26,079,839	—	26,111,579	—	—	240,000	—	26,351,579
Long-term debt, less current portion	<u>134,097,152</u>	<u>—</u>	<u>134,097,152</u>	<u>—</u>	<u>6,793,476</u>	<u>—</u>	<u>—</u>	<u>140,890,628</u>
Total liabilities	298,928,686	—	316,643,080	5,312,467	12,867,703	411,999	(3,610,503)	331,624,746
Elliot Health System net assets:								
Unrestricted/owners' equity	149,016,430	28,872,221	110,187,070	6,670,828	28,872,045	6,377,937	(28,872,045)	152,108,056
Temporarily restricted	1,186,304	—	1,186,304	34,841	—	1,363,908	—	2,585,053
Permanently restricted	<u>13,000,447</u>	<u>—</u>	<u>13,000,447</u>	<u>463,060</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>13,463,507</u>
Total Elliot Health System net assets	163,203,181	28,872,221	124,373,821	7,168,729	28,872,045	7,741,845	(28,872,045)	168,156,616
Noncontrolling interests in consolidated affiliates	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>476,693</u>	<u>—</u>	<u>—</u>	<u>476,693</u>
Total net assets	<u>163,203,181</u>	<u>28,872,221</u>	<u>124,373,821</u>	<u>7,168,729</u>	<u>29,348,738</u>	<u>7,741,845</u>	<u>(28,872,045)</u>	<u>168,633,309</u>
Total liabilities and net assets	<u>\$ 462,131,867</u>	<u>\$ 28,872,221</u>	<u>\$ 441,016,901</u>	<u>\$ 12,481,196</u>	<u>\$ 42,216,441</u>	<u>\$ 8,153,844</u>	<u>\$ (32,482,548)</u>	<u>\$ 500,258,055</u>

* Includes Elliot Health System and Elliot Hospital, exclusive of affiliates

ELLIOT HEALTH SYSTEM AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS

Year Ended June 30, 2016

	Obligated Group*	Elliot Health System	Elliot Hospital and Affiliates	Visiting Nurse Association of Manchester and Southern New Hampshire, Inc. and Affiliates	Elliot Health System Holdings and Subsidiaries	Mary and John Elliot Charitable Foundation	Elimi- nations	Consol- idated
Net patient service revenues (net of contractual allowances and discounts)	\$ 409,220,100	\$ --	\$ 497,448,106	\$ 17,332,396	\$ 13,535,753	\$ --	\$ --	\$ 528,316,255
Provision for bad debts	(14,411,000)	--	(19,712,350)	(96,781)	(703,571)	--	--	(20,512,702)
Net patient service revenues, less provision for bad debts	394,809,100	--	477,735,756	17,235,615	12,832,182	--	--	507,803,553
Investment income	2,081,202	--	2,081,456	135,942	115,753	142,262	--	2,475,413
Other revenues	24,934,708	--	26,328,842	405,914	13,431,861	677,922	(16,314,735)	24,529,804
Total revenues	421,825,010	--	506,146,054	17,777,471	26,379,796	820,184	(16,314,735)	534,808,770
Expenses:								
Salaries, wages and fringe benefits	195,250,737	--	297,206,309	14,089,261	4,768,535	357,088	--	316,421,193
Supplies and other expenses	132,474,509	81	142,479,745	3,302,320	18,332,266	411,720	(18,383,103)	146,143,029
Depreciation and amortization	14,343,630	--	14,712,212	157,719	2,124,378	330	--	16,994,639
New Hampshire Medicaid Enhancement Tax	21,584,396	--	21,584,396	--	--	--	--	21,584,396
Interest	8,056,995	--	8,056,995	--	232,912	--	(11,944)	8,277,963
Total expenses	371,710,267	81	484,039,657	17,549,300	25,458,091	769,138	(18,395,047)	509,421,220
Income (loss) from operations	50,114,743	(81)	22,106,397	228,171	921,705	51,046	2,080,312	25,387,550
Nonoperating gains (losses):								
Investment return, net	(4,146,251)	--	(4,146,251)	(429,869)	--	(340,420)	--	(4,916,540)
Equity in net loss of subsidiary	(679,135)	(679,135)	--	--	--	--	679,135	--
Other	3,559,894	--	3,369,248	168,091	(94,560)	(55,357)	(2,080,312)	1,307,110
Nonoperating gains (losses), net	(1,265,492)	(679,135)	(777,003)	(261,778)	(94,560)	(395,777)	(1,401,177)	(3,609,430)
Consolidated excess (deficiency) of revenues and nonoperating gains (losses) over expenses before discontinued operations	48,849,251	(679,216)	21,329,394	(33,607)	827,145	(344,731)	679,135	21,778,120
Loss from discontinued operations	--	--	--	--	(1,455,359)	--	--	(1,455,359)
Consolidated excess (deficiency) of revenues and nonoperating gains (losses) over expenses	48,849,251	(679,216)	21,329,394	(33,607)	(628,214)	(344,731)	679,135	20,322,761
Noncontrolling interests in net gain of consolidated affiliates	--	--	--	--	(50,921)	--	--	(50,921)
Excess (deficiency) of revenues and nonoperating gains (losses) over expenses attributable to Elliot Health System	48,849,251	(679,216)	21,329,394	(33,607)	(679,135)	(344,731)	679,135	20,271,840
Net transfers (to) from affiliates	(26,375,000)	(560,000)	560,000	--	(560,000)	--	560,000	--
Pension adjustment	(28,286,604)	--	(31,233,898)	(901,862)	--	--	--	(32,135,760)
Net assets released from restriction for capital purchases	13,908	--	13,908	--	--	(13,908)	--	--
(Decrease) increase in unrestricted net assets attributable to Elliot Health System	\$ (5,798,445)	\$ (1,239,216)	\$ (9,330,596)	\$ (935,469)	\$ (1,239,135)	\$ (358,639)	\$ 1,239,135	\$ (11,863,920)

* Includes Elliot Health System and Elliot Hospital, exclusive of affiliates