

HealthTrust, Inc.

Audited Financial Statements
with Supplementary Information

*Years ended June 30, 2020 and 2019
with Report of Independent Auditors*

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with Supplementary Information

Years ended June 30, 2020 and 2019

Contents

Report of Independent Auditors.....	2 - 3
Management's Discussion and Analysis (Unaudited).....	4 - 16
<u>Audited Financial Statements</u>	
Statements of Net Position	17 - 18
Statements of Revenues, Expenses and Changes in Net Position.....	19 - 20
Statements of Cash Flows.....	21 - 22
Notes to the Financial Statements.....	23 - 49
<u>Required Supplementary Information</u>	
Reconciliation of Claims Liabilities by Type of Contract (Unaudited).....	51 - 52
Ten-Year Schedule of Claims Development Information (Unaudited).....	53 - 54
Ten-Year Schedule of Employer Pension Information (Unaudited).....	55
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	56 - 57

Report of Independent Auditors

Board of Directors
HealthTrust, Inc.

Report on Financial Statements

We have audited the accompanying financial statements of HealthTrust, Inc. (HealthTrust) and its discretely presented component unit, Center at Triangle Park, Inc., which comprise the statements of net position as of June 30, 2020 and 2019 and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HealthTrust and its discretely presented component unit as of June 30, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 - 16, the Reconciliation of Claims Liabilities by Type of Contract on pages 51 - 52, the Ten-Year Schedule of Claims Development Information on pages 53 - 54 and the Ten-Year Schedule of Employer Pension Information on page 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Reporting on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2020 on our consideration of HealthTrust and its discretely presented component unit's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The image shows a handwritten signature in cursive script that reads "Johnson Lambert LLP". The signature is written in black ink and is positioned above the printed contact information for the firm.

Burlington, Vermont

October 7, 2020

Firm registration: 092-0000267

HealthTrust, Inc.

Management's Discussion and Analysis (Unaudited)

Years ended June 30, 2020 and 2019

Introduction:

As management of HealthTrust, Inc. (HealthTrust), we offer readers of the financial statements this narrative overview and analysis of the financial activities of HealthTrust for the fiscal years ended June 30, 2020, 2019 and 2018. This section, the management's discussion and analysis, is intended to provide an overview of HealthTrust's financial condition, results of operations, and other key information.

HealthTrust's basic financial statements are comprised of four components, 1) the statement of net position, 2) the statement of revenues, expenses and changes in net position, 3) the statement of cash flows and 4) the notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

The financial statements contained within this report are reflective of the years ending June 30, 2020 and 2019.

Overview:

HealthTrust is governed by its Board of Directors and operates on a fiscal year ending June 30.

HealthTrust's mission is to provide high quality, cost-effective employee benefit products and services for public employers and employees in New Hampshire in order to reduce costs through pooling strategies with a commitment to education, health promotion and disease prevention.

HealthTrust offers employee benefit coverage lines and related services to its Member Groups (hereafter "Members"). HealthTrust operates in accordance with New Hampshire RSA 5-B. This statute and the HealthTrust Bylaws permit political subdivisions of the State of New Hampshire, and their instrumentalities, to participate in its pooled risk management program.

HealthTrust is a New Hampshire voluntary corporation, with its income not subject to federal income taxation under Internal Revenue Code Section 115. HealthTrust believes that operating without profit seeking contributes to its ability to deliver products to public sector employers and through them to their employees at lower rates than might otherwise be obtained for comparable products within the commercial marketplace.

As part of its pooled risk management program HealthTrust offers its Members medical (including prescription drug), dental, short and long-term disability and life coverage lines. HealthTrust bears the financial risk of the coverage agreements with Members for medical, dental and short-term disability coverage. Long-term disability and life coverage is provided on a fully insured basis through a third-party insurer.

HealthTrust has administrative service contracts with Anthem Blue Cross and Blue Shield (Anthem), CaremarkPCS Health LLC (Caremark), and Delta Dental Plan of New Hampshire (Delta Dental) to provide access to a comprehensive provider network and third party claims administration and related services for HealthTrust's medical and dental coverage lines.

HealthTrust, Inc.

Management's Discussion and Analysis (Unaudited) (Continued)

Overview (Continued):

HealthTrust works collaboratively with these vendors to provide a full range of medical and dental benefit options to meet the evolving demands of the public sector. Together we bring focus to public sector issues and concerns to better meet the public sector's healthcare needs.

Statement of Net Position:

This statement provides information about HealthTrust's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position as of June 30, 2020 and 2019. The majority of HealthTrust's assets are cash, can be converted to cash quickly, or are expected to become cash soon.

The liabilities reflect claims paid by contracted third party administrators in the audit period, but not reported to HealthTrust until after year end, amounts owed to outside companies for services within the period that were paid after year end, amounts on deposit with HealthTrust as part of the self-funded plus program, amounts calculated by qualified actuarial consultants as reasonable estimates for claims incurred but not yet reported to the claims administrators, premium deficiency reserves, amounts required to be returned to Members, and other accrued expenses.

Net position identifies the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources and represents investments in Center at Triangle Park, Inc. (CTP) and capital assets along with unrestricted net position. HealthTrust's governing board, with advice from its consulting actuary, annually reviews the proper level of capital adequacy reserve (also known as the designated total net position target level) it needs to maintain solvency.

Statement of Revenues, Expenses and Changes in Net Position:

The results of HealthTrust's operating activity are shown on this statement. This statement provides information about the level of contributions, claims, return of surplus and operating expenses for the fiscal year. Information about other sources of income and other expenses is provided. Lastly, this statement sets forth HealthTrust's change in net position for the year.

Statement of Cash Flows:

This statement reviews how HealthTrust's cash balance changed during the fiscal year. It is divided into three different areas explaining where HealthTrust generated or used cash during the year. These areas relate to HealthTrust's operations, investing activities and capital and related financing activities (sale and acquisition of capital assets). It substantiates and reconciles the increase or decrease in HealthTrust's cash position.

Net Position and Changes in Net Position:

HealthTrust's total assets as of June 30, 2020, 2019 and 2018 are \$156.7 million, \$119.6 million and \$124.1 million, respectively. The increase in assets as of June 30, 2020 is primarily due to an increase in cash and cash equivalents (the Statement of Cash Flows identifies inflows and outflows of cash and cash equivalents), resulting from the decrease in claims from the COVID-19 pandemic. The decrease in assets as of June 30, 2019 is primarily due to a decrease in cash and cash equivalents resulting from the timing of vendor payments and deposits. The fair value of HealthTrust's investments in equities and fixed-maturity securities increased by \$1.9 million during the year ended June 30, 2020 as compared to \$2.5 million during the year ended June 30, 2019, primarily due to fluctuations in equities' and fixed-maturity securities' market performance.

HealthTrust, Inc.

Management's Discussion and Analysis (Unaudited) (Continued)

Net Position and Changes in Net Position (Continued):

HealthTrust's total liabilities as of June 30, 2020, 2019 and 2018 are \$66.8 million, \$39.7 million and \$44.7 million, respectively. The increase in liabilities as of June 30, 2020 is primarily the result of recording a premium deficiency reserve and a return of surplus liability. The decrease in liabilities as of June 30, 2019 is primarily the result of no premium deficiency reserve and a reduction in accrued expenses.

HealthTrust's total net position as a result of the combined effects of assets, deferred outflows of resources, liabilities and deferred inflows of resources as of June 30, 2020, 2019 and 2018 totaled \$90.0 million, \$81.2 million and \$79.5 million respectively.

The following table shows HealthTrust's condensed net position as of June 30:

	<u>2020</u>	<u>2019</u>	<u>% Chg</u>	<u>2018</u>	<u>% Chg</u>
Assets	\$150,992,000	\$113,542,981	33 %	\$117,729,969	(4)%
Property and equipment, net	76,817	219,870	(65)%	250,717	(12)%
Investment in Center at Triangle Park, Inc.	<u>5,597,498</u>	<u>5,804,034</u>	(4)%	<u>6,099,334</u>	(5)%
Total Assets	156,666,315	119,566,885	31 %	124,080,020	(4)%
Deferred Outflows of Resources	1,598,203	2,131,345	(25)%	1,241,732	72 %
Total Liabilities	66,782,092	39,660,788	68 %	44,708,913	(11)%
Deferred Inflows of Resources	1,482,426	869,825	70 %	1,068,344	(19)%
Unrestricted net position	83,808,875	75,227,787	11 %	73,375,966	3 %
Majority interest in Center at Triangle Park, Inc.	5,597,498	5,804,034	(4)%	6,099,334	(5)%
Investment in property and equipment, net	<u>593,627</u>	<u>135,796</u>	337 %	<u>69,195</u>	96 %
Total Net Position	<u>\$ 90,000,000</u>	<u>\$ 81,167,617</u>	11 %	<u>\$ 79,544,495</u>	2 %

Consistent with the Governmental Accounting Standards Board's requirements, HealthTrust reflects net position in three categories: restricted, unrestricted and invested in capital assets. The amount of capital assets held, reflects the Company's majority interest in Center at Triangle Park, Inc. (CTP) and the amount invested in property and equipment (equipment, computer software, hardware, furniture, etc.), net of accumulated depreciation and related capital obligations. The amount in unrestricted net position reflects all other categories of net position, including the net unrealized gain/(loss) on marking investments to fair value. As described in Note 4 of the audited financial statements, these amounts are segregated into several categories as recognized by the HealthTrust Board of Directors. The categories include amounts for designated total net position target to protect HealthTrust's Members from unanticipated events such as larger than expected claims volume, unexpected decline in the value of invested funds, or other similar unforeseen events.

HealthTrust, Inc.

Management's Discussion and Analysis (Unaudited) (Continued)

Liabilities:

Liabilities totaled \$66.8 million at June 30, 2020, as compared to \$39.7 million at June 30, 2019 and \$44.7 million at June 30, 2018. Liabilities at June 30, 2020 are primarily comprised of claim and claim administration reserves totaling \$23.2 million, return of surplus of \$18.8 million, premium deficiency reserve of \$10.1 million, accounts payables and accrued expenses totaling \$12.8 million, and a net pension liability of \$1.9 million. The increase in liabilities is primarily related to a \$10.1 million premium deficiency reserve liability and the \$18.8 million return of surplus at June 30, 2020. There was no recorded premium deficiency reserve at June 30, 2019. Offsetting these increases, HealthTrust also experienced a \$2.3 million decrease in claims payable at June 30, 2020. Claims reserves are based on estimates of the ultimate cost of claims that have been reported, but not settled, and of claims that been incurred, but not reported.

In accordance with GASB Statement No. 30, "Risk Financing Omnibus," premium deficiencies are required to be calculated and reported by public entity risk pools. As GASB is not specific to healthcare entities, in establishing a premium deficiency reserve, HealthTrust also looks to generally accepted accounting principles issued by the Financial Accounting Standards Board (FASB) as well as applicable National Association of Insurance Commissioners (NAIC) relative to prepaid health care services contracts. Such guidance provides premium deficiency reserve guidance specific to health insurance entities, and has been used by HealthTrust to clarify and supplement GASB GAAP guidance issued within GASB Statement No. 30 which is specific to property liability insurance coverage. A premium deficiency can result when expected costs for coverage obligations as of the financial statement date exceed expected contributions (based on rates set prior to the financial statement date) for such coverage. As further described in Note 6, HealthTrust recorded a premium deficiency reserve as of June 30, 2020 of \$10.1 million, no premium reserve at June 30, 2019, and a \$7.5 million reserve as of June 30, 2018.

Operating Results:

HealthTrust's operating results for the years ended June 30, 2020, 2019 and 2018 totaled \$4.8 million, \$(2.9) million, and \$(6.8) million, respectively. Including non-operating revenues and expenses and majority interest in the Center at Triangle Park, Inc., net position during FY2020, FY2019 and FY2018 increased by \$8.8 million, increased by \$1.6 million, and decreased by \$5.4 million, respectively. The operating results are impacted by positive and negative claims experience as compared to estimates made during the rating process as well as the premium deficiency expense and return of surplus. The changes in net position from non-operating revenues are due to investment income and changes in the fair value of investments resulting from market fluctuations.

After finalizing the results for the year ended June 30, 2020, the governing board reviews the total net position to identify the amount above the designated total net position target to be returned to participating Member Groups.

HealthTrust, Inc.

