

# **Elliot Health System and Affiliates**

Audited Consolidated Financial Statements  
and Other Financial Information

*Years Ended June 30, 2019 and 2018  
With Independent Auditors' Report*

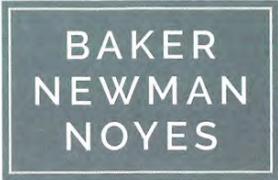
**ELLIOT HEALTH SYSTEM AND AFFILIATES**

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

June 30, 2019 and 2018

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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, 2019 and 2018, 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.

Board of Directors  
Elliot Health System

*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, 2019 and 2018, 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.

*Emphasis of Matter*

As discussed in Note 2 to the financial statements, in 2019, the System adopted the provisions of Accounting Standards Update (ASU) No. ASU No. 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Baku Newman & Noyes LLC

Manchester, New Hampshire  
September 18, 2019



LIABILITIES AND NET ASSETS

	<u>2019</u>	<u>2018</u>
Current liabilities:		
Accounts payable and accrued expenses	\$ 35,394,215	\$ 28,909,870
Accrued salaries, wages and related accounts	33,952,271	33,068,813
Accrued interest	1,741,690	1,775,506
Amounts payable to third-party payors (note 3)	20,512,332	16,244,878
Current portion of long-term debt (note 5)	<u>6,020,428</u>	<u>5,503,469</u>
Total current liabilities	97,620,936	85,502,536
Accrued pension (note 8)	96,853,321	75,042,244
Self-insurance reserves and other liabilities (note 2)	39,988,107	37,845,255
Long-term debt, less current portion (note 5)	<u>156,253,532</u>	<u>162,258,985</u>
Total liabilities	390,715,896	360,649,020
Elliot Health System net assets:		
Without donor restrictions	194,214,667	193,672,606
With donor restrictions (note 7)	<u>27,063,225</u>	<u>19,378,268</u>
Total Elliot Health System net assets	221,277,892	213,050,874
Noncontrolling interests in consolidated affiliates	<u>—</u>	<u>572,827</u>
Total net assets	<u>221,277,892</u>	<u>213,623,701</u>
Total liabilities and net assets	<u>\$611,993,788</u>	<u>\$574,272,721</u>

See accompanying notes.

**ELLIOT HEALTH SYSTEM AND AFFILIATES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Net patient service revenues (net of contractual allowances and discounts) (notes 2, 3, 9 and 14)	\$ 582,151,399	\$ 550,828,697
Provision for bad debts (notes 2, 3 and 9)	<u>(28,096,966)</u>	<u>(26,650,601)</u>
Net patient service revenues less provision for bad debts	554,054,433	524,178,096
Investment income (note 6)	5,552,942	3,236,157
Other revenues	<u>32,793,411</u>	<u>26,406,961</u>
Total revenues	592,400,786	553,821,214
Expenses (note 10):		
Salaries, wages and fringe benefits (note 8)	354,730,841	342,482,276
Supplies and other expenses (note 12)	163,521,167	157,337,824
Depreciation and amortization	21,040,931	18,301,021
New Hampshire Medicaid Enhancement Tax (note 14)	22,564,148	22,004,678
Interest	<u>6,946,906</u>	<u>7,226,343</u>
Total expenses	<u>568,803,993</u>	<u>547,352,142</u>
Income from operations	23,596,793	6,469,072
Nonoperating gains (losses), net:		
Investment return, net (notes 2 and 6)	5,404,253	5,899,679
Other (notes 2 and 9)	(3,367,446)	(1,777,933)
Net periodic pension gain (cost), net of service cost (note 8)	<u>2,589,438</u>	<u>(1,429,629)</u>
Nonoperating gains, net	<u>4,626,245</u>	<u>2,692,117</u>
Consolidated excess of revenues and nonoperating gains over expenses	28,223,038	9,161,189
Noncontrolling interest in the net gain of consolidated affiliates	<u>(47,920)</u>	<u>(43,239)</u>
Excess of revenues and nonoperating gains over expenses attributable to Elliot Health System	28,175,118	9,117,950
Transfer to SolutionHealth	(706,222)	-
Pension adjustment (note 8)	(25,338,867)	12,312,931
Changes in noncontrolling interest in consolidated affiliates	<u>(1,587,968)</u>	<u>-</u>
Increase in net assets without donor restrictions attributable to Elliot Health System	\$ <u>542,061</u>	\$ <u>21,430,881</u>

See accompanying notes.

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

Years Ended June 30, 2019 and 2018

	Elliott Health System			
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total Elliott Health System Net Assets	Non- controlling Interests in Consolidated Affiliates
Balances at July 1, 2017	\$172,241,725	\$17,078,994	\$189,320,719	\$ 529,588
Excess of revenues and nonoperating gains over expenses	9,117,950	—	9,117,950	43,239
Restricted gifts and bequests	—	2,219,772	2,219,772	—
Investment return, net (note 6)	—	94,896	94,896	—
Net unrealized loss on investments (notes 2 and 6)	—	(15,394)	(15,394)	—
Pension adjustment (note 8)	<u>12,312,931</u>	<u>—</u>	<u>12,312,931</u>	<u>—</u>
Increase in net assets	<u>21,430,881</u>	<u>2,299,274</u>	<u>23,730,155</u>	<u>43,239</u>
Balances at June 30, 2018	193,672,606	19,378,268	213,050,874	572,827
Excess of revenues and nonoperating gains over expenses	28,175,118	—	28,175,118	47,920
Restricted gifts and bequests	—	7,432,590	7,432,590	—
Investment return, net (note 6)	—	277,895	277,895	—
Net unrealized loss on investments (notes 2 and 6)	—	(25,528)	(25,528)	—
Pension adjustment (note 8)	<u>(25,338,867)</u>	<u>—</u>	<u>(25,338,867)</u>	<u>—</u>
Transfer to SolutionHealth	<u>(706,222)</u>	<u>—</u>	<u>(706,222)</u>	<u>—</u>
Changes in noncontrolling interest in consolidated affiliates	<u>(1,587,968)</u>	<u>—</u>	<u>(1,587,968)</u>	<u>(620,747)</u>
Increase in net assets	<u>542,061</u>	<u>7,684,957</u>	<u>8,227,018</u>	<u>(572,827)</u>
Balances at June 30, 2019	<u>\$194,214,667</u>	<u>\$27,063,225</u>	<u>\$221,277,892</u>	<u>\$ —</u>
			<u>\$221,277,892</u>	<u>\$221,277,892</u>

See accompanying notes.

