Exhibit I

BAKER
NEWMAN
NOYES

Concord Hospital, Inc. and Subsidiaries

Audited Consolidated Financial Statements

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

Baker Newman & Noyes LLC
MAINE | MASSACHUSETTS | NEW HAMPSHIRE
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CONCORD HOSPITAL, INC. AND SUBSIDIARIES

Audited Consolidated Financial Statements

Years Ended September 30, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Concord Hospital, Inc.

We have audited the accompanying consolidated financial statements of Concord Hospital, Inc. and Subsidiaries (the System), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, 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.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

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

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

The Board of Trustees
Concord Hospital, Inc.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the System as of September 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 1 to the consolidated financial statements, in 2019, the System adopted Financial Accounting Standards Board Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*, and applied the guidance retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Baker Newman & Noyes LLC

Manchester, New Hampshire
December 10, 2019

The Board of Trustees
Concord Hospital, Inc.

Opinion

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Baker Newman & Noyes LLC

Manchester, New Hampshire
December 10, 2019

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

September 30, 2019 and 2018

ASSETS
(In thousands)

	2019	2018
Current assets:		
Cash and cash equivalents	$ 6,404	$ 4,691
Short-term investments	23,228	30,553
Accounts receivable, less allowance for doubtful accounts of $14,635 in 2019 and $15,037 in 2018	68,614	70,261
Due from affiliates	492	659
Supplies	2,396	2,079
Prepaid expenses and other current assets	6,662	5,262
Total current assets	107,796	113,505
Assets whose use is limited or restricted:		
Board designated	284,668	297,243
Funds held by trustee for workers' compensation reserves, self-insurance escrows and construction funds	38,141	55,978
Donor-restricted funds and restricted grants	39,656	40,431
Total assets whose use is limited or restricted	362,465	393,652
Other noncurrent assets:		
Due from affiliates, net of current portion	708	768
Other assets	18,340	13,344
Total other noncurrent assets	19,048	14,112
Property and equipment:		
Land and land improvements	6,338	6,942
Buildings	194,301	195,301
Equipment	244,834	292,694
Construction in progress	38,734	7,044
	484,207	501,981
Less accumulated depreciation	(302,519)	(332,923)
Net property and equipment	181,688	169,058
	$ 670,997	$ 690,327

LIABILITIES AND NET ASSETS
(In thousands)

	2019	2018
Current liabilities:		
Accounts payable and accrued expenses	$ 34,354	$ 36,190
Accrued compensation and related expenses	28,174	26,646
Accrual for estimated third-party payor settlements	34,569	35,378
Current portion of long-term debt	7,385	9,061
Total current liabilities	104,482	107,275
Long-term debt, net of current portion	120,713	128,463
Accrued pension and other long-term liabilities	74,718	48,302
Total liabilities	299,913	284,040
Net assets:		
Without donor restrictions	333,022	368,060
With donor restrictions	38,062	38,227
Total net assets	371,084	406,287
	$ 670,997	$ 690,327

See accompanying notes.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended September 30, 2019 and 2018
(In thousands)

	2019	2018
Revenue and other support without donor restrictions:		
Net patient service revenue, net of contractual allowances and discounts	$510,098	$492,647
Provision for doubtful accounts	(23,826)	(29,329)
Net patient service revenue less provision for doubtful accounts	486,272	463,318
Other revenue	21,887	20,496
Disproportionate share revenue	19,215	14,327
Net assets released from restrictions for operations	1,453	2,112
Total revenue and other support without donor restrictions	528,827	500,253
Operating expenses:		
Salaries and wages	250,359	233,356
Employee benefits	61,887	52,130
Supplies and other	106,095	98,713
Purchased services	32,865	43,352
Professional fees	7,681	6,531
Depreciation and amortization	26,150	27,574
Medicaid enhancement tax	22,442	20,975
Interest expense	4,729	4,873
Total operating expenses	512,208	487,504
Income from operations	16,619	12,749
Nonoperating income:		
Gifts and bequests without donor restrictions	304	317
Investment (loss) income and other	(4,906)	12,878
Net periodic benefits cost, other than service cost	(2,626)	(2,880)
Total nonoperating (loss) income	(7,228)	10,315
Excess of revenues and nonoperating income over expenses	$ 9,391	$ 23,064

See accompanying notes.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years Ended September 30, 2019 and 2018
(In thousands)

	2019	2018
Net assets without donor restrictions:		
Excess of revenues and nonoperating income over expenses	$ 9,391	$ 23,064
Net unrealized gains on investments	4,979	1,805
Net transfers from (to) affiliates	388	(35)
Net assets released from restrictions used for purchases of property and equipment	188	479
Pension adjustment	(49,984)	7,599
(Decrease) increase in net assets without donor restrictions	(35,038)	32,912
Net assets with donor restrictions:		
Contributions and pledges with donor restrictions	1,912	1,554
Net investment (loss) return	(103)	1,236
Contributions to affiliates and other community organizations	(186)	(222)
Unrealized (losses) gains on trusts administered by others	(147)	48
Net assets released from restrictions for operations	(1,453)	(2,112)
Net assets released from restrictions used for purchases of property and equipment	(188)	(479)
(Decrease) increase in net assets with donor restrictions	(165)	25
(Decrease) increase in net assets	(35,203)	32,937
Net assets, beginning of year	406,287	373,350
Net assets, end of year	$371,084	$406,287

See accompanying notes.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended September 30, 2019 and 2018
(In thousands)

	2019	2018
Cash flows from operating activities:		
(Decrease) increase in net assets	$ (35,203)	$ 32,937
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Contributions and pledges with donor restrictions	(1,912)	(1,554)
Depreciation and amortization	26,150	27,574
Net realized and unrealized losses (gains) on investments	5,483	(12,762)
Bond premium and issuance cost amortization	(368)	(317)
Provision for doubtful accounts	23,826	29,329
Equity in earnings of affiliates, net	(7,345)	(5,539)
Loss (gain) on disposal of property and equipment	35	(84)
Pension adjustment	49,984	(7,599)
Changes in operating assets and liabilities:		
Accounts receivable	(22,179)	(48,246)
Supplies, prepaid expenses and other current assets	(1,717)	291
Other assets	(4,087)	2,495
Due from affiliates	227	430
Accounts payable and accrued expenses	(8,826)	7,497
Accrued compensation and related expenses	1,528	1,066
Accrual for estimated third-party payor settlements	(809)	7,996
Accrued pension and other long-term liabilities	(23,568)	(4,635)
Net cash provided by operating activities	1,219	28,879
Cash flows from investing activities:		
Increase in property and equipment, net	(31,698)	(30,456)
Purchases of investments	(43,333)	(87,949)
Proceeds from sales of investments	76,304	31,793
Equity distributions from affiliates	6,309	4,752
Net cash provided (used) by investing activities	7,582	(81,860)
Cash flows from financing activities:		
Payments on long-term debt	(9,058)	(8,816)
Proceeds from issuance of long-term debt	–	62,004
Bond issuance costs	–	(670)
Change in short-term notes payable	–	(15)
Contributions and pledges with donor restrictions	1,970	1,370
Net cash (used) provided by financing activities	(7,088)	53,873
Net increase in cash and cash equivalents	1,713	892
Cash and cash equivalents at beginning of year	4,691	3,799
Cash and cash equivalents at end of year	$ 6,404	$ 4,691

Supplemental disclosure:
At September 30, 2019, amounts totaling $6,990 related to the purchase of property and equipment were included in accounts payable and accrued expenses.

See accompanying notes.

1. Description of Organization and Summary of Significant Accounting Policies

Organization

Concord Hospital, Inc., (the Hospital) located in Concord, New Hampshire, is a not-for-profit acute care hospital. The Hospital provides inpatient, outpatient, emergency care and physician services for residents within its geographic region. Admitting physicians are primarily practitioners in the local area. The Hospital is controlled by Capital Region Health Care Corporation (CRHC).

In 1985, the then Concord Hospital underwent a corporate reorganization in which it was renamed and became CRHC. At the same time, the Hospital was formed as a new entity. All assets and liabilities of the former hospital, now CRHC, with the exception of its endowments and restricted funds, were conveyed to the new entity. The endowments were held by CRHC for the benefit of the Hospital, which is the true party in interest. Effective October 1, 1999, CRHC transferred these funds to the Hospital.

In March 2009, the Hospital created The Concord Hospital Trust (the Trust), a separately incorporated, not-for-profit organization to serve as the Hospital's philanthropic arm. In establishing the Trust, the Hospital transferred philanthropic funds with donor restrictions, including board designated funds, endowments, indigent care funds and specific purpose funds, to the newly formed organization together with the stewardship responsibility to direct monies available to support the Hospital's charitable mission and reflect the specific intentions of the donors who made these gifts. Concord Hospital and the Trust constitute the Obligated Group at September 30, 2019 and 2018 to certain debt described in Note 6.

Subsidiaries of the Hospital include:

Capital Region Health Care Development Corporation (CRHCDC) is a not-for-profit real estate corporation that owns and operates medical office buildings and other properties.

Capital Region Health Ventures Corporation (CRHVC) is a not-for-profit corporation that engages in health care delivery partnerships and joint ventures. It operates ambulatory surgery and diagnostic facilities independently and in cooperation with other entities.

NH Cares ACO, LLC (NHC) is a single member limited liability company that engages in providing medical services to Medicare beneficiaries as an accountable care organization. NHC has a perpetual life and is subject to termination in certain events.

The Hospital, its subsidiaries and the Trust are collectively referred to as the System. The consolidated financial statements include the accounts of the Hospital, the Trust, CRHCDC, CRHVC and NHC. All significant intercompany balances and transactions have been eliminated in consolidation.

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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Concentration of Credit Risk

Financial instruments which subject the Hospital to credit risk consist primarily of cash equivalents, accounts receivable and investments. The risk with respect to cash equivalents is minimized by the Hospital's policy of investing in financial instruments with short-term maturities issued by highly rated financial institutions. The Hospital's accounts receivable are primarily due from third-party payors and amounts are presented net of expected contractual allowances and uncollectible amounts, including estimated uncollectible amounts from uninsured patients. The Hospital's investment portfolio consists of diversified investments, which are subject to market risk. The Hospital's investment in one fund, the Vanguard Institutional Index Fund, exceeded 10% of total Hospital investments as of September 30, 2019 and 2018.

Cash and Cash Equivalents

Cash and cash equivalents include money market funds with original maturities of three months or less, excluding assets whose use is limited or restricted.

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

Supplies

Supplies are carried at the lower of cost, determined on a weighted-average method, or net realizable value.

Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted include assets held by trustees for workers' compensation reserves, self-insurance escrows, construction funds, designated assets set aside by the Board of Trustees (over which the Board retains control and may, at its discretion, subsequently use for other purposes), and donor-restricted investments.

Investments and Investment Income

Investments are carried at fair value in the accompanying consolidated balance sheets. Investment income (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues and nonoperating income over expenses unless the income is restricted by donor or law, in which case it is reported as an increase or decrease in net assets with donor restrictions. Gains and losses on investments are computed on a specific identification basis. Unrealized gains and losses on investments are excluded from the excess of revenues and nonoperating income over expenses unless the investments are classified as trading securities or losses are considered other-than-temporary. Periodically, management reviews investments for which the market value has fallen significantly below cost and recognizes impairment losses where they believe the declines are other-than-temporary.

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

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 without donor restrictions. The System's interest in the fair value of the trust assets is included in assets whose use is limited or restricted and as net assets with donor restrictions. Changes in the fair value of beneficial trust assets are reported as increases or decreases to net assets with donor restrictions.

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.

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

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

Management of these assets is designed to increase, with minimum risk, the inflation adjusted principal and income of the endowment funds over the long term. 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 has a current spending policy on various funds currently equivalent to 5% of twelve-quarter moving average of the funds' total market value.

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

Accounts Receivable and the Allowance for Doubtful Accounts

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the System analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for doubtful accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the System analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for doubtful accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the System records a provision for doubtful accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The System's allowance for doubtful accounts for self-pay patients represented 68% and 82% of self-pay accounts receivable at September 30, 2019 and 2018, respectively. The total provision for the allowance for doubtful accounts was $23,826 and $29,329 for the years ended September 30, 2019 and 2018, respectively. The System also provides charity care to patients, which is not recorded as revenue. The System's self-pay bad debt writeoffs decreased $4,246, from $27,430 in 2018 to $23,184 in 2019. The decrease in bad debt writeoffs between 2018 and 2019 was primarily a result of certain shifts in payor mix.

Property and Equipment

Property and equipment is stated at cost at time of purchase, or at fair value at time of donation for assets contributed, less any reductions in carrying value for impairment and less accumulated depreciation. The System's policy is to capitalize expenditures for major improvements and charge maintenance and repairs currently for expenditures which do not extend the lives of the related assets. Depreciation is computed using the straight-line method in a manner intended to amortize the cost of the related assets over their estimated useful lives. For the years ended September 30, 2019 and 2018, depreciation expense was $26,150 and $27,574, respectively.

The System has also capitalized certain costs associated with property and equipment not yet in service. Construction in progress includes amounts incurred related to major construction projects, other renovations, and other capital equipment purchased but not yet placed in service. During 2019 and 2018, the Hospital capitalized $652 and $167, respectively, of interest expense relating to various construction projects. At September 30, 2019, the Hospital has outstanding construction commitments totaling approximately $18.8 million for a new medical office building. Construction commenced in the summer of 2018 and is anticipated to be completed in June 2020.

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

Gifts of long-lived assets such as land, buildings or equipment are reported as support without donor restrictions, and are excluded from the excess of revenues and nonoperating income over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Federal Grant Revenue and Expenditures

Revenues and expenses under federal grant programs are recognized as the grant expenditures are incurred.

Bond Issuance Costs/Original Issue Discount or Premium

Bond issuance costs incurred to obtain financing for construction and renovation projects and the original issue discount or premium are amortized to interest expense using the straight-line method, which approximates the effective interest method, over the life of the respective bonds. The original issue discount or premium and bond issuance costs are presented as a component of bonds payable.

Charity Care

The System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates (Note 11). Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The System uses an industry standard approach in calculating the costs associated with providing charity care. Funds received from gifts and grants to subsidize charity services provided for the years ended September 30, 2019 and 2018 were approximately $88 and $452, respectively.

Net Assets With Donor Restrictions

Gifts are reported as restricted support if they are received with donor stipulations that limit the use of donated assets. Donated investments, supplies and equipment are reported at fair value at the date of receipt. Unconditional promises to give cash and other assets are reported at fair value at the date of receipt of the promise. When a donor restriction expires (when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statement of operations as either net assets released from restrictions for operations (for noncapital related items) or as net assets released from restrictions used for purchases of property and equipment (capital related items). Some net assets with donor restrictions 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 contributions without donor restrictions in the accompanying consolidated financial statements.

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

Net Patient Service Revenue

The System has agreements with third-party payors that provide for payments to the System 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. For the years ended September 30, 2019 and 2018, net patient service revenue in the accompanying consolidated statements of operations increased by approximately $5,600 and $2,900, respectively, due to actual settlements and changes in assumptions underlying estimated future third-party settlements.

Revenues from the Medicare and Medicaid programs accounted for approximately 34% and 4% and 34% and 5% of the Hospital's net patient service revenue for the years ended September 30, 2019 and 2018, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation.

The Hospital 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 Hospital provides a discount approximately equal to that of its largest private insurance payors. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for doubtful accounts related to uninsured patients in the period the services are provided.

Excess of Revenues and Nonoperating Income Over Expenses

The System has deemed all activities as ongoing, major or central to the provision of health care services and, accordingly, they are reported as operating revenue and expenses, except for contributions and pledges without donor restrictions, the related philanthropy expenses and investment income which are recorded as nonoperating income.

The consolidated statements of operations also include excess of revenues and nonoperating income over expenses. Changes in net assets without donor restrictions which are excluded from excess of revenues and nonoperating income over expenses, consistent with industry practice, include the change in net unrealized gains and losses on investments other than trading securities or losses considered other than temporary, permanent transfers of assets to and from affiliates for other than goods and services, pension liability adjustments and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Estimated Workers' Compensation and Health Care Claims

The provision for estimated workers' compensation and health care claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

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

Functional Expense Allocation

The costs of providing program services and other activities have been summarized on a functional basis in Note 10. Accordingly, costs have been allocated among program services and supporting services benefitted.

Income Taxes

The Hospital, CRHCDC, CRHVC, and the Trust 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. NHC is organized as a single member limited liability company and has elected to be treated as a disregarded entity for federal and state income tax reporting purposes. Accordingly, all income or losses and applicable tax credits are reported on the member's income tax returns, with the exception of taxes due to the State of New Hampshire. 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 or disclosure in the accompanying consolidated financial statements.

Advertising Costs

The System expenses advertising costs as incurred, and such costs totaled approximately $251 and $201 for the years ended September 30, 2019 and 2018, respectively.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 September 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. The adoption of ASU 2016-14 had no impact to changes in net assets or total net assets in 2019 or 2018.

In May 2014, the FASB issued 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 October 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 revenue recognition policies, but does not expect the new pronouncement will have a material impact on its consolidated financial statements.

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

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01). The amendments in ASU 2016-01 address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 is effective for the System for the year ended September 30, 2020, with early adoption permitted. The System is currently evaluating the impact that ASU 2016-01 will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02). Under ASU 2016-02, at the commencement of a long-term lease, lessees will recognize a liability equivalent to the discounted payments due under the lease agreement, as well as an offsetting right-of-use asset. ASU 2016-02 is effective for the System on October 1, 2021, with early adoption permitted. Lessees (for capital and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees may not apply a full retrospective transition approach. The System is currently evaluating the impact of the pending adoption of ASU 2016-02 on the System's consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)* (ASU 2016-18), which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for the System's fiscal year ended September 30, 2020, and early adoption is permitted. ASU 2016-18 must be applied using a retrospective transition method. The System is currently evaluating the impact of the adoption of this guidance on its consolidated 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 on October 1, 2019, with early adoption permitted. The System is currently evaluating the impact that ASU 2018-08 will have on its consolidated 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* (ASU 2018-13). 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 October 1, 2020, with early adoption permitted. The System is currently evaluating the impact that ASU 2018-13 will have on its consolidated financial statements.

Reclassifications

Certain 2018 amounts have been reclassified to permit comparison with the 2019 consolidated financial statements presentation format.

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

Subsequent Events

Management of the System evaluated events occurring between the end of the System's fiscal year and December 10, 2019, the date the consolidated financial statements were available to be issued.

2. Transactions With Affiliates

The System provides funds to CRHC and its affiliates which are used for a variety of purposes. The System records the transfer of funds to CRHC and the other affiliates as either receivables or directly against net assets, depending on the intended use and repayment requirements of the funds. Generally, funds transferred for start-up costs of new ventures or capital related expenditures are recorded as charges against net assets. For the years ended September 30, 2019 and 2018, transfers made to CRHC were $(214) and $(157), respectively, and transfers received from Capital Region Health Services Corporation (CRHSC) were $602 and $122, respectively.