Management's Discussion and Analysis (Unaudited) (Continued)

Operating Results (Continued):

The following table summarizes HealthTrust's operations, as shown in the Statement of Revenues, Expenses and Changes in Net Position, for the years ended June 30:

	<u>2020</u>	<u>2019</u>	<u>% Chg</u>	<u>2018</u>	<u>% Chg</u>
Operating Revenues					
Contributions earned from Member Groups	\$432,052,055	\$408,697,949	6 %	\$393,905,251	4 %
Other revenues	<u>2,526,053</u>	<u>2,358,913</u>	7 %	<u>2,629,326</u>	(10)%
Total operating revenues - net	434,578,108	411,056,862	6 %	396,534,577	4 %
Operating Expenses					
Claims incurred	362,473,815	384,521,410	(6)%	363,138,243	6 %
Anthem EPHC provider payments	2,570,299	2,315,252	11 %	1,899,327	22 %
Premium deficiency expense (gain)	10,066,000	(7,500,000)	(234)%	7,500,000	(200)%
Claims administrative fees paid	20,465,808	19,213,081	7 %	18,043,166	6 %
Return of surplus	18,786,984	-	DIV/0 %	-	DIV/0 %
Affordable Care Act - Federal Taxes	130,666	123,301	6 %	117,521	5 %
Contingent liability expense	-	-	DIV/0 %	(2,029,395)	100 %
General and administrative expenses	<u>15,303,916</u>	<u>15,283,968</u>	-	<u>14,690,002</u>	4 %
Total operating expenses	429,797,488	413,957,012	4 %	403,358,864	3 %
Operating gain (loss)	4,780,620	(2,900,150)	(265)%	(6,824,287)	(58)%
Non-Operating Revenues					
Net investment income	2,370,915	2,264,306	5 %	1,577,034	44 %
Net increase in fair value of investments	<u>1,887,384</u>	<u>2,474,263</u>	(24)%	<u>4,551</u>	54,267 %
Total non-operating revenues	4,258,299	4,738,569	(10)%	1,581,585	200 %
Change in net position before investment in subsidiary	9,038,919	1,838,419	392 %	(5,242,702)	(135)%
Change in investment in Center at Triangle Park, Inc.	<u>(206,536)</u>	<u>(215,297)</u>	(4)%	<u>(145,773)</u>	48 %
Change in net position	8,832,383	1,623,122	444 %	(5,388,475)	(130)%
Net position, beginning of year	<u>81,167,617</u>	<u>79,544,495</u>	2 %	<u>84,932,970</u>	(6)%
Net position, end of year	<u>\$ 90,000,000</u>	<u>\$ 81,167,617</u>	11 %	<u>\$ 79,544,495</u>	2 %

HealthTrust, Inc.

Management's Discussion and Analysis (Unaudited) (Continued)

Operating Revenues:

Net operating revenues for FY2020, FY2019 and FY2018 totaled \$434.6 million, \$411.1 million and \$396.5 million, respectively. FY2020 net operating revenues increased by 5.7% due to rate increases and enrollment changes. FY2019 net operating revenues also increased 3.8% due to rate increases and enrollment changes.

Operating revenues are primarily comprised of contributions earned from participating Member Groups. The cash provided by operating activities is detailed in the Statements of Cash Flows.

Operating Expenses:

Total operating expenses for FY2020, FY2019 and FY2018 totaled \$429.8 million, \$414.0 million and \$403.4 million, respectively. FY2020 operating expenses increased \$15.8 million over the prior year primarily as a result of \$18.8 million of return surplus and a \$10.1 million premium deficiency reserve, offset by decreased claims. FY2019 operating expenses increased \$10.6 million over the prior year as a result of increased claims experience offset by changes in the premium deficiency reserve from the prior year.

FY2020 operating expenses primarily include claims and provider payments incurred totaling \$365.0 million, claims administration fees totaling \$20.5 million, general and administrative expenses totaling \$15.3 million, premium deficiency reserve expense of \$10.1 million and \$18.8 million return of surplus.

Operating expenses as a percentage of contributions earned from Member Groups are as follows for the years ended June 30:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Claims incurred	83.9 %	94.1 %	92.2 %
Anthem EPHC provider payments	0.6 %	0.6 %	0.5 %
Premium deficiency expense (gain)	2.3 %	(1.8)%	1.9 %
Return of surplus	4.3 %	- %	- %
Administrative fees paid	4.7 %	4.7 %	4.6 %
Affordable Care Act - Federal Taxes	- %	- %	- %
Contingent liability expense	- %	- %	(0.5)%
Administrative expenses	3.5 %	3.7 %	3.7 %

Cash Flows:

Cash and cash equivalents increased by \$29.4 million for FY2020. As seen on the Statement of Cash Flows, \$32.2 million was provided by operating activities and \$2.8 million was used in investing and capital and related financing activities. HealthTrust has several policies to ensure its cash flow needs are met. These policies address the level of cash:

- To be maintained in interest-bearing accounts
- To be allocated to cash and investments

HealthTrust, Inc.

Management's Discussion and Analysis (Unaudited) (Continued)

Cash Flows (Continued):

HealthTrust maintained sufficient cash and investments to meet these policies for the period ending June 30, 2020. All cash is maintained in interest bearing, collateralized accounts at all times. At June 30, 2020 HealthTrust had approximately 64.8 days of cash on hand as compared to 41.3 days of cash on hand at June 30, 2019 and 45 days of cash on hand at June 30, 2018. HealthTrust deems this to be a sufficient level of cash on hand to meet obligations and to provide ample time to liquidate investments should the need arise. The duration of the portfolio, as calculated by the investment managers, was 3.52 years at June 30, 2020 as compared to 3.78 years at June 30, 2019, and 4.29 years at June 30, 2018.

Changes in Member Groups and Covered Enrollees:

HealthTrust closely watches changes in the number of Member Groups and the number of covered Enrollees, both in total and by benefit option. These indicators are important factors in administering the coverage lines, and could potentially affect claim volume. Significant shifts in the benefit options selected at the Member and Enrollee level can impact claims projections and future trend development. An increase in the number of covered Enrollees could create more participation in HealthTrust's *Slice of Life* wellness program, resulting in additional incentive dollars being paid as well as the need for additional capacity to service the expanded Enrollee base.

As of June 30, 2020, HealthTrust covered 71,818 unique covered persons participating in at least one of the following coverage lines: medical, dental, short-term disability, long-term disability, and life insurance. These covered persons represent Employees, Retirees, Spouses, and Dependents. HealthTrust continues to see enrollment shifts to lower cost benefit options that have increased co-payments and deductibles. While the current HMO plans have the largest number of Enrollees at slightly over 10,000, the new Site-of-Service benefit options have continued to see significant growth and now have over 5,522 Enrollees. It is anticipated that this will continue to grow over the next few years. The Point-of-Service (POS) enrollment has been declining over the last few years and now has 2,151 Enrollees. The MediComp III coverage enrollment continues to grow with over 6,600 Enrollees over age 65 covered by this benefit option. Enrollment in the Consumer Driven Health Plan (CDHP) remains small at 984 Enrollees, but it is an important part of the benefit options provided to Member Groups as they look for alternatives to meet the changing needs of their Employees. Dental and long-term disability enrollment remain fairly consistent over time, with the short-term disability and life insurance enrollment growing slightly over the same period.

The number of covered persons by coverage line is as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Medical	53,412	53,048	51,282
Dental	56,118	55,617	56,002
Life	9,645	9,232	8,226
Short-term disability	3,874	3,703	3,691
Long-term disability	5,939	5,598	4,569

HealthTrust, Inc.

Management's Discussion and Analysis (Unaudited) (Continued)

Participation:

HealthTrust contracts with Member Groups for coverage and the associated contribution rates on an annual basis for the upcoming coverage year. HealthTrust Bylaws provide that a Member may withdraw from coverage at any time, if proper notice is given as outlined in the HealthTrust Bylaws. HealthTrust does not maintain any multi-year contracts with its Members. However, Members generally maintain coverage for a full annual cycle, making any changes on their Group's renewal date, which is either on January 1 or July 1. If a Member withdraws from HealthTrust's medical coverage, they are required to wait two years before becoming eligible to rejoin the medical coverage line.

Market Share:

HealthTrust operates in a marketplace where there is targeted competition from other pooled risk management programs as well as insurance brokers. HealthTrust estimates, that as of June 30, 2020, HealthTrust Member Groups participating in its medical coverage line, represent approximately 74% of the total eligible number of groups in the New Hampshire public sector marketplace for medical coverage. HealthTrust offers annual renewals for current Members and proposals for eligible groups seeking new coverage. Due to the extremely competitive environment, HealthTrust expects to see some movement of eligible groups between public sector risk pool entities on a regular basis.

Rating:

HealthTrust retains a recognized actuarial firm for advice regarding the anticipated revenue needed for its self-insured lines at each renewal and the resulting rates to be established for such coverage lines at each renewal. The rating process is designed to raise only the amount of revenue necessary to meet HealthTrust's needs for payment of claims, administration (including health management expenses) and actuarially determined adequate reserves. As with any actuarial prediction, there is a degree of uncertainty as to whether a particular rating will be sufficient in any one year to meet all of the needs of HealthTrust for that year. Similarly, there exists in the rating process the possibility that rates established in any year will produce higher revenue than is needed. HealthTrust believes there is a high degree of likelihood that the rates established over time, the revenue raised and the funded reserves will be adequate to meet HealthTrust's obligations to its Members and their Employees, Retirees and Dependents.

Outlook:

HealthTrust and its Board of Directors continue to focus on providing high quality, comprehensive coverage at the lowest possible cost while maintaining exceptional services and providing education and training focused on improving and maintaining the health of the covered population. HealthTrust continues to offer the *Slice of Life* wellness program along with many other administrative services that HealthTrust believes sets us apart in the New Hampshire public sector marketplace. The following are a few of the highlighted services that continue to set HealthTrust apart from the other marketplace options.

Benefit Options and Flexibility:

Members have a menu of more than fifteen different medical plan options combined with two different prescription drug plan components from which to choose, HealthTrust continues to work with Anthem and our other third-party administrators to explore the marketplace for benefit options and services that are innovative. HealthTrust has seen significant migration to the Access Blue New England Site of Service (SOS) Plans which provide access to quality care while saving money when covered individuals choose a lower-cost independent lab, radiology centers or ambulatory surgery center (ASC) for their services. If covered,

HealthTrust, Inc.

Management's Discussion and Analysis (Unaudited) (Continued)

Benefit Options and Flexibility (Continued):

individuals select a preferred cost effective provider that will reduce their out of pocket costs, and positively impact the total cost of the claim, which aids in minimizing future rates for the Member Group. HealthTrust Benefit Advantage provides administrative services for Flexible Spending Accounts (FSAs) and Health Reimbursement Arrangements (HRAs) making it easier for Member Groups to offer cost-effective consumer driven benefit plans. Grand Rounds introduced in August 2019, provides covered individuals with expert second opinions, treatment decision support and referrals to local providers.

Retiree Billing Services:

HealthTrust Member Groups may elect for HealthTrust to provide billing administration for their Retirees' medical and dental coverage. If elected, HealthTrust handles all aspects of billing, including sending monthly invoices to covered retirees, collecting payments, coordinating with the New Hampshire Retirement System, and following up on unpaid accounts. Member Groups remain ultimately liable for any uncollectible Retiree billings. As of June 30, 2020, HealthTrust manages payments for medical and/or dental coverage for over 8,488 Retirees on behalf of Member Groups.

Retiree Specialists:

HealthTrust offers the services of Retiree Specialists, who assist Members and their Retirees alike with a multitude of questions and issues relative to Retiree eligibility, health coverage, Medicare, and the New Hampshire Retirement System medical subsidy. On behalf of Member Groups and their Retirees, the Retiree Specialists work closely with the New Hampshire Retirement System relative to issues of eligibility and annuity deduction payments. Additionally, HealthTrust offers four workshops a year to Retirees turning age 65, providing valuable information regarding the Medicare supplement plan and enrollment assistance. HealthTrust also offers Member Benefit Administrator sessions on Retiree eligibility. Additionally, the Retiree Specialists provide Retiree presentations onsite at Members' locations.

COBRA Administration and Billing Services:

On behalf of HealthTrust Member Groups offering HealthTrust-sponsored medical and/or dental plan coverage, HealthTrust administers various required COBRA notices, including the Initial COBRA Notice, Notice of Qualifying Event, COBRA Election Notice, and COBRA Termination Notice. As an added service for Members that elect COBRA billing services, HealthTrust, on the Member's behalf, will issue invoices directly to COBRA Beneficiaries and collect COBRA payment directly from COBRA Enrollees, thereby relieving HealthTrust Members of the administration of collecting COBRA contribution payments. For the period of July 1, 2019 – June 30, 2020, HealthTrust handled COBRA billing administration for 157 COBRA Beneficiaries.

Transition Care and Survivor Care:

These two services offered through HealthTrust are designed to continue providing medical and/or dental plan coverage to covered family members of Enrollees who die while covered as an active employee of a HealthTrust Member Group. Transition Care pays the required contribution for an employee's surviving covered family members for COBRA or retiree coverage for up to 12 months after an employee's death. In the event that the death occurred while the employee was performing his or her job responsibilities, the Survivor Care benefit will continue to cover the required contributions toward medical and/or dental coverage for an employee's previously enrolled family members until certain cutoff events occur. For the period of July 1, 2019 – June 30, 2020 HealthTrust provided Transition Care benefits to 22 surviving families and Survivor Care to 3 surviving families.

HealthTrust, Inc.

Management's Discussion and Analysis (Unaudited) (Continued)

Onsite Services/Virtual Services:

HealthTrust strives to meet the needs of Member Groups and Enrollees. Benefits Advisors and Wellness Advisors work collaboratively to provide open enrollment presentations and other various benefit education sessions throughout the year designed to support both the Member Groups and their employees in understanding the wide variety of coverage and services available to them through HealthTrust's offerings. This support is most often provided onsite at a Member's location. As the COVID-19 Pandemic hit in Mid-March HealthTrust moved to virtual services. The Benefit & Wellness Advisors along with the Engagement team worked collaboratively to implement Virtual Benefit Education sessions.