**ELLIOT HEALTH SYSTEM AND AFFILIATES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating activities and net gains:		
Increase in net assets	\$ 7,654,191	\$ 23,773,394
Adjustments to reconcile increase in net assets to net cash provided by operating activities and net gains:		
Depreciation and amortization	21,040,931	18,301,021
Loss on disposal of property, plant and equipment	8,331	283,172
Restricted investment income and net gain on investments	(277,895)	(94,896)
Restricted gifts and bequests	(7,432,590)	(2,219,772)
Pension adjustment	25,338,867	(12,312,931)
Net realized and unrealized gains on investments	(4,864,276)	(5,359,572)
Changes in operating assets and liabilities:		
Accounts receivable, net	4,463,535	6,443,822
Inventories	(579,122)	(276,246)
Other current and noncurrent assets	(6,392,783)	(8,790,556)
Accounts payable and accrued expenses	6,484,345	3,716,562
Accrued salaries, wages and related accounts	883,458	4,407,648
Accrued interest	(33,816)	(12,703)
Accrued pension	(3,527,790)	1,388,563
Self-insurance reserves and other liabilities	2,142,852	7,490,595
Amounts payable to third-party payors	<u>4,267,454</u>	<u>3,308,329</u>
Net cash provided by operating activities and net gains	49,175,692	40,046,430
Investing activities:		
Acquisition of property, plant and equipment	(33,316,868)	(29,184,428)
Net change in assets whose use is limited	5,917,220	12,153,296
Net change in investments	<u>(17,408,525)</u>	<u>(58,304,112)</u>
Net cash used by investing activities	(44,808,173)	(75,335,244)
Financing activities:		
Repayment of long-term debt	(5,581,963)	(5,323,943)
Restricted investment income and net gain on investments	277,895	94,896
Restricted gifts and bequests	<u>7,432,590</u>	<u>2,219,772</u>
Net cash provided (used) by financing activities	<u>2,128,522</u>	<u>(3,009,275)</u>
Increase (decrease) in cash and cash equivalents	6,496,041	(38,298,089)
Cash and cash equivalents at beginning of year	<u>76,700,470</u>	<u>114,998,559</u>
Cash and cash equivalents at end of year	\$ <u>83,196,511</u>	\$ <u>76,700,470</u>

See accompanying notes.

# ELLIOT HEALTH SYSTEM AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

### 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 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 from these subsidiaries are included in the amounts presented on the statements of operations. Excess of revenues and nonoperating gains over expenses attributable to the System separately presents the amounts attributable to the controlling interest for each of the years presented.

## ELLIOT HEALTH SYSTEM AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

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

##### 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. In May 2019, the System purchased the remaining portion of equity in a consolidated affiliate that was not previously owned by the System. As of June 30, 2019, there is no longer noncontrolling interest in consolidated affiliates as the System controls 100% of all subsidiaries.

##### 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.

## ELLIOT HEALTH SYSTEM AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

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

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.

Periodically throughout the year, management assesses the adequacy of the allowance for doubtful accounts based upon historical write-off experience. The results of this review are then used to make any modifications to the provision for bad debts to establish an appropriate allowance for doubtful accounts. The increase in the provision for bad debts in 2019 is driven primarily by an overall increase in self pay revenues. Accounts receivable are written off after collection efforts have been followed in accordance with internal policies.

#### *Income Taxes*

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

At June 30, 2019, the System has recorded \$434,784 of federal and state income taxes payable in accounts payable and accrued expenses and, at June 30, 2018, the System has recorded \$261,527 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 \$1,070,550 and \$124,649 for the years ended June 30, 2019 and 2018, respectively. At June 30, 2019 and 2018, the System has a deferred tax asset of \$3,017,169 and \$3,223,458 with a corresponding valuation allowance of \$904,901 and \$633,073, respectively, which is included in other assets, mainly relating to depreciation differences between book and tax on property, plant and equipment.

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.

## ELLIOT HEALTH SYSTEM AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

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

##### *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.

The statements of operations also include excess of revenues and nonoperating gains over expenses attributable to both controlling and noncontrolling interests. Changes in net assets without donor restrictions which are excluded from excess of revenues and nonoperating gains over expenses, consistent with industry practice, include net assets released from restriction for capital purchases, pension adjustments, changes in noncontrolling interest in consolidated affiliates, and transfers to or from affiliates.

##### *Net Assets With Donor Restrictions*

Gifts are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (when a stipulated time restriction ends or purpose restriction is accomplished), restricted net assets are reclassified as net assets without donor restrictions and reported in the statement of operations as either net assets released from restrictions for operations (for noncapital-related items) or net assets released from restrictions for property, plant and equipment (for capital-related items). Some restricted net assets have been restricted by donors to be maintained by the System 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 net assets with donor restrictions.

## ELLIOT HEALTH SYSTEM AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

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

##### *Investment Policies*

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

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

Net assets with donor restrictions are 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 intact.

## ELLIOT HEALTH SYSTEM AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

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

##### 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.

##### 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 \$1,755,000 and \$1,586,000 in 2019 and 2018, 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. See note 8 regarding subsequent changes to this Plan.

## ELLIOT HEALTH SYSTEM AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

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

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 \$5,410,308 and \$4,406,612 under these defined contribution plans for the years ended June 30, 2019 and 2018, respectively.

