

# **Elliot Health System and Affiliates**

Audited Consolidated Financial Statements  
and Other Financial Information

*Years Ended June 30, 2018 and 2017  
With Independent Auditors' Report*

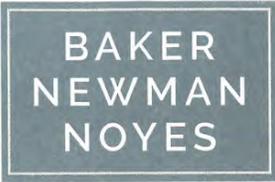
**ELLIOT HEALTH SYSTEM AND AFFILIATES**

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

June 30, 2018 and 2017

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## 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, 2018 and 2017, 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, 2018 and 2017, 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  
December 11, 2018

**ELLIOT HEALTH SYSTEM AND AFFILIATES**

**CONSOLIDATED BALANCE SHEETS**

June 30, 2018 and 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents	\$ 76,700,470	\$114,998,559
Accounts receivable, less allowance for doubtful accounts of \$18,709,744 in 2018 and \$17,110,923 in 2017 (notes 2, 5 and 10)	51,518,823	57,962,645
Inventories	3,801,625	3,525,379
Other current assets (note 3)	<u>9,725,426</u>	<u>7,037,896</u>
Total current assets	141,746,344	183,524,479
Property, plant and equipment, less accumulated depreciation (notes 4, 5 and 11)	190,349,608	179,655,905
Investments (notes 6 and 12)	58,304,112	—
Other assets (note 2)	16,305,019	10,201,993
Assets whose use is limited (notes 6 and 12):		
Board designated and donor restricted investments	131,496,969	124,120,250
Held by trustee under revenue bond and note agreements	11,830,241	28,342,297
Employee benefit plans and other (note 2)	17,006,819	14,746,583
Beneficial interest in perpetual trusts (note 2)	<u>7,233,609</u>	<u>7,152,232</u>
	167,567,638	174,361,362
	<hr/>	<hr/>
Total assets	<u>\$574,272,721</u>	<u>\$547,743,739</u>

LIABILITIES AND NET ASSETS

	<u>2018</u>	<u>2017</u>
Current liabilities:		
Accounts payable and accrued expenses	\$ 28,909,870	\$ 25,193,308
Accrued salaries, wages and related accounts	33,068,813	28,661,165
Accrued interest	1,775,506	1,788,209
Amounts payable to third-party payors (note 3)	16,244,878	12,936,549
Current portion of long-term debt (note 5)	<u>5,503,469</u>	<u>5,324,722</u>
Total current liabilities	85,502,536	73,903,953
Accrued pension (note 7)	75,042,244	85,966,612
Self-insurance reserves and other liabilities (note 2)	37,845,255	30,354,660
Long-term debt, less current portion (note 5)	<u>162,258,985</u>	<u>167,668,207</u>
Total liabilities	360,649,020	357,893,432
Elliot Health System net assets:		
Unrestricted	193,672,606	172,241,725
Temporarily restricted	5,454,092	3,222,948
Permanently restricted	<u>13,924,176</u>	<u>13,856,046</u>
Total Elliot Health System net assets	213,050,874	189,320,719
Noncontrolling interests in consolidated affiliates	<u>572,827</u>	<u>529,588</u>
Total net assets	<u>213,623,701</u>	<u>189,850,307</u>
Total liabilities and net assets	<u>\$574,272,721</u>	<u>\$547,743,739</u>

See accompanying notes.

**ELLIOT HEALTH SYSTEM AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Net patient service revenues (net of contractual allowances and discounts) (notes 2, 3, 8 and 13)	\$ 553,974,659	\$ 535,059,337
Provision for bad debts (notes 2, 3 and 8)	<u>(26,650,601)</u>	<u>(26,745,940)</u>
Net patient service revenues less provision for bad debts	527,324,058	508,313,397
Investment income (note 6)	3,236,157	2,912,408
Other revenues (note 3)	<u>26,406,961</u>	<u>22,865,496</u>
Total revenues	556,967,176	534,091,301
Expenses (note 9):		
Salaries, wages and fringe benefits (note 7)	345,628,238	320,876,437
Supplies and other expenses (note 11)	157,337,824	149,883,603
Depreciation and amortization	18,301,021	17,419,254
New Hampshire Medicaid Enhancement Tax (note 13)	22,004,678	21,273,658
Interest	<u>7,226,343</u>	<u>7,732,382</u>
Total expenses	<u>550,498,104</u>	<u>517,185,334</u>
Income from operations	6,469,072	16,905,967
Nonoperating gains (losses), net:		
Loss on bond refunding (note 5)	-	(21,117,864)
Investment return, net (notes 2 and 6)	5,899,679	7,959,791
Other (notes 2 and 8)	(1,777,933)	1,313,228
Net periodic pension cost, net of service cost (note 7)	<u>(1,429,629)</u>	<u>(6,044,913)</u>
Nonoperating gains (losses), net	<u>2,692,117</u>	<u>(17,889,758)</u>
Consolidated excess (deficiency) of revenues and nonoperating gains (losses) over expenses before discontinued operations	9,161,189	(983,791)
Loss from discontinued operations (note 14)	<u>-</u>	<u>(324,224)</u>
Consolidated excess (deficiency) of revenues and nonoperating gains (losses) over expenses	9,161,189	(1,308,015)
Noncontrolling interest in the net gain of consolidated affiliates	<u>(43,239)</u>	<u>(52,895)</u>
Excess (deficiency) of revenues and nonoperating gains (losses) over expenses attributable to Elliot Health System	9,117,950	(1,360,910)
Pension adjustment (note 7)	<u>12,312,931</u>	<u>21,494,579</u>
Increase in unrestricted net assets attributable to Elliot Health System	<u>\$ 21,430,881</u>	<u>\$ 20,133,669</u>

See accompanying notes.