A brief description of affiliated entities is as follows:

- CRHSC is a for-profit provider of health care services, including an eye surgery center and assisted living facility.
- Concord Regional Visiting Nurse Association, Inc. and Subsidiary (CRVNA) provides home health care services.
- Riverbend, Inc. provides behavioral health services.

Amounts due the System, primarily from joint ventures, totaled $1,200 and $1,427 at September 30, 2019 and 2018, respectively. Amounts have been classified as current or long-term depending on the intentions of the parties involved. Beginning in 1999, the Hospital began charging interest on a portion of the receivables ($708 and $759 at September 30, 2019 and 2018, respectively) with principal and interest (6.75% at September 30, 2019) payments due monthly. Interest income amounted to $50 and $58 for the years ended September 30, 2019 and 2018, respectively.

Contributions to affiliates and other community organizations from net assets with donor restrictions were $186 and $222 in 2019 and 2018, respectively.

(In thousands)

3. Investments and Assets Whose Use is Limited or Restricted

Short-term investments totaling $23,228 and $30,553 at September 30, 2019 and 2018, respectively, are comprised primarily of cash and cash equivalents. Assets whose use is limited or restricted are carried at fair value and consist of the following at September 30:

	2019	2018
Board designated funds:		
Cash and cash equivalents	$ 7,762	$ 6,651
Fixed income securities	23,592	22,555
Marketable equity and other securities	242,088	248,760
Inflation-protected securities	11,226	19,277
	284,668	297,243
Held by trustee for workers' compensation reserves:		
Fixed income securities	3,140	2,937
Self-insurance escrows and construction funds:		
Cash and cash equivalents	10,568	10,912
Fixed income securities	14,816	33,593
Marketable equity securities	9,617	8,536
	35,001	53,041
Donor-restricted funds and restricted grants:		
Cash and cash equivalents	5,930	5,459
Fixed income securities	1,771	1,832
Marketable equity securities	19,865	20,200
Inflation-protected securities	921	1,565
Trust funds administered by others	10,903	11,051
Other	266	324
	39,656	40,431
	$362,465	$393,652

Included in marketable equity and other securities above are $175,251 and $172,826 at September 30, 2019 and 2018, respectively, in so called alternative investments and collective trust funds. See also Note 14.

(In thousands)

3. Investments and Assets Whose Use is Limited or Restricted (Continued)

Investment income, net realized gains and losses and net unrealized gains and losses on assets whose use is limited or restricted, cash and cash equivalents, and other investments are as follows at September 30:

	2019	2018
Net assets without donor restrictions:		
Interest and dividends	$ 5,606	$ 4,344
Investment income from trust funds administered by others	530	541
Net realized (losses) gains on sales of investments	(9,863)	9,996
	(3,727)	14,881
Net assets with donor restrictions:		
Interest and dividends	349	323
Net realized (losses) gains on sales of investments	(779)	755
	(430)	1,078
	$ (4,157)	$ 15,959
Net unrealized gains on investments:		
Net assets without donor restrictions	$ 4,979	$ 1,805
Net assets with donor restrictions	180	206
	$ 5,159	$ 2,011

In compliance with the System's spending policy, portions of investment income and related fees are recognized in other operating revenue on the accompanying consolidated statements of operations. Investment income reflected in other operating revenue was $1,710 and $1,779 in 2019 and 2018, respectively.

Investment management fees expensed and reflected in nonoperating income were $863 and $917 for the years ended September 30, 2019 and 2018, respectively.

(In thousands)

3. Investments and Assets Whose Use is Limited or Restricted (Continued)

The following summarizes the Hospital's gross unrealized losses and fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2019 and 2018:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2019						
Marketable equity securities	$ 1,173	$ (432)	$ 13,650	$ (1,029)	$ 14,823	$ (1,461)
Fund-of-funds	10,322	(747)	–	–	10,322	(747)
Collective trust funds	13,226	(490)	30,814	(2,497)	44,040	(2,987)
	$ 24,721	$ (1,669)	$ 44,464	$ (3,526)	$ 69,185	$ (5,195)
2018						
Marketable equity securities	$ 1,743	$ (234)	$ 46,828	$ (9,261)	$ 48,571	$ (9,495)
Fund-of-funds	10,300	(446)	–	–	10,300	(446)
Collective trust funds	16,894	(471)	14,062	(897)	30,956	(1,368)
	$ 28,937	$ (1,151)	$ 60,890	$ (10,158)	$ 89,827	$ (11,309)

In evaluating whether investments have suffered an other-than-temporary decline, based on input from outside investment advisors, management evaluated the amount of the decline compared to cost, the length of time and extent to which fair value has been less than cost, the underlying creditworthiness of the issuer, the fair values exhibited during the year, estimated future fair values and the System's intent and ability to hold the security until a recovery in fair value or maturity. Based on evaluations of the underlying issuers' financial condition, current trends and economic conditions, management believes there are no securities that have suffered an other-than-temporary decline in value at September 30, 2019 and 2018.

4. Defined Benefit Pension Plan

The System has a noncontributory defined benefit pension plan (the Plan), covering all eligible employees of the System and subsidiaries. The Plan provides benefits based on an employee's years of service, age and the employee's compensation over those years. The System's funding policy is to contribute annually the amount needed to meet or exceed actuarially determined minimum funding requirements of the *Employee Retirement Income Security Act of 1974* (ERISA).

The System accounts for its defined benefit pension plan under ASC 715, *Compensation Retirement Benefits*. This Statement requires entities to recognize an asset or liability for the overfunded or underfunded status of their benefit plans in their financial statements.

(In thousands)

4. Defined Benefit Pension Plan (Continued)

The following table summarizes the Plan's funded status at September 30, 2019 and 2018:

	2019	2018
Funded status:		
Fair value of plan assets	$ 251,574	$ 235,752
Projected benefit obligation	(304,836)	(267,072)
	$ (53,262)	$ (31,320)
Activities for the year consist of:		
Benefit payments and administrative expenses paid	$ 26,475	$ 26,584
Net periodic benefit cost	12,958	11,582

The table below presents details about the System's defined benefit pension plan, including its funded status, components of net periodic benefit cost, and certain assumptions used in determining the funded status and cost:

	2019	2018
Change in benefit obligation:		
Projected benefit obligation at beginning of year	$267,072	$277,075
Service cost	10,332	8,702
Interest cost	12,096	11,991
Actuarial loss (gain)	40,111	(5,612)
Benefit payments and administrative expenses paid	(26,475)	(26,584)
Other adjustments to benefit cost	1,700	1,500
Projected benefit obligation at end of year	$304,836	$267,072
Change in plan assets:		
Fair value of plan assets at beginning of year	$235,752	$233,739
Actual return on plan assets	1,297	12,597
Employer contributions	41,000	16,000
Benefit payments and administrative expenses	(26,475)	(26,584)
Fair value of plan assets at end of year	$251,574	$235,752
Funded status and amount recognized in noncurrent liabilities at September 30	$(53,262)	$(31,320)

(In thousands)

4. Defined Benefit Pension Plan (Continued)

Amounts recognized as a change in net assets without donor restrictions during the years ended September 30, 2019 and 2018 consist of:

	2019	2018
Net actuarial loss	$56,890	$ 121
Net amortized loss	(7,153)	(7,996)
Prior service credit amortization	247	276
Total amount recognized	$49,984	$ (7,599)

Pension Plan Assets

The fair values of the System's pension plan assets as of September 30, 2019 and 2018, by asset category are as follows (see Note 14 for level definitions). In accordance with ASU 2015-07, certain investments that are measured using the net value per share practical expedient have not been classified in the fair value hierarchy.

	2019 Level 1	2018 Level 1
Short-term investments:		
Money market funds	$ 5,111	$ 31,447
Equity securities:		
Common stocks	9,356	10,188
Mutual funds – international	9,835	7,923
Mutual funds – domestic	64,805	49,090
Mutual funds – natural resources	–	4,478
Mutual funds – inflation hedge	8,919	8,325
Fixed income securities:		
Mutual funds – REIT	986	890
Mutual funds – fixed income	22,944	15,522
	121,956	127,863
Funds measured at net asset value:		
Equity securities:		
Funds-of-funds	77,700	71,202
Collective trust funds:		
Equities	42,325	27,427
Fixed income	9,593	9,260
	129,618	107,889
Total investments at fair value	$251,574	$235,752

(In thousands)

4. Defined Benefit Pension Plan (Continued)

The target allocation for the System's pension plan assets as of September 30, 2019 and 2018, by asset category are as follows:

	2019		2018	
	Target Allocation	Percentage of Plan Assets	Target Allocation	Percentage of Plan Assets
Short-term investments	0-20%	2%	0-20%	13%
Equity securities	40-80%	68	40-80%	64
Fixed income securities	5-80%	13	5-80%	7
Other	0-30%	17	0-30%	16

The funds-of-funds are invested with ten investment managers and have various restrictions on redemptions. One manager holding amounts totaling approximately $13 million at September 30, 2019 allows for semi-monthly redemptions, with 5 days' notice. One manager holding approximately $7 million at September 30, 2019 allows for monthly redemptions, with 15 days' notice. Five managers holding amounts totaling approximately $43 million at September 30, 2019 allow for quarterly redemptions, with notices ranging from 45 to 65 days. Two of the managers holding amounts of approximately $8 million at September 30, 2019 allow for annual redemptions, with notice ranging from 60 to 90 days. One of the managers holding amounts of approximately $6 million at September 30, 2019 allows for redemptions on a semi-annual basis, with a notice of 60 days. The redemption is further limited to 25% of the investment balance at each redemption period. The collective trust funds allow for daily or monthly redemptions, with notices ranging from 6 to 10 days. Certain funds also may include a fee estimated to be equal to the cost the fund incurs in converting investments to cash (ranging from 0.5% to 1.5%) or are subject to certain lock periods.

The System considers various factors in estimating the expected long-term rate of return on plan assets. Among the factors considered include the historical long-term returns on plan assets, the current and expected allocation of plan assets, input from the System's actuaries and investment consultants, and long-term inflation assumptions. The System's expected allocation of plan assets is based on a diversified portfolio consisting of domestic and international equity securities, fixed income securities, and real estate.

The System's investment policy for its pension plan is to balance risk and returns using a diversified portfolio consisting primarily of high quality equity and fixed income securities. To accomplish this goal, plan assets are actively managed by outside investment managers with the objective of optimizing long-term return while maintaining a high standard of portfolio quality and proper diversification. The System monitors the maturities of fixed income securities so that there is sufficient liquidity to meet current benefit payment obligations. The System's Investment Committee provides oversight of the plan investments and the performance of the investment managers.

(In thousands)

4. Defined Benefit Pension Plan (Continued)

Amounts included in expense during fiscal 2019 and 2018 consist of:

	2019	2018
Components of net periodic benefit cost:		
Service cost	$ 10,332	$ 8,702
Interest cost	12,096	11,991
Expected return on plan assets	(18,076)	(18,331)
Amortization of prior service credit and loss	6,906	7,720
Other adjustments to benefits cost	1,700	1,500
Net periodic benefit cost	$ 12,958	$ 11,582

The accumulated benefit obligations for the plan at September 30, 2019 and 2018 were $288,126 and $251,736, respectively.

	2019	2018
Weighted average assumptions to determine benefit obligation:		
Discount rate	3.59%	4.63%
Rate of compensation increase	2.50% for the next three years; 3.00% thereafter	3.00
Weighted average assumptions to determine net periodic benefit cost:		
Discount rate	4.63%	4.29%
Expected return on plan assets	7.75	7.75
Cash balance credit rate	5.00	5.00
Rate of compensation increase	3.00	3.00

In selecting the long-term rate of return on plan 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 plan's asset allocation and the expected returns likely to be earned over the life of the plan, as well as the historical returns on the types of assets held and the current economic environment.

The loss and prior service credit amount expected to be recognized in net periodic benefit cost in 2020 are as follows:

Actuarial loss	$11,420
Prior service credit	(243)
	$11,177

The System funds the pension plan and no contributions are made by employees. The System funds the plan annually by making a contribution of at least the minimum amount required by applicable regulations and as recommended by the System's actuary. However, the System may also fund the plan in excess of the minimum required amount.

(In thousands)

4. Defined Benefit Pension Plan (Continued)

Cash contributions in subsequent years will depend on a number of factors including performance of plan assets. However, the System expects to fund $16,000 in cash contributions to the plan for the 2020 plan year.

Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Year Ended September 30	Pension Benefits
2020	$ 15,820
2021	16,452
2022	17,476
2023	18,590
2024	19,221
2025 – 2029	105,566

Effective September 26, 2018, the Plan entered into a group annuity contract with Pacific Life Insurance Company. The contract was purchased for certain retirees of the Plan. A total of 354 participants were entitled to receive benefits purchased under the contract. Annuity payments for participants commenced on January 1, 2019 and Pacific Life Insurance Company will assume the risk for participants entitled to receive benefits purchased under this contract. The Plan paid premiums totaling $9,135 and $9,241 in September 2018 and October 2018, respectively, relating to the purchase of the contract.

5. Estimated Third-Party Payor Settlements

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

Medicare

Inpatient and outpatient services rendered to Medicare program beneficiaries are primarily paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical diagnosis and other factors. In addition to this, the System is also reimbursed for medical education and other items which require cost settlement and retrospective review by the fiscal intermediary. Accordingly, the System files an annual cost report with the Medicare program after the completion of each fiscal year to report activity applicable to the Medicare program and to determine any final settlements.

The physician practices are reimbursed on a fee schedule basis.

5. Estimated Third-Party Payor Settlements (Continued)

Medicaid Enhancement Tax and Disproportionate Share Payment

Under the State of New Hampshire's (the State) tax code, the State imposes a Medicaid Enhancement Tax (MET) equal to 5.40% of net patient service revenues in State fiscal years 2019 and 2018. The amount of tax incurred by the System for 2019 and 2018 was $22,442 and $20,975, 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 (DSH) retroactive to July 1, 2010. Unlike the former funding method, the State's approach led to a payment that was not directly based on, and did not equate to, the level of tax imposed. As a result, the legislation created some level of losses at certain New Hampshire hospitals, while other hospitals realized gains. DSH payments from the State are recorded within revenue without donor restrictions and other support and amounted to $19,215 in 2019 and $14,327 in 2018, net of reserves referenced below.

The Centers for Medicare and Medicaid Services (CMS) has completed 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 potential exposure based on the audit results to date or any future redistributions.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under fee schedules and cost reimbursement methodologies subject to various limitations or discounts. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid program.

The physician practices are reimbursed on a fee schedule basis.

Other

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

The accrual for estimated third-party payor settlements reflected on the accompanying consolidated balance sheets represents the estimated net amounts to be paid under reimbursement contracts with the Centers for Medicare and Medicaid Services (Medicare), the New Hampshire Department of Welfare (Medicaid) and any commercial payors with settlement provision. Settlements for the Hospital have been finalized through 2015 for Medicare and Medicaid.

(In thousands)

6. Long-Term Debt and Notes Payable

Long-term debt consists of the following at September 30, 2019 and 2018:

	2019	2018
New Hampshire Health and Education Facilities Authority (NHHEFA) Revenue Bonds, Concord Hospital Issue, Series 2017; interest of 5.0% per year and principal payable in annual installments. Installments ranging from $2,010 to $5,965 beginning October 2032, including unamortized original issue premium of $7,215 in 2019 and $7,530 in 2018	$ 61,425	$ 61,740
3.38% to 5.0% NHHEFA Revenue Bonds, Concord Hospital Issue, Series 2013A; due in annual installments, including principal and interest ranging from $1,543 to $3,555 through 2043, including unamortized original issue premium of $2,824 in 2019 and $2,945 in 2018	40,469	41,805
1.71% fixed rate NHHEFA Revenue Bonds, Concord Hospital Issue, Series 2013B; due in annual installments, including principal and interest ranging from $1,860 to $2,038 through 2024	9,341	13,079
4.25% to 5.5% NHHEFA Revenue Bonds, Concord Hospital Issue, Series 2011; due in annual installments, including principal and interest ranging from $2,737 to $5,192 through 2026, including unamortized original issue premium of $136 in 2019 and $155 in 2018	18,201	22,325
	129,436	138,949
Less unamortized bond issuance costs	(1,338)	(1,425)
Less current portion	(7,385)	(9,061)
	$120,713	$128,463

In December 2017, $62,004 (including an original issue premium of $7,794) of NHHEFA Revenue Bonds, Concord Hospital Issue, Series 2017, were issued to pay for the construction of a new medical office building. In addition, the Series 2017 Bonds reimbursed the Hospital for capital expenditures incurred in association with the construction of a parking garage and the construction of a medical office building, as well as routine capital expenditures.

In February 2013, $48,631 (including an original issue premium of $3,631) of NHHEFA Revenue Bonds, Concord Hospital Issue, Series 2013A, were issued to assist in the funding of a significant facility improvement project and to advance refund the Series 2001 NHHEFA Hospital Revenue Bonds. The facility improvement project included enhancements to the System's power plant, renovation of certain nursing units, expansion of the parking capacity at the main campus and various other routine capital expenditures and miscellaneous construction, renovation and improvements of the System's facilities.

In March 2011, $49,795 of NHHEFA Revenue Bonds, Concord Hospital Issue, Series 2011, were issued to assist in the funding of a significant facility improvement project and pay off the Series 1996 Revenue Bonds. The project included expansion and renovation of various Hospital departments, infrastructure upgrades, and acquisition of capital equipment.

(In thousands)

6. Long-Term Debt and Notes Payable (Continued)

Substantially all the property and equipment relating to the aforementioned construction and renovation projects, as well as subsequent property and equipment additions thereto, and a mortgage lien on the facility, are pledged as collateral for the Series 2011, 2013A and B and 2017 Revenue Bonds. In addition, the gross receipts of the Hospital are pledged as collateral for the Series 2011, 2013A and B and 2017 Revenue Bonds. The most restrictive financial covenants require a 1.10 to 1.0 ratio of aggregate income available for debt service to total annual debt service and a day's cash on hand ratio of 75 days. The Hospital was in compliance with its debt covenants at September 30, 2019 and 2018.

The obligations of the Hospital under the Series 2017, Series 2013A and B and Series 2011 Revenue Bond Indentures are not guaranteed by any of the subsidiaries or affiliated entities.

Interest paid on long-term debt amounted to $6,350 (including capitalized interest of $652) and $5,530 (including capitalized interest of $167) for the years ended September 30, 2019 and 2018, respectively.