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, 2019 and 2018, \$19,813,013 and \$17,006,819, respectively, is reflected in assets whose use is limited and \$19,813,013 and \$17,006,819, 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 \$15,278,000 and \$14,166,000 at June 30, 2019 and 2018, respectively, and is recorded in accrued salaries, wages and related accounts on the accompanying balance sheets.

## ELLIOT HEALTH SYSTEM AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

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

##### 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, 2019, 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.

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, 2019 and 2018, the System recorded a liability of \$17,244,125 and \$18,474,188, respectively, related to estimated professional liability losses relating to reported cases as well as potentially incurred but not reported claims. At June 30, 2019 and 2018, the System also recorded a receivable of \$4,830,031 and \$6,298,613, 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 13. 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.

## ELLIOT HEALTH SYSTEM AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

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

##### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, at the date of the financial statements 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 2018 amounts have been reclassified to permit comparison with the 2019 financial statements presentation format.

##### Subsequent Events

Events occurring after the balance sheet date are evaluated by management to determine whether such events should be recognized or disclosed in the financial statements. Management has evaluated subsequent events through September 18, 2019 which is the date the financial statements were available to be issued.

##### Recent Accounting Pronouncements

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958)* (ASU 2016-14) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. ASU 2016-14 is effective for the System for the year ended June 30, 2019. The System has adjusted the presentation of these consolidated financial statements and related footnotes accordingly. The ASU has been applied retrospectively to all periods presented.

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. Although management's analysis is not complete, the adoption of ASU 2014-09 is not expected to have a material effect on the financial statements.

**ELLIOT HEALTH SYSTEM AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

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

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 but likely to be deferred one year, 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 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 the System beginning July 1, 2019, with early adoption permitted. The System is evaluating the impact that ASU 2018-08 will have on its financial statements. Although management's analysis is not complete, the adoption of ASU 2018-08 is not expected to have a material effect on the financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments in this ASU modify the disclosure requirements for fair value measurements for Level 3 assets and liabilities, and eliminate the requirement to disclose transfers between Levels 1 and 2 of the fair value hierarchy, among other modifications. ASU 2018-13 is effective for the System on July 1, 2020, with early adoption permitted. The System is currently evaluating the impact that ASU 2018-13 will have on the financial statements.

**3. Patient Service Revenues**

An estimated breakdown of patient service revenue, net of contractual allowances, discounts and provision for bad debts recognized in 2019 and 2018 from major payor sources, is as follows:

	Gross Patient Service Revenues	Contractual Allowances and Discounts	Provision for Bad Debts	Net Patient Service Revenues Less Provision for Bad Debts
<b>2019</b>				
Private payors (includes coinsurance and deductibles)	\$ 613,385,681	\$249,367,656	\$17,885,626	\$ 346,132,399
Medicaid	179,571,994	138,871,387	261,345	40,439,262
Medicare	536,665,088	377,173,282	2,209,646	157,282,160
Self-pay	<u>27,763,157</u>	<u>9,822,196</u>	<u>7,740,349</u>	<u>10,200,612</u>
	<u>\$1,357,385,920</u>	<u>\$775,234,521</u>	<u>\$28,096,966</u>	<u>\$ 554,054,433</u>

**ELLIOT HEALTH SYSTEM AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

**3. Patient Service Revenues (Continued)**

	Gross Patient Service Revenues	Contractual Allowances and Discounts	Provision for Bad Debts	Net Patient Service Revenues Less Provision for Bad Debts
<b>2018</b>				
Private payors (includes coinsurance and deductibles)	\$ 566,570,143	\$222,060,745	\$17,848,332	\$ 326,661,066
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>\$1,235,533,415</u>	<u>\$684,704,718</u>	<u>\$26,650,601</u>	<u>\$ 524,178,096</u>

Various entities of the System maintain contracts with the Social Security Administration (Medicare) and the State of New Hampshire Department of Health and Human Services (Medicaid). The entities are paid a prospectively determined fixed price for Medicare and Medicaid inpatient acute care services depending on the type of illness or the patient's diagnostic related group classification. Reimbursement for Medicare for outpatient services is based upon a prospective standard rate for procedures performed or services rendered. Home health care and hospice services are reimbursed prospectively on a per episode or per diem basis. Physician services are reimbursed on established and/or negotiated fee schedules. Capital costs and certain Medicare and Medicaid outpatient services are also reimbursed on a prospectively determined fixed rate. The entities receive payment for other Medicare and Medicaid inpatient and outpatient services on a reasonable cost basis which are settled with retroactive adjustments upon completion and audit of related cost finding reports. The percentage of net patient service revenue earned from the Medicare and Medicaid programs was 27% and 4%, respectively, in 2019 and 28% and 8%, respectively, in 2018.

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 \$1,200,000 and \$1,400,000 in 2019 and 2018, 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, 2019 and 2018

**4. Property, Plant and Equipment**

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

	<u>2019</u>	<u>2018</u>
Operating properties:		
Land and land improvements	\$ 10,470,365	\$ 10,456,510
Buildings and fixed equipment	224,291,851	205,185,193
Major movable equipment	208,241,282	189,121,814
Construction and projects in progress	<u>8,840,023</u>	<u>17,015,111</u>
	451,843,521	421,778,628
Less accumulated depreciation	<u>(285,381,592)</u>	<u>(266,359,680)</u>
	166,461,929	155,418,948
Rental properties:		
Land and land improvements	9,961,263	9,785,992
Buildings and fixed equipment	52,983,813	49,903,020
Major movable equipment	134,788	123,207
Construction and projects in progress	<u>50,251</u>	<u>226,312</u>
	63,130,115	60,038,531
Less accumulated depreciation	<u>(26,881,361)</u>	<u>(25,107,871)</u>
	<u>36,248,754</u>	<u>34,930,660</u>
Net property, plant and equipment	<u>\$ 202,710,683</u>	<u>\$ 190,349,608</u>