Workshops:

Staff present a number of workshops designed to assist Member Benefits Administrators in performing the duties related to benefits administration. These workshops include the annual Benefits Administrator Workshops and Healthcare Reform Workshops which provide Benefits Administrators with updates and new relevant information needed to comply with healthcare reform and administration of employee benefits. As the COVID-19 Pandemic hit in Mid-March HealthTrust moved to virtual services. The Benefit and Wellness Advisors provided Virtual Benefit Education sessions to many groups through June.

Claims Advocates:

Covered individuals who need guidance with claims processing can call on HealthTrust's Enrollee Services Staff to assist by facilitating communications between covered individuals and third party claims administrators (Anthem, Caremark, and/or Delta Dental). The Secure Enrollee Portal includes a secure message center which allows for secure communications directly with HealthTrust Enrollee Services Staff. Member and Enrollee Services staff continue to provide advocate support to hundreds of covered individuals annually.

Communications:

HealthTrust strives to serve as an essential resource for information regarding benefits administration. HealthTrust regularly communicates with Members and Enrollees through various newsletters and our comprehensive website. These resources keep Members and Enrollees up to date on available options and services. HealthTrust's robust website, www.healthtrustnh.org, offers HealthTrust's Members and Enrollees a comprehensive location for accessing coverage and service-related information. The website includes a public section, as well as password-protected portals, for Members, Enrollees, and Wellness Coordinators.

Through the Secure Member Portal, designated key contacts of Member Groups can submit electronic transactions such as ID card requests, salary changes, and notice of membership changes. Additionally, Members can download and print enrollment forms and access certain resources such as the Benefits Administrator Manual, plan documents, Summaries of Benefits and Coverage and other Member specific information for billing and enrollment purposes.

Through the Secure Enrollee portal, Enrollees with medical and/or dental plan coverage can create a password-protected online account. When they sign in to this account, they can access digital ID cards, view coverage documents and other resources as well as complete and submit interactive forms, such as ID card requests or address changes, and download printable forms. They also have access to a Secure Message Center to communicate directly with HealthTrust Enrollee Services Staff.

HealthTrust, Inc.

Management's Discussion and Analysis (Unaudited) (Continued)

Communications (Continued):

Through our enhanced single sign-on, Enrollees who log in to their secure HealthTrust account also have direct, one-click access to their accounts at five vendor websites: Anthem, CVS/caremark, Onlife Health, SmartShopper and BioIQ. One username and password allows Enrollees to do wide-ranging tasks such as refill prescriptions by clicking the CVS/caremark button, track their health behaviors and earn points toward cash incentives by clicking the Onlife Health button, and shop for cost-effective medical procedures and services by clicking the SmartShopper button.

HealthTrust's *Slice of Life* Program:

Slice of Life provides activities and services designed to improve individual's health and increase cost savings resulting from fewer healthcare claims. Individuals who are covered by a HealthTrust medical program may avail themselves, at no additional cost, to valuable health management support and incentives.

Slice of Life has four components, the Health Assessment (HA) questionnaire, Biometric Health Screening, Health Coaching and the Personal Wellness Journey. These tools give participants a clear picture of their current health, help them to set health goals and create a plan for achieving those goals.

The confidential HA questionnaire is designed to help assess an Enrollee's, or their Covered Spouse's, health from year to year. Upon submission of their completed HA, Enrollees and their Covered Spouses receive a personalized health report that identifies areas of health risk and provides information about how those risks can be reduced to maximize health status. During the fiscal year ended June 30, 2020, over 9,000 HealthTrust Enrollees, Retirees, and Spouses who participated in the Slice of Life Health Assessment program received a financial incentive for completing the HA.

Through the Slice of Life Biometric Health Screening program, covered individuals can learn their vital health measurements that can help give them a clearer picture of their current health. Those measurements include blood pressure, blood sugar, blood cholesterol, body weight, waist circumference and body mass index (BMI). To participate in this component of Slice of Life, covered individuals can complete a Biometric Health Screening form at a Convenient MD site or they can attend a Regional Biometric Health Screening event sponsored by HealthTrust. During the fiscal year ended June 30, 2020, HealthTrust sponsored 30 Regional Biometric Health Screening events throughout New Hampshire at which 3,280 HealthTrust Enrollees, Retirees, and Covered Spouses were screened. HealthTrust had scheduled 56 Regional Biometric Screenings, but with COVID-19 Pandemic hitting the Regional Screenings were cut short in March. Covered individuals (other than those with Medicomp) also have the option of completing a Biometric Health Screening form with their own primary care provider.

HealthTrust, Inc.

Management's Discussion and Analysis (Unaudited) (Continued)

HealthTrust's *Slice of Life* Program (Continued):

The following are some other key components to the Slice of Life program:

- *Health Coaching* provides individuals with additional support to effectively manage chronic conditions or develop strategies to support changes in lifestyle such as becoming more active, losing weight or reducing stress. During the fiscal year ended June 30, 2020, approximately 2,750 HealthTrust Enrollees, Retirees, and Covered Spouses participated in Health Coaching programs.
- *Personal Wellness Journey* - Enrollees may earn cash incentives by participating in the following programs:
 - Healthy Habit Rewards - Participating in an eligible healthy class or activity
 - Tracking - Using an application or wearable fitness device to track nutrition, blood pressure, steps or other activity
 - Challenges - Participating in an eligible personal nutrition, physical activity or sleep challenge
- *LifeResources Employee Assistance Program* offers comprehensive mental health counseling and referral services for issues such as stress management, parenting, addictions, help finding housing options for aging parents, and guidance about managing credit card debt. During this fiscal year, LifeResources added an enhanced website (mylifeexpert.com) for members to research a variety of topics and resources.
- *Slice of Life* newsletters are quarterly publications sent to Enrollees (including Retirees), containing information related to important health and wellness issues plus important health plan news.
- *Flu Vaccine Program* provides for an onsite flu shot clinics for covered individuals.
- *Wellness Coordinator Academy* provides health and safety leaders with the knowledge and resources to enable them to guide their coworkers to become more aware of the issues that affect health and safety both at work and at home. HealthTrust has 292 wellness coordinators providing wellness campaigns at their worksites. HealthTrust's goal is to train thirty new coordinators per year while still keeping the existing coordinators engaged by meeting with them annually and continuing to provide them with \$500 per year to use toward their worksite's annual wellness campaigns and stretch goals. HealthTrust's Wellness Advisors provide consultation services including an analysis of a Member Group's health claims history which helps Wellness Coordinators design and implement group wellness programs, customized for the Group's specific needs.
- *SmartShopper* provides individuals with HealthTrust coverages the tools to be savvy medical consumers and rewards them when they make smart healthcare choices by choosing a low cost, quality provider. While the program is completely voluntary, HealthTrust has seen positive results with 3,383 distinct covered individuals shopping for services and 7,397 incentives/rewards being paid, resulting in a gross savings of \$3,719,667 during the fiscal year ended June 30, 2020.

HealthTrust, Inc.

Management's Discussion and Analysis (Unaudited) (Continued)

HealthTrust Benefit Advantage:

Effective January 1, 2018, HealthTrust introduced HealthTrust Benefit Advantage, our HRA and enhanced Flexible Spending Account (FSA) services. Benefit Advantage provides Members the opportunity to add integrated HRA administration in addition to the FSA services HealthTrust has previously provided. To support this initiative, HealthTrust collaborates with Benefit Strategies, a New Hampshire based organization with more than 25 years' experience in claims processing as well as expertise in HRA design and administration. HRAs and FSAs can be valuable tools for controlling rising medical plan costs for Employers.

Healthcare Reform Education and Assistance:

Benefits Counsel and staff continue to monitor requirements and proposed changes of the federal healthcare reform law. HealthTrust educates and assists HealthTrust Members regarding the healthcare reform requirements that are in effect as well as proposed legislative changes. Our educational efforts include publication of articles, newsletters and various other correspondence, presentations, and webinars on the primary aspects of healthcare reform impacting HealthTrust Groups and their Employees.

Conclusion:

HealthTrust is a nonprofit provider of high quality, cost-effective medical, dental, prescription drug and ancillary benefit plans offered exclusively to New Hampshire political subdivisions and through them to their public sector Employees and their families.

As a nonprofit, public risk pool, HealthTrust has one primary goal: To serve our Members, the people who work in and govern New Hampshire's schools, towns, cities, counties and other public entities. Our Members pool their coverage dollars and rely on HealthTrust to help them reduce their risks, contain costs, and meet the unique needs of their employees and their families. We collaborate with our Members to share resources, new ideas, best practices, and problem-solving strategies. This synergistic relationship enables HealthTrust to provide proactive, forward-focused, comprehensive coverage plans and services, while containing costs to meet taxpayer demands.

The HealthTrust Board is elected by the Members and is made up of elected officials, employees and management from schools, municipalities, and counties. As such, its decisions are focused directly on the needs and values of the Members and HealthTrust's services takes a holistic approach to meeting the employee benefit coverage and service needs of its Members.

HealthTrust is committed to providing high quality, cost-effective employee benefit products and services for public employers and employees in New Hampshire in order to reduce costs through pooling strategies with a commitment to education, health promotion and disease prevention.

HealthTrust, Inc.

Statements of Net Position

As of June 30, 2020 and 2019

	HealthTrust, Inc.		Center at Triangle Park, Inc.	
	2020	2019	2020	2019
Assets				
Cash and cash equivalents	\$ 76,250,103	\$ 46,851,826	\$ 512,750	\$ 543,512
Fixed-maturity securities	49,160,030	43,041,991	-	-
Mutual and exchange-traded funds	14,110,159	13,822,142	-	-
Contributions receivable	7,913,637	6,665,110	-	-
Accounts receivable	(13,597)	697,986	26,011	-
Accrued interest receivable	243,961	229,818	-	-
Prepaid expenses	194,128	222,384	-	-
Deposits - contractual	2,011,724	2,011,724	-	-
Property and equipment, net	76,817	219,870	5,216,350	5,448,428
Capitalized and prepaid system costs	1,121,855	-	-	-
Majority interest in Center at Triangle Park, Inc.	5,597,498	5,804,034	-	-
	<u>156,666,315</u>	<u>119,566,885</u>	<u>5,755,111</u>	<u>5,991,940</u>
Deferred Outflows of Resources				
Deferred gain on pension assets	1,387,324	1,927,386	-	-
Deferred pension contributions	210,879	203,959	-	-
	<u>1,598,203</u>	<u>2,131,345</u>	<u>-</u>	<u>-</u>
Liabilities				
Claims payable	7,823,974	10,110,297	-	-
Claims reserves	20,490,089	20,402,427	-	-
Claims administration reserves	2,727,608	2,670,481	-	-
Deposit held for self-funded plus group	314,496	285,216	-	-
Return of surplus payable	18,786,984	-	-	-
Accounts payable and accrued expenses	3,169,147	2,870,195	84,368	106,451
Accounts payable - vaccine program	218,872	206,949	-	-
Due to other entities	-	-	2,466	8,124
Unearned contributions	1,304,174	234,724	-	-
Premium deficiency reserve	10,066,000	-	-	-
Capital lease liability	-	84,073	-	-
Net pension liability	1,880,748	2,796,426	-	-
	<u>66,782,092</u>	<u>39,660,788</u>	<u>86,834</u>	<u>114,575</u>

See accompanying notes to the financial statements.

HealthTrust, Inc.

Statements of Net Position (Continued)

As of June 30, 2020 and 2019

	HealthTrust, Inc.		Center at Triangle Park, Inc.	
	2020	2019	2020	2019
Deferred Inflows of Resources				
Deferred pension expenses	1,482,426	869,825	-	-
Total Deferred Inflows of Resources	1,482,426	869,825	-	-
Net Position				
Unrestricted	74,125,472	67,431,768	451,927	428,937
Unrestricted - net unrealized gain on investment securities	9,683,403	7,796,019	-	-
Majority interest in Center at Triangle Park, Inc.	5,597,498	5,804,034	-	-
Investment in capital assets, net	593,627	135,796	5,216,350	5,448,428
Total Net Position	\$ 90,000,000	\$ 81,167,617	\$ 5,668,277	\$ 5,877,365

See accompanying notes to the financial statements.

HealthTrust, Inc.

Statements of Revenues, Expenses and Changes in Net Position

For the years ended June 30, 2020 and 2019

	HealthTrust, Inc.		Center at Triangle Park, Inc.	
	2020	2019	2020	2019
Operating Revenues				
Contributions earned from				
Member Groups	\$ 432,052,055	\$ 408,697,949	\$ -	\$ -
Self-funded plus program - net	(344,834)	(244,136)	-	-
Rental income	-	-	462,761	495,964
Support services income	88,680	102,404	-	-
Prescription administration and rebates	48,820	16,905	-	-
Ancillary services	2,563,399	2,280,769	-	-
Cobra and Medicare Part D	33,141	34,946	-	-
Other revenues	136,847	168,025	5,760	8,388
 Total operating revenues - net	 434,578,108	 411,056,862	 468,521	 504,352
Operating Expenses				
Claims incurred	362,473,815	384,521,410	-	-
Anthem EPHC provider payments	2,570,299	2,315,252	-	-
Premium deficiency expense (gain)	10,066,000	(7,500,000)	-	-
Claims administrative fees paid	20,465,808	19,213,081	-	-
Return of surplus	18,786,984	-	-	-
Affordable Care Act - Federal Taxes	130,666	123,301	-	-
Vaccine program	907,936	888,290	-	-
Depreciation and amortization	143,054	130,188	232,078	237,006
General and administrative expenses	14,252,926	14,265,490	452,988	486,835
 Total operating expenses	 429,797,488	 413,957,012	 685,066	 723,841
 Operating gain (loss)	 4,780,620	 (2,900,150)	 (216,545)	 (219,489)

See accompanying notes to the financial statements.

