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CMC Healthcare System, Inc. and GraniteOne Health and Affiliates

Combined Financial Statements and Other Financial Information

Year Ended September 30, 2018
With Independent Accountants' Review Report

Baker Newman & Noyes LLC
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CMC HEALTHCARE SYSTEM, INC. AND
GRANITEONE HEALTH AND AFFILIATES

COMBINED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

Year Ended September 30, 2018

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Boards of Trustees
CMC Healthcare System, Inc. and GraniteOne Health

We have reviewed the accompanying combined financial statements of CMC Healthcare System, Inc. and GraniteOne Health and Affiliates, which comprise the combined balance sheet as of September 30, 2018, and the related combined statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the combined financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Combined Financial Statements

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

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with *Statements on Standards for Accounting and Review Services* promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants (AICPA). Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the combined financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying combined financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

The Boards of Trustees
CMC Healthcare System, Inc. and GraniteOne Health

Other Matter – Other Financial Information

The accompanying combining information for the year ended September 30, 2018 included in schedules 1 and 2 is presented for purposes of additional analysis is not a required part of the basic combined financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the combined financial statements. The other financial information has been subjected to the review procedures applied in our review of the basic combined financial statements. We are not aware of any material modifications that should be made to the other financial information. We have not audited the other financial information and do not express an opinion on such information.

Baker Newman & Noyes LLC

Manchester, New Hampshire
February 20, 2019

CMC HEALTHCARE SYSTEM, INC. AND
GRANITEONE HEALTH AND AFFILIATES

COMBINED BALANCE SHEET (UNAUDITED)

September 30, 2018

ASSETS

Current assets:	
Cash and cash equivalents	$ 83,291,448
Short-term investments	29,009,260
Accounts receivable, less allowance for doubtful accounts of $30,993,527	72,236,800
Inventories	5,504,819
Other current assets	13,370,854
Total current assets	203,413,181
Property, plant and equipment, net	217,904,313
Long-term investments	12,425,093
Assets whose use is limited:	
Pension and insurance obligations	17,859,458
Board designated and donor restricted investments and restricted grants	243,887,993
Held by trustee under revenue bond agreements	36,660,053
	298,407,504
Other assets:	
Intangible assets and other	24,079,733
Total assets	$756,229,824

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable and accrued expenses	$ 38,177,981
Accrued salaries, wages and related accounts	26,642,222
Amounts payable to third-party payors	55,518,292
Current portion of long-term debt and capital lease obligations	5,682,746
Total current liabilities	126,021,241
Interest rate swap agreements	3,016,255
Accrued pension and other liabilities, less current portion	124,877,848
Long-term debt and capital lease obligations, less current portion	166,670,849
Total liabilities	420,586,193
Net assets:	
Unrestricted	292,449,258
Temporarily restricted	15,053,432
Permanently restricted	28,140,941
Total net assets	335,643,631
Total liabilities and net assets	$756,229,824

See Independent Accountants' Review Report and accompanying notes.

CMC HEALTHCARE SYSTEM, INC. AND
GRANITEONE HEALTH AND AFFILIATES

COMBINED STATEMENT OF OPERATIONS (UNAUDITED)

Year Ended September 30, 2018

Net patient service revenues, net of contractual allowances and discounts	$593,089,663
Provision for doubtful accounts	(28,677,129)
Net patient service revenues less provision for doubtful accounts	564,412,534
Other revenue	26,820,472
Disproportionate share funding	24,914,676
Total revenues and other support	616,147,682
Expenses:	
Salaries, wages and fringe benefits	345,531,178
Supplies and other	207,898,805
New Hampshire Medicaid enhancement tax	25,834,144
Depreciation and amortization	27,465,576
Interest	6,105,944
Total expenses	612,835,647
Income from operations	3,312,035
Nonoperating gains (losses):	
Investment income	4,433,536
Realized gains on sale of investments, net	10,174,336
Net periodic pension cost, other than service cost	(2,112,278)
Pension curtailment loss	(4,652,215)
Unrestricted contributions	1,673,647
Development costs	(1,484,962)
Change in fair value of interest rate swap agreements	965,612
Other nonoperating loss, net	(774,640)
Total nonoperating gains, net	8,223,036
Excess of revenues and gains over expenses	11,535,071
Unrealized appreciation on investments	3,287,874
Change in fair value of interest rate swap agreements	1,119,251
Assets released from restriction used for capital	556,546
Pension-related changes other than net periodic pension cost	27,059,844
Increase in unrestricted net assets	43,558,586
Unrestricted net assets at beginning of year	248,890,672
Unrestricted net assets at end of year	$292,449,258

See Independent Accountants' Review Report and accompanying notes.

CMC HEALTHCARE SYSTEM, INC. AND
GRANITEONE HEALTH AND AFFILIATES

COMBINED STATEMENT OF CHANGES IN NET ASSETS (UNAUDITED)

Year Ended September 30, 2018

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Balances at September 30, 2017	$248,890,672	$12,616,948	$27,397,082	$288,904,702
Excess of revenues and gains over expenses	11,535,071	–	–	11,535,071
Restricted investment income	–	272,338	21,952	294,290
Changes in interest in perpetual trusts	–	–	650,337	650,337
Restricted contributions	–	2,116,791	30,458	2,147,249
Unrealized appreciation on investments	3,287,874	331,936	61,431	3,681,241
Realized gains on sale of investments, net	–	1,495,819	–	1,495,819
Change in fair value of interest rate swap agreements	1,119,251	–	–	1,119,251
Assets released from restriction used for operations	–	(1,223,854)	(20,319)	(1,244,173)
Assets released from restriction used for capital	556,546	(556,546)	–	–
Pension-related changes other than net periodic pension cost	27,059,844	–	–	27,059,844
	43,558,586	2,436,484	743,859	46,738,929
Balances at September 30, 2018	$292,449,258	$15,053,432	$28,140,941	$335,643,631

See Independent Accountants' Review Report and accompanying notes.

CMC HEALTHCARE SYSTEM, INC. AND
GRANITEONE HEALTH AND AFFILIATES

COMBINED STATEMENT OF CASH FLOWS (UNAUDITED)

Year Ended September 30, 2018

Operating activities:	
Increase in net assets	$ 46,738,929
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization	27,465,576
Pension-related changes other than net periodic pension cost	(27,059,844)
Pension curtailment loss	4,652,215
Restricted gifts and investment income	(2,441,539)
Net realized gains on sale of investments	(11,670,155)
Increase in interest in perpetual trusts, net	(650,337)
Unrealized appreciation on investments	(3,681,241)
Decrease in interest rate swap loan	(48,000)
Changes in fair value of interest rate swap agreements	(2,084,863)
Bond discount/premium and issuance cost amortization	(211,204)
Changes in operating assets and liabilities:	
Accounts receivable, net	(6,939,481)
Inventories	(110,628)
Other current assets	265,944
Other assets	(2,349,832)
Accounts payable and accrued expenses	(4,963,872)
Accrued salaries, wages and related accounts	2,938,881
Amounts payable to third-party payors	295,095
Accrued pension and other liabilities	5,221,861
Net cash provided by operating activities	25,367,505
Investing activities:	
Purchases of property, plant and equipment	(45,972,507)
Proceeds from sales of investments, net	768,795
Net cash used by investing activities	(45,203,712)
Financing activities:	
Payments on long-term debt and capital lease obligations	(13,487,844)
Proceeds from issuance of long-term debt	8,130,000
Bond issuance costs	(239,107)
Restricted gifts and investment income	2,914,299
Net cash used by financing activities	(2,682,652)
Decrease in cash and cash equivalents	(22,518,859)
Cash and cash equivalents at beginning of year	105,810,307
Cash and cash equivalents at end of year	$ 83,291,448
Supplemental disclosure of cash flow information:	
Cash paid during the year for interest	$ 6,209,841

See Independent Accountants' Review Report and accompanying notes.