**ELLIOT HEALTH SYSTEM AND AFFILIATES**

**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**

Years Ended June 30, 2018 and 2017

	Elliot Health System					Non-	
	Unrestricted Net Assets	Tempo- rarily Restricted Net Assets	Perma- nently Restricted Net Assets	Total Elliot Health System Net Assets	controlling Interests in Consolidated Affiliates	Total Net Assets	
Balances at July 1, 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)	21,494,579	-	-	21,494,579	-	21,494,579	
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	172,241,725	3,222,948	13,856,046	189,320,719	529,588	189,850,307	
Excess of revenues and nonoperating gains over expenses	9,117,950	-	-	9,117,950	43,239	9,161,189	
Restricted gifts and bequests	-	2,219,772	-	2,219,772	-	2,219,772	
Investment return, net (note 6)	-	26,766	68,130	94,896	-	94,896	
Net unrealized loss on investments (notes 2 and 6)	-	(15,394)	-	(15,394)	-	(15,394)	
Pension adjustment (note 7)	12,312,931	-	-	12,312,931	-	12,312,931	
Increase in net assets	<u>21,430,881</u>	<u>2,231,144</u>	<u>68,130</u>	<u>23,730,155</u>	<u>43,239</u>	<u>23,773,394</u>	
Balances at June 30, 2018	<u>\$193,672,606</u>	<u>\$ 5,454,092</u>	<u>\$13,924,176</u>	<u>\$213,050,874</u>	<u>\$572,827</u>	<u>\$213,623,701</u>	

See accompanying notes.

**ELLIOT HEALTH SYSTEM AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating activities and net gains:		
Increase in net assets	\$ 23,773,394	\$ 21,216,998
Adjustments to reconcile increase in net assets to net cash provided by operating activities and net gains (losses):		
Depreciation and amortization	18,301,021	17,419,254
Loss on disposal of property, plant and equipment	283,172	554,826
Restricted investment income and net gain on investments	(94,896)	(402,690)
Restricted gifts and bequests	(2,219,772)	(527,394)
Pension adjustment	(12,312,931)	(21,494,579)
Net realized and unrealized gains on investments	(5,359,572)	(7,674,855)
Loss on bond refunding	-	21,117,864
Changes in operating assets and liabilities:		
Accounts receivable, net	6,443,822	(1,532,256)
Inventories	(276,246)	(156,693)
Other current and noncurrent assets	(8,790,556)	(405,511)
Accounts payable and accrued expenses	3,716,562	6,587,217
Accrued salaries, wages and related accounts	4,407,648	(382,304)
Accrued interest	(12,703)	810,239
Accrued pension	1,388,563	6,090,079
Self-insurance reserves and other liabilities	7,490,595	4,034,821
Amounts payable to third-party payors	<u>3,308,329</u>	<u>4,749,930</u>
Net cash provided by operating activities and net gains (losses)	40,046,430	50,004,946
Investing activities:		
Acquisition of property, plant and equipment	(29,184,428)	(18,894,460)
Proceeds from the sale of property, plant and equipment	-	3,473,690
Net change in assets whose use is limited	12,153,296	(16,062,559)
Net change in investments	<u>(58,304,112)</u>	<u>-</u>
Net cash used by investing activities	(75,335,244)	(31,483,329)
Financing activities:		
Proceeds from issuance of long-term debt, net of bond issuance costs	-	146,509,205
Repayment of long-term debt	(5,323,943)	(144,923,124)
Original issue premium/discount	-	16,616,991
Restricted investment income and net gain on investments	94,896	402,690
Restricted gifts and bequests	2,219,772	527,394
Deposit to refunding bond escrow	-	<u>(12,229,908)</u>
Net cash (used) provided by financing activities	<u>(3,009,275)</u>	<u>6,903,248</u>
(Decrease) increase in cash and cash equivalents	(38,298,089)	25,424,865
Cash and cash equivalents at beginning of year	<u>114,998,559</u>	<u>89,573,694</u>
Cash and cash equivalents at end of year	<u>\$ 76,700,470</u>	<u>\$ 114,998,559</u>

See accompanying notes.

# ELLIOT HEALTH SYSTEM AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

### 1. **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 other strategic affiliation and joint operating agreements with outside entities. In the year ending June 30, 2018, the board of the System, accompanied by the board of Southern New Hampshire Health System, Inc., approved an affiliation agreement between the organizations. The sole corporate member of the System became SolutioNHealth, Inc.