HealthTrust, Inc.

Statements of Revenues, Expenses and Changes in Net Position (Continued)

For the years ended June 30, 2020 and 2019

	HealthTrust, Inc.		Center at Triangle Park, Inc.	
	2020	2019	2020	2019
Non-Operating Revenues				
Net investment income	\$ 2,370,915	\$ 2,264,306	\$ 7,457	\$ 1,532
Net increase in fair value of investments	<u>1,887,384</u>	<u>2,474,263</u>	<u>-</u>	<u>-</u>
Total non-operating revenues	<u>4,258,299</u>	<u>4,738,569</u>	<u>7,457</u>	<u>1,532</u>
Change in net position before investment in subsidiary	9,038,919	1,838,419	(209,088)	(217,957)
Change in majority interest in Center at Triangle Park, Inc.	<u>(206,536)</u>	<u>(215,297)</u>	<u>-</u>	<u>-</u>
Change in net position	8,832,383	1,623,122	(209,088)	(217,957)
Net position, beginning of year	81,167,617	79,544,495	5,877,365	6,176,314
Shareholder distribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>(80,992)</u>
Net position, end of year	<u><u>\$ 90,000,000</u></u>	<u><u>\$ 81,167,617</u></u>	<u><u>\$ 5,668,277</u></u>	<u><u>\$ 5,877,365</u></u>

See accompanying notes to the financial statements.

HealthTrust, Inc.

Statements of Cash Flows

For the years ended June 30, 2020 and 2019

	HealthTrust, Inc.		Center at Triangle Park, Inc.	
	2020	2019	2020	2019
Cash Flows from Operating Activities				
Contributions collected from Member Groups	\$ 431,965,423	\$ 407,970,106	\$ -	\$ -
Cash received from other sources	2,787,366	2,438,941	5,760	8,388
Claims paid	(367,185,648)	(385,801,320)	-	-
Rental income collected	-	-	431,092	495,964
Salaries and benefits paid	(6,735,675)	(6,753,326)	-	-
Claims administrative fees and certain taxes paid	(20,596,474)	(19,336,382)	-	-
Vaccine program expenses paid	(896,013)	(884,653)	-	-
Wellness expenses paid	(4,611,194)	(4,647,318)	-	-
Support services income collected	88,680	102,404	-	-
Other expenses paid	(2,953,827)	(2,310,521)	(475,071)	(476,943)
Net cash from self-funded plus program Deposits refund	<u>-</u>	<u>51,200</u>	<u>-</u>	<u>-</u>
Net cash provided by (used in) operating activities	32,161,063	(9,522,015)	(38,219)	27,409
Cash Flows from Investing Activities				
Proceeds from sales and maturities of investments	20,570,068	18,712,430	-	-
Purchases of investments	(25,061,602)	(14,083,761)	-	-
Interest and dividends received	2,329,635	2,161,264	7,457	1,532
Proceeds from shareholder distribution	<u>-</u>	<u>80,003</u>	<u>-</u>	<u>-</u>
Net cash (used in) provided by investing activities	(2,161,899)	6,869,936	7,457	1,532
Cash Flows from Capital and Related Financing Activities				
Purchases of property and equipment	(1)	(99,341)	-	-
Principal repayments on capital lease	(84,074)	(97,448)	-	-
Payments for capitalized system implementation costs	(516,812)	-	-	-
Payment of shareholder distribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>(80,992)</u>
Net cash used in capital and related financing activities	<u>(600,887)</u>	<u>(196,789)</u>	<u>-</u>	<u>(80,992)</u>
Net change in cash and cash equivalents	29,398,277	(2,848,868)	(30,762)	(52,051)
Cash and cash equivalents, beginning of year	<u>46,851,826</u>	<u>49,700,694</u>	<u>543,512</u>	<u>595,563</u>
Cash and cash equivalents, end of year	<u>\$ 76,250,103</u>	<u>\$ 46,851,826</u>	<u>\$ 512,750</u>	<u>\$ 543,512</u>

See accompanying notes to the financial statements.

HealthTrust, Inc.

Statements of Cash Flows (Continued)

For the years ended June 30, 2020 and 2019

	HealthTrust, Inc.		Center at Triangle Park, Inc.	
	2020	2019	2020	2019
Reconciliation of operating gain (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 4,780,620	\$ (2,900,150)	\$ (216,545)	\$ (219,489)
Add (deduct) items not affecting cash:				
Depreciation and amortization	143,054	130,188	232,078	237,006
Changes in statement of net position accounts:				
Contributions receivable	(1,248,527)	(649,205)	-	-
Accounts receivable	711,583	(133,464)	(26,011)	-
Prepaid expenses	28,256	18,225	-	-
Prepaid system costs	(605,043)	-	-	-
Deposits - contractual	-	51,200	-	-
Deferred gain on pension assets	540,062	(837,331)	-	-
Deferred pension contributions	(6,920)	(52,282)	-	-
Claims payable	(2,286,323)	(884,032)	-	-
Claims reserves	87,662	1,823,440	-	-
Claims administration reserves	57,127	95,934	-	-
Deposit held for self-funded plus group	29,280	5,235	-	-
Return of surplus payable	18,786,984	-	-	-
Accounts payable and accrued expenses	298,952	80,316	(22,083)	9,892
Accounts payable - vaccine program	11,923	3,637	-	-
Due to other entities	-	-	(5,658)	-
Unearned contributions	1,069,450	(119,123)	-	-
Premium deficiency reserve	10,066,000	(7,500,000)	-	-
Net pension liability	(915,678)	1,543,916	-	-
Deferred pension expenses	612,601	(198,519)	-	-
	<u>\$ 32,161,063</u>	<u>\$ (9,522,015)</u>	<u>\$ (38,219)</u>	<u>\$ 27,409</u>
Net cash provided by (used in) operating activities	<u>\$ 32,161,063</u>	<u>\$ (9,522,015)</u>	<u>\$ (38,219)</u>	<u>\$ 27,409</u>

See accompanying notes to the financial statements.

HealthTrust, Inc.

Notes to the Financial Statements

For the years ended June 30, 2020 and 2019

Note 1 - Organization and Nature of Operations

HealthTrust, Inc. (HealthTrust), a New Hampshire voluntary corporation, was formed to provide employee benefits coverage to political subdivisions of the State of New Hampshire. In accordance with HealthTrust By-Laws, all political subdivisions of the State of New Hampshire and their instrumentalities are eligible to participate. The HealthTrust Board of Directors (Board of Directors) governs HealthTrust. HealthTrust serves as an association of local governments voluntarily joining together to finance their exposure to employee healthcare costs and is funded by its participating risk pool groups (Members or Member Groups). HealthTrust covered the following separate individuals among all coverage lines as of June 30:

	<u>2020</u>	<u>2019</u>
Medical	53,412	53,048
Dental	56,118	55,617
Life	9,645	9,232
Short-term disability	3,874	3,703
Long-term disability	5,939	5,598

HealthTrust's mission is to provide high quality, cost-effective employee benefits products and services for public employers and employees in New Hampshire in order to reduce costs through pooling strategies with a commitment to education, health promotion and disease prevention. HealthTrust's underwriting and rate setting policies have been established after consultation with actuaries.

Center at Triangle Park, Inc. (CTP) was formed as a voluntary corporation and a 501(c)(25) entity for the purpose of acquiring and holding title to real estate. As of June 30, 2020 and 2019, HealthTrust owns 98.8% of outstanding CTP shares and New Hampshire Municipal Association, Inc. (NHMA) owns 1.2%. CTP leases the real estate to HealthTrust, NHMA and third parties. In accordance with the standards set by the Governmental Accounting Standards Board (GASB), Statement No. 90, "Majority Equity Interest," the Company has evaluated its majority interest in CTP, and determined that this does not meet the GASB definition of an investment. As such, the assets and all activity of CTP are included in these financial statements as a discretely presented component unit. HealthTrust's interest in CTP is recognized under the equity method of accounting, whereby the gain or loss in the operations of CTP is recognized in proportion to the ownership shares and the investment in CTP is adjusted to recognize the associated gain or loss, net of any distributions from CTP.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) as applied to proprietary funds of governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. HealthTrust's and CTP's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting.

HealthTrust, Inc.

Notes to the Financial Statements (Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

CTP is primarily an internal service fund providing office space to related entities on a cost reimbursement basis. Given HealthTrust's 98.8% ownership interest in CTP, along with its intent that owning CTP enhances its abilities to provide services to Members, the financial statements of CTP have been included as a component unit to maximize transparency.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets, deferred inflows and outflows of resources, and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Risks and Uncertainties

In March 2020, the World Health Organization declared a pandemic related to the rapidly spreading coronavirus (COVID-19) outbreak, which has led to a global health emergency. HealthTrust invests in various securities as part of its ongoing operations and is exposed to economic and financial market risks. Through June 30, 2020, HealthTrust has seen a dramatic decline in claims activity as a result of the pandemic, however, the impact of COVID-19 on HealthTrust's future operational and financial performance is unclear and will depend on certain developments, including the duration and spread of the outbreak and its impact on HealthTrust and its Members and vendors. Events that unfold as part of the COVID-19 pandemic could have a material impact on the valuation of HealthTrust's investments. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities may occur in the near term and those changes could materially affect the amounts reported on the statements of net position. Additionally, HealthTrust's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impact on HealthTrust and its Members and vendors. COVID-19 could have a material adverse effect on HealthTrust's financial position. The ultimate impact of the COVID-19 outbreak on HealthTrust's financial position cannot be reasonably estimated at this time.

Subsequent Events

HealthTrust has evaluated subsequent events for disclosure and recognition through October 7, 2020, the date these financial statements were available to be issued. Subsequent events are outlined in Note 18.

Cash Equivalents

Cash equivalents consist of money market funds and all highly liquid investments with original maturities of three months or less.

Investments

HealthTrust's investments consist of mutual and exchange-traded funds (ETFs) and fixed-maturity securities detailed in Note 5. Investments are stated at fair value based upon quoted market prices or through a recognized pricing service.

HealthTrust accounts for its investments in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" (Statement No. 31). Statement

HealthTrust, Inc.

Notes to the Financial Statements (Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

No. 31 establishes fair value standards on accounting for all investments held by governmental external investment pools and governmental entities. All investment income, including changes in the fair value of investments, is recognized in the statements of revenues, expenses and changes in net position. The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold during the current year were included as a change in the fair value of investments reported in the prior years and the current year. Realized gains and losses on the sale of investments are recognized using the specific ID method for fixed-maturity securities and average cost for mutual and exchange traded funds to determine the costs of the investments sold. Investment purchases are recognized on the trade date.

HealthTrust's estimates of fair value for financial assets are based on the framework established in GASB Statement No. 72, "Fair Value Measurement and Application." The framework is based on the inputs used in valuation and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the fair value accounting guidance includes a hierarchy based on whether significant valuation inputs are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the HealthTrust's significant market assumptions.

If the inputs used to measure the assets fall within different levels of the hierarchy, the classification is based on the lowest level of input that is significant to the fair value measurement of the asset. Classification of assets within the hierarchy considers the markets in which the assets are traded and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available. The levels of the hierarchy and those investments included in each are as follows:

- Level 1 – Inputs to the valuation methodology are quoted prices for identical assets traded in active markets.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset and market corroborated inputs.
- Level 3 – Valuations based on models where significant inputs are not observable. The unobservable inputs reflect HealthTrust's own assumptions about the inputs that market participants would use.

Fair values are based on quoted market prices when available (Level 1). HealthTrust receives the quoted market prices from a third party, nationally recognized pricing service. When market prices are not available, HealthTrust utilizes a pricing service to determine an estimate of fair value. The fair value is generally estimated using current market inputs for similar financial instruments with comparable terms and credit quality, commonly referred to as matrix pricing (Level 2). These valuation techniques involve some level of management estimation and judgment.

HealthTrust, Inc.

Notes to the Financial Statements (Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

In accordance with GASB Statement No. 40, "Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3," certain disclosures regarding deposit and investment risks have been provided in Note 5.

Contributions from Member Groups

Contributions from Members participating in HealthTrust's coverage lines are generally recognized as revenue on a monthly basis over the participation contract term. The portion of the contributions received in cash that will be earned in the future is deferred and reported as unearned contributions on the statements of net position. Contributions receivable consist primarily of contributions billed to Member Groups for the current contract term that have not been collected. Contributions receivable are stated at the amount management expects to collect from outstanding balances. Management considers all contributions receivable to be collectible as of June 30, 2020 and 2019, therefore, an allowance for doubtful accounts has not been provided.

Prescription Administration and Rebates

HealthTrust receives prescription rebates related to the use of prescription drugs. Starting January 1, 2017, HealthTrust's agreement with Caremark changed the payment of rebates to a point-of-sale prescription rebate methodology. Point-of-sale prescription rebates are applied against prescription costs at the point of sale and as such are applied directly against claims incurred on the statements of revenues, expenses and changes in net position.