1. Organization

These combined financial statements include the accounts of CMC Healthcare System, Inc. (CMCH) and GraniteOne Health (GraniteOne), and their respective affiliates. CMCH and GraniteOne are not-for-profit organizations that serve as corporate co-members of Catholic Medical Center (CMC), a voluntary not-for-profit acute care hospital based in Manchester, New Hampshire. GraniteOne is also the sole corporate member of the Monadnock Community Hospital (Monadnock) and Huggins Hospital (Huggins), two not-for-profit critical access hospitals based in Peterborough, New Hampshire and Wolfeboro, New Hampshire, respectively. Huggins, in turn, is the sole corporate member of Huggins Senior Housing, Inc. (HSH), a for-profit management company of a retirement community (Sugar Hill Retirement Community, based in Wolfeboro, New Hampshire). Finally, CMCH is the sole corporate member of various other affiliates, including: Physician Practice Associates, Inc. (PPA), Alliance Enterprises, Inc. (Enterprises), Alliance Resources, Inc. (Resources), Alliance Ambulatory Services, Inc. (AAS), Alliance Health Services, Inc. (AHS), Doctors Medical Association, Inc. (DMA) and St. Peter's Home, Inc. Enterprises has a 100% interest in McGregor St. MOB, LLC (MOB), an entity that owns certain real estate in Manchester, New Hampshire.

For purposes of these combined financial statements, the parent companies, hospitals and affiliates described above are collectively referred to as the System. CMCH and its affiliates described above are collectively referred to as CMCHS.

2. Significant Accounting Policies

Basis of Presentation

The accompanying combined financial statements have been prepared using the accrual basis of accounting.

Principles of Combination

The combined financial statements include the accounts of CMCH, GraniteOne, CMC, Monadnock, Huggins, HSH, PPA, Enterprises, Resources, AAS, AHS, DMA, St. Peter's Home, and MOB. Significant intercompany accounts and transactions have been eliminated in combination.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The primary estimates relate to collectibility of receivables from patients and third-party payors, amounts payable to third-party payors, accrued compensation and benefits, conditional asset retirement obligations, impairment evaluation of goodwill and other intangible assets, and self-insurance reserves.

2. Significant Accounting Policies (Continued)

Income Taxes

The parent companies, hospitals and affiliates comprising the System, with the exception of Enterprises, DMA and MOB, are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Management evaluated the System's tax positions and concluded the System has maintained its tax-exempt status, does not have any significant unrelated business income and had taken no uncertain tax positions that require adjustment to the combined financial statements.

Enterprises, DMA and MOB are for-profit organizations and, in accordance with federal and state tax laws, file income tax returns, as applicable. No significant income taxes were incurred or paid for the year ended September 30, 2018. There are no significant deferred tax assets or liabilities at September 30, 2018. These entities have concluded there are no significant uncertain tax positions requiring disclosure and there is no material liability for unrecognized tax benefits. It is the policy of these entities to recognize interest related to unrecognized tax benefits in interest expense and penalties in income tax expense.

Performance Indicator

Excess of revenues and gains over expenses is comprised of operating revenues and expenses and nonoperating gains and losses. For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains or losses, which include unrestricted contributions, development costs, realized gains and losses on the sales of investments, unrestricted investment income, pension curtailment loss, changes in fair value of interest rate swap agreements deemed to be effective hedges, and certain other nonoperating gains or losses.

Charity Care

The System has formal charity care policies under which patient care is provided to patients who meet certain criteria without charge or at amounts less than its established rates. The System does not pursue collection of amounts determined to qualify as charity care; therefore, they are not reported as revenues.

Of the System's $612,835,647 total expenses reported for the year ended September 30, 2018, an estimated $9,126,000 arose from providing services to charity patients. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the System's total expenses divided by gross patient service revenue.

The System rendered charity care in accordance with its formal charity care policy, which, at established charges, amounted to approximately $24.6 million for the year ended September 30, 2018.

2. Significant Accounting Policies (Continued)

Concentration of Credit Risk

Financial instruments which subject the System to credit risk consist primarily of cash equivalents, accounts receivable and investments. The risk with respect to cash equivalents is minimized by the System's policy of investing in financial instruments with short-term maturities issued by highly rated financial institutions. The System's accounts receivable are primarily due from third-party payors and amounts are presented net of expected contractual allowances and uncollectible amounts. The System's investment portfolio consists of diversified investments, which are subject to market risk. Investments that exceeded 10% of its investments include the Dreyfus Treasury Securities Cash Management Fund and the SSGA S&P Tobacco Free Fund as of September 30, 2018.

Cash and Cash Equivalents

Cash and cash equivalents include certificates of deposit with original maturities of three months or less when purchased and investments in overnight deposits at various banks. Cash and cash equivalents exclude amounts whose use is limited by board designation and amounts held by trustees under revenue bond and other agreements. The System maintains approximately $60,000,000 at September 30, 2018 of its cash and cash equivalent accounts with a single institution. The System has not experienced any losses associated with deposits at this institution.

Net Patient Service Revenues and Accounts Receivable

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

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

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

2. Significant Accounting Policies (Continued)

Periodically, management assesses the adequacy of the allowance for doubtful accounts based upon historical write-off experience. The results of this review are then used to make any modifications to the provision for doubtful accounts to establish an appropriate allowance for doubtful accounts. Accounts receivable are written off after collection efforts have been followed in accordance with internal policies.

Inventories

Inventories of supplies are stated at the lower of cost (determined by the first-in, first-out method) or net realizable value.

Property, Plant and Equipment

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

Conditional Asset Retirement Obligations

The System recognizes the fair value of a liability for legal obligations associated with asset retirements in the year in which the obligation is incurred, in accordance with the Accounting Standards for *Accounting for Asset Retirement Obligations* (ASC 410-20). When the liability is initially recorded, the cost of the asset retirement obligation is capitalized by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each year, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the combined statement of operations.

As of September 30, 2018, $1,078,784 of conditional asset retirement obligations are included within accrued pension and other liabilities in the accompanying combined balance sheet.

Goodwill and Other Intangible Assets

Accounting rules require that intangible assets with estimable or determinable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and be reviewed by management for impairment. Intangible assets of $2,640,000 at September 30, 2018 consisted of trade names. Such amounts are included in intangible assets and other in the accompanying combined balance sheet and are being amortized over a period of ten years. Amortization expense recognized for the year ended September 30, 2018 totaled $320,000, and is included in depreciation and amortization in the accompanying combined statement of operations.

2. Significant Accounting Policies (Continued)

The System reviews its goodwill and other long-lived assets annually to determine whether the carrying amount of such assets is impaired. Upon determination that an impairment has occurred, these assets are reduced to fair value. There were no impairments recorded for the year ended September 30, 2018. The net carrying value of goodwill is $4,490,154 at September 30, 2018 and is reflected within intangible assets and other in the accompanying combined balance sheet.

Retirement Benefits

CMC offers the Catholic Medical Center Pension Plan (the CMC Plan), which provides retirement benefits for certain employees of CMC and PPA who have attained age twenty-one and work at least 1,000 hours per year. The CMC Plan consists of a benefit accrued to July 1, 1985, plus 2% of plan year earnings (to legislative maximums) per year. CMC's funding policy is to contribute amounts to the CMC Plan sufficient to meet minimum funding requirements set forth in the *Employee Retirement Income Security Act of 1974*, plus such additional amounts as may be determined to be appropriate from time to time. The CMC Plan is intended to constitute a plan described in Section 414(k) of the Code, under which benefits derived from employer contributions are based on the separate account balances of participants in addition to the defined benefits under the CMC Plan.

Effective January 1, 2008, CMC decided to close participation in the CMC Plan to new participants. As of January 1, 2008, current participants continued to participate in the CMC Plan while new employees receive a higher matching contribution to the tax-sheltered annuity benefit program discussed below.