### 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 gains (losses) from these subsidiaries are included in the amounts presented on the statements of operations. Excess (deficiency) of revenues and nonoperating gains (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, 2018 and 2017

#### 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, 2018 and 2017

#### 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 decrease in the provision for bad debts in 2018 is driven primarily by an overall decrease 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, 2018, the System has recorded \$261,527 of prepaid federal and state income taxes in other current assets and, at June 30, 2017, the System has recorded \$254,565 of prepaid federal and state income taxes in other current assets. The total provision for federal and state current tax expense is recorded in other nonoperating gains (losses) and is \$124,649 and \$340,258 for the years ended June 30, 2018 and 2017, respectively. At June 30, 2018 and 2017, the System has a deferred tax asset of \$3,223,458 and \$3,508,860 with a corresponding valuation allowance of \$633,073 and \$444,029, respectively, 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 becomes probable. As a result of the valuation allowance reversal, the System recognized a deferred tax benefit of \$3,064,382 in nonoperating gains (losses) in the year ending June 30, 2017.

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, 2018 and 2017

#### 2. Significant Accounting Policies (Continued)

The statements of operations also include excess (deficiency) of revenues and nonoperating gains (losses) over expenses attributable to both controlling and noncontrolling interests. Changes in unrestricted net assets which are excluded from excess (deficiency) of revenues and nonoperating gains (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 gains (losses). 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, 2018 and 2017

#### 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 net realizable value.

#### 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, 2018 and 2017

#### 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 \$1,586,000 and \$1,678,000 in 2018 and 2017, 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 \$4,406,612 and \$3,627,654 under these defined contribution plans for the years ended June 30, 2018 and 2017, respectively.

## ELLIOT HEALTH SYSTEM AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

#### 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, 2018 and 2017, \$17,006,819 and \$14,746,583, respectively, is reflected in assets whose use is limited and \$17,006,819 and \$14,746,583, 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, which totaled approximately \$14,166,000 and \$13,453,000 at June 30, 2018 and 2017, 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, 2018, 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, 2018 and 2017

#### 2. Significant Accounting Policies (Continued)

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, 2018 and 2017, the System recorded a liability of \$18,474,188 and \$13,924,488, respectively, related to estimated professional liability losses relating to reported cases as well as potentially incurred but not reported claims. At June 30, 2018 and 2017, the System also recorded a receivable of \$6,298,613 and \$1,685,575, 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.

#### Reclassifications

Certain 2017 amounts have been reclassified to permit comparison with the 2018 financial statements presentation format.

## ELLIOT HEALTH SYSTEM AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

#### 2. Significant Accounting Policies (Continued)

##### 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 December 11, 2018 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, 2019. 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 requires 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 consolidated statement of operations separately 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 elected the early adoption option and as a result \$6,044,913 previously included in salaries, wages and fringe benefits was reclassified to net periodic pension cost, net of service cost on the consolidated statement of operations for the year ended June 30, 2017.

## ELLIOT HEALTH SYSTEM AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

#### 2. Significant Accounting Policies (Continued)

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). Due to diversity in practice, ASU 2018-08 clarifies the definition of an exchange transaction as well as the criteria for evaluating whether contributions are unconditional or conditional. ASU 2018-08 is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. The System is currently evaluating the impact that ASU 2018-08 will have on its consolidated financial statements.

#### 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 2018 and 2017 from major payor sources, is as follows:

	<u>Gross Patient Service Revenues</u>	<u>Contractual Allowances and Discounts</u>	<u>Provision for Bad Debts</u>	<u>Net Patient Service Revenues Less Provision for Bad Debts</u>
<b>2018</b>				
Private payors (includes coinsurance and deductibles)	\$ 569,716,105	222,060,745	\$17,848,332	\$ 329,807,028
Medicaid	154,198,057	111,422,349	601,323	42,174,385
Medicare	488,239,440	335,459,655	2,007,486	150,772,299
Self-pay	<u>26,525,775</u>	<u>15,761,969</u>	<u>6,193,460</u>	<u>4,570,346</u>
	<u>\$1,238,679,377</u>	<u>\$684,704,718</u>	<u>\$26,650,601</u>	<u>\$ 527,324,058</u>
<b>2017</b>				
Private payors (includes coinsurance and deductibles)	\$ 530,360,809	\$198,407,319	\$18,747,977	\$ 313,205,513
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>\$1,151,976,875</u>	<u>\$616,917,538</u>	<u>\$26,745,940</u>	<u>\$ 508,313,397</u>

## ELLIOT HEALTH SYSTEM AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

#### 3. Patient Service and Other Revenues (Continued)

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 28% and 8%, respectively, in 2018 and 26% and 9%, respectively, in 2017.

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 \$1,400,000 and \$2,857,000 in 2018 and 2017, 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.