Prescription rebates due to/from HealthTrust's service providers are included within claims payable on the statements of net position. As of June 30, 2020 and 2019, rebates receivable of \$3,824,575 and \$736,395 were netted against claims payable. Management considers all prescription rebates receivable to be collectible as of June 30, 2020, therefore, no allowance for doubtful accounts was provided.

Property and Equipment, Net

Property and equipment with an estimated useful life greater than one year is capitalized at cost. The cost of maintenance and repairs is charged to expense as incurred, while renewals, replacement of existing systems and betterments are capitalized. Upon the sale or other disposition of assets, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in operating loss.

Land is not depreciated. Other property and equipment is depreciated or amortized using primarily the straight-line method over the following useful lives:

	<u>Estimated Useful Life (Years)</u>
Land improvements	15
Buildings and building improvements	31 - 40
Office equipment, computers and other equipment	3 - 5
Furniture and fixtures	3 - 5

HealthTrust, Inc.

Notes to the Financial Statements (Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

Capitalized and Prepaid System Costs

HealthTrust accounts for implementation costs related to on-boarding of a hosted subscription based information technology system for underwriting, client data, and other functions in accordance with guidance in GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets." In accordance with the guidance, implementation costs, or costs incurred in the application development stage, are capitalized as internally generated computer software and amortized over the life of the useful asset. Implementation costs capitalized as of June 30, 2020 amounted to \$516,812 and will begin to be amortized when the software system is placed into service.

Subscription costs associated with the computer software system are accounted for as prepaid when paid in advance. Costs are expensed over the course of the subscription period and are included within general and administrative expenses on the statements of revenues, expenses and changes in net position.

Classification of Revenues and Expenses

HealthTrust's statements of revenues, expenses and changes in net position distinguish between operating and non-operating revenues and expenses. Operating revenues primarily result from contributions earned from participating Member Groups to cover estimated benefits obligations and administrative costs, and increases needed to maintain the actuarially-determined capital reserve levels. HealthTrust's operating revenues also include Ancillary Services and Cobra revenue, which consist of administration fees charged for Members who elect to have HealthTrust administer their flexible spending accounts, life insurance programs, long-term disability programs and Cobra billing. Prescription administration and rebates revenue and support services income from providing administrative and business support services to other entities, as more fully described in Note 9, are also included in HealthTrust's operating revenues. Operating expenses primarily consist of expenses incurred to provide underwriting and claims payment services, administrative expenses and depreciation of property and equipment. Other revenues and expenses, including interest income and changes in the fair value of HealthTrust's investments, are classified as non-operating on the statements of revenues, expenses and changes in net position.

CTP's statements of revenues, expenses and changes in net position distinguish between operating and non-operating revenues and expenses. Operating revenues primarily result from rental of property, CTP's principal activity. Operating expenses are all expenses incurred in rental operations. Interest income is reported as non-operating revenue.

Claims and Administration Reserves

HealthTrust establishes claims and claims administration reserves based on estimates of the ultimate cost of claims that have been reported, but not settled, and of claims that have been incurred, but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Claims reserves are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent claim costs, claim frequency, and other economic and societal factors. Adjustments to claims reserves are charged or credited as an expense in the periods in which they are made. HealthTrust's administrative service agreements for medical and dental coverage include a provision for two months of administrative service fees to be paid for run-out services in the event the agreements are terminated. As such, HealthTrust has accrued for this contractual obligation as a component of the claims

HealthTrust, Inc.

Notes to the Financial Statements (Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

and administrative reserves.

HealthTrust utilizes an independent consulting actuary to estimate claims and claims administration reserves for health, dental and short-term disability coverages.

Income Taxes

HealthTrust and CTP are exempt from federal and New Hampshire state income taxes under provisions of the Internal Revenue Code and New Hampshire law.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform with the current year presentation. These changes had no effect on net position as of June 30, 2019 or the change in net position for the year then ended.

Note 3 - Cash and Cash Equivalents

HealthTrust and CTP maintain cash and cash equivalents in bank deposits and cash management accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per financial institution, as well as in money market funds which are not FDIC insured. As of June 30, 2020 and 2019, HealthTrust's total bank balance of cash held in excess of the FDIC limit was approximately \$76.0 million and \$46.6 million, respectively. As of June 30, 2020 and 2019, CTP's total bank balance of cash held in excess of the FDIC limit was approximately \$263,000 and \$260,000, respectively. The balances in excess of the FDIC limit are collateralized with securities held in joint custody with a third party custodian.

Note 4 - Net Position

Total net position is available to fund HealthTrust's designated total net position target with the remaining balance to be returned to Member Groups as surplus. HealthTrust's total net position includes the following at June 30:

	<u>2020</u>	<u>2019</u>
Board-designated total net position target	\$ 90,000,000	\$ 85,000,000
Surplus (deficiency) from Board-designated target	<u>18,786,984</u>	<u>(3,832,383)</u>
Total net position prior to return of surplus	<u>\$ 108,786,984</u>	<u>\$ 81,167,617</u>

HealthTrust, Inc.

Notes to the Financial Statements (Continued)

Note 4 - Net Position (Continued)

There is always the risk of unpredictable claim fluctuations beyond expected levels. The following are some reasons why claims might exceed expected levels: (1) medical trend is significantly higher than expected; (2) a small number of very large randomly occurring claims; (3) influx of new participants that are not as healthy as average existing participants; (4) departure of participants that are healthier than average; (5) federal/state legislation that results in higher costs; and (6) new technologies/treatments such as high cost drugs and advanced imaging techniques. In order to protect HealthTrust's Member Groups and their covered employees and dependents from these potential unexpected costs, HealthTrust designates a certain level of net position, which it identifies as the capital adequacy reserve target, to ensure the availability of sufficient capital to cover these risks.

The Board of Directors relies upon the opinion of a qualified independent consulting actuary, Milliman, who is a member of the American Academy of Actuaries and qualified in the area of health coverage, using an actuarially sound methodology to determine the required capital adequacy reserve for HealthTrust to ensure that all obligations for the payment of claims and expenses can be met.

Milliman recommended that HealthTrust should target a required capital adequacy reserve of between \$90 million to \$140 million, and between \$85 million to \$130 million, as of June 30, 2020 and 2019, respectively. Milliman advised the Board of Directors that the lower end of the range is appropriate if HealthTrust has pricing flexibility and the upper range is appropriate if HealthTrust does not have pricing flexibility.

Based on the Milliman recommendation, the HealthTrust Board of Directors set HealthTrust's capital adequacy reserve target at \$90 million and \$85 million as of June 30, 2020 and 2019, respectively. Subsequent to June 30, 2020, HealthTrust's Board of Directors approved a return of surplus in the amount of \$18,786,984, to be paid out in the upcoming fiscal year. The surplus distribution is accrued as a liability on the statement of net position.

The portion of HealthTrust's net position invested in capital assets consists of the following at June 30:

	<u>2020</u>	<u>2019</u>
Investment in property and equipment and other capitalized assets, net of accumulated depreciation and capital lease obligations	\$ 593,627	\$ 135,796
Majority interest in CTP	<u>5,597,498</u>	<u>5,804,034</u>
Total investment in capital assets, net	<u>\$ 6,191,125</u>	<u>\$ 5,939,830</u>

As of June 30, 2020 and 2019, CTP's investment in capital assets represents the amount of assets which have been invested in property and equipment and capitalized system implementation costs, net of accumulated depreciation.

HealthTrust, Inc.

Notes to the Financial Statements (Continued)

Note 5 - Investments

During the years ended June 30, 2020 and 2019, HealthTrust realized net gains on sales of investments of \$102,504 and \$95,126, respectively.

General Investment Risks and Uncertainties

HealthTrust invests in various investments. Investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and such changes could materially affect the amounts reported in the financial statements.

CTP maintains commercial insurance coverage for its buildings and improvements. Coverage limits are set at replacement values with customary levels of deductibles.

Concentration of Credit Risk

Concentration risk is the risk of loss attributable to the magnitude of an investment in a single issuer. HealthTrust addresses this risk by limiting single-issuer investments to 5% of total investments (with the exception of U.S. Government obligations and mutual and exchange-traded funds, which have no limit). There are no single investments that exceed that limit as of June 30, 2020 and 2019.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. HealthTrust mitigates the risk that the market value of securities will fall due to changes in general interest rates by structuring the portfolio so that securities mature to meet the cash requirements for ongoing operations, thus avoiding the need to sell securities on the open market prior to maturity. The matching of investments to expected cash is not applied to the required capital adequacy reserve, as consistent with the purpose of that reserve, it is needed to cover unexpected events at some unknown future date.

HealthTrust, Inc.

Notes to the Financial Statements (Continued)

Note 5 - Investments (Continued)

The following table provides a summary of the fair value of HealthTrust's fixed-maturity securities by contractual maturity as of June 30, 2020. Fixed-maturity securities include U.S. agency securities, U.S. Treasury securities, foreign government guaranteed securities (foreign), corporate bonds, municipal bonds, commercial mortgage backed securities (CMBS), collateralized mortgage obligations (CMO)/residential mortgage backed securities (RMBS), asset backed securities and government enterprise sponsored MBS (GSE MBS). Mortgage and asset backed securities are categorized based upon their contractual maturities. Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	Total
U.S. Treasuries	\$ 4,897,283	\$ 520,859	\$ -	\$ -	\$ 5,418,142
U.S. Agencies	252,251	-	-	-	252,251
Foreign	-	417,878	-	-	417,878
Corporate bonds	810,276	9,194,798	5,091,636	583,940	15,680,650
Municipal bonds	-	422,626	852,454	2,274,269	3,549,349
Commercial MBS	-	434,332	1,631,234	3,057,152	5,122,718
Asset backed	-	4,672,485	-	-	4,672,485
CMO/RMBS	-	-	-	1,381,961	1,381,961
GSE MBS	-	49,551	248,280	12,366,765	12,664,596
Total	<u>\$ 5,959,810</u>	<u>\$ 15,712,529</u>	<u>\$ 7,823,604</u>	<u>\$ 19,664,087</u>	<u>\$ 49,160,030</u>

The effective duration of the fixed-maturity securities portfolio, as calculated by HealthTrust's investment manager, is 3.52 and 3.78 years at June 30, 2020 and 2019, respectively.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of failure of the counterparty, HealthTrust will not be able to recover the value of its investments that are in the possession of the outside party. As of June 30, 2020 and 2019, HealthTrust did not have any investments subject to custodial credit risk.

HealthTrust, Inc.

Notes to the Financial Statements (Continued)

Note 5 - Investments (Continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is measured by an assigned rating from a nationally recognized credit rating agency such as Standard and Poor's or Fitch's Rating Services. These organizations look at a number of factors in order to evaluate the credit risk of an obligation and rate the risk. This rating allows investors to make informed buying and selling decisions. HealthTrust's investment policy mitigates credit risk by limiting investments to investment-grade securities and diversifying the portfolio.

The table below outlines the credit ratings of HealthTrust's fixed-maturity securities as of June 30, 2020:

	U.S. Treasuries	U.S. Agencies	Foreign	Corporate Bonds	Municipal Bonds	Commercial MBS	Asset Backed	CMO/ RMBS	GSE MBS	Total
AAA	\$ 4,897,283	\$ -	\$ -	\$ -	\$ -	\$ 2,811,876	\$ 4,672,485	\$ -	\$ -	\$12,381,644
AA+	520,859	252,251	417,878	107,930	758,185	2,310,842	-	1,381,961	12,664,596	18,414,502
AA	-	-	-	174,237	456,121	-	-	-	-	630,358
AA-	-	-	-	864,551	1,204,435	-	-	-	-	2,068,986
A+	-	-	-	2,451,808	970,963	-	-	-	-	3,422,771
A	-	-	-	2,392,316	-	-	-	-	-	2,392,316
A-	-	-	-	4,582,305	25,938	-	-	-	-	4,608,243
BBB+	-	-	-	2,587,690	133,707	-	-	-	-	2,721,397
BBB	-	-	-	2,152,515	-	-	-	-	-	2,152,515
BBB-	-	-	-	153,548	-	-	-	-	-	153,548
BB	-	-	-	213,750	-	-	-	-	-	213,750
Total	<u>\$ 5,418,142</u>	<u>\$ 252,251</u>	<u>\$ 417,878</u>	<u>\$15,680,650</u>	<u>\$ 3,549,349</u>	<u>\$ 5,122,718</u>	<u>\$ 4,672,485</u>	<u>\$1,381,961</u>	<u>\$12,664,596</u>	<u>\$49,160,030</u>

** The credit rating agency used for this disclosure was Standard & Poor's (S&P).

At times after purchase, the rating of a security may fall below investment grade and the security may be retained if the risk of default is deemed low by HealthTrust's investment manager and investment advisor.

HealthTrust, Inc.