During 2011, CMC's Board of Trustees voted to freeze the accrual of benefits under the CMC Plan effective December 31, 2011.

The CMC Plan was amended effective as of May 1, 2016 to provide a limited opportunity for certain terminated vested participants to elect an immediate lump sum or annuity distribution option.

CMC also maintains tax-sheltered annuity benefit programs in which it matches one half of employee contributions up to 3% of their annual salary, depending on date of hire, plus an additional 3% - 5% based on tenure. CMC made matching contributions under the program of approximately $7,733,000 for the year ended September 30, 2018.

During 2007, CMC created a nonqualified deferred compensation plan covering certain employees under Section 457(b) of the Code. Under this plan, a participant may elect to defer a portion of their compensation to be held until payment in the future to the participant or his or her beneficiary. Consistent with the requirements of the Code, all amounts of deferred compensation, including but not limited to any investments held and all income attributable to such amounts, property, and rights will remain subject to the claims of CMC's creditors, without being restricted to the payment of deferred compensation, until payment is made to the participant or their beneficiary. No contributions were made by CMC for the year ended September 30, 2018.

2. Significant Accounting Policies (Continued)

CMC also provides a noncontributory supplemental executive retirement plan covering certain former executives of CMC, as defined. CMC's policy is to accrue costs under this plan using the "Projected Unit Credit Actuarial Cost Method" and to amortize past service costs over a fifteen-year period. Benefits under this plan are based on the participant's final average salary, social security benefit, retirement income plan benefit, and total years of service. Certain investments held by CMC have been designated for payment of benefits under this plan and are included in assets whose use is limited– pension and insurance obligations.

During 2007, CMC created a supplemental executive retirement plan covering certain executives of CMC. The System recorded compensation expense of approximately $683,000 for the year ended September 30, 2018 related to this plan.

Monadnock has a tax-sheltered annuity plan covering substantially all of its employees. Participating employees become eligible for employer contributions following the completion of two years of service, as defined, and attainment of age 21. Employer contributions are determined based on a percentage of employees' salaries. Benefit expense related to this plan for the year ended September 30, 2018 amounted to approximately $502,000.

Monadnock also offers to certain physicians the option to participate in an Internal Revenue Code Section 457 deferred compensation plan to which Monadnock may make a discretionary contribution. Monadnock made no contributions to the Plan for the year ended September 30, 2018.

Huggins sponsors a contributory defined contribution plan available to substantially all of its employees. Huggins' policy under the defined contribution plan is to fund its portion of amounts due under the plan on a current basis and to recognize expenses as incurred. Expenses related to this plan for the year ended September 30, 2018 approximated $732,000.

Huggins also sponsored a defined benefit pension plan that covered substantially all of its employees. In June 2011, Huggins' Board of Trustees voted to curtail benefits under the defined benefit plan effective October 1, 2011. All benefits for active employees became fully vested at that time. In November 2017, Huggins voted to terminate the defined benefit pension plan. The plan was fully funded and settled in August 2018.

Employee Fringe Benefits

The System has various "earned time" plans. Under these plans, each qualifying employee "earns" hours of paid leave for each pay period worked. These hours of paid leave may generally be used for vacations, holidays, or illness. Hours earned but not used are vested with the employee and are generally paid to the employee upon termination. The System expenses the cost of these benefits as they are earned by the employees.

2. Significant Accounting Policies (Continued)

Debt Issuance Costs/Original Issue Discount or Premium

The debt issuance costs incurred to obtain financing for the System's construction and renovation programs and refinancing of prior bonds and the original issue discount or premium are amortized to interest expense using the straight-line method over the repayment period of the bonds. This approximates the effective interest method. The original issue discount or premium and debt issuance costs are presented as a component of long-term debt.

Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted include assets held by trustees under indenture agreements, pension and insurance obligations, and designated assets set aside by the governing board, over which that governing board retains control and may, at its discretion, subsequently use for other purposes, and donor-restricted investments.

Classification of Net Assets

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

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

Permanently restricted net assets have been restricted by donors to be maintained by the System in perpetuity. Income earned on permanently restricted net assets, to the extent not restricted by the donor, including net unrealized appreciation or depreciation on investments, is included in the combined statement of operations as unrestricted resources or as a change in temporarily restricted net assets in accordance with donor-intended purposes or applicable law.

Investments and Investment Income

Investments are carried at fair value in the accompanying combined financial statements. See Note 7 for further discussion regarding fair value measurements. Realized gains or losses on the sale of investment securities are determined by the specific identification method and are recorded on the settlement date. Unrealized gains and losses on investments are excluded from the excess of revenues and gains over expenses unless the investments are classified as trading securities or losses are considered other-than-temporary. Interest and dividend income on unrestricted investments, unrestricted investment income on permanently restricted investments and unrestricted net realized gains/losses are reported as nonoperating gains/losses.

2. Significant Accounting Policies (Continued)

Derivative Instruments

Derivatives are recognized as either assets or liabilities in the combined balance sheet at fair value regardless of the purpose or intent for holding the instrument. Changes in the fair value of derivatives are recognized either in the excess of revenues and gains over expenses or net assets, depending on whether the derivative is speculative or being used to hedge changes in fair value or cash flows. See also Note 5.

Beneficial Interest in Perpetual Trusts

The System is the beneficiary of trust funds administered by trustees or other third parties. Trusts wherein the System has the irrevocable right to receive the income earned on the trust assets in perpetuity are recorded as permanently restricted net assets at the fair value of the trust at the date of receipt. Income distributions from the trusts are reported as investment income that increase unrestricted net assets, unless restricted by the donor. Annual changes in the fair value of the trusts are recorded as increases or decreases to permanently restricted net assets.

Investment Policies

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

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

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

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

Management of these assets is designed to maximize total return while preserving the capital values of the funds, protecting the funds from inflation and providing liquidity as needed. The System targets a diversified asset allocation that places emphasis on achieving its long-term return objectives within prudent risk constraints.

2. Significant Accounting Policies (Continued)

Spending Policy for Appropriation of Assets for Expenditure

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

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

For Monadnock, the Finance Committee of Monadnock's Board of Trustees determines the method to be used to appropriate endowment funds for expenditure. As a guideline, approximately 4% of the total value of the three year quarterly average of available funds is intended to be distributed annually. Monadnock's Finance Committee has the ability to distribute up to 5.99% of the total market value of the three-year quarterly average of available funds. Distributions of 6% or over must be approved by a vote of Monadnock's Board of Trustees. The corresponding calculated spending allocations are distributed in equal quarterly installments from the current net total or accumulated net total investment returns for individual endowment funds. In establishing this policy, Monadnock's Board of Trustees considered the expected long term rate of return on its endowment.

For Huggins, each year a calculation will be made to determine the maximum amount of money that can be withdrawn from the long-term portfolio to be used for each donor-restricted and board-designated purpose. The annual amount available for spending will not exceed 7% of the fair market value calculated on the basis of market values determined at least quarterly and averaged over a period of not less than three years immediately preceding the year in which the appropriation for the expenditure is made.

Federal Grant Revenue and Expenditures

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

2. Significant Accounting Policies (Continued)

Malpractice Loss Contingencies

The System has claims-made basis policies for its malpractice insurance coverage. A claims-made basis policy provides specific coverage for claims reported during the policy term. The System has established a reserve to cover professional liability exposure, which may not be covered by insurance. The possibility exists, as a normal risk of doing business, that malpractice claims in excess of insurance coverage may be asserted against the System. In the event a loss contingency should occur, the System would give it appropriate recognition in its combined financial statements in conformity with accounting standards. The System expects to be able to obtain renewal or other coverage in future years.