**ELLIOT HEALTH SYSTEM AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

**4. Property, Plant and Equipment**

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

	<u>2018</u>	<u>2017</u>
Operating properties:		
Land and land improvements	\$ 10,456,510	\$ 11,421,151
Buildings and fixed equipment	205,185,193	205,201,112
Major movable equipment	189,121,814	178,556,940
Construction and projects in progress	<u>17,015,111</u>	<u>7,246,108</u>
	421,778,628	402,425,311
Less accumulated depreciation	<u>(266,359,680)</u>	<u>(252,749,988)</u>
	155,418,948	149,675,323
Rental properties:		
Land and land improvements	9,785,992	6,360,294
Buildings and fixed equipment	49,903,020	45,523,160
Major movable equipment	123,207	125,759
Construction and projects in progress	<u>226,312</u>	<u>1,060,743</u>
	60,038,531	53,069,956
Less accumulated depreciation	<u>(25,107,871)</u>	<u>(23,089,374)</u>
	<u>34,930,660</u>	<u>29,980,582</u>
Net property, plant and equipment	<u>\$ 190,349,608</u>	<u>\$ 179,655,905</u>

**5. Debt**

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

	<u>2018</u>	<u>2017</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 commenced in October 2017 and are payable in annual installments ranging from \$2,720,000 to \$10,915,000 through October 2038	\$144,465,000	\$147,020,000
Plus unamortized original issue premium/discount	<u>16,555,500</u>	<u>16,638,511</u>
	161,020,500	163,658,511

**ELLIOT HEALTH SYSTEM AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

**5. Debt (Continued)**

	<u>2018</u>	<u>2017</u>
New Hampshire Health and Education Facilities Authority - Revenue Bonds (continued):		
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	\$ 5,953,148	\$ 8,415,888
Notes payable – see below	1,350,000	1,450,000
Capital lease obligations – see note 11	<u>11,248</u>	<u>87,716</u>
	168,334,896	173,612,115
Less current portion	(5,503,469)	(5,324,722)
Less net unamortized bond issuance costs	<u>(572,442)</u>	<u>(619,186)</u>
	<u>\$162,258,985</u>	<u>\$167,668,207</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, 2018 and 2017, the balance of defeased 2009 Series Bonds payable not included in the accompanying balance sheets was \$125,455,000 and \$126,470,000, respectively.

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, 2018 and 2017, the Hospital was in compliance with all required financial covenants.

The System has a note payable in the amount of \$1,350,000 and \$1,450,000 at June 30, 2018 and 2017, respectively, 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.

Interest paid totaled \$7,239,047 and \$7,871,434 for the years ended June 30, 2018 and 2017, respectively. There was no interest capitalized for the year ended June 30, 2018 or 2017.

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: 2019 - \$5,503,000; 2020 - \$5,801,000; 2021 - \$6,335,000; 2022 - \$6,872,000; and 2023 - \$5,683,000.

The fair value, based on current market rates of the System's long-term debt, was approximately \$169,267,271 and \$175,591,000 as of June 30, 2018 and 2017, respectively.

**ELLIOT HEALTH SYSTEM AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

**5. Debt (Continued)**

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% (3.25% at June 30, 2018). At June 30, 2018 and 2017, there were no borrowings outstanding under this agreement. The agreement grants the bank a security interest in the System's securities, cash and deposit account balances to collateralize any future outstanding balances. Subsequent to June 30, 2018, the line of credit was increased to \$25,000,000.

**6. Investments and Assets Whose Use is Limited**

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

	<u>2018</u>	<u>2017</u>
Cash and equivalents	\$ 15,794,107	\$ 33,844,093
Marketable equity securities	72,820,942	67,785,239
Fixed income securities	58,304,112	—
U.S. Government obligations and corporate bonds	46,015,098	42,295,675
Employee benefit plans and other	17,006,819	14,746,583
Beneficial interest in perpetual trusts	7,233,609	7,152,232
Alternative investments	<u>8,697,063</u>	<u>8,537,540</u>
	<u>\$225,871,750</u>	<u>\$174,361,362</u>

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>2018</u>	<u>2017</u>
Board designated:		
Capital, working capital and community service	\$106,126,518	\$100,170,704
Self-insurance	<u>11,486,480</u>	<u>12,756,557</u>
	117,612,998	112,927,261
Donor restricted and other	<u>13,883,971</u>	<u>11,192,989</u>
	<u>\$131,496,969</u>	<u>\$124,120,250</u>

Funds held by trustee under revenue bond and note agreements are comprised of the following at June 30:

	<u>2018</u>	<u>2017</u>
Construction funds	\$11,828,769	\$28,341,560
Debt service funds	<u>1,472</u>	<u>737</u>
	<u>\$11,830,241</u>	<u>\$28,342,297</u>

**ELLIOT HEALTH SYSTEM AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

**6. Investments and Assets Whose Use is Limited (Continued)**

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

	<u>2018</u>	<u>2017</u>
Unrestricted investment income and net gains on investments are summarized as follows:		
Investment income	\$ 3,236,157	\$ 2,912,408
Nonoperating investment income	524,713	385,286
Realized gains on sale of investments, net	2,262,931	806,815
Net unrealized gains (loss) on investments	<u>3,112,035</u>	<u>6,767,690</u>
	9,135,836	10,872,199
Restricted investment income and net gains on investments are summarized as follows:		
Investment income and net income on investments	94,896	402,690
Net unrealized gains on investments	<u>(15,394)</u>	<u>100,350</u>
	<u>79,502</u>	<u>503,040</u>
Total restricted and unrestricted	\$ <u>9,215,338</u>	\$ <u>11,375,239</u>