Notes to the Financial Statements (Continued)

Note 5 - Investments (Continued)

Fair Value

The following table presents the levels within the fair value hierarchy at which HealthTrust's investments are measured on a recurring basis as of June 30, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Fixed-maturity securities:</u>				
U.S. Treasuries	\$ 5,418,142	\$ -	\$ -	\$ 5,418,142
U.S. Agencies	-	252,251	-	252,251
Foreign	-	417,878	-	417,878
Corporate bonds	-	15,680,650	-	15,680,650
Municipal bonds	-	3,549,349	-	3,549,349
Commercial MBS	-	5,122,718	-	5,122,718
Asset backed	-	4,672,485	-	4,672,485
CMO/RMBS	-	1,381,961	-	1,381,961
GSE MBS	-	12,664,596	-	12,664,596
Total fixed-maturity securities	<u>\$ 5,418,142</u>	<u>\$ 43,741,888</u>	<u>\$ -</u>	<u>\$ 49,160,030</u>
<u>Mutual funds and ETFs:</u>				
Institutional index fund	\$ 10,768,187	\$ -	\$ -	\$ 10,768,187
Small cap index fund	1,884,689	-	-	1,884,689
Developed markets index fund	1,457,283	-	-	1,457,283
Total mutual funds and ETFs	<u>\$ 14,110,159</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,110,159</u>

The following table presents the levels within the fair value hierarchy at which HealthTrust's investments are measured on a recurring basis as of June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Fixed-maturity securities:</u>				
U.S. Treasuries	\$ 1,170,887	\$ -	\$ -	\$ 1,170,887
U.S. Agencies	-	247,534	-	247,534
Foreign	-	406,611	-	406,611
Corporate bonds	-	14,013,572	-	14,013,572
Municipal bonds	-	3,031,857	-	3,031,857
Commercial MBS	-	5,091,754	-	5,091,754
Asset backed	-	4,117,059	-	4,117,059
CMO/RMBS	-	1,557,356	-	1,557,356
GSE MBS	-	13,405,361	-	13,405,361
Total fixed-maturity securities	<u>\$ 1,170,887</u>	<u>\$ 41,871,104</u>	<u>\$ -</u>	<u>\$ 43,041,991</u>

HealthTrust, Inc.

Notes to the Financial Statements (Continued)

Note 5 - Investments (Continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Mutual funds and ETFs:</u>				
Institutional index fund	\$ 10,235,310	\$ -	\$ -	\$ 10,235,310
Small cap index fund	2,024,625	-	-	2,024,625
Developed markets index fund	<u>1,562,207</u>	<u>-</u>	<u>-</u>	<u>1,562,207</u>
Total mutual funds and ETFs	<u>\$ 13,822,142</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,822,142</u>

Note 6 - Premium Deficiency

In accordance with GASB Statement No. 30, "Risk Financing Omnibus," premium deficiencies are required to be calculated and reported by public entity risk pools. A premium deficiency can result when expected costs for coverage obligations as of the financial statement date exceed expected contributions (based on rates set prior to the financial statement date) for such coverage. In establishing a premium deficiency reserve HealthTrust also considers generally accepted accounting principles issued by the Financial Accounting Standards Board (FASB) relative to prepaid health care services contracts and Statement of Statutory Accounting Principles No. 54, Individual and Group Accident and Health Contracts, issued by the National Association of Insurance Commissioners (NAIC). Such guidance provides premium deficiency reserve guidance specific to health insurance entities, and has been used by HealthTrust to clarify and supplement GASB GAAP guidance issued within GASB Statement No. 30 which is specific to property liability insurance coverage. Accordingly, in deriving the estimate of future health care costs and maintenance costs to be considered in determining whether a premium deficiency loss has been incurred, HealthTrust includes projections of fixed and variable, direct and allocable indirect costs allocated to each of its operating pools. HealthTrust recorded a premium deficiency reserve in the amount of \$10.066 million as of June 30, 2020. HealthTrust did not record a premium deficiency reserve as of June 30, 2019. Investment income was included as part of the calculation in determining if a premium deficiency existed. HealthTrust relies on the work of a consulting actuary to determine the premium deficiency reserve at June 30, 2020 and 2019.

A significant degree of judgment and uncertainty is involved in estimating premium deficiency reserves, which is increased due to the uncertainty caused by disruptions in health care trends caused by COVID-19. Premium deficiency reserves as of June 30, 2020 include estimated obligations of \$9.5 million associated with anticipated claims for services that were deferred due to the COVID-19 pandemic that HealthTrust estimates will be provided during current coverage periods. Management believes that the premium deficiency reserve recorded represents its best estimate of the amount necessary to cover the cost of future claims HealthTrust is obligated to cover, however due to the uncertainty associated with the COVID-19 pandemic the actual claims experience may not conform to the assumptions used in determining the current estimate. The ultimate liability could be significantly in excess of or less than the amount accrued in the financial statements. As adjustments to these estimates become necessary, they will be reflected in current operations.

HealthTrust, Inc.

Notes to the Financial Statements (Continued)

Note 7 - Property and Equipment

HealthTrust's property and equipment balances and activity for the year ended June 30, 2020 are as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Property and equipment, at cost:				
Office equipment	\$ 105,746	\$ 1	\$ -	\$ 105,747
Computer equipment	1,229,354	-	-	1,229,354
Total at cost	1,335,100	1	-	1,335,101
Less: accumulated depreciation	(1,115,230)	(143,054)	-	(1,258,284)
Total property and equipment, net	<u>\$ 219,870</u>	<u>\$ (143,053)</u>	<u>\$ -</u>	<u>\$ 76,817</u>

HealthTrust's property and equipment balances and activity for the year ended June 30, 2019 are as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Property and equipment, at cost:				
Office equipment	\$ 105,746	\$ -	\$ -	\$ 105,746
Computer equipment	1,130,013	99,341	-	1,229,354
Total at cost	1,235,759	99,341	-	1,335,100
Less: accumulated depreciation	(985,042)	(130,188)	-	(1,115,230)
Total property and equipment, net	<u>\$ 250,717</u>	<u>\$ (30,847)</u>	<u>\$ -</u>	<u>\$ 219,870</u>

HealthTrust, Inc.

Notes to the Financial Statements (Continued)

Note 7 - Property and Equipment (Continued)

CTP's property and equipment balances and activity for the year ended June 30, 2020 are as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Property and equipment, at cost:				
Land and land improvements	\$ 1,145,629	\$ -	\$ -	\$ 1,145,629
Buildings and building improvements	7,415,843	-	-	7,415,843
Equipment	331,058	-	-	331,058
Furniture and fixtures	-	-	-	-
Total at cost	<u>8,892,530</u>	<u>-</u>	<u>-</u>	<u>8,892,530</u>
Less: accumulated depreciation	<u>(3,444,102)</u>	<u>(232,078)</u>	<u>-</u>	<u>(3,676,180)</u>
Total property and equipment, net	<u>\$ 5,448,428</u>	<u>\$ (232,078)</u>	<u>\$ -</u>	<u>\$ 5,216,350</u>

CTP's property and equipment balances and activity for the year ended June 30, 2019 are as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Property and equipment, at cost:				
Land and land improvements	\$ 1,145,629	\$ -	\$ -	\$ 1,145,629
Buildings and building improvements	7,415,843	-	-	7,415,843
Equipment	331,058	-	-	331,058
Furniture and fixtures	-	-	-	-
Total at cost	<u>8,892,530</u>	<u>-</u>	<u>-</u>	<u>8,892,530</u>
Less: accumulated depreciation	<u>(3,207,096)</u>	<u>(237,006)</u>	<u>-</u>	<u>(3,444,102)</u>
Total property and equipment, net	<u>\$ 5,685,434</u>	<u>\$ (237,006)</u>	<u>\$ -</u>	<u>\$ 5,448,428</u>

No impairment losses were recorded during the year ended June 30, 2020 or 2019.

HealthTrust, Inc.

Notes to the Financial Statements (Continued)

Note 8 - Claims and Administration Reserves

As discussed in Note 2, HealthTrust establishes a liability for both reported and unreported covered events, which includes estimates of both future payments of claims and related claim adjustment credits. The following represents changes in the aggregate undiscounted claims and claims administration reserves for HealthTrust during the years ended June 30:

	2020	2019
Claims and administration reserves at beginning of year	\$ 23,072,908	\$ 21,153,534
Incurred claims and claim adjustment expenses:		
Provision for covered events of current year	365,424,633	389,398,789
Adjustments to provision for covered events of prior years	(2,950,818)	(4,877,379)
Total incurred claims and claim adjustment expenses	362,473,815	384,521,410
Payments of claims and claim adjustment expenses:		
Payments attributable to covered events of current year	(342,839,437)	(366,573,680)
Payments attributable to covered events of prior years	(19,489,589)	(16,028,356)
Total payments	(362,329,026)	(382,602,036)
Claims and administration reserves at end of year	\$ 23,217,697	\$ 23,072,908

Incurred claims and claim adjustment expenses included in claims payable on the statements of net position as of June 30, 2020 and 2019 are considered to have been paid for the purpose of the claims and claims administration reserves reconciliation above as of and for the years ended June 30, 2020 and 2019.

Note 9 - Transactions With Other Entities

HealthTrust leases office space from CTP pursuant to a lease agreement whose current term runs through June 30, 2020, and automatically renews for additional two-year terms unless either party notifies the other of its intent not to renew pursuant to the terms of the lease agreement. Rent expense under this arrangement was \$319,745 and \$329,872 for the years ended June 30, 2020 and 2019, respectively, to cover its share of CTP's operating expenses based on HealthTrust's proportional usage of the building. CTP has included these amounts as operating revenues in the same year. Total expected future minimum lease payments through June 30, 2020 under this agreement are \$316,448.

CTP leases office space to NHMA pursuant to a lease agreement that extends through May 30, 2026. Rental income recorded by CTP under this arrangement was \$35,076 and \$36,306 for the years ended June 30, 2020 and 2019, respectively, to cover its share of CTP's operating expenses based on NHMA's proportional usage of the building.

HealthTrust, Inc.

Notes to the Financial Statements (Continued)

Note 9 - Transactions With Other Entities (Continued)

HealthTrust received administrative and other business support services income from CTP pursuant to service agreements ratified by each entity's governing board. Under those agreements, HealthTrust earned and CTP expensed \$88,680 and \$102,404 related to support services during the years ended June 30, 2020 and 2019, respectively.

HealthTrust provides employee benefits coverage to its employees. HealthTrust also provides employee benefits coverage to the employees of NHMA, as participating Member Groups in HealthTrust. The associated revenue is included in contributions earned from Member Groups on the statements of revenues, expenses and changes in net position. The costs incurred by HealthTrust related to providing employee benefits coverage to its employees are included in salaries and benefits expense within operating expenses on the statements of revenues, expenses and changes in net position.

Although NHMA is not technically a related party to HealthTrust, transactions with this entity are reported here due to the historical relationship that previously existed between the entities.

Note 10 - Self-Funded Plus Option

HealthTrust currently provides a Self-Funded Plus (SFP) option to one participating risk pool group. SFP is a financial arrangement for Member Groups with 100 or more eligible employees and retirees that allows the Member Group to assume responsibility for the payment of medical claims incurred by its covered employees, Retirees and dependents, subject to the contracted individual stop-loss coverage protection provided by HealthTrust. In addition to its claims liability, a participating Member Group pays a fee to HealthTrust to cover the administrative and other costs associated with this program. The net activity from the program is recorded as part of operating revenues on the statements of revenues, expenses and changes in net position.

Note 11 - Life Insurance and Long-Term Disability Programs

HealthTrust provides access for its Member Groups to life insurance and long-term disability coverage provided on a fully insured basis by other insurance companies. HealthTrust pays the premiums to the insurance providers on behalf of the participating Member Groups, which are then reimbursed to HealthTrust by the participating Member Groups. During the years ended June 30, 2020 and 2019, HealthTrust paid \$2,092,041 and \$2,009,067, respectively, in premiums for life insurance and long-term disability coverage. These amounts are included in both ancillary services revenue and as a component of claims administrative fees paid on the statements of revenues, expenses and changes in net position.

Note 12 - Exemption from Statutory Accounting Practices

HealthTrust and its risk pool were established for the benefit of the political subdivisions of the State of New Hampshire. As such, HealthTrust is not considered an insurer under the laws of the State, and administration of the activities of HealthTrust do not constitute conducting an insurance business for purposes of regulation or taxation. At June 30, 2020 and 2019, Statements of Statutory Accounting Practices as promulgated by the National Association of Insurance Commissioners are not applicable to HealthTrust.

HealthTrust, Inc.

Notes to the Financial Statements (Continued)

Note 13 - Deferred Compensation Plan

The employees of HealthTrust are covered by a Section 457 Deferred Compensation Plan administered by ICMA Retirement Corporation. All full-time employees are immediately eligible to participate in the plan and may elect to defer up to 100% of their gross compensation up to the federal limits. Contributions to the plan and the related income on those contributions are held by ICMA Retirement Corporation.

Employee contributions to the deferred compensation plan totaled \$151,993 and \$152,413 for the years ended June 30, 2020 and 2019, respectively. There were no employer contributions during 2020 and 2019.

Note 14 - Defined Benefit Pension Plan

Plan Description

The HealthTrust/PLT/NHMA Pension Plan (the Plan) is a cost-sharing multiple-employer defined benefit pension plan. The Boards of Directors of the current participating employers in the Plan, HealthTrust and NHMA, collectively retain the authority to establish, amend or terminate the Plan and its provisions at any time subject to any legal limitations. The Plan documents have established a Retirement Committee to administer the Plan. The majority of the members of the Retirement Committee are appointed by the Boards of Directors of the participating employers. HealthTrust appoints four of the nine members to the Retirement Committee. The Retirement Committee serves as the Plan administrator to the Plan and has discretionary authority regarding issues related to administration, interpretation and application. All active, non-temporary employees of HealthTrust and NHMA are required to participate in the Plan as a condition of employment. The Plan provides a monthly benefit when a Plan participant retires or leaves after qualifying for benefits. The Plan does not issue a standalone financial report.