**5. Debt**

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

	<u>2019</u>	<u>2018</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 \$2,875,000 to \$10,915,000 through October 2038	\$141,745,000	\$144,465,000
Plus unamortized original issue premium/discount	<u>16,367,101</u>	<u>16,555,500</u>
	158,112,101	161,020,500

**ELLIOT HEALTH SYSTEM AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

**5. Debt (Continued)**

	<u>2019</u>	<u>2018</u>
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	\$ 3,437,558	\$ 5,953,148
Notes payable – see below	1,250,000	1,350,000
Capital lease obligations	–	11,248
	<u>162,799,659</u>	<u>168,334,896</u>
Less current portion	(6,020,428)	(5,503,469)
Less net unamortized bond issuance costs	<u>(525,699)</u>	<u>(572,442)</u>
	<u>\$156,253,532</u>	<u>\$162,258,985</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%. As of June 30, 2019 and 2018, the balance of defeased 2009 Series Bonds payable not included in the accompanying balance sheets was \$124,390,000 and \$125,455,000, 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, 2019 and 2018, the Hospital was in compliance with all required financial covenants.

The System has a note payable in the amount of \$1,250,000 and \$1,350,000 at June 30, 2019 and 2018, 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 \$7,215,845 and \$7,239,047 for the years ended June 30, 2019 and 2018, respectively. There was no interest capitalized for the years ended June 30, 2019 and 2018.

Aggregate annual principal payments required under the bonds and note agreements for each of the five years ending June 30 are approximately as follows: 2020 - \$6,020,000; 2021 - \$6,527,000; 2022 - \$6,817,000; 2023 - \$5,755,000; and 2024 - \$6,087,000.

The fair value, based on current market rates of the System's long-term debt, was approximately \$162,654,000 and \$169,267,000 as of June 30, 2019 and 2018, respectively.

**ELLIOT HEALTH SYSTEM AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

**5. Debt (Continued)**

The System has entered into a \$25,000,000 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% (3.55% at June 30, 2019). At June 30, 2019 and 2018, 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, 2019, the System entered into a ten year \$20,500,000 equipment lease financing with Bank of America to acquire various property and equipment. The financing agreement is due in monthly principal and interest payments at an interest rate of 1.92%.

**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>2019</u>	<u>2018</u>
Cash and equivalents	\$ 7,174,502	\$ 15,794,107
Marketable equity securities	91,340,135	72,820,942
Fixed income securities	48,709,870	58,304,112
U.S. Government obligations and corporate bonds	52,862,848	46,015,098
Employee benefit plans and other	19,813,013	17,006,819
Beneficial interest in perpetual trusts	7,438,506	7,233,609
Alternative investments	<u>14,888,457</u>	<u>8,697,063</u>
	<u>\$242,227,331</u>	<u>\$225,871,750</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>2019</u>	<u>2018</u>
Board designated:		
Capital, working capital and community service	\$109,818,714	\$106,126,518
Self-insurance	<u>7,791,592</u>	<u>11,486,480</u>
	117,610,306	117,612,998
Donor restricted and other	<u>21,649,619</u>	<u>13,883,971</u>
	<u>\$139,259,925</u>	<u>\$131,496,969</u>

**ELLIOT HEALTH SYSTEM AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

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

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

	<u>2019</u>	<u>2018</u>
Construction funds	\$ –	\$11,828,769
Debt service funds	<u>3,250</u>	<u>1,472</u>
	<u>\$ 3,250</u>	<u>\$11,830,241</u>

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

	<u>2019</u>	<u>2018</u>
Unrestricted investment income and net gains on investments are summarized as follows:		
Investment income	\$ 5,552,942	\$3,236,157
Nonoperating investment income	514,449	524,713
Realized gains on sale of investments, net	7,825,474	2,262,931
Net unrealized (losses) gains on investments	<u>(2,935,670)</u>	<u>3,112,035</u>
	10,957,195	9,135,836
Restricted investment income and net gains on investments are summarized as follows:		
Investment income and net income on investments	277,895	94,896
Net unrealized losses on investments	<u>(25,528)</u>	<u>(15,394)</u>
	<u>252,367</u>	<u>79,502</u>
Total restricted and unrestricted	<u>\$11,209,562</u>	<u>\$9,215,338</u>

**7. Net Assets With Donor Restrictions**

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

	<u>2019</u>	<u>2018</u>
Purpose restriction:		
Health care services	\$12,332,719	\$ 4,787,416
Equipment and capital improvements	564,925	629,489
Education and scholarships	<u>40,823</u>	<u>37,187</u>
	<u>12,938,467</u>	<u>5,454,092</u>

**ELLIOT HEALTH SYSTEM AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

**7. Net Assets With Donor Restrictions (Continued)**

	<u>2019</u>	<u>2018</u>
Perpetual in nature:		
Investments, gains and income from which is donor restricted	\$ 9,473,918	\$ 9,273,336
Investments, gains and income from which is released to net assets without donor restrictions	<u>4,650,840</u>	<u>4,650,840</u>
	<u>14,124,758</u>	<u>13,924,176</u>
 Total net assets with donor restrictions	 <u>\$27,063,225</u>	 <u>\$19,378,268</u>

Net assets with donor restrictions are managed in accordance with donor intent and are invested in various portfolios.