The aggregate principal payments on long-term debt for the next five fiscal years ending September 30 and thereafter are as follows:

2020	$ 7,385
2021	5,186
2022	5,340
2023	5,485
2024	5,645
Thereafter	90,220
	$119,261

7. Commitments and Contingencies

Malpractice Loss Contingencies

Effective February 1, 2011, the System insures its medical malpractice risks through a multiprovider captive insurance company under a claims-made insurance policy. Premiums paid are based upon actuarially determined amounts to adequately fund for expected losses. At September 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 require loss accruals. The System has established reserves for unpaid claim amounts for Hospital and Physician Professional Liability and General Liability reported claims and for unreported claims for incidents that have been incurred but not reported. The amounts of the reserves total $3,834 and $3,341 at September 30, 2019 and 2018, respectively and are reflected in the accompanying consolidated balance sheets within accrued pension and other long-term liabilities. The possibility exists, as a normal risk of doing business, that malpractice claims in excess of insurance coverage may be asserted against the System.

7. Commitments and Contingencies (Continued)

The captive retains and funds up to actuarial expected loss amounts, and obtains reinsurance at various attachment points for individual and aggregate claims in excess of funding in accordance with industry practices. At September 30, 2019, the System's interest in the captive represents approximately 80% of the captive. The System accounts for its investments in the captive under the equity method since control of the captive is shared equally between the participating hospitals. The System has recorded its interest in the captive's equity, totaling approximately $7,270 and $6,363 at September 30, 2019 and 2018, respectively, in other noncurrent assets on the accompanying consolidated balance sheets. Changes in the System's interest are included in nonoperating income on the accompanying consolidated statements of operations

In accordance with ASU No. 2010-24, "*Health Care Entities*" (Topic 954): *Presentation of Insurance Claims and Related Insurance Recoveries*, at September 30, 2019 and 2018, the Hospital recorded a liability of approximately $4,100 and $1,000, respectively, related to estimated professional liability losses. At September 30, 2019 and 2018, the Hospital also recorded a receivable of $4,100 and $1,000, respectively, related to estimated recoveries under insurance coverage for recoveries of the potential losses. These amounts are included in accrued pension and other long-term liabilities and other assets, respectively, on the consolidated balance sheets.

Workers' Compensation

The Hospital maintains workers' compensation insurance under a self-insurance plan. The plan offers, among other provisions, certain specific and aggregate stop-loss coverage to protect the Hospital against excessive losses. The Hospital has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Accrued workers' compensation losses of $2,797 and $2,523 at September 30, 2019 and 2018, respectively, are recorded within accounts payable and accrued expenses on the accompanying consolidated balance sheets and have been discounted at 3% (both years) and, in management's opinion, provide an adequate reserve for loss contingencies. A trustee held fund has been established as a reserve under the plan. Assets held in trust totaled $3,140 and $2,937 at September 30, 2019 and 2018, respectively, and is included in assets whose use is limited or restricted in the accompanying consolidated balance sheets.

Litigation

The System is involved in litigation and regulatory investigations 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.

Health Insurance

The System has a self-funded health insurance plan. The plan is administered by an insurance company which assists in determining the current funding requirements of participants under the terms of the plan and the liability for claims and assessments that would be payable at any given point in time. The System recognizes revenue for services provided to employees of the System during the year. The System is insured above a stop-loss amount of $440 on individual claims. Estimated unpaid claims, and those claims incurred but not reported at September 30, 2019 and 2018, have been recorded as a liability of $4,391 and $6,724, respectively, and are reflected in the accompanying consolidated balance sheets within accounts payable and accrued expenses.

(In thousands)

7. Commitments and Contingencies (Continued)

Operating Leases

The System has various operating leases relative to its office and offsite locations. Future annual minimum lease payments under noncancellable lease agreements as of September 30, 2019 are as follows:

Year Ending September 30:	
2020	$ 6,833
2021	6,278
2022	5,842
2023	5,673
2024	4,796
Thereafter	13,142
	$42,564

Rent expense was $7,392 and $6,616 for the years ended September 30, 2019 and 2018, respectively.

8. Net Assets With Donor Restrictions

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

	2019	2018
Purpose restriction:		
Health education and program services	$14,734	$15,481
Capital acquisitions	1,764	1,646
Indigent care	133	239
Pledges receivable with stipulated purpose and/or time restrictions	223	214
	16,854	17,580
Perpetual in nature:		
Health education and program services	18,319	17,759
Capital acquisitions	803	803
Indigent care	1,811	1,810
Annuities to be held in perpetuity	275	275
	21,208	20,647
Total net assets with donor restrictions	$38,062	$38,227

(In thousands)

9. Patient Service and Other Revenue

Net patient service revenue for the years ended September 30 is as follows:

	2019	2018
Gross patient service charges:		
Inpatient services	$ 570,029	$ 538,592
Outpatient services	687,370	641,817
Physician services	215,885	177,347
Less charitable services	(12,773)	(12,021)
	1,460,511	1,345,735
Less contractual allowances and discounts:		
Medicare	(543,569)	(487,941)
Medicaid	(130,615)	(98,632)
Other	(279,051)	(267,214)
	(953,235)	(853,787)
Total Hospital net patient service revenue (net of contractual allowances and discounts)	507,276	491,948
Other entities	2,822	699
	$ 510,098	$ 492,647

An estimated breakdown of patient service revenue, net of contractual allowances, discounts and provision for doubtful accounts recognized in 2019 and 2018 from these major payor sources, is as follows for the Hospital. The provision for doubtful accounts for subsidiaries of the Hospital was not significant in 2019 and 2018.

	Hospital			
	Gross Patient Service Revenues	Contractual Allowances and Discounts	Provision for Doubtful Accounts	Net Patient Service Revenues Less Provision for Doubtful Accounts
2019				
Private payors (includes coinsurance and deductibles)	$ 563,410	$ (261,239)	$ (13,850)	$288,321
Medicaid	152,217	(130,615)	–	21,602
Medicare	714,262	(543,569)	(3,956)	166,737
Self-pay	30,622	(17,812)	(5,934)	6,876
	$1,460,511	$(953,235)	$ (23,740)	$483,536

(In thousands)

9. Patient Service and Other Revenue (Continued)

	Hospital			
	Gross Patient Service Revenues	Contractual Allowances and Discounts	Provision for Doubtful Accounts	Net Patient Service Revenues Less Provision for Doubtful Accounts
2018				
Private payors (includes coinsurance and deductibles)	$ 527,965	$ (236,785)	$ (17,106)	$274,074
Medicaid	134,761	(112,341)	–	22,420
Medicare	654,270	(487,941)	(4,887)	161,442
Self-pay	28,739	(16,720)	(7,329)	4,690
	$1,345,735	$(853,787)	$(29,322)	$462,626

10. Functional Expenses

The System provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows for the year ended September 30, 2019:

	Health Services	General and Administrative	Fund-raising	Total
Salaries and wages	$208,279	$ 41,607	$ 473	$250,359
Employee benefits	51,485	10,285	117	61,887
Supplies and other	91,029	14,912	154	106,095
Purchased services	24,362	8,369	134	32,865
Professional fees	7,675	6	–	7,681
Depreciation and amortization	17,459	8,415	276	26,150
Medicaid enhancement tax	22,442	–	–	22,442
Interest	3,173	1,506	50	4,729
	$425,904	$85,100	$1,204	$512,208

For the year ended September 30, 2018, excluding Medicaid enhancement tax, depreciation and amortization expense and interest expense, the System provided $356,348, $76,788 and $946 in health services expense, general and administrative expenses and fundraising expenses, respectively.

(In thousands)

10. Functional Expenses (Continued)

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

11. Charity Care and Community Benefits (Unaudited)

The Hospital maintains records to identify and monitor the level of charity care it provides. The Hospital provides traditional charity care, as well as other forms of community benefits. The estimated cost of all such benefits provided is as follows for the years ended September 30:

	2019	2018
Government sponsored healthcare	$29,683	$24,645
Community health services	2,190	2,131
Health professions education	2,874	3,596
Subsidized health services	42,431	40,595
Research	84	91
Financial contributions	552	605
Community building activities	40	8
Community benefit operations	70	58
Charity care costs (see Note 1)	4,696	4,528
	$82,620	$76,257

In addition, the Hospital incurred estimated costs for services to Medicare patients in excess of the payment from this program of $68,494 and $60,867 in 2019 and 2018, respectively.

(In thousands)

12. Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents of southern New Hampshire and are insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors as of September 30 is as follows:

	2019	2018
Patients	12%	9%
Medicare	32	36
Anthem Blue Cross	14	16
Cigna	3	3
Medicaid	11	10
Commercial	25	23
Workers' compensation	3	3
	100%	100%

13. Volunteer Services (Unaudited)

Total volunteer service hours received by the Hospital were approximately 24,200 in 2019 and 13,300 in 2018. The volunteers provide various nonspecialized services to the Hospital, none of which has been recognized as revenue or expense in the accompanying consolidated statements of operations.

14. 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. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

(In thousands)

14. Fair Value Measurements (Continued)

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

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

In determining the appropriate levels, the System performs a detailed analysis of the assets and liabilities. There have been no changes in the methodologies used at September 30, 2019 and 2018. In accordance with ASU 2015-07, certain investments that are measured using the net value per share practical expedient have not been classified in the fair value hierarchy.

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

	Level 1	Level 2	Level 3	Total
2019				
Cash and cash equivalents	$ 47,488	$ –	$ –	$ 47,488
Fixed income securities	41,310	–	–	41,310
Marketable equity and other securities	96,319	–	–	96,319
Inflation-protected securities and other	12,413	–	–	12,413
Trust funds administered by others	–	–	10,903	10,903
	$197,530	$ –	$10,903	208,433
Funds measured at net asset value:				
Marketable equity and other securities				175,251
				$383,684
2018				
Cash and cash equivalents	$ 53,575	$ –	$ –	$ 53,575
Fixed income securities	60,917	–	–	60,917
Marketable equity and other securities	104,670	–	–	104,670
Inflation-protected securities and other	21,166	–	–	21,166
Trust funds administered by others	–	–	11,051	11,051
	$240,328	$ –	$11,051	251,379
Funds measured at net asset value:				
Marketable equity and other securities				172,826
				$424,205

(In thousands)

14. Fair Value Measurements (Continued)

In addition, in 2019, there are certain investments totaling $2,009 which are appropriately being carried at cost.

The System's Level 3 investments consist of funds administered by others. The fair value measurement is based on significant unobservable inputs.

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

A reconciliation of the fair value measurements using significant unobservable inputs (Level 3) is as follows for 2019 and 2018:

	Trust Funds Administered by Others
Balance at September 30, 2017	$ 11,002
Net realized and unrealized gains	49
Balance at September 30, 2018	11,051
Net realized and unrealized losses	(148)
Balance at September 30, 2019	$ 10,903

The table below sets forth additional disclosures for investment funds (other than mutual funds) valued based on net asset value to further understand the nature and risk of the investments by category:

	Fair Value	Unfunded Commit-ments	Redemption Frequency	Redemption Notice Period
September 30, 2019:				
Funds-of-funds	$ 15,855	$ –	Semi-monthly	5 days
Funds-of-funds	10,123	–	Monthly	15 days
Funds-of-funds	57,755	–	Quarterly	45 – 65 days
Funds-of-funds	14,807	–	Annual	60 - 90 days
Funds-of-funds	8,912	–	Semi-annual	60 days*
Funds-of-funds	4,979	15,283	Illiquid	N/A
Collective trust funds	14,569	–	Daily	10 days
Collective trust funds	48,251	–	Monthly	6 – 10 days

(In thousands)

14. Fair Value Measurements (Continued)

	Fair Value	Unfunded Commit-ments	Redemption Frequency	Redemption Notice Period
September 30, 2018:				
Funds-of-funds	$ 15,060	$ –	Semi-monthly	5 days
Funds-of-funds	10,300	–	Monthly	15 days
Funds-of-funds	52,984	–	Quarterly	45 – 65 days
Funds-of-funds	19,348	–	Annual	60 - 90 days
Funds-of-funds	8,342	–	Semi-annual	60 days*
Funds-of-funds	2,033	4,412	Illiquid	N/A
Collective trust funds	14,062	–	Daily	10 days
Collective trust funds	50,697	–	Monthly	6 – 10 days

* Limited to 25% of the investment balance at each redemption.

Investment Strategies

Fixed Income Securities

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

Marketable Equity and Other Securities

The primary purpose of marketable 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 marketable 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.

The System invests in other securities that are considered alternative investments that consist of 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. Collective trust funds are generally valued based on the proportionate share of total fund net assets.

(In thousands)

14. Fair Value Measurements (Continued)

System management is responsible for the fair value measurements of investments reported in the consolidated financial statements. Such amounts are generally determined using audited financial statements of the funds and/or recently settled transactions and is estimated using the net asset value per share of the fund. 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.

The Hospital has committed to invest up to $19,683 with various investment managers, and had funded $4,400 of that commitment as of September 30, 2019. As these investments are made, the Hospital reallocates resources from its current investments resulting in an asset allocation shift within the investment pool.

Inflation-Protected Securities

The primary purpose of inflation-protected securities is to provide protection against the negative effects of inflation.

Fair Value of Other Financial Instruments

Other financial instruments consist of accounts and pledges receivable, accounts payable and accrued expenses, estimated third-party payor settlements, and long-term debt and notes payable. The fair value of all financial instruments other than long-term debt and notes payable approximates their relative book values as these financial instruments have short-term maturities or are recorded at amounts that approximate fair value. The fair value of the System's long-term debt and notes payable is estimated using discounted cash flow analyses, based on the System's current incremental borrowing rates for similar types of borrowing arrangements. The carrying value and fair value of the System's long-term debt and notes payable amounted to $129,436 and $148,672, respectively, at September 30, 2019, and $138,949 and $155,435, respectively, at September 30, 2018.

15. Financial Assets and Liquidity Resources

Financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital construction costs, consisted of the following at September 30, 2019:

Cash and cash equivalents	$ 6,404
Short-term investments	23,228
Accounts receivable	68,614
Funds held by trustee for workers' compensation reserves, self-insurance escrows and construction costs	38,141
	$136,387

15. Financial Assets and Liquidity Resources (Continued)

To manage liquidity, the System maintains sufficient cash and cash equivalent balances to support daily operations throughout the year. Cash and cash equivalents and short-term investments 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 without donor restrictions that can be utilized at the discretion of management to help fund both operational needs and/or capital projects. As of September 30, 2019, the balance of liquid investments in board-designated assets was $276,690.

BAKER
NEWMAN
NOYES

Concord Hospital, Inc. and Subsidiaries

Audited Consolidated Financial Statements

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

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CONCORD HOSPITAL, INC. AND SUBSIDIARIES

Audited Consolidated Financial Statements

Years Ended September 30, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Concord Hospital, Inc.

We have audited the accompanying consolidated financial statements of Concord Hospital, Inc. and Subsidiaries (the System), which comprise the consolidated balance sheets as of September 30, 2018 and 2017, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the System as of September 30, 2018 and 2017, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Newman & Noyes LLC

Manchester, New Hampshire
December 5, 2018

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

September 30, 2018 and 2017

ASSETS
(In thousands)

	2018	2017
Current assets:		
Cash and cash equivalents	$ 4,691	$ 3,799
Short-term investments	30,553	7,552
Accounts receivable, less allowance for doubtful accounts of $15,037 in 2018 and $11,234 in 2017	70,261	51,344
Due from affiliates	659	634
Supplies	2,079	1,777
Prepaid expenses and other current assets	5,262	5,855
Total current assets	113,505	70,961
Assets whose use is limited or restricted:		
Board designated	297,243	290,686
Funds held by trustee for workers' compensation reserves, self-insurance escrows and construction funds	55,978	16,515
Donor-restricted funds and restricted grants	40,431	40,350
Total assets whose use is limited or restricted	393,652	347,551
Other noncurrent assets:		
Due from affiliates, net of current portion	768	1,223
Other assets	13,344	15,052
Total other noncurrent assets	14,112	16,275
Property and equipment:		
Land and land improvements	6,942	6,426
Buildings	195,301	190,585
Equipment	292,694	246,586
Construction in progress	7,044	38,725
	501,981	482,322
Less accumulated depreciation	(332,923)	(305,312)
Net property and equipment	169,058	177,010
	$ 690,327	$ 611,797

LIABILITIES AND NET ASSETS
(In thousands)

	2018	2017
Current liabilities:		
Short-term notes payable	$ –	$ 15
Accounts payable and accrued expenses	36,190	39,611
Accrued compensation and related expenses	26,646	25,580
Accrual for estimated third-party payor settlements	35,378	27,382
Current portion of long-term debt	9,061	8,822
Total current liabilities	107,275	101,410
Long-term debt, net of current portion	128,463	76,501
Accrued pension and other long-term liabilities	48,302	60,536
Total liabilities	284,040	238,447
Net assets:		
Unrestricted	368,060	335,148
Temporarily restricted	17,580	17,800
Permanently restricted	20,647	20,402
Total net assets	406,287	373,350
	$ 690,327	$ 611,797

See accompanying notes.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended September 30, 2018 and 2017
(In thousands)

	2018	2017
Unrestricted revenue and other support:		
Net patient service revenue, net of contractual allowances and discounts	$492,647	$468,347
Provision for doubtful accounts	(29,329)	(20,018)
Net patient service revenue less provision for doubtful accounts	463,318	448,329
Other revenue	20,496	19,350
Disproportionate share revenue	14,327	12,717
Net assets released from restrictions for operations	2,112	1,191
Total unrestricted revenue and other support	500,253	481,587
Operating expenses:		
Salaries and wages	233,356	220,255
Employee benefits	52,130	51,723
Supplies and other	98,713	95,948
Purchased services	43,352	32,373
Professional fees	6,531	5,222
Depreciation and amortization	27,574	24,378
Medicaid enhancement tax	20,975	20,311
Interest expense	4,873	2,918
Total operating expenses	487,504	453,128
Income from operations	12,749	28,459
Nonoperating income:		
Unrestricted gifts and bequests	317	1,619
Investment income and other	12,878	10,476
Net periodic benefits cost, other than service cost	(2,880)	(5,166)
Total nonoperating income	10,315	6,929
Excess of revenues and nonoperating income over expenses	$ 23,064	$ 35,388

See accompanying notes.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years Ended September 30, 2018 and 2017
(In thousands)

	2018	2017
Unrestricted net assets:		
Excess of revenues and nonoperating income over expenses	$ 23,064	$ 35,388
Net unrealized gains on investments	1,805	23,122
Net transfers (to) from affiliates	(35)	498
Net assets released from restrictions used for purchases of property and equipment	479	108
Pension adjustment	7,599	13,098
Increase in unrestricted net assets	32,912	72,214
Temporarily restricted net assets:		
Restricted contributions and pledges	1,357	1,423
Restricted investment income	1,078	682
Contributions to affiliates and other community organizations	(222)	(163)
Net unrealized gains on investments	158	1,864
Net assets released from restrictions for operations	(2,112)	(1,191)
Net assets released from restrictions used for purchases of property and equipment	(479)	(108)
(Decrease) increase in temporarily restricted net assets	(220)	2,507
Permanently restricted net assets:		
Restricted contributions and pledges	197	126
Unrealized gains on trusts administered by others	48	395
Increase in permanently restricted net assets	245	521
Increase in net assets	32,937	75,242
Net assets, beginning of year	373,350	298,108
Net assets, end of year	$406,287	$373,350

See accompanying notes.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended September 30, 2018 and 2017
(In thousands)

	2018	2017
Cash flows from operating activities:		
Increase in net assets	$ 32,937	$ 75,242
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Restricted contributions and pledges	(1,554)	(1,549)
Depreciation and amortization	27,574	24,378
Net realized and unrealized gains on investments	(12,762)	(29,975)
Bond premium and issuance cost amortization	(317)	(75)
Provision for doubtful accounts	29,329	20,018
Equity in earnings of affiliates, net	(5,539)	(5,812)
(Gain) loss on disposal of property and equipment	(84)	202
Pension adjustment	(7,599)	(13,098)
Changes in operating assets and liabilities:		
Accounts receivable	(48,246)	(18,669)
Supplies, prepaid expenses and other current assets	291	(1,610)
Other assets	2,495	(3,702)
Due from affiliates	430	28
Accounts payable and accrued expenses	7,497	(1,411)
Accrued compensation and related expenses	1,066	2,750
Accrual for estimated third-party payor settlements	7,996	4,923
Accrued pension and other long-term liabilities	(4,635)	(25,624)
Net cash provided by operating activities	28,879	26,016
Cash flows from investing activities:		
Increase in property and equipment, net	(30,456)	(34,132)
Purchases of investments	(87,949)	(66,306)
Proceeds from sales of investments	31,793	72,671
Equity distributions from affiliates	4,752	6,310
Net cash used by investing activities	(81,860)	(21,457)
Cash flows from financing activities:		
Payments on long-term debt	(8,816)	(8,571)
Proceeds from issuance of long-term debt	62,004	–
Bond issuance costs	(670)	–
Change in short-term notes payable	(15)	(444)
Restricted contributions and pledges	1,370	1,700
Net cash provided (used) by financing activities	53,873	(7,315)
Net increase (decrease) in cash and cash equivalents	892	(2,756)
Cash and cash equivalents at beginning of year	3,799	6,555
Cash and cash equivalents at end of year	$ 4,691	$ 3,799

Supplemental disclosure:
At September 30, 2017, amounts totaling $10,918 related to the purchase of property and equipment were included in accounts payable and accrued expenses.