In accordance with Accounting Standards Update (ASU) No. 2010-24, "*Health Care Entities*" (Topic 954): *Presentation of Insurance Claims and Related Insurance Recoveries*, at September 30, 2018, the System recorded a liability of $14,695,618 related to estimated professional liability losses covered under these policies. At September 30, 2018, the System also recorded a receivable of $11,004,118 related to estimated recoveries under insurance coverage for recoveries of the potential losses. These amounts are included in accrued pension and other liabilities, and intangible assets and other, respectively, on the accompanying combined balance sheet.

Workers' Compensation

CMCHS maintains workers' compensation insurance under a self-insured plan. The plan offers, among other provisions, certain specific and aggregate stop-loss coverage to protect CMCHS against excessive losses. CMCHS has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Accrued workers' compensation losses of $3,061,261 at September 30, 2018 have been discounted at 1.25% and, in management's opinion, provide an adequate reserve for loss contingencies. At September 30, 2018, $1,359,646 and $1,701,615 is recorded within accounts payable and accrued expenses and accrued pension and other liabilities, respectively, in the accompanying combined balance sheet. Additionally, $248,403 and $408,513 has been recorded within other current assets and intangible assets and other, respectively, in the accompanying combined balance sheet to limit the accrued losses to the retention amount at September 30, 2018.

Health Insurance

CMCHS and Monadnock have self-funded health insurance plans. These plans are administered by insurance companies which assist in determining the current funding requirements of participants under the terms of each plan and the liability for claims and assessments that would be payable at any given point in time. CMCHS and Monadnock are insured above a stop-loss amount on individual claims. Estimated unpaid claims, and those claims incurred but not reported, at September 30, 2018 of $3,149,428 are reflected in the accompanying combined balance sheet within accounts payable and accrued expenses.

2. Significant Accounting Policies (Continued)

Advertising Costs

The System expenses advertising costs as incurred, and such costs totaled approximately $2,097,000 for the year ended September 30, 2018.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which requires revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the System expects to be entitled in exchange for those goods and services. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. ASU 2014-09 is effective for the System on October 1, 2019. ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. The System is evaluating the impact that ASU 2014-09 will have on its combined financial statements and related disclosures.

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

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

2. Significant Accounting Policies (Continued)

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

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

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). Due to diversity in practice, ASU 2018-08 clarifies the definition of an exchange transaction as well as the criteria for evaluating whether contributions are unconditional or conditional. ASU 2018-08 is effective for the System on October 1, 2019, with early adoption permitted. The System is currently evaluating the impact that ASU 2018-08 will have on its combined financial statements.

Subsequent Events

Management of the System evaluated events occurring between the System's fiscal year and February 20, 2019, the date the combined financial statements were available to be issued.

On January 24, 2019, GraniteOne and Dartmouth-Hitchcock Health signed a non-binding letter of intent (LOI) to combine the two integrated healthcare delivery systems. This non-binding LOI is the first step in a potential lengthy process that may include due diligence, negotiation of a definitive agreement, review and approval of each member's Board of Trustees, including that of CMCH and the Roman Catholic Bishop of the Diocese of Manchester in terms of CMC's participation, and federal and state regulatory approval processes. The combined organization will have a total operating revenue and assets of almost $3 billion. Expected benefits of the combination include expanding both organizations' primary and specialty services in southern New Hampshire, expanding access to health care in rural communities, and increasing competition by delivering higher-quality, lower cost care in New Hampshire.

3. Net Patient Service Revenue

The following summarizes net patient service revenue for the year ended September 30, 2018:

Gross patient service revenue	$ 1,616,302,664
Less contractual allowances	(1,023,213,001)
Less provision for doubtful accounts	(28,677,129)
Net patient service revenue	$ 564,412,534

CMC is paid a prospectively determined fixed price for each Medicare and Medicaid inpatient acute care service depending on the type of illness or the patient's diagnosis related group classification. Capital costs and certain Medicare and Medicaid outpatient services are also reimbursed on a prospectively determined fixed price. CMC receives payments for other Medicaid outpatient services on a reasonable cost basis which are settled with retroactive adjustments upon completion and audit of related cost finding reports.

Monadnock and Huggins have been granted critical access hospital (CAH) designations. As a result of this designation, Monadnock and Huggins are entitled to cost-based reimbursement from Medicare for services provided to Medicare beneficiaries. Inpatient acute care services rendered to Medicare program beneficiaries are paid under a cost reimbursement methodology. Outpatient services are paid based on a combination of rate schedules and reimbursed cost. Monadnock and Huggins are reimbursed for cost reimbursable items at an interim rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. Medicare cost reports of Monadnock and Huggins have been final settled through 2013.

Monadnock and Huggins are also entitled to certain Medicaid reimbursement under a cost reimbursement methodology subject to certain limitations. Monadnock and Huggins are reimbursed at an interim rate with final settlement determined after submission of annual costs reported by the two hospitals and audits thereof by the State of New Hampshire Division of Audit. Medicaid cost reports for Monadnock and Huggins have been final settled through 2012 and 2013, respectively.

Differences between amounts previously estimated and amounts subsequently determined to be recoverable or payable are included in net patient service revenues of the System in the year that such amounts become known. The percentage of net patient service revenues earned by the System from the Medicare and Medicaid programs was 41% and 4%, respectively, for the year ended September 30, 2018.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The System believes that it is in compliance with all applicable laws and regulations; compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

3. Net Patient Service Revenue (Continued)

The System also maintains contracts with certain commercial carriers, health maintenance organizations, preferred provider organizations and state and federal agencies. The basis for payment under these agreements includes prospectively determined rates per discharge and per day, discounts from established charges and fee screens. The System does not currently hold reimbursement contracts which contain financial risk components.

The approximate percentages of the System's patient service revenues, net of contractual allowances and discounts and provision for doubtful accounts for the year ended September 30, 2018 from third-party payors and uninsured patients are as follows:

	Third-Party Payors	Uninsured Patients	Total All Payors
Patient service revenue, net of contractual allowances and discounts	99.20%	0.80%	100.00%

An estimated breakdown of the System's patient service revenues, net of contractual allowances, discounts and provision for doubtful accounts recognized for the year ended September 30, 2018 from major payor sources, is as follows:

	Gross Patient Service Revenues	Contractual Allowances and Discounts	Provision for Doubtful Accounts	Net Patient Service Revenues Less Provision for Doubtful Accounts
Private payors (includes coinsurance and deductibles)	$ 590,508,956	$ (279,303,368)	$(13,173,944)	$ 298,031,644
Medicaid	155,811,997	(128,492,329)	(695,522)	26,624,146
Medicare	828,132,756	(589,506,811)	(3,362,546)	235,263,399
Self-pay	41,848,955	(25,910,493)	(11,445,117)	4,493,345
	$1,616,302,664	$(1,023,213,001)	$(28,677,129)	$ 564,412,534

The System recognizes changes in accounting estimates for net patient service revenues and third-party payor settlements as new events occur or as additional information is obtained. For the year ended September 30, 2018, net patient service revenue increased approximately $3,357,000 due to changes to prior year estimates.

Medicaid Enhancement Tax and Disproportionate Share Payment

Under the State of New Hampshire's (the State) tax code, the State imposes a Medicaid Enhancement Tax (MET) equal to 5.40% of net patient service revenues in State fiscal year 2018, with certain exclusions. The amount of tax incurred by the System for the year ended September 30, 2018 was $25,834,144.

See Independent Accountants' Review Report.

3. Net Patient Service Revenue (Continued)

In the fall of 2010, in order to remain in compliance with stated federal regulations, the State adopted a new approach related to Medicaid disproportionate share funding (DSH) retroactive to July 1, 2010. Unlike the former funding method, the State's approach led to a payment that was not directly based on, and did not equate to, the level of tax imposed. As a result, the legislation created some level of losses at certain New Hampshire hospitals, while other hospitals realized gains. DSH payments from the State are recorded in operating revenues and amounted to $24,914,676 for the year ended September 30, 2018, net of reserves referenced below.