**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>2018</u>	<u>2017</u>
Changes in benefit obligation:		
Projected benefit obligations, beginning of year	\$(363,896,351)	\$(362,478,770)
Service cost	(9,958,934)	(10,045,166)
Interest cost	(14,072,056)	(13,349,618)
Benefits paid	22,463,260	5,679,552
Actuarial gain	17,992,287	14,820,849
Administrative expenses paid	<u>1,511,478</u>	<u>1,476,802</u>
Projected benefit obligations, end of year	\$ <u>(345,960,316)</u>	\$ <u>(363,896,351)</u>
Changes in plan assets:		
Fair value of plan assets, beginning of year	\$ 277,929,739	\$ 261,107,658
Actual return on plan assets	6,963,071	13,978,435
Contributions by plan sponsor	10,000,000	10,000,000
Benefits paid	(22,463,260)	(5,679,552)
Actual administrative expense paid	<u>(1,511,478)</u>	<u>(1,476,802)</u>
Fair value of plan assets, end of year	\$ <u>270,918,072</u>	\$ <u>277,929,739</u>

**ELLIOT HEALTH SYSTEM AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

**7. Retirement Benefits (Continued)**

	<u>2018</u>	<u>2017</u>
Funded status:		
Fair value of plan assets	\$ 270,918,072	\$ 277,929,739
Projected benefit obligations	<u>(345,960,316)</u>	<u>(363,896,351)</u>
Funded status of the plan	\$ <u>(75,042,244)</u>	\$ <u>(85,966,612)</u>

The accumulated benefit obligation at June 30, 2018 and 2017 was \$329,167,274 and \$343,923,589, respectively.

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

	<u>2018</u>	<u>2017</u>
Net liability recognized	\$ <u>(75,042,244)</u>	\$ <u>(85,966,612)</u>

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

	<u>2018</u>	<u>2017</u>
Discount rate	4.19%	3.91%
Rate of compensation	3.75	3.75

In 2018, the System began using the MP-2017 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>2018</u>	<u>2017</u>
Net actuarial loss	\$62,382,598	\$74,687,978
Prior service cost	<u>          —</u>	<u>          7,551</u>
Total amount recognized	\$ <u>62,382,598</u>	\$ <u>74,695,529</u>

**ELLIOT HEALTH SYSTEM AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

**7. Retirement Benefits (Continued)**

*Pension Plan Assets*

The fair values of the System's pension plan assets and target allocations as of June 30, 2018 by asset category are as follows (see note 12 for level definitions):

	Target Allo- cation 2018	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Signif- icant Observ- able Inputs (Level 2)	Signif- icant Unob- servable Inputs (Level 3)
Short-term investments:	5%				
Money market fund		\$ 3,477,343	\$ 3,477,343	\$ —	\$ —
Equity securities:	40%				
Common stocks		39,385,395	39,385,395	—	—
Mutual funds		10,460,924	10,460,924	—	—
Other equities		32,231,459	32,231,459	—	—
Fixed income securities:	55%				
U.S. Government and agency obligations		48,784,888	—	48,784,888	—
Municipal bonds		7,140,866	—	7,140,866	—
Mutual funds - balanced		4,006,743	—	4,006,743	—
Corporate and foreign bonds		<u>124,443,830</u>	<u>—</u>	<u>124,443,830</u>	<u>—</u>
		269,931,448	<u>\$85,555,121</u>	<u>\$184,376,327</u>	<u>\$ —</u>
Unallocated insurance contract		<u>986,624</u>			
		<u>\$270,918,072</u>			

**ELLIOT HEALTH SYSTEM AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

**7. Retirement Benefits (Continued)**

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>			

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, 2018 and 2017

**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>2018</u>	<u>2017</u>
Service cost	\$ 9,958,934	\$ 10,045,166
Interest cost	14,072,056	13,349,618
Expected return on plan assets	(18,711,959)	(17,251,991)
Amortization:		
Actuarial loss	6,061,981	9,917,237
Prior service cost	<u>7,551</u>	<u>30,049</u>
Net periodic pension cost - System	<u>\$ 11,388,563</u>	<u>\$ 16,090,079</u>

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

	<u>2018</u>	<u>2017</u>
Discount rate	3.91%	3.71%
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 amount expected to be recognized in net periodic benefit cost in 2019 totals \$2,689,725.

**Contributions**

The System expects to contribute \$10 million to its pension plan in 2019.

ELLIOT HEALTH SYSTEM AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

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>
2019	\$ 8,571,500
2020	10,201,700
2021	11,621,300
2022	13,063,700
2023	14,376,900
Years 2024 – 2028	88,815,600

8. **Community Benefits (Unaudited)**

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, 2018 and 2017

**8. Community Benefits (Unaudited) (Continued)**

The estimated costs of providing community benefits for the years ended June 30, 2018 and 2017 are summarized below:

	<u>2018</u>	<u>2017</u>
Charity care	\$ 7,410,000	\$ 7,158,000
Community programs and subsidized services	2,073,654	1,470,722
Government-sponsored programs	<u>109,961,931</u>	<u>93,948,417</u>
	<u>\$119,445,585</u>	<u>\$102,577,139</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, 2018 and 2017, the System reported provisions for bad debts of \$26,650,601 and \$26,745,940, 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>2018</u>	<u>2017</u>
Health care services	\$368,458,044	\$337,947,630
General and administrative	<u>182,040,060</u>	<u>179,237,704</u>
	<u>\$550,498,104</u>	<u>\$517,185,334</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>2018</u>	<u>2017</u>
Medicare	30%	30%
Medicaid	9	11
Managed care and other	26	25
Patients (self pay)	22	21
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, 2018 and 2017