See accompanying notes.

1. Description of Organization and Summary of Significant Accounting Policies

Organization

Concord Hospital, Inc., (the Hospital) located in Concord, New Hampshire, is a not-for-profit acute care hospital. The Hospital provides inpatient, outpatient, emergency care and physician services for residents within its geographic region. Admitting physicians are primarily practitioners in the local area. The Hospital is controlled by Capital Region Health Care Corporation (CRHC).

In 1985, the then Concord Hospital underwent a corporate reorganization in which it was renamed and became CRHC. At the same time, the Hospital was formed as a new entity. All assets and liabilities of the former hospital, now CRHC, with the exception of its endowments and restricted funds, were conveyed to the new entity. The endowments were held by CRHC for the benefit of the Hospital, which is the true party in interest. Effective October 1, 1999, CRHC transferred these funds to the Hospital.

In March 2009, the Hospital created The Concord Hospital Trust (the Trust), a separately incorporated, not-for-profit organization to serve as the Hospital's philanthropic arm. In establishing the Trust, the Hospital transferred philanthropic permanent and temporarily restricted funds, including board designated funds, endowments, indigent care funds and specific purpose funds, to the newly formed organization together with the stewardship responsibility to direct monies available to support the Hospital's charitable mission and reflect the specific intentions of the donors who made these gifts. Concord Hospital and the Trust constitute the Obligated Group at September 30, 2018 and 2017 to certain debt described in Note 6.

Subsidiaries of the Hospital include:

Capital Region Health Care Development Corporation (CRHCDC) is a not-for-profit real estate corporation that owns and operates medical office buildings and other properties.

Capital Region Health Ventures Corporation (CRHVC) is a not-for-profit corporation that engages in health care delivery partnerships and joint ventures. It operates ambulatory surgery and diagnostic facilities independently and in cooperation with other entities.

The Hospital, its subsidiaries and the Trust are collectively referred to as the System. The consolidated financial statements include the accounts of the Hospital, the Trust, CRHCDC and CRHVC. All significant intercompany balances and transactions have been eliminated in consolidation.

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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Concentration of Credit Risk

Financial instruments which subject the Hospital to credit risk consist primarily of cash equivalents, accounts receivable and investments. The risk with respect to cash equivalents is minimized by the Hospital's policy of investing in financial instruments with short-term maturities issued by highly rated financial institutions. The Hospital's accounts receivable are primarily due from third-party payors and amounts are presented net of expected contractual allowances and uncollectible amounts, including estimated uncollectible amounts from uninsured patients. The Hospital's investment portfolio consists of diversified investments, which are subject to market risk. The Hospital's investment in one fund, the Vanguard Institutional Index Fund, exceeded 10% of total Hospital investments as of September 30, 2018 and 2017.

Cash and Cash Equivalents

Cash and cash equivalents include money market funds with original maturities of three months or less, excluding assets whose use is limited or restricted.

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

Supplies

Supplies are carried at the lower of cost, determined on a weighted-average method, or net realizable value.

Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted include assets held by trustees under workers' compensation reserves and self-insurance escrows, designated assets set aside by the Board of Trustees, over which the Board retains control and may, at its discretion, subsequently use for other purposes, and donor-restricted investments.

Investments and Investment Income

Investments are carried at fair value in the accompanying consolidated balance sheets. Investment income (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues and nonoperating income over expenses unless the income is restricted by donor or law. Gains and losses on investments are computed on a specific identification basis. Unrealized gains and losses on investments are excluded from the excess of revenues and nonoperating income over expenses unless the investments are classified as trading securities or losses are considered other-than-temporary. Periodically, management reviews investments for which the market value has fallen significantly below cost and recognizes impairment losses where they believe the declines are other-than-temporary.

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

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 unrestricted. The System's interest in the fair value of the trust assets is included in assets whose use is limited and as permanently restricted net assets. Changes in the fair value of beneficial trust assets are reported as increases or decreases to permanently restricted net assets.

Investment Policies

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

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

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

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

Management of these assets is designed to increase, with minimum risk, the inflation adjusted principal and income of the endowment funds over the long term. 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 has a current spending policy on various funds currently equivalent to 5% of twelve-quarter moving average of the funds' total market value.

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

Accounts Receivable and the Allowance for Doubtful Accounts

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the System analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for doubtful accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the System analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for doubtful accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the System records a provision for doubtful accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The System's allowance for doubtful accounts for self-pay patients represented 82% and 71% of self-pay accounts receivable at September 30, 2018 and 2017, respectively. The total provision for the allowance for doubtful accounts was $29,329 and $20,018 for the years ended September 30, 2018 and 2017, respectively. The System also allocates a portion of the allowance and provision for doubtful accounts to charity care, which is not recorded as revenue. The System's self-pay bad debt writeoffs increased $6,643, from $20,787 in 2017 to $27,430 in 2018. A substantial portion of the increase in self-pay bad debt write-offs is attributed to the System's provision for certain accounts in 2017 that were not formally written off until 2018.

Property and Equipment

Property and equipment is stated at cost at time of purchase, or at fair value at time of donation for assets contributed, less any reductions in carrying value for impairment and less accumulated depreciation. The System's policy is to capitalize expenditures for major improvements and charge maintenance and repairs currently for expenditures which do not extend the lives of the related assets. Depreciation is computed using the straight-line method in a manner intended to amortize the cost of the related assets over their estimated useful lives. For the years ended September 30, 2018 and 2017, depreciation expense was $27,574 and $24,378, respectively.

The System has also capitalized certain costs associated with property and equipment not yet in service. Construction in progress includes amounts incurred related to major construction projects, other renovations, and other capital equipment purchased but not yet placed in service. During 2018 and 2017, the Hospital capitalized $167 and $509, respectively, of interest expense relating to various construction projects. At September 30, 2018, the Hospital has outstanding construction commitments totaling approximately $11.9 million for a new medical office building. Construction commenced in the Summer of 2018.

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

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support, and are excluded from the excess of revenues and nonoperating income over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Federal Grant Revenue and Expenditures

Revenues and expenses under federal grant programs are recognized as the grant expenditures are incurred.

Bond Issuance Costs/Original Issue Discount or Premium

Bond issuance costs incurred to obtain financing for construction and renovation projects and the original issue discount or premium are amortized to interest expense using the straight-line method, which approximates the effective interest method, over the life of the respective bonds. The original issue discount or premium and bond issuance costs are presented as a component of bonds payable.

Charity Care

The System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates (Note 11). Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The System uses an industry standard approach in calculating the costs associated with providing charity care. Funds received from gifts and grants to subsidize charity services provided for the years ended September 30, 2018 and 2017 were approximately $452 and $278, respectively.

Temporarily and Permanently Restricted Net Assets

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

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

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

Net Patient Service Revenue

The System has agreements with third-party payors that provide for payments to the System 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. For the years ended September 30, 2018 and 2017, net patient service revenue in the accompanying consolidated statements of operations increased by approximately $2,900 and $1,300, respectively, due to actual settlements and changes in assumptions underlying estimated future third-party settlements.

Revenues from the Medicare and Medicaid programs accounted for approximately 34% and 5% and 32% and 5% of the Hospital's net patient service revenue for the years ended September 30, 2018 and 2017, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation.

The Hospital 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 Hospital provides a discount approximately equal to that of its largest private insurance payors. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for doubtful accounts related to uninsured patients in the period the services are provided.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. Conditional promises to give and intentions to give are reported at fair value at the date the condition is met. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of donated assets.

Excess of Revenues and Nonoperating Income Over Expenses

The System has deemed all activities as ongoing, major or central to the provision of health care services and, accordingly, they are reported as operating revenue and expenses, except for unrestricted contributions and pledges, the related philanthropy expenses and investment income which are recorded as nonoperating income.

The consolidated statements of operations also include excess of revenues and nonoperating income over expenses. Changes in unrestricted net assets which are excluded from excess of revenues and nonoperating income over expenses, consistent with industry practice, include the change in net unrealized gains and losses on investments other than trading securities or losses considered other than temporary, permanent transfers of assets to and from affiliates for other than goods and services, pension liability adjustments and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

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

Estimated Workers' Compensation and Health Care Claims

The provision for estimated workers' compensation and health care claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Income Taxes

The Hospital, CRHCDC, CRHVC, and the Trust 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 or disclosure in the accompanying consolidated financial statements.

Advertising Costs

The System expenses advertising costs as incurred, and such costs totaled approximately \$201 and \$217 for the years ended September 30, 2018 and 2017, respectively.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued 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 October 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 consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02). Under ASU 2016-02, at the commencement of a long-term lease, lessees will recognize a liability equivalent to the discounted payments due under the lease agreement, as well as an offsetting right-of-use asset. ASU 2016-02 is effective for the System on October 1, 2020, with early adoption permitted. Lessees (for capital and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees may not apply a full retrospective transition approach. The System is currently evaluating the impact of the pending adoption of ASU 2016-02 on the System's consolidated financial statements.

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

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities (Topic 958)* (ASU 2016-14). Under ASU 2016-14, the existing three-category classification of net assets (i.e., unrestricted, temporarily restricted and permanently restricted) will be replaced with a simplified model that combines temporarily restricted and permanently restricted into a single category called "net assets with donor restrictions". ASU 2016-14 also enhances certain disclosures regarding board designations, donor restrictions and qualitative information regarding management of liquid resources. In addition to reporting expenses by functional classifications, ASU 2016-14 will also require the financial statements to provide information about expenses by their nature, along with enhanced disclosures about the methods used to allocate costs among program and support functions. ASU 2016-14 is effective for the System's fiscal year ending September 30, 2019, with early adoption permitted. The System is currently evaluating the impact of the pending adoption of ASU 2016-14 on the System's consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)* (ASU 2016-18), which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for the System's fiscal year ended September 30, 2020, and early adoption is permitted. ASU 2016-18 must be applied using a retrospective transition method. The System is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (ASU 2017-07). ASU 2017-07 will require that an employer report the service cost component of net periodic pension cost in the same line item as other compensation costs arising from services rendered by employees during the period. The other components of net periodic pension cost are required to be presented in the income statement separately and outside a subtotal of income from operations, if one is presented. ASU 2017-07 is effective for the System on October 1, 2019, with early adoption permitted. The System adopted ASU 2017-07 during the year ended September 30, 2018, which resulted in a reclassification of $5,166 of net periodic benefits costs, excluding service costs, from operating expenses to nonoperating expenses for the year ended September 30, 2017.

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 on October 1, 2019, with early adoption permitted. The System is currently evaluating the impact that ASU 2018-08 will have on its consolidated financial statements.

Reclassifications

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

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

Subsequent Events

Management of the System evaluated events occurring between the end of the System's fiscal year and December 5, 2018, the date the consolidated financial statements were available to be issued.

2. Transactions With Affiliates

The System provides funds to CRHC and its affiliates which are used for a variety of purposes. The System records the transfer of funds to CRHC and the other affiliates as either receivables or directly against net assets, depending on the intended use and repayment requirements of the funds. Generally, funds transferred for start-up costs of new ventures or capital related expenditures are recorded as charges against net assets. For the years ended September 30, 2018 and 2017, transfers made to CRHC were $(157) and $(114), respectively, and transfers received from Capital Region Health Services Corporation (CRHSC) were $122 and $612, respectively.

A brief description of affiliated entities is as follows:

- CRHSC is a for-profit provider of health care services, including an eye surgery center and assisted living facility.
- Concord Regional Visiting Nurse Association, Inc. and Subsidiary (CRVNA) provides home health care services.
- Riverbend, Inc. provides behavioral health services.

Amounts due the System, primarily from joint ventures, totaled $1,427 and $1,857 at September 30, 2018 and 2017, respectively. Amounts have been classified as current or long-term depending on the intentions of the parties involved. Beginning in 1999, the Hospital began charging interest on a portion of the receivables ($759 and $810 at September 30, 2018 and 2017, respectively) with principal and interest (6.75% at September 30, 2018) payments due monthly. Interest income amounted to $58 and $52 for the years ended September 30, 2018 and 2017, respectively.

Contributions to affiliates and other community organizations from temporarily restricted net assets were $222 and $163 in 2018 and 2017, respectively.

(In thousands)

3. Investments and Assets Whose Use is Limited or Restricted

Short-term investments totaling $30,553 and $7,552 at September 30, 2018 and 2017, respectively, are comprised primarily of cash and cash equivalents. Assets whose use is limited or restricted are carried at fair value and consist of the following at September 30:

	2018	2017
Board designated funds:		
Cash and cash equivalents	$ 6,651	$ 3,582
Fixed income securities	22,555	22,805
Marketable equity and other securities	248,760	243,906
Inflation-protected securities	19,277	20,393
	297,243	290,686
Held by trustee for workers' compensation reserves:		
Fixed income securities	2,937	4,120
Self-insurance escrows and construction funds:		
Cash and cash equivalents	10,912	1,740
Fixed income securities	33,593	2,209
Marketable equity securities	8,536	8,446
	53,041	12,395
Donor-restricted funds and restricted grants:		
Cash and cash equivalents	5,459	5,937
Fixed income securities	1,832	1,848
Marketable equity securities	20,200	19,769
Inflation-protected securities	1,565	1,654
Trust funds administered by others	11,051	11,002
Other	324	140
	40,431	40,350
	$393,652	$347,551

Included in marketable equity and other securities above are $172,826 and $173,052 at September 30, 2018 and 2017, respectively, in so called alternative investments and collective trust funds. See also Note 14.

(In thousands)

3. Investments and Assets Whose Use is Limited or Restricted (Continued)

Investment income, net realized gains and losses and net unrealized gains and losses on assets whose use is limited or restricted, cash and cash equivalents, and other investments are as follows at September 30:

	2018	2017
Unrestricted net assets:		
Interest and dividends	$ 4,344	$ 4,466
Investment income from trust funds administered by others	541	494
Net realized gains on sales of investments	9,996	4,255
	14,881	9,215
Restricted net assets:		
Interest and dividends	323	343
Net realized gains on sales of investments	755	339
	1,078	682
	$15,959	$ 9,897
Net unrealized gains on investments:		
Unrestricted net assets	$ 1,805	$23,122
Temporarily restricted net assets	158	1,864
Permanently restricted net assets	48	395
	$ 2,011	$25,381

In compliance with the System's spending policy, portions of investment income and related fees are recognized in other operating revenue on the accompanying consolidated statements of operations. Investment income reflected in other operating revenue was $1,779 and $1,655 in 2018 and 2017, respectively.

Investment management fees expensed and reflected in nonoperating income were $917 and $851 for the years ended September 30, 2018 and 2017, respectively.

(In thousands)

3. Investments and Assets Whose Use is Limited or Restricted (Continued)

The following summarizes the Hospital's gross unrealized losses and fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2018 and 2017:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2018						
Marketable equity securities	$ 1,743	$ (234)	$46,828	$ (9,261)	$48,571	$ (9,495)
Fund-of-funds	27,194	(917)	–	–	27,194	(917)
Collective trust funds	–	–	14,062	(897)	14,062	(897)
	$28,937	$(1,151)	$60,890	$(10,158)	$89,827	$(11,309)
2017						
Marketable equity securities	$36,725	$ (740)	$13,064	$ (6,119)	$49,789	$ (6,859)
Fund-of-funds	22,720	(332)	–	–	22,720	(332)
Collective trust funds	5,906	(94)	–	–	5,906	(94)
	$65,351	$(1,166)	$13,064	$ (6,119)	$78,415	$ (7,285)

In evaluating whether investments have suffered an other-than-temporary decline, based on input from outside investment advisors, management evaluated the amount of the decline compared to cost, the length of time and extent to which fair value has been less than cost, the underlying creditworthiness of the issuer, the fair values exhibited during the year, estimated future fair values and the System's intent and ability to hold the security until a recovery in fair value or maturity. Based on evaluations of the underlying issuers' financial condition, current trends and economic conditions, management believes there are no securities that have suffered an other-than-temporary decline in value at September 30, 2018 and 2017.

4. Defined Benefit Pension Plan

The System has a noncontributory defined benefit pension plan (the Plan), covering all eligible employees of the System and subsidiaries. The Plan provides benefits based on an employee's years of service, age and the employee's compensation over those years. The System's funding policy is to contribute annually the amount needed to meet or exceed actuarially determined minimum funding requirements of the *Employee Retirement Income Security Act of 1974* (ERISA).

The System accounts for its defined benefit pension plan under ASC 715, *Compensation Retirement Benefits*. This Statement requires entities to recognize an asset or liability for the overfunded or underfunded status of their benefit plans in their financial statements.