**8. 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>2019</u>	<u>2018</u>
Changes in benefit obligation:		
Projected benefit obligations, beginning of year	\$ (345,960,316)	\$ (363,896,351)
Service cost	(9,061,649)	(9,958,934)
Interest cost	(14,170,462)	(14,072,056)
Benefits paid	8,220,337	22,463,260
Actuarial (loss) gain	(32,757,907)	17,992,287
Administrative expenses paid	<u>1,017,499</u>	<u>1,511,478</u>
 Projected benefit obligations, end of year	 <u>\$ (392,712,498)</u>	 <u>\$ (345,960,316)</u>
Changes in plan assets:		
Fair value of plan assets, beginning of year	\$ 270,918,072	\$ 277,929,739
Actual return on plan assets	24,178,941	6,963,071
Contributions by plan sponsor	10,000,000	10,000,000
Benefits paid	(8,220,337)	(22,463,260)
Actual administrative expense paid	<u>(1,017,499)</u>	<u>(1,511,478)</u>
 Fair value of plan assets, end of year	 <u>\$ 295,859,177</u>	 <u>\$ 270,918,072</u>
Funded status:		
Fair value of plan assets	\$ 295,859,177	\$ 270,918,072
Projected benefit obligations	<u>(392,712,498)</u>	<u>(345,960,316)</u>
 Funded status of the plan	 <u>\$ (96,853,321)</u>	 <u>\$ (75,042,244)</u>

**ELLIOT HEALTH SYSTEM AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

**8. Retirement Benefits (Continued)**

The accumulated benefit obligation at June 30, 2019 and 2018 was \$374,353,677 and \$329,167,274, respectively.

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

	<u>2019</u>	<u>2018</u>
Net liability recognized	\$( <u>96,853,321</u> )	\$( <u>75,042,244</u> )

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

	<u>2019</u>	<u>2018</u>
Discount rate	3.55%	4.19%
Rate of compensation	3.75	3.75

In 2019, the System began using the MP-2018 mortality improvement scale which also had an impact on the projected benefit obligation.

Amounts recognized in net assets without donor restrictions consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Net actuarial loss	\$ <u>87,721,465</u>	\$ <u>62,382,598</u>
Total amount recognized	\$ <u>87,721,465</u>	\$ <u>62,382,598</u>

**ELLIOT HEALTH SYSTEM AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

**8. Retirement Benefits (Continued)**

*Pension Plan Assets*

The fair values of the System's pension plan assets and target allocations by asset category are as follows as of June 30, 2019 and 2018 (see note 13 for level definitions):

	Target Allo- cation	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)
<u>2019</u>					
Short-term investments:	5%				
Cash and sweeps		\$ 37,361,929	\$ 37,361,929	\$ -	\$ -
Equity securities:	40%				
Mutual funds		130,671,600	130,671,600	-	-
Other equities		13,498,235	13,498,235	-	-
Fixed income securities:	55%				
Corporate and foreign bonds		<u>113,373,633</u>	<u>-</u>	<u>113,373,633</u>	<u>-</u>
		294,905,397	<u>\$181,531,764</u>	<u>\$113,373,633</u>	<u>\$ -</u>
Unallocated insurance contract		<u>953,780</u>			
		<u>\$295,859,177</u>			
<u>2018</u>					
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%				
Corporate and foreign bonds		<u>184,376,327</u>	<u>-</u>	<u>184,376,327</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, 2019 and 2018

**8. Retirement Benefits (Continued)**

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.

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>2019</u>	<u>2018</u>
Service cost	\$ 9,061,649	\$ 9,958,934
Interest cost	14,170,462	14,072,056
Expected return on plan assets	(19,033,704)	(18,711,959)
Amortization:		
Actuarial loss	2,273,804	6,061,981
Prior service cost	<u>—</u>	<u>7,551</u>
Net periodic pension cost - System	<u>\$ 6,472,211</u>	<u>\$ 11,388,563</u>

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

	<u>2019</u>	<u>2018</u>
Discount rate	4.19%	3.91%
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 2020 totals \$7,066,439.

**ELLIOT HEALTH SYSTEM AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

**8. Retirement Benefits (Continued)**

*Contributions*

The System expects to contribute \$10 million to its pension plan in 2020.

*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>
2020	\$ 9,891,900
2021	11,303,900
2022	12,825,600
2023	14,057,000
2024	15,365,400
Years 2025 – 2029	91,850,400

On May 16, 2019, the Board of Directors of the System resolved to freeze the defined benefit pension plan effective December 31, 2019. Any employee who is a participant of the plan on that date will continue as a participant. No other person will become a participant after that date. Benefits to participants also will stop accruing on December 31, 2019. This amendment will impact the present value of accumulated plan benefits by eliminating the increase due to annual benefit accruals. In the fiscal year ended June 30, 2020, the System expects to recognize a gain of approximately \$18.4 million related to this change.

**9. 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.

**ELLIOT HEALTH SYSTEM AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

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

*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.

The estimated costs of providing community benefits for the years ended June 30, 2019 and 2018 are summarized below:

	<u>2019</u>	<u>2018</u>
Charity care	\$ 9,881,000	\$ 7,410,000
Community programs and subsidized services	2,567,372	2,073,654
Government-sponsored programs	<u>124,801,352</u>	<u>109,961,931</u>
	<u>\$137,249,724</u>	<u>\$119,445,585</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, 2019 and 2018, the System reported provisions for bad debts of \$28,096,966 and \$26,650,601, respectively.

**10. Functional Expenses**

The System provides general health care services to residents within its geographic location including inpatient, outpatient, physician and emergency care. Expenses related to providing these services are as follows for the years ended June 30, 2019:

	<u>Health Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries, wages and fringe benefits	\$267,555,783	\$ 87,175,058	\$354,730,841
Supplies and other expenses	106,438,045	57,083,122	163,521,167
Interest	3,487,832	3,459,074	6,946,906
New Hampshire Medicaid Enhancement Tax	22,564,148	-	22,564,148
Depreciation and amortization	<u>7,760,330</u>	<u>13,280,601</u>	<u>21,040,931</u>
	<u>\$407,806,138</u>	<u>\$160,997,855</u>	<u>\$568,803,993</u>

**ELLIOT HEALTH SYSTEM AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

**10. Functional Expenses (Continued)**

The financial statements report certain expense categories that are attributable to more than one healthcare service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, such as, depreciation and amortization, and interest, are allocated to a function based on square footage. Supporting activities that are not directly identifiable with one or more healthcare programs are classified as general and administrative. If it is impossible or impractical to make a direct identification, allocation of the expenses were made according to management's estimates. Specifically identifiable costs are assigned to the function which they are identified to.