**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, 2018 and 2017 was \$10,364,336 and \$10,550,607, 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, 2018 and 2017. Accumulated amortization of the leased equipment at June 30, 2017 was \$723,734. The equipment became fully amortized during 2018. 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, 2018 are as follows:

	<u>Operating Leases</u>	<u>Capital Leases</u>	<u>Total</u>
Year Ending June 30:			
2019	\$ 6,871,801	\$ 11,333	\$ 6,883,134
2020	6,342,102	-	6,342,102
2021	4,044,425	-	4,044,425
2022	3,798,844	-	3,798,844
2023	3,595,389	-	3,595,389
Thereafter	<u>23,156,670</u>	<u>-</u>	<u>23,156,670</u>
Total minimum lease payments	<u>\$47,809,231</u>	11,333	<u>\$47,820,564</u>
Less amount representing interest		<u>(85)</u>	
Present value of net minimum lease payments		11,248	
Less current maturities of capital lease obligations		<u>(11,248)</u>	
Long-term capital lease obligations		<u>\$ -</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, 2018 and 2017

#### 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, 2018 and 2017

**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>2018</u>				
Investments and assets whose use is limited:				
Cash and equivalents	\$ 15,794,107	\$ 15,794,107	\$ -	\$ -
Marketable equity securities:				
Common stocks	72,820,942	72,820,942	-	-
Fixed income securities:				
U.S. Government obligations	19,893,897	-	19,893,897	-
Municipal bonds	3,184,245	-	3,184,245	-
Corporate bonds	78,812,268	-	78,812,268	-
Foreign bonds	2,428,800	-	2,428,800	-
Beneficial interests in perpetual trusts	7,233,609	7,233,609	-	-
Employee benefit plans and other	<u>17,006,819</u>	<u>17,006,819</u>	<u>-</u>	<u>-</u>
Investments and assets whose use is limited	217,174,687	<u>\$112,855,477</u>	<u>\$104,319,210</u>	<u>\$ -</u>
Alternative investments	<u>8,697,063</u>			
Total assets	<u>\$225,871,750</u>			

**ELLIOT HEALTH SYSTEM AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

**12. Fair Value Measurements (Continued)**

	<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>			

The alternative investments consist of interests in six funds at both June 30, 2018 and 2017 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>2018</u>				
Equity fund	\$2,841,068	\$ —	Monthly	90 days
Multi-strategy hedge fund	748,411	—	Illiquid	N/A
Global equity fund	95,132	110,230	Liquid	N/A
Commingled REIT fund	441,246	1,971,361	Liquid	N/A
Multi-strategy hedge fund	1,377,000	—	Annually	N/A
Multi-strategy hedge fund	3,194,206	—	Quarterly	65 days

**ELLIOT HEALTH SYSTEM AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

**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>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

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, 2018 and 2017

#### 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 5.4% of the Hospital's net patient service revenues, with certain exclusions. The amount of tax incurred by the Hospital for fiscal 2018 and 2017 was \$22,004,678 and \$21,273,658, 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 \$17,472,570 and \$18,631,257 in disproportionate share revenue for the years ended June 30, 2018 and 2017, 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 from 2011 to 2014, 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

In the year ended June 30, 2017, 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 year ending June 30, 2017 have been reflected in discontinued operations. There were no discontinued operations for the year ending June 30, 2018.

The following is a summary of discontinued operations for the year ended June 30, 2017:

Other revenues	\$ 562,578
Salaries, wages and fringe benefits	(671,036)
Supplies and other expenses	(196,006)
Interest	<u>(19,760)</u>
	<u><u>\$ (324,224)</u></u>

#### 15. Pledges Receivable

Pledges receivable represent promises to give and are predominantly related to a capital campaign for a regional cancer center. Pledges expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The present value of estimated future cash flows has been measured utilizing risk-free rates of return adjusted for market and credit risk established at the time a contribution is received. Amounts are included within other assets on the consolidated balance sheets as of June 30, 2018. There were no outstanding pledges as of June 30, 2017.

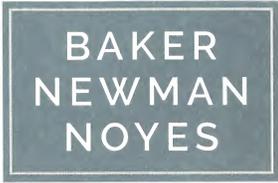
**ELLIOT HEALTH SYSTEM AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2018 and 2017

**15. Pledges Receivable (Continued)**

Pledges are expected to be collected as follows at June 30, 2018:

Within one year	\$ 69,218
Within two years	250,500
Within three years	250,500
Within four years	250,500
Within five years	250,500
Thereafter	<u>430,000</u>
Pledges receivable	1,501,218
Present value discount	(284,190)
Allowance for uncollectible pledges	<u>(74,460)</u>
Pledges receivable, net	<u>\$1,142,568</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, 2018 and 2017, 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  
December 11, 2018