(In thousands)

4. Defined Benefit Pension Plan (Continued)

The following table summarizes the Plan's funded status at September 30, 2018 and 2017:

	2018	2017
Funded status:		
Fair value of plan assets	$ 235,752	$ 233,739
Projected benefit obligation	(267,072)	(277,075)
	$ (31,320)	$ (43,336)
Activities for the year consist of:		
Benefit payments and administrative expenses paid	$ 26,584	$ 16,256
Net periodic benefit cost	11,582	14,283

The table below presents details about the System's defined benefit pension plan, including its funded status, components of net periodic benefit cost, and certain assumptions used in determining the funded status and cost:

	2018	2017
Change in benefit obligation:		
Projected benefit obligation at beginning of year	$277,075	$270,534
Service cost	8,702	9,138
Interest cost	11,991	10,662
Actuarial (gain) loss	(5,612)	1,047
Benefit payments and administrative expenses paid	(26,584)	(16,256)
Other adjustments to benefit cost	1,500	1,950
Projected benefit obligation at end of year	$267,072	$277,075
Change in plan assets:		
Fair value of plan assets at beginning of year	$233,739	$185,404
Actual return on plan assets	12,597	21,591
Employer contributions	16,000	43,000
Benefit payments and administrative expenses	(26,584)	(16,256)
Fair value of plan assets at end of year	$235,752	$233,739
Funded status and amount recognized in noncurrent liabilities at September 30	$(31,320)	$(43,336)

(In thousands)

4. Defined Benefit Pension Plan (Continued)

Amounts recognized as a change in unrestricted net assets during the years ended September 30, 2018 and 2017 consist of:

	2018	2017
Net actuarial loss (gain)	$ 121	$ (4,917)
Net amortized loss	(7,996)	(8,457)
Prior service credit amortization	276	276
Total amount recognized	$ (7,599)	$ (13,098)

Pension Plan Assets

The fair values of the System's pension plan assets as of September 30, 2018 and 2017, by asset category are as follows (see Note 14 for level definitions). In accordance with ASU 2015-07, certain investments that are measured using the net value per share practical expedient have not been classified in the fair value hierarchy.

	2018 Level 1	2017 Level 1
Short-term investments:		
Money market funds	$ 31,447	$ 41,294
Equity securities:		
Common stocks	10,188	9,575
Mutual funds – international	7,923	8,214
Mutual funds – domestic	49,090	45,874
Mutual funds – natural resources	4,478	5,061
Mutual funds – inflation hedge	8,325	8,303
Fixed income securities:		
Mutual funds – REIT	890	415
Mutual funds – fixed income	15,522	15,670
	127,863	134,406
Funds measured at net asset value:		
Equity securities:		
Funds-of-funds	71,202	67,299
Collective trust funds	36,687	32,034
Total investments at fair value	$235,752	$233,739

(In thousands)

4. Defined Benefit Pension Plan (Continued)

The target allocation for the System's pension plan assets as of September 30, 2018 and 2017, by asset category are as follows:

	2018		2017	
	Target Allocation	Percentage of Plan Assets	Target Allocation	Percentage of Plan Assets
Short-term investments	0-20%	13%	0-20%	18%
Equity securities	40-80%	64	40-80%	62
Fixed income securities	5-80%	7	5-80%	7
Other	0-30%	16	0-30%	13

The funds-of-funds are invested with ten investment managers and have various restrictions on redemptions. One manager holding amounts totaling approximately $10 million at September 30, 2018 allows for semi-monthly redemptions, with 5 days' notice. One manager holding approximately $7 million at September 30, 2018 allows for monthly redemptions, with 15 days' notice. Five managers holding amounts totaling approximately $38 million at September 30, 2018 allow for quarterly redemptions, with notices ranging from 45 to 65 days. Two of the managers holding amounts of approximately $11 million at September 30, 2018 allow for annual redemptions, with notice ranging from 60 to 90 days. One of the managers holding amounts of approximately $5 million at September 30, 2018 allows for redemptions on a semi-annual basis, with a notice of 60 days. The redemption is further limited to 25% of the investment balance at each redemption period. The collective trust funds allow for daily or monthly redemptions, with notices ranging from 6 to 10 days. Certain funds also may include a fee estimated to be equal to the cost the fund incurs in converting investments to cash (ranging from 0.5% to 1.5%) or are subject to certain lock periods.

The System considers various factors in estimating the expected long-term rate of return on plan assets. Among the factors considered include the historical long-term returns on plan assets, the current and expected allocation of plan assets, input from the System's actuaries and investment consultants, and long-term inflation assumptions. The System's expected allocation of plan assets is based on a diversified portfolio consisting of domestic and international equity securities, fixed income securities, and real estate.

The System's investment policy for its pension plan is to balance risk and returns using a diversified portfolio consisting primarily of high quality equity and fixed income securities. To accomplish this goal, plan assets are actively managed by outside investment managers with the objective of optimizing long-term return while maintaining a high standard of portfolio quality and proper diversification. The System monitors the maturities of fixed income securities so that there is sufficient liquidity to meet current benefit payment obligations. The System's Investment Committee provides oversight of the plan investments and the performance of the investment managers.

(In thousands)

4. Defined Benefit Pension Plan (Continued)

Amounts included in expense during fiscal 2018 and 2017 consist of:

	2018	2017
Components of net periodic benefit cost:		
Service cost	$ 8,702	$ 9,138
Interest cost	11,991	10,662
Expected return on plan assets	(18,331)	(15,627)
Amortization of prior service credit and loss	7,720	8,160
Other adjustments to benefits cost	1,500	1,950
Net periodic benefit cost	$ 11,582	$ 14,283

The accumulated benefit obligations for the plan at September 30, 2018 and 2017 were $251,736 and $261,601, respectively.

	2018	2017
Weighted average assumptions to determine benefit obligation:		
Discount rate	4.63%	4.29%
Rate of compensation increase	3.00	3.00
Weighted average assumptions to determine net periodic benefit cost:		
Discount rate	4.29%	4.03%
Expected return on plan assets	7.75	7.75
Cash balance credit rate	5.00	5.00
Rate of compensation increase	3.00	2.00

In selecting the long-term rate of return on plan 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 plan's asset allocation and the expected returns likely to be earned over the life of the plan, as well as the historical returns on the types of assets held and the current economic environment.

The loss and prior service credit amount expected to be recognized in net periodic benefit cost in 2019 are as follows:

Actuarial loss	$ 7,153
Prior service credit	(247)
	$ 6,906

The System funds the pension plan and no contributions are made by employees. The System funds the plan annually by making a contribution of at least the minimum amount required by applicable regulations and as recommended by the System's actuary. However, the System may also fund the plan in excess of the minimum required amount.

(In thousands)

4. Defined Benefit Pension Plan (Continued)

Cash contributions in subsequent years will depend on a number of factors including performance of plan assets. However, the System expects to fund $16,000 in cash contributions to the plan for the 2019 plan year.

Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Year Ended September 30	Pension Benefits
2019	$ 23,059
2020	15,039
2021	16,268
2022	17,339
2023	18,539
2024 – 2028	105,746

Effective September 26, 2018, the Plan entered into a group annuity contract with Pacific Life Insurance Company. The contract was purchased for certain retirees of the Plan. A total of 354 participants were entitled to receive benefits purchased under the contract. Annuity payments for participants will commence on January 1, 2019 and Pacific Life Insurance Company will assume the risk for participants entitled to receive benefits purchased under this contract. The Plan paid premiums totaling $9,135 and $9,241 in September 2018 and October 2018, respectively, relating to the purchase of the contract.

5. Estimated Third-Party Payor Settlements

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

Medicare

Inpatient and outpatient services rendered to Medicare program beneficiaries are primarily paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical diagnosis and other factors. In addition to this, the System is also reimbursed for medical education and other items which require cost settlement and retrospective review by the fiscal intermediary. Accordingly, the System files an annual cost report with the Medicare program after the completion of each fiscal year to report activity applicable to the Medicare program and to determine any final settlements.

The physician practices are reimbursed on a fee schedule basis.

5. Estimated Third-Party Payor Settlements (Continued)

Medicaid Enhancement Tax and Disproportionate Share Payment

Under the State of New Hampshire's (the State) tax code, the State imposes a Medicaid Enhancement Tax (MET) equal to 5.40% of net patient service revenues in State fiscal years 2018 and 2017. The amount of tax incurred by the System for 2018 and 2017 was $20,975 and $20,311, 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 (DSH) retroactive to July 1, 2010. Unlike the former funding method, the State's approach led to a payment that was not directly based on, and did not equate to, the level of tax imposed. As a result, the legislation created some level of losses at certain New Hampshire hospitals, while other hospitals realized gains. DSH payments from the State are recorded within unrestricted revenue and other support and amounted to $14,327 in 2018 and $12,717 in 2017, net of reserves referenced below.

The Centers for Medicare and Medicaid Services (CMS) has completed 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 potential exposure based on the audit results to date.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under fee schedules and cost reimbursement methodologies subject to various limitations or discounts. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid program.

The physician practices are reimbursed on a fee schedule basis.

Other

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

The accrual for estimated third-party payor settlements reflected on the accompanying consolidated balance sheets represents the estimated net amounts to be paid under reimbursement contracts with the Centers for Medicare and Medicaid Services (Medicare), the New Hampshire Department of Welfare (Medicaid) and any commercial payors with settlement provision. Settlements for the Hospital have been finalized through 2015 for Medicare and Medicaid.

(In thousands)

6. Long-Term Debt and Notes Payable

Long-term debt consists of the following at September 30, 2018 and 2017:

	2018	2017
New Hampshire Health and Education Facilities Authority (NHHEFA) Revenue Bonds, Concord Hospital Issue, Series 2017; interest of 5.0% per year and principal payable in annual installments. Installments ranging from $2,010 to $5,965 beginning October 2032, including unamortized original issue premium of $7,530 in 2018	$ 61,740	$ –
2.0% to 5.0% NHHEFA Revenue Bonds, Concord Hospital Issue, Series 2013A; due in annual installments, including principal and interest ranging from $1,543 to $3,555 through 2043, including unamortized original issue premium of $2,945 in 2018 and $3,066 in 2017	41,805	43,091
1.71% fixed rate NHHEFA Revenue Bonds, Concord Hospital Issue, Series 2013B; due in annual installments, including principal and interest ranging from $1,860 to $3,977 through 2024	13,079	16,786
1.3% to 5.6% NHHEFA Revenue Bonds, Concord Hospital Issue, Series 2011; due in annual installments, including principal and interest ranging from $2,737 to $5,201 through 2026, including unamortized original issue premium of $155 and $175 in 2017	22,325	26,289
	138,949	86,166
Less unamortized bond issuance costs	(1,425)	(843)
Less current portion	(9,061)	(8,822)
	$128,463	$ 76,501

In December 2017, $62,004 (including an original issue premium of $7,794) of NHHEFA Revenue Bonds, Concord Hospital Issue, Series 2017, were issued to pay for the construction of a new medical office building. In addition, the Series 2017 Bonds reimbursed the Hospital for capital expenditures incurred in association with the construction of a parking garage and the construction of a medical office building, as well as routine capital expenditures.

In February 2013, $48,631 (including an original issue premium of $3,631) of NHHEFA Revenue Bonds, Concord Hospital Issue, Series 2013A, were issued to assist in the funding of a significant facility improvement project and to advance refund the Series 2001 NHHEFA Hospital Revenue Bonds. The facility improvement project included enhancements to the System's power plant, renovation of certain nursing units, expansion of the parking capacity at the main campus and various other routine capital expenditures and miscellaneous construction, renovation and improvements of the System's facilities.

In March 2011, $49,795 of NHHEFA Revenue Bonds, Concord Hospital Issue, Series 2011, were issued to assist in the funding of a significant facility improvement project and pay off the Series 1996 Revenue Bonds. The project included expansion and renovation of various Hospital departments, infrastructure upgrades, and acquisition of capital equipment.

(In thousands)

6. Long-Term Debt and Notes Payable (Continued)

Substantially all the property and equipment relating to the aforementioned construction and renovation projects, as well as subsequent property and equipment additions thereto, and a mortgage lien on the facility, are pledged as collateral for the Series 2011, 2013A and B and 2017 Revenue Bonds. In addition, the gross receipts of the Hospital are pledged as collateral for the Series 2011, 2013A and B and 2017 Revenue Bonds. The most restrictive financial covenants require a 1.10 to 1.0 ratio of aggregate income available for debt service to total annual debt service and a day's cash on hand ratio of 75 days. The Hospital was in compliance with its debt covenants at September 30, 2018 and 2017.

The obligations of the Hospital under the Series 2017, Series 2013A and B and Series 2011 Revenue Bond Indentures are not guaranteed by any of the subsidiaries or affiliated entities.

Interest paid on long-term debt amounted to $5,530 (including capitalized interest of $167) and $4,010 for the years ended September 30, 2018 and 2017, respectively.

The aggregate principal payments on long-term debt for the next five fiscal years ending September 30 and thereafter are as follows:

2019	$ 9,061
2020	7,385
2021	5,186
2022	5,339
2023	5,485
Thereafter	95,863
	$128,319

7. Commitments and Contingencies

Malpractice Loss Contingencies

Prior to February 1, 2011, the System was insured against malpractice loss contingencies under claims made insurance policies. A claims-made policy provides specific coverage for claims made during the policy period. During 2017, the System paid to transfer its obligation for claims and incidents made and reported under the 2001-2011 policy period to a third party. Under the Loss Portfolio Transfer agreement, the third party assumed obligation for claims and incidents made and reported, including any closed incidents included on loss run reports that may ripen into a claim or suit and are subject to reopening.

7. Commitments and Contingencies (Continued)

Effective February 1, 2011, the System insures its medical malpractice risks through a multiprovider captive insurance company under a claims-made insurance policy. Premiums paid are based upon actuarially determined amounts to adequately fund for expected losses. At September 30, 2018, there were no known malpractice claims outstanding for the System, which, in the opinion of management will be settled for amounts in excess of insurance coverage, nor were there any unasserted claims or incidents which require loss accruals. The System has established reserves for unpaid claim amounts for Hospital and Physician Professional Liability and General Liability reported claims and for unreported claims for incidents that have been incurred but not reported. The amounts of the reserves total $3,341 and $1,995 at September 30, 2018 and 2017, respectively and are reflected in the accompanying consolidated balance sheets within accrued pension and other long-term liabilities. The possibility exists, as a normal risk of doing business, that malpractice claims in excess of insurance coverage may be asserted against the System.

The captive retains and funds up to actuarial expected loss amounts, and obtains reinsurance at various attachment points for individual and aggregate claims in excess of funding in accordance with industry practices. At September 30, 2018, the System's interest in the captive represents approximately 58% of the captive. The System accounts for its investments in the captive under the equity method since control of the captive is shared equally between the participating hospitals. The System has recorded its interest in the captive's equity, totaling approximately $6,363 and $5,400 at September 30, 2018 and 2017, respectively, in other noncurrent assets on the accompanying consolidated balance sheets. Changes in the System's interest are included in nonoperating income on the accompanying consolidated statements of operations

In accordance with ASU No. 2010-24, "*Health Care Entities*" (Topic 954): *Presentation of Insurance Claims and Related Insurance Recoveries*, at September 30, 2018 and 2017, the Hospital recorded a liability of approximately $1,000 and $3,800, respectively, related to estimated professional liability losses. At September 30, 2018 and 2017, the Hospital also recorded a receivable of $1,000 and $3,800, respectively, related to estimated recoveries under insurance coverage for recoveries of the potential losses. These amounts are included in accrued pension and other long-term liabilities and other assets, respectively, on the consolidated balance sheets.

Workers' Compensation

The Hospital maintains workers' compensation insurance under a self-insurance plan. The plan offers, among other provisions, certain specific and aggregate stop-loss coverage to protect the Hospital against excessive losses. The Hospital has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Accrued workers' compensation losses of $2,523 and $2,455 at September 30, 2018 and 2017, respectively, have been discounted at 3% (both years) and, in management's opinion, provide an adequate reserve for loss contingencies. A trustee held fund has been established as a reserve under the plan. Assets held in trust totaled $2,937 and $4,120 at September 30, 2018 and 2017, respectively, and is included in assets whose use is limited or restricted in the accompanying consolidated balance sheets.

(In thousands)

7. Commitments and Contingencies (Continued)

Litigation

The System is involved in litigation and regulatory investigations 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.

Health Insurance

The System has a self-funded health insurance plan. The plan is administered by an insurance company which assists in determining the current funding requirements of participants under the terms of the plan and the liability for claims and assessments that would be payable at any given point in time. The System recognizes revenue for services provided to employees of the System during the year. The System is insured above a stop-loss amount of $440 on individual claims. Estimated unpaid claims, and those claims incurred but not reported at September 30, 2018 and 2017, have been recorded as a liability of $6,724 and $8,799, respectively, and are reflected in the accompanying consolidated balance sheets within accounts payable and accrued expenses.

Operating Leases

The System has various operating leases relative to its office and offsite locations. Future annual minimum lease payments under noncancellable lease agreements as of September 30, 2018 are as follows:

Year Ending September 30:	
2019	$ 6,121
2020	4,845
2021	4,362
2022	3,632
2023	3,346
Thereafter	14,240
	$36,546

Rent expense was $6,616 and $6,297 for the years ended September 30, 2018 and 2017, respectively.

(In thousands)

8. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30:

	2018	2017
Health education and program services	$15,481	$15,970
Capital acquisitions	1,646	1,485
Indigent care	239	243
For periods after September 30 of each year	214	102
	$17,580	$17,800

Income on the following permanently restricted net asset funds is available for the following purposes at September 30:

	2018	2017
Health education and program services	$17,759	$17,595
Capital acquisitions	803	803
Indigent care	1,810	1,811
For periods after September 30 of each year	275	193
	$20,647	$20,402

9. Patient Service and Other Revenue

Net patient service revenue for the years ended September 30 is as follows:

	2018	2017
Gross patient service charges:		
Inpatient services	$ 538,592	$ 488,730
Outpatient services	641,817	609,993
Physician services	177,347	168,161
Less charitable services	(12,021)	(8,547)
	1,345,735	1,258,337
Less contractual allowances and discounts:		
Medicare	(487,941)	(456,339)
Medicaid	(98,632)	(110,816)
Other	(267,214)	(223,077)
	(853,787)	(790,232)
Total Hospital net patient service revenue (net of contractual allowances and discounts)	491,948	468,105
Other entities	699	242
	$ 492,647	$ 468,347

(In thousands)

9. Patient Service and Other Revenue (Continued)

An estimated breakdown of patient service revenue, net of contractual allowances, discounts and provision for doubtful accounts recognized in 2018 and 2017 from these major payor sources, is as follows for the Hospital. The provision for doubtful accounts for subsidiaries of the Hospital was not significant in 2018 and 2017.