The Centers for Medicare and Medicaid Services (CMS) has completed audits of the State's program and the disproportionate share payments made by the State from 2011 through 2014, the first years that those payments reflected the amount of uncompensated care provided by New Hampshire hospitals. It is possible that subsequent years will also be audited by CMS. The System has recorded reserves to address its exposure based on the audit results to date.

4. Property, Plant and Equipment

The major categories of the System's property, plant and equipment at September 30, 2018 are as follows:

Land and land improvements	$ 12,559,071
Buildings and improvements	179,462,034
Equipment	224,376,711
Construction in progress	13,087,819
	429,485,635
Less accumulated depreciation and amortization	(211,581,322)
Net property, plant and equipment	$ 217,904,313

Useful lives of property, plant and equipment range from 2 to 40 years. The cost of equipment under capital leases was $8,524,283 at September 30, 2018. Accumulated amortization of the leased equipment at September 30, 2018 was $7,659,682. Amortization of assets under capital leases is included in depreciation and amortization expense.

5. Long-Term Debt and Capital Lease Obligations

Long-term debt and capital lease obligations at September 30, 2018 consist of the following:

CMCHS	
New Hampshire Health and Education Facilities Authority (the Authority) Revenue Bonds:	
Series 2012 Bonds with interest ranging from 4.00% to 5.00% per year and principal payable in annual installments ranging from $1,125,000 to $2,755,000 through July 2032	$ 22,450,000
Series 2015A Bonds with interest at a fixed rate of 2.27% per year and principal payable in annual installments ranging from $185,000 to $1,655,000 through July 2040	22,255,000
Series 2015B Bonds with variable interest subject to interest rate swap described below and principal payable in annual installments ranging from $195,000 to $665,000 through July 2036	8,260,000
Series 2017 Bonds with interest ranging from 3.38% to 5.00% per year and principal payable in annual installments ranging from $2,900,000 to $7,545,000 beginning in July 2033 through July 2044	61,115,000
Capital lease obligations	1,020,278
MOB note payable – see below	8,032,500
	123,132,778
Monadnock	
New Hampshire Business Finance Authority (NHBFA) in conjunction with Revenue Bonds Series 2013, variable interest rate, amended and restated as of June 27, 2018, as described below	24,399,669
Interest rate swap loan (see below)	92,000
Capital lease obligations	97,132
	24,588,801

See Independent Accountants' Review Report.

5. Long-Term Debt and Capital Lease Obligations

Huggins	
The Authority Revenue Bonds:	
Series 2017A Bonds with interest at a fixed rate of 2.59% per year and principal payable in annual installments from $333,695 in 2019 to $671,000 in 2046	$ 14,055,318
Series 2017B Bonds with variable interest rate payable in annual installments ranging from $266,369 in 2019 to $776,358 in 2046	8,904,182
	22,959,500
	170,681,079
Unamortized original issue premiums/discounts	5,450,325
Unamortized debt issuance costs	(3,777,809)
	172,353,595
Less current portion	(5,682,746)
	$ 166,670,849

CMC

In December 2012, CMC, in connection with the Authority, issued $35,275,000 of tax-exempt fixed rate revenue bonds (Series 2012). Under the terms of the loan agreements, CMC has granted the Authority a first collateralized interest in all gross receipts and a mortgage lien on existing and future property, plant and equipment. CMC is required to maintain a minimum debt service coverage ratio of 1.20. CMC was in compliance with this covenant for the year ended September 30, 2018. The proceeds of the Series 2012 bond issue were used to advance refund the remaining 2002A Bonds, advance refund certain 2002B Bonds, pay off a short term CAN note and fund certain capital purchases.

On September 3, 2015, the Authority issued $32,720,000 of Revenue Bonds, CMC Issue, Series 2015, consisting of the $24,070,000 aggregate principal amount Series 2015A Bonds and the $8,650,000 aggregate principal amount Series 2015B Bonds sold via direct placement to a financial institution. Under the terms of the loan agreements, CMC has granted the Authority a first collateralized interest in all gross receipts and a mortgage lien on existing and future property, plant and equipment of CMC. CMC is required to maintain a minimum debt service coverage ratio of 1.20. CMC was in compliance with this covenant for the year ended September 30, 2018.

CMC's Series 2015A Bonds were issued to provide funds for the purpose of (i) advance refunding a portion of the outstanding 2006 Bonds in an amount of $20,655,000 to the first call date of July 1, 2016, (ii) funding certain construction projects and equipment purchases in an amount of approximately $3,824,000, and (iii) paying the costs of issuance related to the Series 2015 Bonds.

5. Long-Term Debt and Capital Lease Obligations (Continued)

The Series 2015B Bonds were structured as drawdown bonds. On July 1, 2016, the full amount available under the Series 2015B Bonds totaling $8,650,000 was drawn upon and the proceeds in combination with cash contributed by the System totaling $555,000 were used to currently refund the remaining balance of the certain outstanding Series 2006 Bonds totaling $9,205,000.

On September 1, 2017, the Authority issued $61,115,000 of Revenue Bonds, Catholic Medical Center Issue, Series 2017. The Series 2017 Bonds were issued to fund various construction projects and equipment purchases, as well as pay certain costs of issuance related to the Series 2017 Bonds. Under the terms of the loan agreements, CMC has granted the Authority a first collateralized interest in all gross receipts and a mortgage lien on existing and future property, plant and equipment. CMC is required to maintain a minimum debt service coverage ratio of 1.20. CMC was in compliance with this covenant as of September 30, 2018.

CMC has an agreement with the Authority, which provides for the establishment of various funds, the use of which is generally restricted to the payment of debt as well as a construction fund related to the Series 2017 Bonds. These funds are administered by a trustee, and income earned on certain of these funds is similarly restricted.

Monadnock

On January 1, 2013, Monadnock refinanced its existing 2007 Series Bonds outstanding in the amount of $17,810,000 and its 2009 Series Bonds outstanding in the amount of $9,424,908 through the issuance of $27,240,000 in 2013 Series Bonds with NHBFA. The initial interest rate on the bonds through January 1, 2023 was a variable rate equal to 75% of the one-month LIBOR plus 1.3125%. The final maturity of the bonds was January 1, 2043 and, on January 1, 2023, the bonds were required to be remarketed upon a stipulated mandatory redemption.

On June 27, 2018, the 2013 Series Revenue Bonds with NHBFA were amended and restated. The original bonds were exchanged for amended bonds and the original bond issuance was cancelled. The amended 2013 Series Bonds with NHBFA were issued in the amount of $24,584,872, which was the amount of the outstanding balance of the original 2013 Series Bonds at the time of closing. The initial interest rate on the amended bonds through July 1, 2028 is a variable rate equal to 81.5% of the one-month LIBOR plus 1.45%. The interest rate at September 30, 2018 was 2.90%. The final maturity of the amended bonds remained January 1, 2043. On January 1, 2028, the amended bonds must be remarketed upon a stipulated mandatory redemption. Monadnock is also required to comply with certain financial and other covenants and has granted as security all gross receipts, together with all real and personal property, as defined. The amended Series 2013 Bonds require the same debt service payments as the original 2013 Series Bonds with payments ranging from $408,605 to $1,589,792 per year. Monadnock is required to comply with certain restrictive financial covenants including, but not limited to, debt service coverage and debt to equity ratios. At September 30, 2018, Monadnock was in compliance with these restrictive covenants.

5. Long-Term Debt and Capital Lease Obligations (Continued)

Monadnock also has an available $3,000,000 revolving demand line of credit with a financial institution. The line of credit bears no interest unless drawn at Monadnock's option, in which case the rate is equal to the prime rate or 1, 2 or 3-month LIBOR plus 2.5% (5.25% at September 30, 2018). There was no balance outstanding under this agreement at September 30, 2018. The line of credit is subject to renewal on May 31, 2019.