ELLIOT HEALTH SYSTEM AND AFFILIATES

CONSOLIDATING BALANCE SHEET

June 30, 2018

	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
Current assets:								
Cash and cash equivalents	\$ 61,425,766	\$ 8,543	\$ 63,976,084	\$ 2,840,249	\$ 8,910,309	\$ 965,285	\$ -	\$ 76,700,470
Accounts receivable, net	42,047,720	-	48,461,909	1,747,260	1,309,654	-	-	51,518,823
Inventories	3,443,050	-	3,443,050	-	358,575	-	-	3,801,625
Amounts due from affiliates	3,224,402	-	278,164	-	537,109	45,520	(860,793)	-
Other current assets	8,531,124	-	8,921,786	53,242	749,874	524	-	9,725,426
Total current assets	118,672,062	8,543	125,080,993	4,640,751	11,865,521	1,011,329	(860,793)	141,746,344
Property, plant and equipment, net	159,991,418	-	160,343,769	532,994	29,472,584	261	-	190,349,608
Other assets:								
Investment in subsidiary	43,022,706	43,022,706	-	-	-	-	(43,022,706)	-
Investments	58,304,112	-	58,304,112	-	4,246,004	1,148,808	(321,531)	58,304,112
Other	11,231,738	-	11,231,738	-	-	-	-	16,305,019
	112,558,556	43,022,706	69,535,850	-	4,246,004	1,148,808	(43,344,237)	74,609,131
Assets whose use is limited:								
Board designated and donor restricted investments	110,067,887	-	110,067,887	9,661,305	1,163,319	10,604,458	-	131,496,969
Held by trustee under revenue bond and note agreements	11,830,241	-	11,830,241	-	-	-	-	11,830,241
Employee benefit plans and other	17,006,819	-	17,006,819	-	-	-	-	17,006,819
Beneficial interest in perpetual trusts	7,233,609	-	7,233,609	-	-	-	-	7,233,609
	146,138,556	-	146,138,556	9,661,305	1,163,319	10,604,458	-	167,567,638
Total assets	\$ 537,360,592	\$ 43,031,249	\$ 501,099,168	\$ 14,835,050	\$ 46,747,428	\$ 12,764,856	\$ (44,205,030)	\$ 574,272,721

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

**LIABILITIES AND NET ASSETS**

Current liabilities:									
Accounts payable and accrued expenses	\$ 27,363,969		\$ 27,822,684	\$ 253,677	\$ 737,960	\$ 95,549	\$ -	\$ 28,909,870	
Accrued salaries, wages and related accounts	20,357,448	-	31,579,177	1,163,190	326,446	-	-	33,068,813	
Accrued interest	1,771,081	-	1,771,081	-	75,955	-	(71,530)	1,775,506	
Amounts payable to third-party payors	16,233,115	-	16,244,878	-	-	-	-	16,244,878	
Amounts due to affiliates	-	-	-	392,151	468,643	-	(860,794)	-	
Current portion of long-term debt	5,403,469	-	5,403,469	-	350,000	-	(250,000)	5,503,469	
Total current liabilities	71,129,082	-	82,821,289	1,809,018	1,959,004	95,549	(1,182,324)	85,502,536	
Accrued pension	66,238,550	-	72,698,777	2,343,467	-	-	-	75,042,244	
Self-insurance reserves and other liabilities	37,765,254	-	37,765,254	-	-	80,001	-	37,845,255	
Long-term debt, less current portion	161,066,094	-	161,066,094	-	1,192,891	-	-	162,258,985	
Total liabilities	336,198,980	-	354,351,414	4,152,485	3,151,895	175,550	(1,182,324)	360,649,020	
Elliott Health System net assets:									
Unrestricted/owners' equity	186,356,644	43,031,249	131,942,786	10,184,664	43,022,706	8,513,907	(43,022,706)	193,672,606	
Temporarily restricted	1,343,852	-	1,343,852	34,841	-	4,075,399	-	5,454,092	
Permanently restricted	13,461,116	-	13,461,116	463,060	-	-	-	13,924,176	
Total Elliott Health System net assets	201,161,612	43,031,249	146,747,754	10,682,565	43,022,706	12,589,306	(43,022,706)	213,050,874	
Noncontrolling interests in consolidated affiliates	-	-	-	-	572,827	-	-	572,827	
Total net assets	201,161,612	43,031,249	146,747,754	10,682,565	43,595,533	12,589,306	(43,022,706)	213,623,701	
Total liabilities and net assets	\$ 537,360,592	\$ 43,031,249	\$ 501,099,168	\$ 14,835,050	\$ 46,747,428	\$ 12,764,856	\$ (44,205,030)	\$ 574,272,721	