	Hospital			
	Gross Patient Service Revenues	Contractual Allowances and Discounts	Provision for Doubtful Accounts	Net Patient Service Revenues Less Provision for Doubtful Accounts
2018				
Private payors (includes coinsurance and deductibles)	$ 527,965	$(236,785)	$ (17,106)	$274,074
Medicaid	134,761	(112,341)	–	22,420
Medicare	654,270	(487,941)	(4,887)	161,442
Self-pay	28,739	(16,720)	(7,329)	4,690
	$1,345,735	$(853,787)	$(29,322)	$462,626
2017				
Private payors (includes coinsurance and deductibles)	$ 494,628	$(209,601)	$ (9,878)	$275,149
Medicaid	132,747	(110,816)	–	21,931
Medicare	604,179	(456,339)	(2,509)	145,331
Self-pay	26,783	(13,476)	(7,652)	5,655
	$1,258,337	$(790,232)	$(20,039)	$448,066

10. Functional Expenses

The System provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows for the years ended September 30:

	2018	2017
Health care services	$357,294	$325,471
General and administrative	76,788	80,050
Depreciation and amortization	27,574	24,378
Medicaid enhancement tax	20,975	20,311
Interest expense	4,873	2,918
	$487,504	$453,128

(In thousands)

10. Functional Expenses (Continued)

Fundraising related expenses were $946 and $940 for the years ended September 30, 2018 and 2017, respectively.

11. Charity Care and Community Benefits (Unaudited)

The Hospital maintains records to identify and monitor the level of charity care it provides. The Hospital provides traditional charity care, as well as other forms of community benefits. The estimated cost of all such benefits provided is as follows for the years ended September 30:

	2018	2017
Community health services	$ 2,131	$ 2,150
Health professions education	3,596	4,398
Subsidized health services	40,595	40,320
Research	91	83
Financial contributions	605	752
Community building activities	8	45
Community benefit operations	58	97
Charity care costs (see Note 1)	4,528	3,669
	$51,612	$51,514

In addition, the Hospital incurred estimated costs for services to Medicare and Medicaid patients in excess of the payment from these programs of $85,512 and $88,830 in 2018 and 2017, respectively.

12. Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents of southern New Hampshire and are insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors as of September 30 is as follows:

	2018	2017
Patients	9%	10%
Medicare	36	33
Anthem Blue Cross	16	14
Cigna	3	3
Medicaid	10	13
Commercial	23	25
Workers' compensation	3	2
	100%	100%

13. Volunteer Services (Unaudited)

Total volunteer service hours received by the Hospital were approximately 13,300 in 2018 and 20,800 in 2017. The volunteers provide various nonspecialized services to the Hospital, none of which has been recognized as revenue or expense in the accompanying consolidated statements of operations.

14. 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. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

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. There have been no changes in the methodologies used at September 30, 2018 and 2017. In accordance with ASU 2015-07, certain investments that are measured using the net value per share practical expedient have not been classified in the fair value hierarchy.

(In thousands)

14. Fair Value Measurements (Continued)

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

	Level 1	Level 2	Level 3	Total
2018				
Cash and cash equivalents	$ 53,575	$ –	$ –	$ 53,575
Fixed income securities	60,917	–	–	60,917
Marketable equity and other securities	104,670	–	–	104,670
Inflation-protected securities and other	21,166	–	–	21,166
Trust funds administered by others	–	–	11,051	11,051
	$240,328	$ –	$11,051	251,379
Funds measured at net asset value:				
Marketable equity and other securities				172,826
				$424,205
2017				
Cash and cash equivalents	$ 18,811	$ –	$ –	$ 18,811
Fixed income securities	30,982	–	–	30,982
Marketable equity and other securities	99,069	–	–	99,069
Inflation-protected securities and other	22,187	–	–	22,187
Trust funds administered by others	–	–	11,002	11,002
	$171,049	$ –	$11,002	182,051
Funds measured at net asset value:				
Marketable equity and other securities				173,052
				$355,103

The System's Level 3 investments consist of funds administered by others. The fair value measurement is based on significant unobservable inputs.

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

(In thousands)

14. Fair Value Measurements (Continued)

A reconciliation of the fair value measurements using significant unobservable inputs (Level 3) is as follows for 2018 and 2017:

	Trust Funds Administered by Others
Balance at September 30, 2016	$10,607
Net realized and unrealized gains	395
Balance at September 30, 2017	11,002
Net realized and unrealized gains	49
Balance at September 30, 2018	$11,051

The table below sets forth additional disclosures for investment funds (other than mutual funds) valued based on net asset value to further understand the nature and risk of the investments by category:

	Fair Value	Unfunded Commit-ments	Redemption Frequency	Redemption Notice Period
September 30, 2018:				
Funds-of-funds	$15,060	$ –	Semi-monthly	5 days
Funds-of-funds	10,300	–	Monthly	15 days
Funds-of-funds	52,984	–	Quarterly	45 – 65 days
Funds-of-funds	19,348	–	Annual	60 - 90 days
Funds-of-funds	8,342	–	Semi-annual	60 days***
Funds-of-funds	2,033	4,412	Illiquid	N/A
Collective trust funds	14,062	–	Daily	10 days
Collective trust funds	50,697	–	Monthly	6 – 10 days
September 30, 2017:				
Funds-of-funds	$13,948	$ –	Semi-monthly	5 days
Funds-of-funds	10,634	–	Monthly	15 days
Funds-of-funds	58,988	–	Quarterly	45 – 65 days
Funds-of-funds	18,219	–	Annual	60 - 90 days*
Funds-of-funds	7,232	–	Three year rolling	60 days**
Funds-of-funds	362	3,411	Illiquid	N/A
Collective trust funds	5,906	–	Daily	10 days
Collective trust funds	57,763	–	Monthly	6 – 10 days

* Certain funds are subject to a 2 year lock period before annual redemption can occur.

** Subject to a 3 year rolling lock. This fund also has a special redemption right that allows the Hospital to liquidate 10% of the investment on March 1 of each year, with 30 days' notice.

*** Limited to 25% of the investment balance at each redemption.

14. Fair Value Measurements (Continued)

Investment Strategies

Fixed Income Securities

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

Marketable Equity and Other Securities

The primary purpose of marketable 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 marketable 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.

The System invests in other securities that are considered alternative investments that consist of 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. Collective trust funds are generally valued based on the proportionate share of total fund net assets.

System management is responsible for the fair value measurements of investments reported in the consolidated financial statements. Such amounts are generally determined using audited financial statements of the funds and/or recently settled transactions and is estimated using the net asset value per share of the fund. 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.

The Hospital has committed to invest up to $13,747 between six investment managers, and had funded $2,057 of that commitment as of September 30, 2018. As these investments are made, the Hospital reallocates resources from its current investments resulting in an asset allocation shift within the investment pool.

Inflation-Protected Securities

The primary purpose of inflation-protected securities is to provide protection against the negative effects of inflation.

14. Fair Value Measurements (Continued)

Fair Value of Other Financial Instruments

Other financial instruments consist of accounts and pledges receivable, accounts payable and accrued expenses, estimated third-party payor settlements, and long-term debt and notes payable. The fair value of all financial instruments other than long-term debt and notes payable approximates their relative book values as these financial instruments have short-term maturities or are recorded at amounts that approximate fair value. The fair value of the System's long-term debt and notes payable is estimated using discounted cash flow analyses, based on the System's current incremental borrowing rates for similar types of borrowing arrangements. The carrying value and fair value of the System's long-term debt and notes payable amounted to $138,949 and $155,435, respectively, at September 30, 2018, and $86,166 and $102,286, respectively, at September 30, 2017.

BAKER NEWMAN NOYES

Concord Hospital, Inc. and Subsidiaries

Audited Consolidated Financial Statements

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

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

Audited Consolidated Financial Statements

Years Ended September 30, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Concord Hospital, Inc.

We have audited the accompanying consolidated financial statements of Concord Hospital, Inc. and Subsidiaries (the System), which comprise the consolidated balance sheets as of September 30, 2017 and 2016, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

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

Baker Newman & Noyes LLC

Manchester, New Hampshire
December 1, 2017

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

September 30, 2017 and 2016

ASSETS
(In thousands)

	2017	2016
Current assets:		
Cash and cash equivalents	$ 3,799	$ 6,555
Short-term investments	7,552	19,512
Accounts receivable, less allowance for doubtful accounts of $11,234 in 2017 and $9,858 in 2016	51,344	52,693
Due from affiliates	634	270
Supplies	1,777	1,262
Prepaid expenses and other current assets	5,855	4,760
Total current assets	70,961	85,052
Assets whose use is limited or restricted:		
Board designated	290,686	260,287
Funds held by trustee for workers' compensation reserves and self-insurance escrows	16,515	14,328
Donor-restricted funds and restricted grants	40,350	37,517
Total assets whose use is limited or restricted	347,551	312,132
Other noncurrent assets:		
Due from affiliates, net of current portion	1,223	1,615
Other assets	15,052	11,848
Total other noncurrent assets	16,275	13,463
Property and equipment:		
Land and land improvements	6,426	7,003
Buildings	190,585	179,824
Equipment	246,586	235,334
Construction in progress	38,725	16,413
	482,322	438,574
Less accumulated depreciation	(305,312)	(282,034)
Net property and equipment	177,010	156,540
	$ 611,797	$ 567,187

LIABILITIES AND NET ASSETS
(In thousands)

	2017	2016
Current liabilities:		
Short-term notes payable	$ 15	$ 459
Accounts payable and accrued expenses	39,611	30,104
Accrued compensation and related expenses	25,580	22,830
Accrual for estimated third-party payor settlements	27,382	22,459
Current portion of long-term debt	8,822	8,570
Total current liabilities	101,410	84,422
Long-term debt, net of current portion	76,501	85,399
Accrued pension and other long-term liabilities	60,536	99,258
Total liabilities	238,447	269,079
Net assets:		
Unrestricted	335,148	262,934
Temporarily restricted	17,800	15,293
Permanently restricted	20,402	19,881
Total net assets	373,350	298,108
	$ 611,797	$ 567,187

See accompanying notes.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended September 30, 2017 and 2016
(In thousands)

	2017	2016
Unrestricted revenue and other support:		
Net patient service revenue, net of contractual allowances and discounts	$468,347	$434,961
Provision for doubtful accounts	(20,018)	(17,251)
Net patient service revenue less provision for doubtful accounts	448,329	417,710
Other revenue	19,350	20,998
Disproportionate share revenue	12,717	7,800
Net assets released from restrictions for operations	1,191	1,232
Total unrestricted revenue and other support	481,587	447,740
Operating expenses:		
Salaries and wages	220,255	208,274
Employee benefits	56,889	55,298
Supplies and other	95,948	87,060
Purchased services	32,373	29,297
Professional fees	5,222	4,678
Depreciation and amortization	24,378	24,535
Medicaid enhancement tax	20,311	19,679
Interest expense	2,918	3,700
Total operating expenses	458,294	432,521
Income from operations	23,293	15,219
Nonoperating income:		
Unrestricted gifts and bequests	1,619	251
Investment income and other	10,476	27,497
Total nonoperating income	12,095	27,748
Excess of revenues and nonoperating income over expenses	$ 35,388	$ 42,967

See accompanying notes.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years Ended September 30, 2017 and 2016
(In thousands)

	2017	2016
Unrestricted net assets:		
Excess of revenues and nonoperating income over expenses	$ 35,388	$ 42,967
Net unrealized gains (losses) on investments	23,122	(5,098)
Net transfers from affiliates	498	189
Net assets released from restrictions used for purchases of property and equipment	108	1,331
Pension adjustment	13,098	(24,836)
Increase in unrestricted net assets	72,214	14,553
Temporarily restricted net assets:		
Restricted contributions and pledges	1,423	1,539
Restricted investment income	682	2,181
Contributions to affiliates and other community organizations	(163)	(184)
Net unrealized gains (losses) on investments	1,864	(540)
Net assets released from restrictions for operations	(1,191)	(1,232)
Net assets released from restrictions used for purchases of property and equipment	(108)	(1,331)
Increase in temporarily restricted net assets	2,507	433
Permanently restricted net assets:		
Restricted contributions and pledges	126	319
Unrealized gains on trusts administered by others	395	118
Increase in permanently restricted net assets	521	437
Increase in net assets	75,242	15,423
Net assets, beginning of year	298,108	282,685
Net assets, end of year	$373,350	$298,108

See accompanying notes.

CONCORD HOSPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended September 30, 2017 and 2016
(In thousands)

	2017	2016
Cash flows from operating activities:		
Increase in net assets	$ 75,242	$ 15,423
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Restricted contributions and pledges	(1,549)	(1,858)
Depreciation and amortization	24,378	24,535
Net realized and unrealized gains on investments	(29,975)	(19,808)
Bond premium and issuance cost amortization	(75)	(75)
Provision for doubtful accounts	20,018	17,251
Equity in earnings of affiliates, net	(5,812)	(6,170)
Loss on disposal of property and equipment	202	163
Pension adjustment	(13,098)	24,836
Changes in operating assets and liabilities:		
Accounts receivable	(18,669)	(14,840)
Supplies, prepaid expenses and other current assets	(1,610)	1,305
Other assets	(3,702)	2,352
Due from affiliates	28	441
Accounts payable and accrued expenses	(1,411)	362
Accrued compensation and related expenses	2,750	(4,212)
Accrual for estimated third-party payor settlements	4,923	8,136
Accrued pension and other long-term liabilities	(25,624)	(7,266)
Net cash provided by operating activities	26,016	40,575
Cash flows from investing activities:		
Increase in property and equipment, net	(34,132)	(32,533)
Purchases of investments	(66,306)	(120,966)
Proceeds from sales of investments	72,671	113,592
Equity distributions from affiliates	6,310	5,778
Net cash used by investing activities	(21,457)	(34,129)
Cash flows from financing activities:		
Payments on long-term debt	(8,571)	(8,338)
Change in short-term notes payable	(444)	(1,953)
Restricted contributions and pledges	1,700	2,304
Net cash used by financing activities	(7,315)	(7,987)
Net decrease in cash and cash equivalents	(2,756)	(1,541)
Cash and cash equivalents at beginning of year	6,555	8,096
Cash and cash equivalents at end of year	$ 3,799	$ 6,555

Supplemental disclosure:
At September 30, 2017, amounts totaling $10,918 related to the purchase of property and equipment were included in accounts payable and accrued expenses.

See accompanying notes.

1. Description of Organization and Summary of Significant Accounting Policies

Organization

Concord Hospital, Inc., (the Hospital) located in Concord, New Hampshire, is a not-for-profit acute care hospital. The Hospital provides inpatient, outpatient, emergency care and physician services for residents within its geographic region. Admitting physicians are primarily practitioners in the local area. The Hospital is controlled by Capital Region Health Care Corporation (CRHC).

In 1985, the then Concord Hospital underwent a corporate reorganization in which it was renamed and became CRHC. At the same time, the Hospital was formed as a new entity. All assets and liabilities of the former hospital, now CRHC, with the exception of its endowments and restricted funds, were conveyed to the new hospital. The endowments were held by CRHC for the benefit of the Hospital, which is the true party in interest. Effective October 1, 1999, CRHC transferred these funds to the Hospital.

In March 2009, the Hospital created The Concord Hospital Trust (the Trust), a separately incorporated, not-for-profit organization to serve as the Hospital's philanthropic arm. In establishing the Trust, the Hospital transferred philanthropic permanent and temporarily restricted funds, including board designated funds, endowments, indigent care funds and specific purpose funds, to the newly formed organization together with the stewardship responsibility to direct monies available to support the Hospital's charitable mission and reflect the specific intentions of the donors who made these gifts. Concord Hospital and the Trust constitute the Obligated Group at September 30, 2017 and 2016 to certain debt described in Note 6.

Subsidiaries of the Hospital include:

Capital Region Health Care Development Corporation (CRHCDC) is a not-for-profit real estate corporation that owns and operates medical office buildings and other properties.

Capital Region Health Ventures Corporation (CRHVC) is a not-for-profit corporation that engages in health care delivery partnerships and joint ventures. It operates ambulatory surgery and diagnostic facilities in cooperation with other entities.

CH/DHC, Inc. d/b/a Dartmouth-Hitchcock-Concord (CH/DHC) is a not-for-profit corporation that provides clinical medical services through a multi-specialty group practice. CH/DHC was formed under a joint agreement between the Hospital and DH-Concord. The joint agreement terminated effective September 30, 2015.

The Hospital, its subsidiaries and the Trust are collectively referred to as the System. The consolidated financial statements include the accounts of the Hospital, the Trust, CRHCDC, CRHVC and CH/DHC. All significant intercompany balances and transactions have been eliminated in consolidation.

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

Use of Estimates

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

Concentration of Credit Risk

Financial instruments which subject the Hospital to credit risk consist primarily of cash equivalents, accounts receivable and investments. The risk with respect to cash equivalents is minimized by the Hospital's policy of investing in financial instruments with short-term maturities issued by highly rated financial institutions. The Hospital's accounts receivable are primarily due from third-party payors and amounts are presented net of expected contractual allowances and uncollectible amounts, including estimated uncollectible amounts from uninsured patients. The Hospital's investment portfolio consists of diversified investments, which are subject to market risk. The Hospital's investment in one fund, the Vanguard Institutional Index Fund, exceeded 10% of total Hospital investments as of September 30, 2017 and 2016.

Cash and Cash Equivalents

Cash and cash equivalents include money market funds and secured repurchase agreements with original maturities of three months or less, excluding assets whose use is limited or restricted.

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

Supplies

Supplies are carried at the lower of cost, determined on a weighted-average method, or net realizable value.

Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted include assets held by trustees under workers' compensation reserves and self-insurance escrows, designated assets set aside by the Board of Trustees, over which the Board retains control and may, at its discretion, subsequently use for other purposes, and donor-restricted investments.

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

Investments and Investment Income

Investments are carried at fair value in the accompanying consolidated balance sheets. Investment income (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues and nonoperating income over expenses unless the income is restricted by donor or law. Gains and losses on investments are computed on a specific identification basis. Unrealized gains and losses on investments are excluded from the excess of revenues and nonoperating income over expenses unless the investments are classified as trading securities or losses are considered other-than-temporary. Periodically, management reviews investments for which the market value has fallen significantly below cost and recognizes impairment losses where they believe the declines are other-than-temporary.

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 unrestricted. The System's interest in the fair value of the trust assets is included in assets whose use is limited and as permanently restricted net assets. Changes in the fair value of beneficial trust assets are reported as increases or decreases to permanently restricted net assets.

Investment Policies

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

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

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

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

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

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

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 has a current spending policy on various funds currently equivalent to 5% of twelve-quarter moving average of the funds' total market value.

Accounts Receivable and the Allowance for Doubtful Accounts

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the System analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for doubtful accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the System analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for doubtful accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the System records a provision for doubtful accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The System's allowance for doubtful accounts for self-pay patients represented 71% and 70% of self-pay accounts receivable at September 30, 2017 and 2016, respectively. The total provision for the allowance for doubtful accounts was $20,018 and $17,251 for the years ended September 30, 2017 and 2016, respectively. The System also allocates a portion of the allowance and provision for doubtful accounts to charity care, which is not recorded as revenue. The System's self-pay bad debt writeoffs decreased $1,345, from $22,132 in 2016 to $20,787 in 2017. The decrease in bad debt writeoffs between 2017 and 2016 was primarily a result of certain shifts in payor mix.