Huggins

On July 1, 2018, Huggins issued $14,380,488 of the Authority Series 2017A fixed rate bonds and $14,160,667 of the Authority Series 2017B variable rate (2.70% at September 30, 2018) direct purchase bonds. The Series 2017B bonds include a $5 million optional draw down that can be executed within 24 months of origination. At September 30, 2018, no amounts were drawn or outstanding. The proceeds were used to refinance Huggins' existing 2009 and 2007 Series Bonds. Huggins has granted as security all gross revenue and substantially all assets of Huggins, as defined. Huggins must meet certain restrictive loan covenants. At September 30, 2018, Huggins was in compliance with its financial covenants related to the bond agreements.

MOB Notes Payable

During 2007, MOB established a nonrevolving line of credit for $9,350,000 with a bank in order to fund construction of a medical office building. The line of credit bore interest at the LIBOR lending rate plus 1%. Payments of interest only were due on a monthly basis until the completed construction of the medical office. During 2008, the building construction was completed and the line of credit was converted to a note payable with payments of interest (at the one-month LIBOR rate plus 1.4%) and principal due on a monthly basis, with all payments to be made no later than April 1, 2018.

On March 27, 2018, the MOB note payable discussed above was refinanced to a term loan totaling $8,130,000. Interest is fixed at 3.71% and is payable monthly. Principal payments of $19,500 are due in monthly installments beginning May 1, 2018, and continuing until March 27, 2028, at which time the remaining unpaid principal and interest shall be due in full. Under the terms of the loan agreement, CMC and MOB (the Obligated Group) has granted the bank a first collateralized interest in all gross receipts and a mortgage lien on existing and future property, plant and equipment. CMC and CMCHS also guarantee the note payable. The Obligated Group is required to maintain a minimum debt service coverage ratio of 1.20. The Obligated Group was in compliance with this covenant as of September 30, 2018.

5. Long-Term Debt and Capital Lease Obligations (Continued)

The aggregate principal payments due on the revenue bonds, capital lease obligations and other debt obligations of the System for each of the five years ending September 30 and thereafter are as follows:

2019	$ 5,682,746
2020	5,418,895
2021	3,888,967
2022	4,017,185
2023	4,288,014
Thereafter	147,385,272
	$ 170,681,079

The fair value of the System's long-term debt is estimated using discounted cash flow analysis, based on the System's current incremental borrowing rate for similar types of borrowing arrangements. The fair value of the System's long-term debt, excluding capitalized lease obligations, was approximately $170,000,000 at September 30, 2018.

Derivatives

The System uses derivative financial instruments principally to manage interest rate risk.

In January 2016, CMC entered into an interest rate swap agreement with an initial notional amount of $8,650,000 in connection with its Series 2015B Bond issuance. The swap agreement hedges CMC's interest exposure by effectively converting interest payments from variable rates to a fixed rate. The swap agreement is designated as a cash flow hedge of the underlying variable rate interest payments, and changes in the fair value of the swap agreement are reported as a change in unrestricted net assets. Under this agreement, CMC pays a fixed rate equal to 1.482%, and receives a variable rate of 69.75% of the one-month LIBOR rate (2.11% at September 30, 2018). Payments under the swap agreement began August 1, 2016, and the agreement will terminate August 1, 2025. The fair value of CMC's interest rate swap agreement amounted to an asset of $262,725 as of September 30, 2018.

During 2007, MOB entered into an interest rate swap agreement with an initial notional amount of $9,350,000 in connection with its line of credit. Under this agreement, MOB pays a fixed rate equal to 5.21%, and receives a variable rate of the one-month LIBOR rate. The interest rate swap agreement terminated April 1, 2018. The changes in fair value of the swap agreement are reported within nonoperating gains (losses).

5. Long-Term Debt and Capital Lease Obligations (Continued)

Concurrent with the 2009 NHBFA bond issuance, Monadnock executed an interest rate swap agreement to hedge its exposure to the volatility of interest payments on its variable rate Series 2009 Revenue Bonds. During 2013, the Series 2009 Revenue Bonds were refinanced through the issuance of Series 2013 Revenue Bonds, as previously discussed. All existing terms of the swap remained in effect. The swap agreement hedged Monadnock's interest exposure by effectively converting interest payments from variable rates to a fixed rate of 2.9%. The swap agreement was designated as a cash flow hedge of the underlying variable rate interest payments, and changes in the fair value of the swap agreement were reported as a change in unrestricted net assets. As part of the Monadnock 2013 Series Bonds amendment previously discussed, this swap agreement was terminated during 2018.

Concurrent with the 2007 NHBFA bond issuance, Monadnock executed an interest rate swap agreement to hedge its exposure to the volatility of interest payments on a portion of its variable rate Series 2007 Revenue Bonds. During 2013, the Series 2007 Revenue Bonds were refinanced through the issuance of Series 2013 Revenue Bonds, as previously discussed. All existing terms of the swap remained in effect. The swap agreement hedged Monadnock's interest exposure by effectively converting interest payments from variable rates to a fixed rate of 3.57%. The swap agreement, which expires in October 2033, is designated as a cash flow hedge of the underlying variable rate interest payments, and changes in the fair value of the swap agreement are reported as a change in unrestricted net assets. The fair value of this swap agreement amounted to a liability of $(1,005,561) as of September 30, 2018.

Monadnock had a third interest rate swap agreement with a financial institution, which was originally issued in connection with the 2004 New Hampshire Health and Education Facilities Authority (NHHEFA) bonds, which were refunded during 2008. During 2010, Monadnock replaced this 2004 swap agreement with a new 2010 swap agreement that effectively hedged a portion of the 2007 NHBFA bonds. This newly issued swap agreement contained an additional interest rate spread, which in turn provided that the issuing bank make a cash payment to fund the payoff of the 2004 swap agreement on behalf of Monadnock. Accordingly, Monadnock recognized an interest rate swap loan liability of $480,000 during 2010, which represents the fair value of the 2004 swap at the time it was replaced. This loan is being amortized by Monadnock over the life of the new swap agreement. The 2010 swap agreement hedged Monadnock's interest exposure by effectively converting interest payments from variable rates to a fixed rate of 2.76%. The swap agreement was designated as a cash flow hedge of the underlying variable rate interest payments, and changes in the fair value of the swap agreement were reported as a change in unrestricted net assets. As a part of the Monadnock 2013 Series Bonds amendment previously discussed, this swap agreement was terminated during 2018.

Concurrent with the Monadnock amended and restated 2013 Series Revenue Bonds previously discussed, Monadnock executed an interest rate swap agreement effective July 1, 2018 to hedge its exposure to the volatility of interest payments on a portion of its variable rate on the amended and restated 2013 Series Revenue Bonds. At September 30, 2018, an interest rate swap agreement was outstanding at a notional amount totaling approximately $14.1 million. The swap agreement hedges the Hospital's interest exposure by effectively converting interest payments from variable rates to a fixed rate of 2.64%. The swap agreement, which expires July 1, 2028, is designated as a cash flow hedge of the underlying variable interest payments, and changes in the fair value of the swap agreement are reported as a change in unrestricted net assets. The fair value of this swap agreement amounted to a liability of $(172,015) as of September 30, 2018.

5. Long-Term Debt and Capital Lease Obligations (Continued)

In connection with the issuance of the 2007 bonds, Huggins entered into an interest rate swap agreement. The notional amount was $9,105,000 at September 30, 2018. The swap terminates on October 1, 2042. Huggins pays a fixed rate of 3.62% and receives a variable rate of 68% of the USD-LIBOR-BBA rate (1.47% at September 30, 2018). The fair value of this swap agreement amounted to a liability of $(1,838,679) as of September 30, 2018.

The fair value of all interest rate swap agreements held by the System amounted to an asset and a liability of $262,725 and $(3,016,255), respectively, as of September 30, 2018. The net decrease in the fair value of these derivatives of $2,084,863 has been included as nonoperating gains of $965,612 in the combined statement of operations and an increase in unrestricted net assets of $1,119,251 for the year ended September 30, 2018.