**11. 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>2019</u>	<u>2018</u>
Medicare	31%	30%
Medicaid	11	9
Managed care and other	26	26
Patients (self pay)	18	22
Anthem Blue Cross	<u>14</u>	<u>13</u>
	<u>100%</u>	<u>100%</u>

**12. Leases**

The System leases various office facilities and equipment from unrelated parties under noncancelable operating leases. Total rental expense, including month-to-month rentals, for the years ended June 30, 2019 and 2018 was \$11,980,747 and \$10,364,336, respectively.

Future minimum lease payments required under operating leases as of June 30, 2019 are as follows:

Year Ending June 30:	
2020	\$ 6,500,484
2021	4,126,517
2022	3,831,651
2023	3,594,093
2024	3,261,629
Thereafter	<u>19,888,221</u>
	<u>\$41,202,595</u>

## ELLIOT HEALTH SYSTEM AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

#### 13. Fair Value Measurements

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

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. 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.

## ELLIOT HEALTH SYSTEM AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

#### 13. **Fair Value Measurements (Continued)**

##### *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.

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.

**ELLIOT HEALTH SYSTEM AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

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

*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>2019</u>				
Investments and assets whose use is limited:				
Cash and equivalents	\$ 7,174,502	\$ 7,174,502	\$ —	\$ —
Marketable equity securities:				
Common stocks	91,340,135	91,340,135	—	—
Fixed income securities:				
U.S. Government obligations	10,239,373	—	10,239,373	—
Municipal bonds	944,531	—	944,531	—
Corporate bonds	87,485,793	—	87,485,793	—
Foreign bonds	2,903,021	—	2,903,021	—
Beneficial interests in perpetual trusts	7,438,506	7,438,506	—	—
Employee benefit plans and other	<u>19,813,013</u>	<u>19,813,013</u>	<u>—</u>	<u>—</u>
Investments and assets whose use is limited	227,338,874	<u>\$125,766,156</u>	<u>\$101,572,718</u>	<u>\$ —</u>
Alternative investments	<u>14,888,457</u>			
Total assets	<u>\$242,227,331</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>			

The alternative investments consist of interests in eleven and six funds at June 30, 2019 and 2018, respectively, that are not actively traded.

**ELLIOT HEALTH SYSTEM AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

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

*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>2019</u>				
Equity fund	\$2,833,975	\$ –	Monthly	90 days
Multi-strategy hedge fund	851,977	–	Illiquid	N/A
Global equity fund	125,708	196,772	Liquid	N/A
Commingled REIT fund	361,648	1,971,361	Liquid	N/A
Multi-strategy hedge fund	1,476,000	–	Annually	N/A
Multi-strategy hedge fund	3,301,280	–	Quarterly	65 days
Multi-strategy hedge fund	2,576,862	–	Quarterly	95 days
Multi-strategy hedge fund	681,144	311,575	Illiquid	N/A
Equity fund	45,910	939,370	Illiquid	N/A
Multi-strategy hedge fund	611,083	1,400,000	Illiquid	N/A
Multi-strategy hedge fund	2,022,870	–	Quarterly	100 days
<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

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.

## ELLIOT HEALTH SYSTEM AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

#### 13. **Fair Value Measurements (Continued)**

##### 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.

#### 14. **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 2019 and 2018 was \$22,564,148 and \$22,004,678, 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 \$16,214,638 and \$17,472,570 in disproportionate share revenue for the years ended June 30, 2019 and 2018, 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.

## ELLIOT HEALTH SYSTEM AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

#### 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, 2019 and 2018.

Pledges are expected to be collected as follows at June 30, 2019:

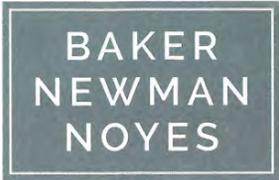
One year or less	\$ 112,252
Between one year and two years	517,445
Between two years and three years	517,445
Between three years and four years	462,445
Between four years and five years	135,363
Thereafter	<u>726,055</u>
 Pledges receivable	 2,471,005
 Present value discount	 (414,899)
 Allowance for uncollectible pledges	 <u>(119,998)</u>
 Pledges receivable, net	 <u>\$1,936,108</u>

#### 16. Financial Assets and Liquidity Resources

As of June 30, 2019, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, consisted of the following:

Cash and cash equivalents	\$ 83,196,511
Accounts receivable	<u>47,055,288</u>
	<u>\$130,251,799</u>

To manage liquidity, the System maintains sufficient cash and cash equivalent balances to support daily operations throughout the year. Cash and cash equivalents include bank deposits, money market funds, and other similar vehicles that generate a return on cash and provide daily liquidity to the System. In addition, the System has board-designated assets and investments without donor restrictions that can be utilized at the discretion of management to help fund both operational needs and/or capital projects. As of June 30, 2019, the balances in board-designated assets and investments were \$117,610,306 and \$75,712,637, respectively.