Property-Liability Trust, Inc. (PLT) departed the Plan effective December 31, 2016 and PLT's withdrawal liability was fully contributed to the Plan during the fiscal year ended June 30, 2018.

Summary of Significant Accounting Policies

GASB Statement No. 68, "Accounting and Financial Reporting for Pensions" (Statement No. 68) establishes financial reporting requirements for most governmental organizations that provide their employees with pension benefits. In accordance with Statement No. 68, HealthTrust recognizes its proportionate share of the Plan's collective net pension liability and pension expense, and the related deferred outflows and inflows of resources, on the financial statements.

The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense reported by the Plan have been determined using the accrual basis of accounting in conformity with GAAP as applied to governmental entities. The Plan's investments are reported at fair value based upon quoted market prices.

HealthTrust, Inc.

Notes to the Financial Statements (Continued)

Note 14 - Defined Benefit Pension Plan (Continued)

Benefits

The participants' benefits are established in the Plan and may only be changed with an amendment to the Plan. A participant's benefit is determined under a formula that multiplies the participant's final average earnings by her/his credited service. The formula is 1.50% of the final average earnings for each year of credited service, not to exceed 50% of the participant's final average salary. Final average salary is defined as the average of the highest three consecutive years out of the last ten years base salary prior to retirement or termination. Participants are eligible for normal retirement at age 65, or early retirement at the age of 55 with 10 years of credited service. If a participant chooses early retirement, the benefit will be reduced by 0.25% for each month prior to the normal retirement date. If a participant remains employed after age 65, benefits will continue to accrue without any actuarial adjustment for late retirement, however the maximum benefit shall not exceed 50% of the average final salary. Upon reaching eligible retirement age, a vested participant who elects to retire generally receives benefit payments in annuity installments based upon the participant's retirement elections; however, participants may elect to receive a lump sum payment if the lump sum benefit is less than \$10,000 (\$5,000 prior to June 2017).

Contributions

The contribution requirements of the participating employers under the Plan are established and may be amended by the Retirement Committee based on the annual actuarial valuation of the Plan. The contribution requirements of the participating employees are established in the Plan and may only be changed with an amendment to the Plan.

As of December 30, 2019 and 2018, participants contribute 5% of their base earnings to the Plan. On August 16, 2019 the Board of Trustees passed a plan amendment increasing the employee contribution rate from 5.0% to 5.5%, beginning January 1, 2020. This change resulted in a decrease in the Plan's total pension liability of \$13,569 as of June 30, 2020, which is recognized in pension expense.

For the plan years ended December 31, 2020, 2019 and 2018, the employer's contributions are 9.12%, 8.79% and 6.91%, respectively, of each participant's earnings to the Plan.

A summary of employer and employee contributions to the Plan is as follows for the plan years ended December 31:

	<u>Annual Required</u>	<u>Employer</u>	<u>Employee</u>	<u>Percentage</u>
	<u>Contributions</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Contributed</u>
2019	\$ 482,377	\$ 482,377	\$ 274,389	100%
2018	\$ 368,917	\$ 368,917	\$ 266,944	100%

Summary Plan Financial Information

The net pension liability was measured as of December 31, 2019 and 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

HealthTrust, Inc.

Notes to the Financial Statements (Continued)

Note 14 - Defined Benefit Pension Plan (Continued)

A schedule of the Plan's fiduciary net position is as follows as of the plan year ended December 31:

	2019	2018
Cash and cash equivalents	\$ 356,857	\$ 583,940
Accrued interest and other dividends	27,376	20,829
Investments, at fair value:		
Equities - domestic and foreign	5,544,545	4,587,098
Exchange-traded funds	4,430,312	3,721,388
Corporate bonds	2,208,876	1,879,456
U.S. Treasuries	2,021,687	1,579,375
Accounts payable	(5)	(2,338)
 Net position available for pension benefits	 \$ 14,589,648	 \$ 12,369,748

As of December 31, 2019 and 2018, the Plan's equities and exchange-traded funds are categorized as Level 1 in accordance with the fair value hierarchy and are valued based on quoted prices for identical assets traded in active markets. As of December 31, 2019 and 2018, the Plan's corporate bonds are categorized as Level 2 and U.S. Treasuries as Level 1 in accordance with the fair value hierarchy and are valued based on quoted prices for similar or identical assets in active or non-active markets, or inputs other than quoted prices that are observable for the asset and market-corroborated inputs.

HealthTrust, Inc.

Notes to the Financial Statements (Continued)

Note 14 - Defined Benefit Pension Plan (Continued)

The schedule of changes in net pension liability and relative funding progress of the Plan is as follows for the plan years ended December 31:

	2019	2018
Service cost	\$ 619,657	\$ 585,926
Interest on total pension liability	944,555	888,928
Changes of benefit terms	(13,569)	-
Difference between expected and actual experience on total pension liability	83,737	(79,498)
Benefit payments	(519,734)	(409,306)
Refunds of employee contributions	(9,831)	(31,321)
Net change in total pension liability	1,104,815	954,729
Total pension liability - beginning	15,697,542	14,742,813
Total pension liability - ending (a)	\$ 16,802,357	\$ 15,697,542
Employer contributions	\$ 482,377	\$ 368,917
Employee contributions	274,389	266,944
Plan net investment income	2,030,497	(1,047,568)
Benefit payments	(519,734)	(409,306)
Refunds of employee contributions	(9,831)	(31,321)
Plan administrative expenses	(37,798)	(39,614)
Other changes in Plan fiduciary net position	-	-
Net change in Plan fiduciary net position	2,219,900	(891,948)
Plan fiduciary net position - beginning	12,369,748	13,261,696
Plan fiduciary net position - ending (b)	\$ 14,589,648	\$ 12,369,748
Net pension liability - ending (a) - (b)	\$ 2,212,709	\$ 3,327,794
Plan fiduciary net position as a percentage of total pension liability	86.83 %	78.80 %
Covered payroll	\$ 5,487,789	\$ 5,338,885
Net pension liability as a percentage of covered payroll	40.32 %	62.33 %

HealthTrust, Inc.

Notes to the Financial Statements (Continued)

Note 14 - Defined Benefit Pension Plan (Continued)

An independent consulting actuary was engaged to perform the annual actuarial valuation as of December 31, 2019 and 2018. The information included in the schedule of changes in net pension liability and relative funding progress of the Plan from the December 31, 2019 and 2018 actuarial valuations was prepared using the entry age normal cost method. The purpose of providing the above schedule is to provide information that serves as a surrogate for the funded status and funding progress of the Plan. The assumptions for the pension liability are outline later in this note to the financial statements.

The schedule of total pension expenses is as follows for the plan years ended December 31:

	2019	2018
Service cost	\$ 619,657	\$ 585,926
Interest on total pension liability	944,555	888,928
Current year benefit changes	(13,569)	-
Employee contributions	(274,389)	(266,944)
Projected earnings on Plan investments	(747,867)	(800,370)
Plan administrative expenses	37,798	39,614
Other changes in Plan fiduciary net position	-	-
Recognition of outflow (inflow) of resources due to liabilities	(25,305)	(38,176)
Recognition of outflow (inflow) of resources due to assets	220,459	568,320
Total pension expenses	\$ 761,339	\$ 977,298

HealthTrust, Inc.

Notes to the Financial Statements (Continued)

Note 14 - Defined Benefit Pension Plan (Continued)

Actuarial Assumptions

The significant assumptions and methods used in the actuarial valuations for the December 31, 2019 and 2018 measurement periods are as follows:

	2019	2018
Actual cost method:	Entry age normal cost method	Entry age normal cost method
Investment rate of return:	6.0%	6.0%
Price inflation rate:	2.25%	2.25%
Projected salary increases:	3.5% including inflation	3.5% including inflation
Cost-of-living adjustments:	None	None
Retirement age:	Age 65 for Normal Retirement and 55 for Early Retirement with 10 years of credited service. Retirement age assumptions are as follows: <ul style="list-style-type: none"> - 12% retired 55-64 years - 75% 65-69 years - 100% by 70 years 	Age 65 for Normal Retirement and 55 for Early Retirement with 10 years of credited service. Retirement age assumptions are as follows: <ul style="list-style-type: none"> - 12% retired 55-64 years - 75% 65-69 years - 100% by 70 years
Mortality assumptions:	Utilized RP-2014 Mortality Tables with MP-2014 projected longevity improvements (from 2006-2014) removed and with projected longevity improvements from 2006-2026 using MP-2017 projected statistics.	Utilized RP-2014 Mortality Tables with MP-2014 projected longevity improvements (from 2006-2014) removed and with projected longevity improvements from 2006-2026 using MP-2017 projected statistics.
Section 417(e) interest rate:	Option factors are currently based on the IRC Section 417(e) applicable mortality and interest.	Option factors are currently based on the IRC Section 417(e) applicable mortality and interest.

HealthTrust, Inc.

Notes to the Financial Statements (Continued)

Note 14 - Defined Benefit Pension Plan (Continued)

Additional significant assumptions and methods used in the actuarial projections and determination of contribution rates for December 31, 2019 and 2018 are as follows:

	2019	2018
Asset valuation method:	5-year smoothed market phased in July 8, 2019, (previously 4-year); 25% corridor	4-year smoothed market; 25% corridor
Amortization method:	Level percentage of payroll, closed	Level percentage of payroll, closed
Amortization period:	Two separate layers: December 31, 2017 and prior - 13 years with 12 years remaining Subsequent to December 31, 2017 - 20 years with 19 years remaining	Single layer amortization - 13 years

Single Discount Rate and Long-Term Expected Rate of Return

A Single Discount Rate of 6.00% was used to measure the total pension liability as of December 31, 2019 and 2018. The projection of cash flows used to determine this Single Discount Rate assumed that Plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The Single Discount Rate is based on the long-term expected rate of return on Plan investments and the long-term tax-exempt municipal bond rate. As of December 31, 2019 and 2018, the long-term expected rate of return on Plan investments is 6.00%, the municipal bond rate is 2.75% (3.71% as of December 31, 2018), and the resulting Single Discount Rate is 6.00%.

The tax-exempt municipal bond rate was based on the weekly rate closest to but not later than the measurement date of the Bond Buyer Index of 20-year general obligation bonds with an average AA credit rating.

The long-term expected rate of return on Plan investments was determined using a building block method in which expected future real rates of return (expected returns, net of Plan investment expenses and inflation) are developed for each major asset class. These real rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

HealthTrust, Inc.

Notes to the Financial Statements (Continued)

Note 14 - Defined Benefit Pension Plan (Continued)

For each major asset class that is included in the Plan's target asset allocations as of December 31, 2019, these best estimates are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Allocation-Weighted Long-Term Expected Real Rate of Return</u>
Domestic fixed income	38.00 %	0.65 %	0.25 %
Domestic equity	56.00 %	5.75 %	3.22 %
International equity	5.00 %	5.75 %	0.29 %
Cash	<u>1.00 %</u>	<u>0.05 %</u>	<u>- %</u>
Total	100.00 %		3.76 %
Expected inflation rate			<u>2.25 %</u>
Total return			<u><u>6.01 %</u></u>

Discount Rate Sensitivity Analysis

The following presents HealthTrust's proportionate share of the net pension liability, calculated using the Single Discount Rate of 6.0%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.0%) or one percentage point higher (7.0%) than the Single Discount Rate as of June 30, 2020:

<u>HealthTrust's Proportionate Share of the Net Pension Liability</u>	<u>1% Rate Decrease (5.0%)</u>	<u>Current Single Discount Rate (6.0%)</u>	<u>1% Rate Increase (7.0%)</u>
June 30, 2020	\$ 3,766,115	\$ 1,880,748	\$ 301,285

Net Pension Liability and Pension Expense

As of June 30, 2020 and 2019, HealthTrust reported a net pension liability of \$1,880,748 and \$2,796,426, respectively, and a pension expense of \$646,994 and \$818,077, respectively, for its proportionate share of the Plan's net pension liability.

HealthTrust, Inc.

Notes to the Financial Statements (Continued)

Note 14 - Defined Benefit Pension Plan (Continued)

The schedule of each employer's proportionate share of the collective net pension liability and pension expense is as follows as of and for the years ended June 30:

	2020		2019	
	Net Pension Liability	Pension Expense	Net Pension Liability	Pension Expense
HealthTrust	\$ 1,880,748	\$ 646,994	\$ 2,796,426	\$ 818,077
NHMA	<u>331,961</u>	<u>114,345</u>	<u>531,368</u>	<u>159,221</u>
Total	<u>\$ 2,212,709</u>	<u>\$ 761,339</u>	<u>\$ 3,327,794</u>	<u>\$ 977,298</u>

The net pension liability was measured as of December 31, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

For the December 31, 2019 and 2018 valuations, HealthTrust's and NHMA's proportionate share of the collective net pension liability was based on each entity's contributions to the Plan relative to the contributions of HealthTrust and NHMA for the period from January 1st to December 31st of the respective year.

At December 31, 2019 and 2018, HealthTrust's proportion of the collective net pension liability was 85.00% and 84.03%, respectively, and HealthTrust's proportion of the pension expense was 84.98% and 83.71%, respectively.