6. Operating Leases

The System has various noncancelable agreements to lease various pieces of medical equipment. The System also has noncancelable leases for office space and its physician practices. Rental expense under all significant operating leases for the year ended September 30, 2018 was approximately $5,700,000.

Estimated future minimum lease payments under noncancelable operating leases are as follows:

2019	$ 3,467,825
2020	3,310,963
2021	3,220,509
2022	3,217,799
2023	3,144,743
Thereafter	8,597,980
	$ 24,959,819

7. Investments and Assets Whose Use is Limited

Investments and assets whose use is limited are comprised of the following at September 30, 2018:

	Fair Value
Cash and cash equivalents	$ 20,805,349
U.S. Treasury obligations	44,797,056
Marketable equity securities	134,086,436
Fixed income securities	64,192,438
Interests in perpetual trusts	19,346,216
Private investment funds	56,539,762
Other	74,600
	$339,841,857

See Independent Accountants' Review Report.

7. Investments and Assets Whose Use is Limited (Continued)

As a result of bequests, the System is the beneficiary of various perpetual trusts. The terms of the perpetual trusts require that income or a percentage of income be paid to the System in perpetuity; however, distribution of principal is not permitted under the terms of the trusts. The amount recorded in the accompanying combined balance sheet represents the fair values of the assets upon notification of the trusts' existence, which are adjusted annually to reflect the appreciation or depreciation in the fair value of the assets. Offsetting amounts are included in permanently restricted net assets. Income distributed to the System from these trusts is included in the accompanying combined statement of operations as investment income.

Investment income, realized gains and losses and unrealized appreciation/depreciation is summarized as follows for the year ended September 30, 2018:

Unrestricted:	
Nonoperating investment income	$ 4,433,536
Realized gains on sales of investments, net	10,174,336
Change in unrealized appreciation on investments	3,287,874
	$17,895,746
Restricted:	
Investment income	$ 294,290
Change in unrealized appreciation on investments	393,367
Changes in interest in perpetual trusts	650,337
Realized gains on investments, net	1,495,819
	$ 2,833,813

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. In determining fair value, the use of various valuation approaches, including market, income and cost approaches, is permitted.

A fair value hierarchy has been established based on whether the inputs to valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

7. Investments and Assets Whose Use is Limited (Continued)

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the System for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

Level 1 — Observable inputs such as quoted prices in active markets;

Level 2 — Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3 — Unobservable inputs in which there is little or no market data.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques. The three valuation techniques are as follows:

- *Market approach* – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;

- *Cost approach* – Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and

- *Income approach* – Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques).

In determining the appropriate levels, the System performs a detailed analysis of the assets and liabilities. There have been no changes in the methodologies used at September 30, 2018.

The following is a description of the valuation methodologies used:

U.S. Treasury Obligations and Fixed Income Securities

The fair value is determined by using broker or dealer quotations, external pricing providers, or alternative pricing sources with reasonable levels of price transparency. The System holds fixed income mutual funds and exchange traded funds, governmental and federal agency debt instruments, municipal bonds, corporate bonds, and foreign bonds which are primarily classified as Level 1 or Level 2 within the fair value hierarchy.

Marketable Equity Securities

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

8. Investments and Assets Whose Use is Limited (Continued)

Private Investment Funds

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

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

Fair Value on a Recurring Basis

The following table presents information about the System's assets and liabilities measured at fair value on a recurring basis based upon the lowest level of significant input to the valuations at September 30, 2018:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 20,315,223	$ 490,126	$ –	$ 20,805,349
U.S. treasury obligations	44,797,056	–	–	44,797,056
Marketable equity securities	134,086,436	–	–	134,086,436
Fixed income securities	55,634,528	8,557,910	–	64,192,438
Other	–	–	74,600	74,600
Interests in perpetual trusts	–	12,990,771	6,355,445	19,346,216
Interest rate swap agreements	–	–	262,725	262,725
	$254,833,243	$22,038,807	$ 6,692,770	283,564,820
Investments measured at net asset value:				
Private investment funds				56,539,762
Total assets at fair value				$340,104,582
Liabilities				
Interest rate swap agreements	$ –	$ (1,838,679)	$ (1,177,576)	$ (3,016,255)

See Independent Accountants' Review Report.

7. Investments and Assets Whose Use is Limited (Continued)

The following table presents the assets (liabilities) carried at fair value as of September 30, 2018 that are classified within Level 3 of the fair value hierarchy. The table reflects gains and losses for the year ended September 30, 2018. Additionally, both observable and unobservable inputs may be used to determine the fair value of positions that the System has classified within the Level 3 category. As a result, the unrealized gains and losses for liabilities within Level 3 may include changes in fair value that were attributable to both observable and unobservable inputs.

	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)	
	Interests in Perpetual Trusts	Interest Rate Swap Agreements
Balance at September 30, 2017	$6,366,715	$(2,218,869)
Unrealized (losses) gains	(11,270)	1,304,018
Balance at September 30, 2018	$6,355,445	$ (914,851)

There were no significant transfers between Levels 1, 2 or 3 for the year ended September 30, 2018.

Net Asset Value Per Share

The following table discloses the fair value and redemption frequency of those assets whose fair value is estimated using the net asset value per share practical expedient at September 30, 2018:

Category	Fair Value	Unfunded Commitments	Redemption Frequency	Notice Period
Private investment funds	$52,108,790	$ –	Daily/monthly	2-30 day notice
Private investment funds	4,430,972	–	Quarterly	30-65 day notice*

* One fund allows redemption quarterly, with certain restrictions.

Investment Strategies

U.S. Treasury Obligations and Fixed Income Securities

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

7. Investments and Assets Whose Use is Limited (Continued)

Marketable Equity Securities

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

Private Investment Funds

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

Fair Value of Other Financial Instruments

Other financial instruments consist of accounts receivable, pledges receivable, accounts payable and accrued expenses, amounts payable to third-party payors and long-term debt. The fair value of all financial instruments other than long-term debt approximates their relative book values as these financial instruments have short-term maturities or are recorded at amounts that approximate fair value. See Note 5 for disclosure of the fair value of long-term debt.

8. Retirement Benefits

CMC Defined Benefit Plans

A reconciliation of the changes in the Catholic Medical Center Pension Plan, CMC's Supplemental Executive Retirement Plan and CMC's New Hampshire Medical Laboratories Retirement Income Plan projected benefit obligations and the fair value of assets for the year ended September 30, 2018, and a statement of funded status of the plans as of September 30, 2018 is as follows:

8. Retirement Benefits (Continued)

	Catholic Medical Center Pension Plan	Pre-1987 Supplemental Executive Retirement Plan	New Hampshire Medical Laboratories Retirement Income Plan
Changes in benefit obligations:			
Projected benefit obligations at beginning of year	$(284,200,778)	$ (4,567,286)	$ (3,062,398)
Service cost	(1,500,000)	–	(25,000)
Interest cost	(10,628,197)	(140,414)	(104,714)
Benefits paid	7,117,759	411,692	171,828
Actuarial gain	17,666,264	155,253	173,565
Expenses paid	1,430,445	–	16,756
Projected benefit obligations at end of year	(270,114,507)	(4,140,755)	(2,829,963)
Changes in plan assets:			
Fair value of plan assets at beginning of year	181,485,201	–	2,144,861
Actual return on plan assets	12,074,468	–	141,614
Employer contributions	403,125	411,692	42,936
Benefits paid	(7,117,759)	(411,692)	(171,828)
Expenses paid	(1,430,445)	–	(16,756)
Fair value of plan assets at end of year	185,414,590	–	2,140,827
Funded status of plan at September 30, 2018	$ (84,699,917)	$ (4,140,755)	$ (689,136)
Amounts recognized in the combined balance sheet consist of:			
Current liability	$ –	$ (398,750)	$ –
Noncurrent liability	(84,699,917)	(3,742,005)	(689,136)
Net amount recognized	$ (84,699,917)	$ (4,140,755)	$ (689,136)

The net loss for CMC's defined benefit pension plans that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is $2,900,988.