**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, 2019 and 2018, and have issued our report thereon which contains an unmodified opinion on those consolidated statements. See page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual companies and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Baker Newman & Noyes LLC*

Manchester, New Hampshire  
September 18, 2019

ELLIOT HEALTH SYSTEM AND AFFILIATES

CONSOLIDATING BALANCE SHEET

June 30, 2019

ASSETS

	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	Elminations	Consolidated
Current assets:								
Cash and cash equivalents	\$ 63,342,294	\$ 8,467	\$ 66,138,993	\$ 3,543,383	\$ 12,662,939	\$ 842,729	\$ -	\$ 83,196,511
Accounts receivable, net	39,951,318	-	44,191,258	1,516,162	1,347,868	-	-	47,055,288
Inventories	4,002,497	-	4,002,497	-	378,250	-	-	4,380,747
Amounts due from affiliates	2,875,742	-	-	-	859,521	49,603	(909,124)	-
Other current assets	<u>15,926,255</u>	-	<u>16,465,785</u>	<u>70,101</u>	<u>1,155,389</u>	<u>(4,662)</u>	-	<u>17,686,613</u>
Total current assets	126,098,106	8,467	130,798,533	5,129,646	16,403,967	887,670	(909,124)	152,319,159
Property, plant and equipment, net	171,286,758	-	171,638,356	438,949	30,633,279	99	-	202,710,683
Other assets:								
Investment in subsidiary	47,685,270	47,685,270	-	-	-	-	(47,685,270)	-
Investments	75,712,637	-	75,712,637	-	-	-	-	75,712,637
Other	<u>9,128,937</u>	-	<u>9,128,937</u>	-	<u>3,944,896</u>	<u>1,993,185</u>	<u>(330,403)</u>	<u>14,736,615</u>
	132,526,844	47,685,270	84,841,574	-	3,944,896	1,993,185	(48,015,673)	90,449,252
Assets whose use is limited:								
Board designated and donor restricted investments	110,341,008	-	110,341,008	10,049,008	1,163,319	17,706,590	-	139,259,925
Held by trustee under revenue bond and note agreements	3,250	-	3,250	-	-	-	-	3,250
Employee benefit plans and other	19,813,013	-	19,813,013	-	-	-	-	19,813,013
Beneficial interest in perpetual trusts	<u>7,438,506</u>	-	<u>7,438,506</u>	-	-	-	-	<u>7,438,506</u>
	137,595,777	-	137,595,777	10,049,008	1,163,319	17,706,590	-	166,514,694
Total assets	<u>\$ 567,507,485</u>	<u>\$ 47,693,737</u>	<u>\$ 524,874,240</u>	<u>\$ 15,617,603</u>	<u>\$ 52,145,461</u>	<u>\$ 20,587,544</u>	<u>\$ (48,924,797)</u>	<u>\$ 611,993,788</u>

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

LIABILITIES AND NET ASSETS

Current liabilities:									
Accounts payable and accrued expenses	\$ 32,181,526	\$ —	\$ 32,667,097	\$ 320,796	\$ 2,259,290	\$ 147,032	\$ —	\$ 35,394,215	
Accrued salaries, wages and related accounts	20,689,976	—	32,425,275	1,177,032	349,964	—	—	33,952,271	
Accrued interest	1,737,267	—	1,737,267	—	84,826	—	(80,403)	1,741,690	
Amounts payable to third-party payors	20,500,569	—	20,512,332	—	—	—	—	20,512,332	
Amounts due to affiliates	—	—	255,971	334,509	318,644	—	(909,124)	—	
Current portion of long-term debt	<u>5,920,428</u>	—	<u>5,920,428</u>	—	<u>350,000</u>	—	<u>(250,000)</u>	<u>6,020,428</u>	
Total current liabilities	81,029,766	—	93,518,370	1,832,337	3,362,724	147,032	(1,239,527)	97,620,936	
Accrued pension	85,305,724	—	93,892,022	2,961,299	—	—	—	96,853,321	
Self-insurance reserves and other liabilities	39,988,107	—	39,988,107	—	—	—	—	39,988,107	
Long-term debt, less current portion	<u>155,156,065</u>	—	<u>155,156,065</u>	—	<u>1,097,467</u>	—	—	<u>156,253,532</u>	
Total liabilities	361,479,662	—	382,554,564	4,793,636	4,460,191	147,032	(1,239,527)	390,715,896	
Net assets:									
Without donor restrictions/owners' equity	190,988,210	47,693,737	127,280,063	10,326,066	47,685,270	8,914,801	(47,685,270)	194,214,667	
With donor restrictions	<u>15,039,613</u>	—	<u>15,039,613</u>	<u>497,901</u>	—	<u>11,525,711</u>	—	<u>27,063,225</u>	
Total net assets	<u>206,027,823</u>	<u>47,693,737</u>	<u>142,319,676</u>	<u>10,823,967</u>	<u>47,685,270</u>	<u>20,440,512</u>	<u>(47,685,270)</u>	<u>221,277,892</u>	
Total liabilities and net assets	<u>\$ 567,507,485</u>	<u>\$ 47,693,737</u>	<u>\$ 524,874,240</u>	<u>\$ 15,617,603</u>	<u>\$ 52,145,461</u>	<u>\$ 20,587,544</u>	<u>\$ (48,924,797)</u>	<u>\$ 611,993,788</u>	