There were no changes benefit terms for December 31, 2019. There were no changes between the measurement date of the collective net pension liability of December 31, 2019 and HealthTrust's reporting date of June 30, 2020 that are expected to have a significant impact on HealthTrust's proportionate share of the collective net pension liability.

HealthTrust, Inc.

Notes to the Financial Statements (Continued)

Note 14 - Defined Benefit Pension Plan (Continued)

Deferred Outflows and Inflows of Resources

As of and for the fiscal years ended June 30, 2020 and 2019, HealthTrust reported its proportionate share of the Plan's deferred outflows and inflows of resources related to pensions from the following sources:

	<u>June 30, 2020</u>		<u>June 30, 2019</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual economic experience	\$ 60,236	\$ (404,842)	\$ -	\$ (551,955)
Changes in Assumptions	366,926	-	482,389	-
Net difference between projected and actual earnings on Plan investments	942,420	(1,065,705)	1,443,680	(302,482)
Changes in proportion and differences between employer contributions and share of contributions	17,742	(11,879)	1,317	(15,388)
Contributions paid to Plan subsequent to the measurement date	<u>210,879</u>	<u>-</u>	<u>203,959</u>	<u>-</u>
Total	<u>\$ 1,598,203</u>	<u>\$ (1,482,426)</u>	<u>\$ 2,131,345</u>	<u>\$ (869,825)</u>

The net amounts of HealthTrust's balances of deferred outflows and inflows of resources as of June 30, 2020 related to pensions will be recognized as pension expense as follows during the fiscal years ended June 30:

	<u>Pension Expense Amount</u>
2021	\$ (37,950)
2022	7,866
2023	130,189
2024	(212,803)
2025	10,521
Thereafter	<u>7,075</u>
Total	<u>\$ (95,102)</u>

HealthTrust, Inc.

Notes to the Financial Statements (Continued)

Note 15 - Capital Lease Obligations

HealthTrust entered into a lease agreement as lessee for financing the acquisition of equipment. The lease qualifies as a capital lease for accounting purposes and has therefore been recorded at the net present value of the future minimum lease payments. Pursuant to a purchase option in the contract, in the year ended June 30, 2020, HealthTrust purchased the equipment for \$1. The balance is included within investment in property and equipment, net on the statements of net position.

There are no future minimum lease payments as of June 31, 2020. The future minimum lease payments and the net present value of those payments as of June 30, 2019 are as follows:

Payments due during year ended:		
June 30, 2020	\$	85,541
June 30, 2021		<u>-</u>
Total future minimum lease payments		85,541
Less: interest		<u>(1,468)</u>
Total capital lease liability	\$	<u><u>84,073</u></u>

The assets acquired through capital lease obligations are included in property and equipment, net on the statements of net position and consist of the following as of June 30:

	<u>2020</u>	<u>2019</u>
Equipment, at cost	\$ 380,419	\$ 380,419
Less: accumulated depreciation	<u>(380,419)</u>	<u>(293,240)</u>
Total equipment, net	<u><u>\$ -</u></u>	<u><u>\$ 87,179</u></u>

Note 16 - Litigation Update

As of June 30, 2020 and 2019, HealthTrust was not involved in any pending litigation.

Note 17 - Contingencies

HealthTrust assesses potential liabilities in connection with lawsuits and threatened lawsuits under GAAP. HealthTrust accrues an estimated loss for loss contingencies if both of the following conditions are met: (1) information available prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements; and (2) the amount of loss can be reasonably estimated. As of June 30, 2020 and June 30, 2019, HealthTrust did not accrue any contingent liability in connection with lawsuits or threatened lawsuits.

Note 18 - Subsequent Events

Subsequent to year-end, the HealthTrust Board of Directors approved the return of surplus to Members in the amount of \$18,786,984. The return of surplus is reflected within these financial statements and is discussed in Note 4. The amount will be paid out in the upcoming fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

HealthTrust, Inc.

Reconciliation of Claims Liabilities by Type of Contract (Unaudited)

For the year ended June 30, 2020

The schedule below presents the changes in claims liabilities for HealthTrust's three types of contracts, employee health, dental benefits and short-term disability, for the year ended June 30, 2020:

	Health	Dental	Short-Term Disability	Total
Claims and administration reserves at beginning of fiscal year	\$ 21,795,105	\$ 1,099,977	\$ 177,826	\$ 23,072,908
Incurred claims and claim adjustment expenses:				
Provision for covered events of current year	342,997,508	21,252,408	1,174,717	365,424,633
Adjustments to provision for covered events of prior years	(2,524,088)	(432,380)	5,650	(2,950,818)
Total incurred claims and claim adjustment expenses	340,473,420	20,820,028	1,180,367	362,473,815
Payments of claims and claim adjustment expenses:				
Payments attributable to covered events of current year	(321,532,925)	(20,322,884)	(983,628)	(342,839,437)
Payments attributable to covered events of prior years	(18,656,016)	(650,096)	(183,477)	(19,489,589)
Total payments	(340,188,941)	(20,972,980)	(1,167,105)	(362,329,026)
Total claims and administration reserves at end of fiscal year	\$ 22,079,584	\$ 947,025	\$ 191,088	\$ 23,217,697

HealthTrust, Inc.

Reconciliation of Claims Liabilities by Type of Contract (Unaudited)

For the year ended June 30, 2019

The schedule below presents the changes in claims liabilities for HealthTrust's three types of contracts, employee health, dental benefits and short-term disability, for the year ended June 30, 2019:

	Health	Dental	Short-Term Disability	Total
Claims and administration reserves at beginning of fiscal year	\$ 19,859,585	\$ 1,101,685	\$ 192,264	\$ 21,153,534
Incurred claims and claim adjustment expenses:				
Provision for covered events of current year	363,136,881	25,132,574	1,129,334	389,398,789
Adjustments to provision for covered events of prior years	<u>(4,444,866)</u>	<u>(377,394)</u>	<u>(55,119)</u>	<u>(4,877,379)</u>
Total incurred claims and claim adjustment expenses	<u>358,692,015</u>	<u>24,755,180</u>	<u>1,074,215</u>	<u>384,521,410</u>
Payments of claims and claim adjustment expenses:				
Payments attributable to covered events of current year	(341,565,775)	(24,056,398)	(951,507)	(366,573,680)
Payments attributable to covered events of prior years	<u>(15,190,720)</u>	<u>(700,490)</u>	<u>(137,146)</u>	<u>(16,028,356)</u>
Total payments	<u>(356,756,495)</u>	<u>(24,756,888)</u>	<u>(1,088,653)</u>	<u>(382,602,036)</u>
Total claims and administration reserves at end of fiscal year	<u>\$ 21,795,105</u>	<u>\$ 1,099,977</u>	<u>\$ 177,826</u>	<u>\$ 23,072,908</u>

HealthTrust, Inc.

Ten-Year Schedule of Claims Development Information (Unaudited)

June 30, 2020

The following claims development information includes health, dental and short-term disability contracts. The table illustrates how HealthTrust's earned revenues (net of reinsurance) and investment income compare to related costs of claims and claim adjustment expenses (net of loss assumed by reinsurers) and other expenses assumed by HealthTrust for the fiscal periods ended June 30, 2014 through June 30, 2020. The rows of the table are defined as follows:

1. Total of each fiscal period's gross earned contributions revenue and investment revenue, contributions revenue ceded to reinsurers, and net earned contributions revenue and investment revenue.
2. Other operating costs of HealthTrust, including overhead and claims expenses not allocable to individual claims for each fiscal period.
3. Gross incurred claims and allocated claims adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first fiscal period in which the event that triggered coverage under the contract occurred (called *policy year*).
4. This section shows the cumulative net amounts paid as of the end of each fiscal period and annually thereafter.
5. The latest re-estimated amount of claims assumed by reinsurers as of the end of each fiscal period.
6. This section of rows shows how each policy year's net incurred claims increased or decreased as of the end of each fiscal period and annually thereafter. This re-estimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known.
7. This section compares the latest re-estimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought.

The columns of the table show data for successive fiscal periods.

As data for individual policy years matures, the correlation between original estimates and re-estimated amounts commonly is used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years.

HealthTrust, Inc.

Ten-Year Schedule of Claims Development Information (Unaudited) (Continued)

June 30, 2020

		Fiscal periods ended June 30 (in thousands of dollars)						
		2020	2019	2018	2017	2016	2015	2014
1)	Required contributions and investment revenue							
	Earned	\$ 436,310	\$ 413,437	\$ 395,487	\$ 396,105	\$ 403,221	\$ 408,035	\$ 359,834
	Ceded	-	-	-	-	-	-	569
	Net earned	436,310	413,437	395,487	396,105	403,221	408,035	359,265
2)	Unallocated expenses	38,471	36,936	34,751	35,477	36,628	33,307	27,489
3)	Estimated claims and expenses incurred at end of policy year							
	Incurred	365,425	389,399	368,060	360,791	379,998	366,067	299,126
	Ceded	-	-	-	-	-	-	-
	Net incurred	365,425	389,399	368,060	360,791	379,998	366,067	299,126
4)	Net paid (cumulative) as of:							
	End of policy year	342,839	366,574	347,186	339,884	359,149	345,652	280,187
	One year later	-	386,300	362,738	355,877	377,246	365,747	297,010
	Two years later	-	-	362,532	356,259	377,356	365,489	296,926
	Three years later	-	-	-	356,158	377,354	365,475	296,718
	Four years later	-	-	-	-	377,352	365,511	296,709
	Five years later	-	-	-	-	-	365,511	296,709
	Six years later	-	-	-	-	-	-	296,708
5)	Reestimated ceded incurred claims and expenses	-	-	-	-	-	-	-
6)	Reestimated net incurred claims and expenses as of:							
	End of policy year	365,425	389,399	368,060	360,791	379,998	366,067	299,126
	One year later	-	386,899	362,964	356,130	377,447	365,778	296,870
	Two years later	-	-	362,565	356,279	377,383	365,541	296,976
	Three years later	-	-	-	356,158	377,356	365,475	296,717
	Four years later	-	-	-	-	377,352	365,511	296,709
	Five years later	-	-	-	-	-	365,511	296,709
	Six years later	-	-	-	-	-	-	296,708
7)	Decrease in estimated net incurred claims and expenses from end of policy year	<u>\$ -</u>	<u>\$ 2,500</u>	<u>\$ 5,495</u>	<u>\$ 4,633</u>	<u>\$ 2,646</u>	<u>\$ 556</u>	<u>\$ 2,417</u>

HealthTrust, Inc.

Ten-Year Schedule of Employer Pension Information (Unaudited)

June 30, 2020

The following unaudited schedule presents HealthTrust's proportionate share of the Defined Benefit Pension Plan's net pension liability and related ratios for multiple years.

Plan Year Ended <u>December 31:</u>	Percentage Proportionate Share of Collective Net Pension Liability	Proportionate Share of Collective Net Pension Liability	Covered Payroll	Proportionate Share of Collective Net Pension Liability as a Percentage of Covered Payroll	Plan's Fiduciary Net Position as a Percentage of Total Pension Liability
2013	72.09%	\$ 560,521	\$ 4,282,783	13.09%	92.81%
2014	72.09%	\$ 722,805	\$ 4,416,017	16.37%	91.37%
2015	73.68%	\$ 1,350,995	\$ 4,446,396	30.38%	85.27%
2016	79.06%	\$ 1,012,609	\$ 4,468,619	22.66%	90.23%
2017	84.57%	\$ 1,252,510	\$ 4,457,488	28.10%	89.95%
2018	84.03%	\$ 2,796,426	\$ 4,486,395	62.33%	78.80%
2019	85.00%	\$ 1,880,748	\$ 4,664,751	40.32%	86.83%

The following unaudited schedule presents HealthTrust's employer contributions to the Plan and related ratios by plan year through December 31, 2019 and for the period from January 1, 2020 through HealthTrust's June 30, 2020 fiscal year end.

<u>Period Ended:</u>	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as Percentage of Covered Payroll
December 31, 2013	\$ 354,201	\$ 354,201	-	\$ 4,282,783	8.27%
December 31, 2014	\$ 359,464	\$ 359,464	-	\$ 4,416,017	8.14%
December 31, 2015	\$ 334,863	\$ 334,863	-	\$ 4,446,396	7.54%
December 31, 2016	\$ 325,070	\$ 325,070	-	\$ 4,468,619	7.27%
December 31, 2017	\$ 308,394	\$ 308,394	-	\$ 4,457,488	6.91%
December 31, 2018	\$ 310,010	\$ 310,010	-	\$ 4,486,395	6.91%
December 31, 2019	\$ 410,008	\$ 410,008	-	\$ 4,664,485	8.79%
June 30, 2020	\$ 210,879	\$ 210,879	-	\$ 2,312,500	9.12%

Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

Board of Directors
HealthTrust, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America, the financial statements of HealthTrust, Inc. (HealthTrust) and its discretely presented component unit, which comprise the statement of net position as of June 30, 2020 and the related statements of revenue, expenses and changes in net position and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated October 7, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered HealthTrust's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HealthTrust's internal control. Accordingly, we do not express an opinion on the effectiveness of HealthTrust's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HealthTrust's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of HealthTrust's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HealthTrust's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Johnson Lambert LLP". The signature is written in black ink and is positioned above the printed text of the firm's name and location.

Burlington, Vermont
October 7, 2020