\* Includes Elliott Health System and Elliott Hospital, exclusive of affiliates

**ELLIOT HEALTH SYSTEM AND AFFILIATES**  
**CONSOLIDATING STATEMENT OF OPERATIONS**

Year Ended June 30, 2018

	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)	\$ 450,049,453	\$ —	\$ 524,294,391	\$ 17,006,574	\$ 13,343,025	\$ —	\$ (669,331)	\$ 553,974,659
Provision for bad debts	(21,471,096)	—	(26,001,597)	2,238	(651,242)	—	—	(26,650,601)
Net patient service revenues, less provision for bad debts	428,578,357	43	498,292,794	17,008,812	12,691,783	—	(669,331)	527,324,058
Investment income	2,825,755	43	2,825,813	185,443	64,845	160,013	—	3,236,157
Other revenues	28,389,967	—	26,363,428	409,139	8,196,488	1,118,360	(9,680,454)	26,406,961
Total revenues	459,794,079	43	527,482,035	17,603,394	20,953,116	1,278,373	(10,349,785)	556,967,176
Expenses:								
Salaries, wages and fringe benefits	224,469,751	—	327,557,409	13,958,679	4,178,681	602,800	(669,331)	345,628,238
Supplies and other expenses	147,156,717	74	150,805,950	3,100,191	14,400,650	1,000,452	(11,969,493)	157,337,824
Depreciation and amortization	16,084,180	—	16,314,595	130,643	1,855,621	162	—	18,301,021
New Hampshire Medicaid Enhancement Tax	22,004,678	—	22,004,678	—	—	—	—	22,004,678
Interest	7,160,179	—	7,160,179	15	75,021	—	(8,872)	7,226,343
Total expenses	416,875,505	74	523,842,811	17,189,528	20,509,973	1,603,414	(8,872)	550,498,104
Income (loss) from operations	42,918,574	(31)	3,639,224	413,866	443,143	(325,041)	2,297,911	6,469,072
Nonoperating gains (losses):								
Investment return, net	4,971,431	—	4,971,431	406,921	—	521,327	—	5,899,679
Other	2,633,728	(39,799)	973,532	58,344	(439,703)	(72,195)	(2,258,112)	(1,777,933)
Net periodic pension cost, net of service cost	(1,261,118)	—	(1,385,079)	(44,550)	—	—	—	(1,429,629)
Nonoperating gains (losses), net	6,344,041	(39,799)	4,559,884	420,715	(439,703)	449,132	(2,258,112)	2,692,117
Consolidated excess (deficiency) of revenues and nonoperating gains (losses) over expenses	49,262,615	(39,830)	8,199,108	834,581	3,440	124,091	39,799	9,161,189
Noncontrolling interests in net gain of consolidated affiliates	—	—	—	—	(43,239)	—	—	(43,239)
Excess (deficiency) of revenues and nonoperating gains losses over expenses attributable to Elliot Health System	49,262,615	(39,830)	8,199,108	834,581	(39,799)	124,091	39,799	9,117,950
Net transfers (to) from affiliates	(41,160,025)	4,589,000	(6,379,025)	—	4,589,000	1,790,025	(4,589,000)	—
Pension adjustment	10,980,648	—	11,834,331	478,600	—	—	—	12,312,931
Increase in unrestricted net assets attributable to Elliot Health System	\$ 19,083,238	\$ 4,549,170	\$ 13,654,414	\$ 1,313,181	\$ 4,549,201	\$ 1,914,116	\$ (4,549,201)	\$ 21,430,881

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

ELLIOT HEALTH SYSTEM AND AFFILIATES

CONSOLIDATING BALANCE SHEET

June 30, 2017

ASSETS

	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	Eliminated	Consolidated
Current assets:							
Cash and cash equivalents	\$ 100,492,125	\$ 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	5,631,016	6,209,607	88,191	706,353	33,745	-	7,037,896
Total current assets	160,155,027	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	5,783,562	-	4,730,093	998	(38,473,505)	10,201,993
Other	44,257,067	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	7,152,232	7,152,232	-	-	-	-	7,152,232
	157,340,549	157,340,549	8,069,779	1,163,260	7,787,774	-	174,361,362
Total assets	\$ 515,254,693	\$ 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



**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) Provision for bad debts	\$ 427,977,569 (20,508,340)	\$ -	\$ 503,463,020 (25,910,157)	\$ 17,666,234 (11,748)	\$ 14,605,552 (824,035)	\$ -	\$ (675,469)	\$ 535,059,337 (26,745,940)
Net patient service revenues, less provision for bad debts	407,469,229	-	477,552,863	17,654,486	13,781,517	-	(675,469)	508,313,397
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	-	502,711,110	18,224,287	22,642,486	833,629	(10,320,211)	534,091,301
Expenses:								
Salaries, wages and fringe benefits	212,546,385	-	303,051,407	13,946,704	4,110,039	443,756	(675,469)	320,876,437
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	490,648,585	17,208,547	20,646,331	1,009,811	(12,390,542)	517,185,334
Income (loss) from operations	40,126,854	(62,602)	12,062,525	1,015,740	1,996,155	(176,182)	2,070,331	16,905,967
Nonoperating gains (losses):								
Loss on bond refunding	(21,117,864)	-	(21,117,864)	467,751	-	475,927	-	(21,117,864)
Investment return, net	7,016,113	-	7,016,113	-	-	-	-	7,959,791
Equity in net gain of subsidiary	4,049,171	4,049,171	-	104,472	2,430,135	(57,085)	(4,049,171)	1,313,228
Other	1,233,365	-	906,037	(161,084)	-	-	(2,070,331)	(6,044,913)
Net periodic pension cost, net of service cost	(8,819,215)	4,049,171	(5,883,829)	411,139	2,430,135	418,842	(6,119,502)	(17,889,758)
Consolidated (deficiency) excess of revenues and nonoperating gains (losses) 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 gains (losses) over expenses of consolidated affiliates	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	-	-	-	-	(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 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