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

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

Year Ended June 30, 2019

	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)	\$ 474,935,149	\$ —	\$ 549,628,246	\$ 17,092,701	\$ 16,731,161	\$ —	\$ (1,300,709)	\$ 582,151,399
Provision for bad debts	(24,944,071)	—	(27,369,147)	58,562	(786,381)	—	—	(28,096,966)
Net patient service revenues, less provision for bad debts	449,991,078	—	522,259,099	17,151,263	15,944,780	—	(1,300,709)	554,054,433
Investment income	5,090,433	—	5,090,433	211,814	62,659	188,036	—	5,552,942
Other revenues	35,436,708	—	32,891,740	399,072	9,518,203	1,039,760	(11,055,364)	32,793,411
Total revenues	490,518,219	—	560,241,272	17,762,149	25,525,642	1,227,796	(12,356,073)	592,400,786
Expenses:								
Salaries, wages and fringe benefits	229,356,693	—	337,116,153	13,950,012	4,369,392	595,993	(1,300,709)	354,730,841
Supplies and other expenses	151,743,782	76	156,144,927	3,135,854	16,555,967	1,218,004	(13,533,661)	163,521,167
Depreciation and amortization	18,628,351	—	18,938,677	115,506	1,986,586	162	—	21,040,931
New Hampshire Medicaid Enhancement Tax	22,564,148	—	22,564,148	—	—	—	—	22,564,148
Interest	6,885,935	—	6,885,935	—	69,847	—	(8,876)	6,946,906
Total expenses	429,178,909	76	541,649,840	17,201,372	22,981,792	1,814,159	(14,843,246)	568,803,993
Income (loss) from operations	61,339,310	(76)	18,591,432	560,777	2,543,850	(586,363)	2,487,173	23,596,793
Nonoperating gains (losses):								
Investment return, net	4,080,104	—	4,080,104	177,771	—	1,146,378	—	5,404,253
Other	3,338,110	932,322	697,766	84,690	(1,563,608)	(99,121)	(3,419,495)	(3,367,446)
Net periodic pension gain, net of service cost	2,270,154	—	2,510,152	79,286	—	—	—	2,589,438
Nonoperating gains (losses), net	9,688,368	932,322	7,288,022	341,747	(1,563,608)	1,047,257	(3,419,495)	4,626,245
Consolidated excess of revenues and nonoperating gains (losses) over expenses	71,027,678	932,246	25,879,454	902,524	980,242	460,894	(932,322)	28,223,038
Noncontrolling interests in net gain of consolidated affiliates	—	—	—	—	(47,920)	—	—	(47,920)
Excess of revenues and nonoperating gains (losses) over expenses attributable to Elliot Health System	71,027,678	932,246	25,879,454	902,524	932,322	460,894	(932,322)	28,175,118
Net transfers (to) from affiliates and SolutionHealth Pension adjustment	(43,230,412)	5,159,020	(5,964,432)	—	5,318,210	(60,000)	(5,159,020)	(706,222)
Changes in noncontrolling interest in consolidated affiliates	(1,428,778)	—	(24,577,745)	(761,122)	—	—	—	(25,338,867)
Increase (decrease) in net assets without donor restrictions attributable to Elliot Health System	\$ 4,631,566	\$ 4,662,488	\$ (4,662,723)	\$ 141,402	\$ 4,662,564	\$ 400,894	\$ (4,662,564)	\$ 542,061

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

**ELLIOT HEALTH SYSTEM AND AFFILIATES**

CONSOLIDATING BALANCE SHEET

June 30, 2018

ASSETS

	<u>Obligated Group*</u>	<u>Elliot Health System</u>	<u>Affiliates</u>	<u>Visiting Nurse Association of Manchester and Southern New Hampshire, Inc. and Affiliates</u>	<u>Subsidiaries</u>	<u>Mary and John Elliot Charitable Foundation</u>	<u>Elimi- nations</u>	<u>Consol- idated</u>
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	<u>8,531,124</u>	-	<u>8,921,786</u>	<u>53,242</u>	<u>749,874</u>	<u>524</u>	-	<u>9,725,426</u>
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	<u>11,231,738</u>	-	<u>11,231,738</u>	-	-	-	-	<u>16,305,019</u>
	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	<u>7,233,609</u>	-	<u>7,233,609</u>	-	-	-	-	<u>7,233,609</u>
	146,138,556	-	146,138,556	9,661,305	1,163,319	10,604,458	-	167,567,638
Total assets	<u>\$ 537,360,592</u>	<u>\$ 43,031,249</u>	<u>\$ 501,099,168</u>	<u>\$ 14,835,050</u>	<u>\$ 46,747,428</u>	<u>\$ 12,764,856</u>	<u>\$ (44,205,030)</u>	<u>\$ 574,272,721</u>

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

LIABILITIES AND NET ASSETS

	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	Ethni- nations	Consol- idated
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	<u>5,403,469</u>	<u>—</u>	<u>5,403,469</u>	<u>—</u>	<u>350,000</u>	<u>—</u>	<u>(250,000)</u>	<u>5,503,469</u>
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	<u>161,066,094</u>	<u>—</u>	<u>161,066,094</u>	<u>—</u>	<u>1,192,891</u>	<u>—</u>	<u>—</u>	<u>162,258,985</u>
Total liabilities	336,198,980	—	354,351,414	4,152,485	3,151,895	175,550	(1,182,324)	360,649,020
Elliot Health System net assets:								
Without donor restrictions/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
With donor restrictions	<u>14,804,968</u>	<u>—</u>	<u>14,804,968</u>	<u>497,901</u>	<u>—</u>	<u>4,075,399</u>	<u>—</u>	<u>19,378,268</u>
Total Elliot 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	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>572,827</u>	<u>—</u>	<u>—</u>	<u>572,827</u>
Total net assets	<u>201,161,612</u>	<u>43,031,249</u>	<u>146,747,754</u>	<u>10,682,565</u>	<u>43,595,533</u>	<u>12,589,306</u>	<u>(43,022,706)</u>	<u>213,623,701</u>
Total liabilities and net assets	<u>\$ 537,360,592</u>	<u>\$ 43,031,249</u>	<u>\$ 501,099,168</u>	<u>\$ 14,835,050</u>	<u>\$ 46,747,428</u>	<u>\$ 12,764,856</u>	<u>\$ (44,205,030)</u>	<u>\$ 574,272,721</u>

\* Includes Elliot Health System and Elliot 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	\$ —	\$ 521,148,429	\$ 17,006,574	\$ 13,343,025	\$ —	\$ (669,331)	\$ 550,828,697
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	—	495,146,832	17,008,812	12,691,783	—	(669,331)	524,178,096
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	524,336,073	17,603,394	20,953,116	1,278,373	(10,349,785)	553,821,214
Expenses:								
Salaries, wages and fringe benefits	224,469,751	—	324,411,447	13,958,679	4,178,681	602,800	(669,331)	342,482,276
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	74	7,160,179	15	75,021	—	(8,872)	7,226,343
Total expenses	416,875,505	74	520,696,849	17,189,528	20,509,973	1,603,414	(12,647,696)	547,352,142
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	2,633,738	(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 net assets without donor restrictions attributable to Elliot Health System	\$ 19,083,228	\$ 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