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

Property and Equipment

Property and equipment is stated at cost at time of purchase, or at fair value at time of donation for assets contributed, less any reductions in carrying value for impairment and less accumulated depreciation. The System's policy is to capitalize expenditures for major improvements and charge maintenance and repairs currently for expenditures which do not extend the lives of the related assets. Depreciation is computed using the straight-line method in a manner intended to amortize the cost of the related assets over their estimated useful lives. For the years ended September 30, 2017 and 2016, depreciation expense was $24,378 and $24,535, respectively.

The System has also capitalized certain costs associated with property and equipment not yet in service. Construction in progress includes amounts incurred related to major construction projects, other renovations, and other capital equipment purchased but not yet placed in service. During 2017, the Hospital capitalized $509 of interest expense relating to various construction projects. There was no interest capitalized during 2016. At September 30, 2017, the Hospital has outstanding construction commitments totaling approximately $70.5 million for a new parking garage, utility work and medical office building. Construction is expected to begin in the Spring of 2018.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support, and are excluded from the excess of revenues and nonoperating income over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Federal Grant Revenue and Expenditures

Revenues and expenses under federal grant programs are recognized as the grant expenditures are incurred.

Bond Issuance Costs/Original Issue Discount or Premium

Bond issuance costs incurred to obtain financing for construction and renovation projects and the original issue discount or premium are amortized to interest expense using the straight-line method, which approximates the effective interest method, over the life of the respective bonds. The original issue discount or premium and bond issuance costs are presented as a component of bonds payable.

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

Charity Care

The System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates (Note 11). Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The System determines the costs associated with providing charity care by calculating a ratio of cost to gross charges, and then multiplying that ratio by the gross uncompensated charges associated with providing care to patients eligible for free care. Funds received from gifts and grants to subsidize charity services provided for the years ended September 30, 2017 and 2016 were approximately $278 and $330, respectively.

Temporarily and Permanently Restricted Net Assets

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

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

Net Patient Service Revenue

The System has agreements with third-party payors that provide for payments to the System 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. For the years ended September 30, 2017 and 2016, net patient service revenue in the accompanying consolidated statements of operations increased (decreased) by approximately $1,300 and $(500), respectively, due to actual settlements and changes in assumptions underlying estimated future third-party settlements.

Revenues from the Medicare and Medicaid programs accounted for approximately 32% and 5% and 31% and 6% of the Hospital's net patient service revenue for the years ended September 30, 2017 and 2016, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation.

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

The Hospital 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 Hospital provides a discount approximately equal to that of its largest private insurance payors. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for doubtful accounts related to uninsured patients in the period the services are provided.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. Conditional promises to give and intentions to give are reported at fair value at the date the condition is met. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of donated assets.

Excess of Revenues and Nonoperating Income Over Expenses

The System has deemed all activities as ongoing, major or central to the provision of health care services and, accordingly, they are reported as operating revenue and expenses, except for unrestricted contributions and pledges, the related philanthropy expenses and investment income which are recorded as nonoperating income.

The consolidated statements of operations also include excess of revenues and nonoperating income over expenses. Changes in unrestricted net assets which are excluded from excess of revenues and nonoperating income over expenses, consistent with industry practice, include the change in net unrealized gains and losses on investments other than trading securities or losses considered other than temporary, permanent transfers of assets to and from affiliates for other than goods and services, pension liability adjustments and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Estimated Workers' Compensation and Health Care Claims

The provision for estimated workers' compensation and health care claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Income Taxes

The Hospital, CRHCDC, CRHVC, CH/DHC and the Trust 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 or disclosure in the accompanying consolidated financial statements.

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

Advertising Costs

The System expenses advertising costs as incurred, and such costs totaled approximately \$217 and \$200 for the years ended September 30, 2017 and 2016, respectively.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued 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 October 1, 2018. ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. The System is evaluating the impact that ASU 2014-09 will have on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02). Under ASU 2016-02, at the commencement of a long-term lease, lessees will recognize a liability equivalent to the discounted payments due under the lease agreement, as well as an offsetting right-of-use asset. ASU 2016-02 is effective for the System on October 1, 2019, with early adoption permitted. Lessees (for capital and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees may not apply a full retrospective transition approach. The System is currently evaluating the impact of the pending adoption of ASU 2016-02 on the System's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities (Topic 958)* (ASU 2016-14). Under ASU 2016-14, the existing three-category classification of net assets (i.e., unrestricted, temporarily restricted and permanently restricted) will be replaced with a simplified model that combines temporarily restricted and permanently restricted into a single category called "net assets with donor restrictions". ASU 2016-14 also enhances certain disclosures regarding board designations, donor restrictions and qualitative information regarding management of liquid resources. In addition to reporting expenses by functional classifications, ASU 2016-14 will also require the financial statements to provide information about expenses by their nature, along with enhanced disclosures about the methods used to allocate costs among program and support functions. ASU 2016-14 is effective for the System's fiscal year ending September 30, 2019, with early adoption permitted. The System is currently evaluating the impact of the pending adoption of ASU 2016-14 on the System's consolidated financial statements.

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

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)* (ASU 2016-18), which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for the System's fiscal year ended September 30, 2019, and early adoption is permitted. ASU 2016-18 must be applied using a retrospective transition method. The System is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (ASU 2017-07). ASU 2017-07 will require that an employer report the service cost component of net periodic pension cost in the same line item as other compensation costs arising from services rendered by employees during the period. The other components of net periodic pension cost are required to be presented in the income statement separately and outside a subtotal of income from operations, if one is presented. ASU 2017-07 is effective for the System on October 1, 2018, with early adoption permitted. The System is currently evaluating the impact of the pending adoption of ASU 2017-07 on its consolidated financial statements.

Subsequent Events

Management of the System evaluated events occurring between the end of the System's fiscal year and December 1, 2017, the date the consolidated financial statements were available to be issued.

2. Transactions With Affiliates

The System provides funds to CRHC and its affiliates which are used for a variety of purposes. The System records the transfer of funds to CRHC and the other affiliates as either receivables or directly against net assets, depending on the intended use and repayment requirements of the funds. Generally, funds transferred for start-up costs of new ventures or capital related expenditures are recorded as charges against net assets. For the years ended September 30, 2017 and 2016, transfers made to CRHC were $(114) and $(129), respectively, and transfers received from Capital Region Health Services Corporation (CRHSC) were $612 and $318, respectively.

A brief description of affiliated entities is as follows:

- CRHSC is a for-profit provider of health care services, including an eye surgery center and assisted living facility.

- Concord Regional Visiting Nurse Association, Inc. and Subsidiary (CRVNA) provides home health care services.

- Riverbend, Inc. provides behavioral health services.

(In thousands)

2. Transactions With Affiliates (Continued)

Amounts due the System, primarily from joint ventures, totaled $1,857 and $1,885 at September 30, 2017 and 2016, respectively. Amounts have been classified as current or long-term depending on the intentions of the parties involved. Beginning in 1999, the Hospital began charging interest on a portion of the receivables ($810 and $851 at September 30, 2017 and 2016, respectively) with principal and interest (6.75% at September 30, 2017) payments due monthly. Interest income amounted to $52 and $59 for the years ended September 30, 2017 and 2016, respectively.

Contributions to affiliates and other community organizations from temporarily restricted net assets were $163 and $184 in 2017 and 2016, respectively.

3. Investments and Assets Whose Use is Limited or Restricted

Short-term investments totaling $7,552 and $19,512 at September 30, 2017 and 2016, respectively, are comprised primarily of cash and cash equivalents. Assets whose use is limited or restricted are carried at fair value and consist of the following at September 30:

	2017	2016
Board designated funds:		
Cash and cash equivalents	$ 3,582	$ 625
Fixed income securities	22,805	25,139
Marketable equity and other securities	243,906	214,931
Inflation-protected securities	20,393	19,592
	290,686	260,287
Held by trustee for workers' compensation reserves:		
Fixed income securities	4,120	4,024
Health insurance and other escrow funds:		
Cash and cash equivalents	1,740	1,682
Fixed income securities	2,209	1,783
Marketable equity securities	8,446	6,839
	12,395	10,304
Donor-restricted funds and restricted grants:		
Cash and cash equivalents	5,937	5,189
Fixed income securities	1,848	2,075
Marketable equity securities	19,769	17,739
Inflation-protected securities	1,654	1,615
Trust funds administered by others	11,002	10,607
Other	140	292
	40,350	37,517
	$347,551	$312,132

(In thousands)

3. Investments and Assets Whose Use is Limited or Restricted (Continued)

Included in marketable equity and other securities above are $173,052 and $133,944 at September 30, 2017 and 2016, respectively, in so called alternative investments and collective trust funds. See also Note 14.

Investment income, net realized gains and losses and net unrealized gains and losses on assets whose use is limited or restricted, cash and cash equivalents, and other investments are as follows at September 30:

	2017	2016
Unrestricted net assets:		
Interest and dividends	$ 4,466	$ 3,505
Investment income from trust funds administered by others	494	567
Net realized gains on sales of investments	4,255	23,408
	9,215	27,480
Restricted net assets:		
Interest and dividends	343	261
Net realized gains on sales of investments	339	1,920
	682	2,181
	$ 9,897	$ 29,661
Net unrealized gains (losses) on investments:		
Unrestricted net assets	$23,122	$ (5,098)
Temporarily restricted net assets	1,864	(540)
Permanently restricted net assets	395	118
	$25,381	$ (5,520)

In compliance with the System's spending policy, portions of investment income and related fees are recognized in other operating revenue on the accompanying consolidated statements of operations. Investment income reflected in other operating revenue was $1,655 and $1,695 in 2017 and 2016, respectively.

Investment management fees expensed and reflected in nonoperating income were $851 and $858 for the years ended September 30, 2017 and 2016, respectively.

(In thousands)

3. Investments and Assets Whose Use is Limited or Restricted (Continued)

The following summarizes the Hospital's gross unrealized losses and fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2017 and 2016:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2017						
Marketable equity securities	$36,725	$ (740)	$13,064	$ (6,119)	$49,789	$ (6,859)
Fund-of-funds	22,720	(332)	–	–	22,720	(332)
Collective trust funds	5,906	(94)	–	–	5,906	(94)
	$65,351	$(1,166)	$13,064	$(6,119)	$78,415	$(7,285)
2016						
Marketable equity securities	$ 1,830	$ (86)	$26,503	$ (9,538)	$28,333	$ (9,624)
Fund-of-funds	7,785	(215)	15,822	(990)	23,607	(1,205)
Collective trust funds	–	–	18,156	(1,713)	18,156	(1,713)
	$ 9,615	$ (301)	$60,481	$(12,241)	$70,096	$(12,542)

In evaluating whether investments have suffered an other-than-temporary decline, based on input from outside investment advisors, management evaluated the amount of the decline compared to cost, the length of time and extent to which fair value has been less than cost, the underlying creditworthiness of the issuer, the fair values exhibited during the year, estimated future fair values and the System's intent and ability to hold the security until a recovery in fair value or maturity. Based on evaluations of the underlying issuers' financial condition, current trends and economic conditions, management believes there are no securities that have suffered an other-than-temporary decline in value at September 30, 2017 and 2016.

4. Defined Benefit Pension Plan

The System has a noncontributory defined benefit pension plan (the Plan), covering all eligible employees of the System and subsidiaries. The Plan provides benefits based on an employee's years of service, age and the employee's compensation over those years. The System's funding policy is to contribute annually the amount needed to meet or exceed actuarially determined minimum funding requirements of the *Employee Retirement Income Security Act of 1974* (ERISA).

The System accounts for its defined benefit pension plan under ASC 715, *Compensation Retirement Benefits*. This Statement requires entities to recognize an asset or liability for the overfunded or underfunded status of their benefit plans in their financial statements.

(In thousands)

4. Defined Benefit Pension Plan (Continued)

The following table summarizes the Plan's funded status at September 30, 2017 and 2016:

	2017	2016
Funded status:		
Fair value of plan assets	$ 233,739	$ 185,404
Projected benefit obligation	(277,075)	(270,534)
	$ (43,336)	$ (85,130)
Activities for the year consist of:		
Benefit payments and administrative expenses	$ 16,256	$ 9,230
Net periodic benefit cost	14,283	12,460

The table below presents details about the System's defined benefit pension plan, including its funded status, components of net periodic benefit cost, and certain assumptions used in determining the funded status and cost:

	2017	2016
Change in benefit obligation:		
Benefit obligation at beginning of year	$270,534	$229,888
Service cost	10,510	9,836
Interest cost	10,662	10,761
Actuarial loss	1,625	29,279
Benefit payments and administrative expenses	(16,256)	(9,230)
Benefit obligation at end of year	$277,075	$270,534
Change in plan assets:		
Fair value of plan assets at beginning of year	$185,404	$165,053
Actual return on plan assets	21,591	12,581
Employer contributions	43,000	17,000
Benefit payments and administrative expenses	(16,256)	(9,230)
Fair value of plan assets at end of year	$233,739	$185,404
Funded status and amount recognized in noncurrent liabilities at September 30	$ (43,336)	$ (85,130)

(In thousands)

4. Defined Benefit Pension Plan (Continued)

Amounts recognized as a change in unrestricted net assets during the years ended September 30, 2017 and 2016 consist of:

	2017	2016
Net actuarial (gain) loss	$ (4,917)	$ 30,715
Net amortized loss	(8,457)	(6,155)
Prior service credit amortization	276	276
Total amount recognized	$ (13,098)	$ 24,836

Pension Plan Assets

The fair values of the System's pension plan assets as of September 30, 2017 and 2016, by asset category are as follows (see Note 14 for level definitions). In accordance with ASU 2015-07, certain investments that are measured using the net value per share practical expedient have not been classified in the fair value hierarchy.

	2017 Level 1	2016 Level 1
Short-term investments:		
Money market funds	$ 41,294	$ 11,328
Equity securities:		
Common stocks	9,575	9,251
Mutual funds – international	8,214	13,879
Mutual funds – domestic	45,874	38,471
Mutual funds – natural resources	5,061	4,662
Mutual funds – inflation hedge	8,303	6,369
Fixed income securities:		
Mutual funds – REIT	415	449
Mutual funds – fixed income	15,670	21,527
	134,406	105,936
Funds measured at net asset value:		
Equity securities:		
Funds-of-funds	67,299	47,879
Fixed income securities:		
Funds-of-funds	–	4,715
Collective trust funds	32,034	26,874
Total investments at fair value	$233,739	$185,404

(In thousands)

4. Defined Benefit Pension Plan (Continued)

The target allocation for the System's pension plan assets as of September 30, 2017 and 2016, by asset category are as follows:

	2017		2016	
	Target Allocation	Percentage of Plan Assets	Target Allocation	Percentage of Plan Assets
Short-term investments	0-20%	18%	0-20%	6%
Equity securities	40-80%	62	40-80%	65
Fixed income securities	5-80%	7	5-80%	15
Other	0-30%	13	0-30%	14

The funds-of-funds are invested with ten investment managers and have various restrictions on redemptions. One manager holding amounts totaling approximately \$9 million at September 30, 2017 allows for semi-monthly redemptions, with 5 days' notice. One manager holding approximately \$8 million at September 30, 2017 allows for monthly redemptions, with 15 days' notice. Five managers holding amounts totaling approximately \$36 million at September 30, 2017 allow for quarterly redemptions, with notices ranging from 45 to 65 days. Two of the managers holding amounts of approximately \$10 million at September 30, 2017 allow for annual redemptions, with notice ranging from 60 to 90 days. One of the managers holding amounts of approximately \$5 million at September 30, 2017 allows for redemptions on a three year rolling basis, with a notice of 60 days. There is also a special redemption provision that allows 10% of the investment to be redeemed annually on March 1, with a notice of 30 days. The collective trust funds allow for monthly redemption, with notices ranging from 6 to 10 days. Certain funds also may include a fee estimated to be equal to the cost the fund incurs in converting investments to cash (ranging from 0.5% to 1.5%) or are subject to certain lock periods.

The System considers various factors in estimating the expected long-term rate of return on plan assets. Among the factors considered include the historical long-term returns on plan assets, the current and expected allocation of plan assets, input from the System's actuaries and investment consultants, and long-term inflation assumptions. The System's expected allocation of plan assets is based on a diversified portfolio consisting of domestic and international equity securities, fixed income securities, and real estate.

The System's investment policy for its pension plan is to balance risk and returns using a diversified portfolio consisting primarily of high quality equity and fixed income securities. To accomplish this goal, plan assets are actively managed by outside investment managers with the objective of optimizing long-term return while maintaining a high standard of portfolio quality and proper diversification. The System monitors the maturities of fixed income securities so that there is sufficient liquidity to meet current benefit payment obligations. The System's Investment Committee provides oversight of the plan investments and the performance of the investment managers.

(In thousands)

4. Defined Benefit Pension Plan (Continued)

Amounts included in expense during fiscal 2017 and 2016 consist of:

	2017	2016
Components of net periodic benefit cost:		
Service cost	$ 10,510	$ 9,836
Interest cost	10,662	10,761
Expected return on plan assets	(15,627)	(14,016)
Amortization of prior service credit and loss	8,738	5,879
Net periodic benefit cost	$ 14,283	$ 12,460

The accumulated benefit obligations for the plan at September 30, 2017 and 2016 were $261,601 and $259,477, respectively.

	2017	2016
Weighted average assumptions to determine benefit obligation:		
Discount rate	4.29%	4.03%
Rate of compensation increase	3.00	2.00
Weighted average assumptions to determine net periodic benefit cost:		
Discount rate	4.03%	4.78%
Expected return on plan assets	7.75	7.75
Cash balance credit rate	5.00	5.00
Rate of compensation increase	2.00	2.00

In selecting the long-term rate of return on plan 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 plan's asset allocation and the expected returns likely to be earned over the life of the plan, as well as the historical returns on the types of assets held and the current economic environment.

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

Actuarial loss	$ 7,995
Prior service credit	(276)
	$ 7,719

The System funds the pension plan and no contributions are made by employees. The System funds the plan annually by making a contribution of at least the minimum amount required by applicable regulations and as recommended by the System's actuary. However, the System may also fund the plan in excess of the minimum required amount.

(In thousands)

4. Defined Benefit Pension Plan (Continued)

Cash contributions in subsequent years will depend on a number of factors including performance of plan assets. However, the System expects to fund $16,000 in cash contributions to the plan for the 2018 plan year.

Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Year Ended September 30	Pension Benefits
2018	$ 12,505
2019	13,463
2020	15,149
2021	16,495
2022	17,343
2023 – 2027	100,134

5. Estimated Third-Party Payor Settlements

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

Medicare

Inpatient and outpatient services rendered to Medicare program beneficiaries are primarily paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical diagnosis and other factors. In addition to this, the System is also reimbursed for medical education and other items which require cost settlement and retrospective review by the fiscal intermediary. Accordingly, the System files an annual cost report with the Medicare program after the completion of each fiscal year to report activity applicable to the Medicare program and to determine any final settlements.

The physician practices are reimbursed on a fee screen basis.

Medicaid Enhancement Tax and Disproportionate Share Payment

Under the State of New Hampshire's (the State) tax code, the State imposes a Medicaid Enhancement Tax (MET) equal to 5.40% and 5.45% of net patient service revenues in State fiscal years 2017 and 2016, respectively. The amount of tax incurred by the System for 2017 and 2016 was $20,311 and $19,679, respectively.

5. Estimated Third-Party Payor Settlements (Continued)

In the fall of 2010, in order to remain in compliance with stated federal regulations, the State of New Hampshire adopted a new approach related to Medicaid disproportionate share funding (DSH) retroactive to July 1, 2010. Unlike the former funding method, the State's approach led to a payment that was not directly based on, and did not equate to, the level of tax imposed. As a result, the legislation created some level of losses at certain New Hampshire hospitals, while other hospitals realized gains. DSH payments from the State are recorded within unrestricted revenue and other support and amounted to $12,717 in 2017 and $7,800 in 2016, net of reserves referenced below.

The Centers for Medicare and Medicaid Services (CMS) has completed 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 potential exposure based on the audit results to date.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under fee schedules and cost reimbursement methodologies subject to various limitations or discounts. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid program.

The physician practices are reimbursed on a fee screen basis.

Other

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

The accrual for estimated third-party payor settlements reflected on the accompanying consolidated balance sheets represents the estimated net amounts to be paid under reimbursement contracts with the Centers for Medicare and Medicaid Services (Medicare), the New Hampshire Department of Welfare (Medicaid) and any commercial payors with settlement provision. Settlements for the Hospital have been finalized through 2014 for Medicare and Medicaid.

(In thousands)

6. Long-Term Debt and Notes Payable

Long-term debt consists of the following at September 30, 2017 and 2016:

	2017	2016
2.0% to 5.0% New Hampshire Health and Education Facilities Authority (NHHEFA) Revenue Bonds, Concord Hospital Issue, Series 2013A; due in annual installments, including principal and interest ranging from $1,543 to $3,555 through 2043, including unamortized original issue premium of $3,066 in 2017 and $3,187 in 2016	$ 43,091	$ 44,332
1.71% fixed rate NHHEFA Revenue Bonds, Concord Hospital Issue, Series 2013B; due in annual installments, including principal and interest ranging from $1,860 to $3,977 through 2024	16,786	20,436
1.3% to 5.6% NHHEFA Revenue Bonds, Concord Hospital Issue, Series 2011; due in annual installments, including principal and interest ranging from $2,737 to $5,201 through 2026, including unamortized original issue premium of $175 in 2017 and $194 in 2016	26,289	30,109
	86,166	94,877
Less unamortized bond issuance costs	(843)	(908)
Less current portion	(8,822)	(8,570)
	$ 76,501	$ 85,399

In February 2013, $48,631 (including an original issue premium of $3,631) of NHHEFA Revenue Bonds, Concord Hospital Issue, Series 2013A, were issued to assist in the funding of a significant facility improvement project and to advance refund the Series 2001 NHHEFA Hospital Revenue Bonds. The facility improvement project included enhancements to the System's power plant, renovation of certain nursing units, expansion of the parking capacity at the main campus and various other routine capital expenditures and miscellaneous construction, renovation and improvements of the System's facilities.

In March 2011, $49,795 of NHHEFA Revenue Bonds, Concord Hospital Issue, Series 2011, were issued to assist in the funding of a significant facility improvement project and pay off the Series 1996 Revenue Bonds. The project included expansion and renovation of various Hospital departments, infrastructure upgrades, and acquisition of capital equipment.

Substantially all the property and equipment relating to the aforementioned construction and renovation projects, as well as subsequent property and equipment additions thereto, and a mortgage lien on the facility, are pledged as collateral for the Series 2011 and 2013A and B Revenue Bonds. In addition, the gross receipts of the Hospital are pledged as collateral for the Series 2011 and 2013A and B Revenue Bonds. The most restrictive financial covenants require a 1.10 to 1.0 ratio of aggregate income available for debt service to total annual debt service and a day's cash on hand ratio of 75 days. The Hospital was in compliance with its debt covenants at September 30, 2017 and 2016.

The obligations of the Hospital under the Series 2013A and B and Series 2011 Revenue Bond Indentures are not guaranteed by any of the subsidiaries or affiliated entities.

Interest paid on long-term debt amounted to $4,010 (including capitalized interest of $509) and $3,731 for the years ended September 30, 2017 and 2016, respectively.

(In thousands)

6. Long-Term Debt and Notes Payable (Continued)

The aggregate principal payments on long-term debt for the next five fiscal years ending September 30 and thereafter are as follows:

2018	$ 8,822
2019	9,061
2020	7,385
2021	5,186
2022	5,339
Thereafter	47,132
	$82,925

The Hospital plans to issue $60 million of tax exempt bonds in December 2017. Proceeds of the bonds will be used for the construction of a new medical office building. In addition, the Series 2017 Bonds will reimburse the Hospital for capital expenditures incurred in association with the construction of a parking garage, as well as routine capital expenditures.

7. Commitments and Contingencies

Malpractice Loss Contingencies

Prior to February 1, 2011, the System was insured against malpractice loss contingencies under claims made insurance policies. A claims-made policy provides specific coverage for claims made during the policy period. During 2017, the System paid to transfer its obligation for claims and incidents made and reported under the 2001-2011 policy period to a third party. Under the Loss Portfolio Transfer agreement, the third party assumed obligation for claims and incidents made and reported, including any closed incidents included on loss run reports that may ripen into a claim or suit and are subject to reopening.

Effective February 1, 2011, the System insures its medical malpractice risks through a multiprovider captive insurance company under a claims-made insurance policy. Premiums paid are based upon actuarially determined amounts to adequately fund for expected losses. At September 30, 2017, there were no known malpractice claims outstanding for the System, which, in the opinion of management will be settled for amounts in excess of insurance coverage, nor were there any unasserted claims or incidents which require loss accruals. The System has established reserves for unpaid claim amounts for Hospital and Physician Professional Liability and General Liability reported claims and for unreported claims for incidents that have been incurred but not reported. The amounts of the reserves total $1,995 and $1,911 at September 30, 2017 and 2016, respectively and are reflected in the accompanying consolidated balance sheets within accrued pension and other long-term liabilities. The possibility exists, as a normal risk of doing business, that malpractice claims in excess of insurance coverage may be asserted against the System.

7. Commitments and Contingencies (Continued)

The captive retains and funds up to actuarial expected loss amounts, and obtains reinsurance at various attachment points for individual and aggregate claims in excess of funding in accordance with industry practices. At September 30, 2017, the System's interest in the captive represents approximately 57% of the captive. The System accounts for its investments in the captive under the equity method since control of the captive is shared equally between the participating hospitals. The System has recorded its interest in the captive's equity, totaling approximately $5,400 and $2,945 at September 30, 2017 and 2016, respectively, in other noncurrent assets on the accompanying consolidated balance sheets. Changes in the System's interest are included in nonoperating income on the accompanying consolidated statements of operations

In accordance with ASU No. 2010-24, "*Health Care Entities*" (Topic 954): *Presentation of Insurance Claims and Related Insurance Recoveries*, at September 30, 2017 and 2016, the Hospital recorded a liability of approximately $3,800 and $3,100, respectively, related to estimated professional liability losses. At September 30, 2017 and 2016, the Hospital also recorded a receivable of $3,800 and $3,100, respectively, related to estimated recoveries under insurance coverage for recoveries of the potential losses. These amounts are included in accrued pension and other long-term liabilities and other assets, respectively, on the consolidated balance sheets.

Workers' Compensation

The Hospital maintains workers' compensation insurance under a self-insurance plan. The plan offers, among other provisions, certain specific and aggregate stop-loss coverage to protect the Hospital against excessive losses. The Hospital has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Accrued workers' compensation losses of $2,455 and $2,447 at September 30, 2017 and 2016, respectively, have been discounted at 3% (both years) and, in management's opinion, provide an adequate reserve for loss contingencies. A trustee held fund has been established as a reserve under the plan. Assets held in trust totaled $4,120 and $4,024 at September 30, 2017 and 2016, respectively, and is included in assets whose use is limited or restricted in the accompanying consolidated balance sheets.

Litigation

The System is involved in litigation and regulatory investigations 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.

Health Insurance

The System has a self-funded health insurance plan. The plan is administered by an insurance company which assists in determining the current funding requirements of participants under the terms of the plan and the liability for claims and assessments that would be payable at any given point in time. The System recognizes revenue for services provided to employees of the System during the year. The System is insured above a stop-loss amount of $440 on individual claims. Estimated unpaid claims, and those claims incurred but not reported at September 30, 2017 and 2016, have been recorded as a liability of $8,799 and $8,174, respectively, and are reflected in the accompanying consolidated balance sheets within accounts payable and accrued expenses.

(In thousands)

7. Commitments and Contingencies (Continued)

Operating Leases

The System has various operating leases relative to its office and offsite locations. Future annual minimum lease payments under noncancellable lease agreements as of September 30, 2017 are as follows:

Year Ending September 30:	
2018	$ 5,318
2019	4,732
2020	4,346
2021	4,086
2022	3,344
Thereafter	17,954
	$39,780

Rent expense was $6,129 and $5,862 for the years ended September 30, 2017 and 2016, respectively.

8. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30:

	2017	2016
Health education and program services	$15,970	$13,655
Capital acquisitions	1,485	1,099
Indigent care	243	270
For periods after September 30 of each year	102	269
	$17,800	$15,293

Income on the following permanently restricted net asset funds is available for the following purposes at September 30:

	2017	2016
Health education and program services	$17,595	$17,115
Capital acquisitions	803	803
Indigent care	1,811	1,811
For periods after September 30 of each year	193	152
	$20,402	$19,881

(In thousands)

9. Patient Service and Other Revenue

Net patient service revenue for the years ended September 30 is as follows:

	2017	2016
Gross patient service charges:		
Inpatient services	$ 488,730	$ 446,448
Outpatient services	609,993	552,939
Physician services	168,161	156,870
Less charitable services	(8,547)	(8,789)
	1,258,337	1,147,468
Less contractual allowances and discounts:		
Medicare	456,339	393,940
Medicaid	110,816	114,502
Other	223,077	204,335
	790,232	712,777
Total Hospital net patient service revenue (net of contractual allowances and discounts)	468,105	434,691
Other entities	242	270
	$ 468,347	$ 434,961

An estimated breakdown of patient service revenue, net of contractual allowances, discounts and provision for doubtful accounts recognized in 2017 and 2016 from these major payor sources, is as follows for the Hospital. The provision for doubtful accounts for subsidiaries of the Hospital was not significant in 2017 and 2016.

	Hospital			
	Gross Patient Service Revenues	Contractual Allowances and Discounts	Provision for Doubtful Accounts	Net Patient Service Revenues Less Provision for Doubtful Accounts
2017				
Private payors (includes coinsurance and deductibles)	$ 494,628	$ (223,077)	$ (9,878)	$261,673
Medicaid	132,747	(110,816)	–	21,931
Medicare	604,179	(456,339)	(2,509)	145,331
Self-pay	26,783	–	(7,652)	19,131
	$ 1,258,337	$ (790,232)	$ (20,039)	$448,066

(In thousands)

9. Patient Service and Other Revenue (Continued)

	Hospital			
	Gross Patient Service Revenues	Contractual Allowances and Discounts	Provision for Doubtful Accounts	Net Patient Service Revenues Less Provision for Doubtful Accounts
2016				
Private payors (includes coinsurance and deductibles)	$ 459,683	$ (204,335)	$ (7,864)	$247,484
Medicaid	139,999	(114,502)	–	25,497
Medicare	525,644	(393,940)	(2,237)	129,467
Self-pay	22,142	–	(7,488)	14,654
	$1,147,468	$(712,777)	$(17,589)	$417,102

Electronic Health Records Incentive Payments

The CMS Electronic Health Records (EHR) incentive programs provide a financial incentive for the "meaningful use" of certified EHR technology to achieve health and efficiency goals. To qualify for incentive payments, eligible organizations must successfully demonstrate meaningful use of certified EHR technology through various stages defined by CMS. Revenue totaling $148 and $99 associated with these meaningful use attestations was recorded as other revenue for the years ended September 30, 2017 and 2016, respectively.

10. Functional Expenses

The System provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows for the years ended September 30:

	2017	2016
Health care services	$324,985	$314,591
General and administrative	85,702	70,016
Depreciation and amortization	24,378	24,535
Medicaid enhancement tax	20,311	19,679
Interest expense	2,918	3,700
	$458,294	$432,521

Fundraising related expenses were $940 and $898 for the years ended September 30, 2017 and 2016, respectively.

(In thousands)

11. Charity Care and Community Benefits (Unaudited)

The Hospital maintains records to identify and monitor the level of charity care it provides. The Hospital provides traditional charity care, as well as other forms of community benefits. The estimated cost of all such benefits provided is as follows for the years ended September 30:

	2017	2016
Community health services	$ 2,150	$ 1,939
Health professions education	4,398	3,749
Subsidized health services	40,320	35,624
Research	83	94
Financial contributions	752	700
Community building activities	45	46
Community benefit operations	97	77
Charity care costs (see Note 1)	3,669	3,807
	$51,514	$46,036

In addition, the Hospital incurred estimated costs for services to Medicare and Medicaid patients in excess of the payment from these programs of $88,830 and $82,669 in 2017 and 2016, respectively.

12. Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents of southern New Hampshire and are insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors as of September 30 is as follows:

	2017	2016
Patients	10%	10%
Medicare	33	33
Anthem Blue Cross	14	13
Cigna	3	4
Medicaid	13	16
Commercial	25	23
Workers' compensation	2	1
	100%	100%

13. Volunteer Services (Unaudited)

Total volunteer service hours received by the Hospital were approximately 20,800 in 2017 and 22,000 in 2016. The volunteers provide various nonspecialized services to the Hospital, none of which has been recognized as revenue or expense in the accompanying consolidated statements of operations.

14. 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. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

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. There have been no changes in the methodologies used at September 30, 2017 and 2016. In accordance with ASU 2015-07, certain investments that are measured using the net value per share practical expedient have not been classified in the fair value hierarchy.

(In thousands)

14. Fair Value Measurements (Continued)

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

	Level 1	Level 2	Level 3	Total
2017				
Cash and cash equivalents	$ 18,811	$ –	$ –	$ 18,811
Fixed income securities	30,982	–	–	30,982
Marketable equity and other securities	99,069	–	–	99,069
Inflation-protected securities and other	22,187	–	–	22,187
Trust funds administered by others	–	–	11,002	11,002
	$171,049	$ –	$11,002	182,051
Funds measured at net asset value:				
Marketable equity and other securities				173,052
				$355,103
2016				
Cash and cash equivalents	$ 27,008	$ –	$ –	$ 27,008
Fixed income securities	33,021	–	–	33,021
Marketable equity and other securities	105,565	–	–	105,565
Inflation-protected securities and other	21,499	–	–	21,499
Trust funds administered by others	–	–	10,607	10,607
	$187,093	$ –	$10,607	197,700
Funds measured at net asset value:				
Marketable equity and other securities				133,944
				$331,644

The System's Level 3 investments consist of funds administered by others. The fair value measurement is based on significant unobservable inputs.

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

(In thousands)

14. Fair Value Measurements (Continued)

A reconciliation of the fair value measurements using significant unobservable inputs (Level 3) is as follows for 2017 and 2016:

	Trust Funds Administered by Others
Balance at September 30, 2015	$ 10,489
Net realized and unrealized gains	118
Balance at September 30, 2016	10,607
Net realized and unrealized gains	395
Balance at September 30, 2017	$ 11,002

The table below sets forth additional disclosures for investment funds (other than mutual funds) valued based on net asset value to further understand the nature and risk of the investments by category:

	Fair Value	Unfunded Commit-ments	Redemption Frequency	Redemption Notice Period
September 30, 2017:				
Funds-of-funds	$ 13,948	$ –	Semi-monthly	5 days
Funds-of-funds	10,634	–	Monthly	15 days
Funds-of-funds	58,988	–	Quarterly	45 – 65 days
Funds-of-funds	18,219	–	Annual	60 - 90 days*
Funds-of-funds	7,232	–	Three year rolling	60 days**
Funds-of-funds	362	3,411	Illiquid	N/A
Collective trust funds	5,906	–	Daily	10 days
Collective trust funds	57,763	–	Monthly	6 – 10 days
September 30, 2016:				
Funds-of-funds	$ 15,821	$ –	Monthly	15 days
Funds-of-funds	54,355	–	Quarterly	45 – 65 days
Funds-of-funds	9,125	–	Annual	90 days
Funds-of-funds	6,230	–	Three year rolling	60 days**
Collective trust funds	48,413	–	Monthly	6 – 10 days

* Certain funds are subject to a 2 year lock period before annual redemption can occur.

** Subject to a 3 year rolling lock. This fund also has a special redemption right that allows the Hospital to liquidate 10% of the investment on March 1 of each year, with 30 days' notice.

14. Fair Value Measurements (Continued)

Investment Strategies

Fixed Income Securities

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

Marketable Equity and Other Securities

The primary purpose of marketable 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 marketable 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.

The System invests in other securities that are considered alternative investments that consist of 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. Collective trust funds are generally valued based on the proportionate share of total fund net assets.

System management is responsible for the fair value measurements of investments reported in the consolidated financial statements. Such amounts are generally determined using audited financial statements of the funds and/or recently settled transactions and is estimated using the net asset value per share of the fund. 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.

The Hospital has committed to invest up to $5,746 between three investment managers, and had funded $335 of that commitment as of September 30, 2017. As these investments are made, the Hospital reallocates resources from its current investments resulting in an asset allocation shift within the investment pool.

Inflation-Protected Securities

The primary purpose of inflation-protected securities is to provide protection against the negative effects of inflation.

14. Fair Value Measurements (Continued)

Fair Value of Other Financial Instruments

Other financial instruments consist of accounts and pledges receivable, accounts payable and accrued expenses, estimated third-party payor settlements, and long-term debt and notes payable. The fair value of all financial instruments other than long-term debt and notes payable approximates their relative book values as these financial instruments have short-term maturities or are recorded at amounts that approximate fair value. The fair value of the System's long-term debt and notes payable is estimated using discounted cash flow analyses, based on the System's current incremental borrowing rates for similar types of borrowing arrangements. The carrying value and fair value of the System's long-term debt and notes payable amounted to $86,166 and $102,286, respectively, at September 30, 2017, and $94,877 and $112,762, respectively, at September 30, 2016.