The current portion of accrued pension costs included in the above amounts for CMC amounted to $398,750 at September 30, 2018 and has been included in accounts payable and accrued expenses.

8. Retirement Benefits (Continued)

The amounts recognized in unrestricted net assets consist of the following at September 30, 2018:

	Catholic Medical Center Pension Plan	Pre-1987 Supplemental Executive Retirement Plan	New Hampshire Medical Laboratories Retirement Income Plan
Amounts recognized in the combined balance sheet – total plan:			
Unrestricted net assets:			
Net loss	$(105,860,712)	$ (2,102,034)	$ (1,492,143)
Net amount recognized	$(105,860,712)	$ (2,102,034)	$ (1,492,143)

Net periodic pension cost includes the following components at September 30, 2018:

	Catholic Medical Center Pension Plan	Pre-1987 Supplemental Executive Retirement Plan	New Hampshire Medical Laboratories Retirement Income Plan
Service cost	$ 1,500,000	$ –	$ 25,000
Interest cost	10,628,197	140,414	104,714
Expected return on plan assets	(13,110,637)	–	(153,960)
Amortization of actuarial loss	3,275,000	147,466	67,898
Net periodic pension cost	$ 2,292,560	$ 287,880	$ 43,652

Other changes in plan assets and benefit obligations recognized in unrestricted net assets consist of the following at September 30, 2018:

	Catholic Medical Center Pension Plan	Pre-1987 Supplemental Executive Retirement Plan	New Hampshire Medical Laboratories Retirement Income Plan
Net gain	$ (16,630,095)	$ (155,253)	$ (161,219)
Amortization of actuarial loss	(3,275,000)	(147,466)	(67,898)
Net amount recognized	$ (19,905,095)	$ (302,719)	$ (229,117)

8. Retirement Benefits (Continued)

The investments of the plans are comprised of the following at September 30, 2018:

	Target Allocation	Catholic Medical Center Pension Plan	Pre-1987 Supplemental Executive Retirement Plan	New Hampshire Medical Laboratories Retirement Income Plan
Marketable equity securities	70.0%	66.2%	0.0%	66.2%
Fixed income securities	20.0	23.7	0.0	23.7
Other	10.0	10.1	0.0	10.1
	100.0%	100.0%	0.0%	100.0%

The assumption for the long-term rate of return on plan assets has been determined by reflecting expectations regarding future rates of return for the investment portfolio, with consideration given to the distribution of investments by asset class and historical rates of return for each individual asset class.

The weighted-average assumptions used to determine the defined benefit pension plan obligations at September 30, 2018 are as follows:

	Catholic Medical Center Pension Plan	Pre-1987 Supplemental Executive Retirement Plan	New Hampshire Medical Laboratories Retirement Income Plan
Discount rate	4.23%	3.93%	4.10%
Rate of compensation increase	N/A	N/A	N/A

The weighted-average assumptions used to determine the defined benefit pension plan net periodic benefit costs for the year ended September 30, 2018 are as follows:

	Catholic Medical Center Pension Plan	Pre-1987 Supplemental Executive Retirement Plan	New Hampshire Medical Laboratories Retirement Income Plan
Discount rate	3.79%	3.22%	3.52%
Rate of compensation increase	N/A	N/A	N/A
Expected long-term return on plan assets	7.30%	N/A	7.30%

8. Retirement Benefits (Continued)

CMC expects to make employer contributions totaling $5,000,000 to the Catholic Medical Center Pension Plan for the fiscal year ending September 30, 2019. Expected contributions to the Pre-1987 Supplemental Executive Retirement Plan and New Hampshire Medical Laboratories Retirement Income Plan for the fiscal year ending September 30, 2019 are not expected to be significant.

The benefits, which reflect expected future service, as appropriate, expected to be paid by CMC for the years ending September 30 are:

	Catholic Medical Center Pension Plan	Pre-1987 Supplemental Executive Retirement Plan	New Hampshire Medical Laboratories Retirement Income Plan
2019	$ 8,409,949	$ 406,510	$181,739
2020	9,225,819	394,940	191,472
2021	9,970,846	382,785	197,799
2022	10,796,864	370,020	197,567
2023	11,627,944	356,615	197,824
2024 - 2028	69,395,428	1,557,963	951,232

CMC contributed $403,125, $411,692 and $42,936 to the Catholic Medical Center Pension Plan, Pre-1987 Supplemental Executive Retirement Plan and the New Hampshire Medical Laboratories Retirement Income Plan, respectively, for the year ended September 30, 2018. CMC plans to make any necessary contributions during the upcoming fiscal 2019 year to ensure the plans continue to be adequately funded given the current market conditions.

The following fair value hierarchy table presents information about the financial assets of the above plans measured at fair value on a recurring basis based upon the lowest level of significant input valuation as of September 30, 2018:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 2,160,634	$ –	$ –	$ 2,160,634
Marketable equity securities	39,221,636	–	–	39,221,636
Fixed income securities	44,497,162	–	–	44,497,162
	$85,879,432	$ –	$ –	85,879,432
Investments measured at net asset value:				
Private investment funds				101,675,985
Total assets at fair value				$187,555,417

See Independent Accountants' Review Report.

8. Retirement Benefits (Continued)

Huggins Defined Benefit Plan

The following tables set forth the funded status of the Huggins defined benefit plan and amounts recognized in the combined financial statements related to the Huggins defined benefit plan as of and for the year ended September 30, 2018:

Changes in projected benefit obligation:	
Projected benefit obligation at beginning of year	$ 17,517,632
Interest cost	583,966
Benefits paid	(505,327)
Gain on settlement	(736,461)
Plan settlement	(16,082,740)
Actuarial gain	(777,070)
Projected benefit obligation at end of year	$ –
Accumulated benefit obligation	$ –
Changes in plan assets:	
Fair value of plan assets at beginning of year	$ 13,517,217
Actual return on plan assets	27,947
Employer contributions	3,230,000
Benefits paid	(505,327)
Plan settlement	(16,082,740)
Fair value of plan assets at end of year	$ 187,097
Funded status of plan at September 30, 2018	$ 187,097

The incremental increase in the amounts recognized in other changes in unrestricted net assets was $6,622,913 in 2018. This amount has been reflected outside the excess of revenues and gains over expenses in the accompanying combined statement of operations.

Net pension cost for the Huggins defined benefit plan included the following components for the year ended September 30, 2018:

Interest cost on projected benefit obligation	$ 583,966
Expected return on plan assets	(148,427)
Amortization of net loss	577,647
Settlement expense	4,652,215
Net periodic pension benefit cost	$ 5,665,401

See Independent Accountants' Review Report.

8. Retirement Benefits (Continued)

The weighted-average assumptions used to determine Huggins' net periodic pension cost for the year ended September 30, 2018 is as follows:

Discount rate	3.55%
Expected long-term return on plan assets	1.00

9. Functional Expenses

The System provides general health care services to residents within its geographic location including inpatient, outpatient and emergency care. Expenses related to providing these services are as follows at September 30, 2018:

Health care services	$490,324,644
General and administrative	122,511,003
	$612,835,647

10. Concentration of Credit Risk

The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows at September 30, 2018:

Medicare	43%
Medicaid	11
Commercial insurance and other	23
Patients (self-pay)	11
Anthem Blue Cross	12
	100%

11. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods at September 30, 2018:

Healthcare services:	
Capital acquisitions	$ 1,013,402
Adult daycare	4,098
Health education	1,470,000
Indigent care	266,260
Pledges receivable	295,658
Net appreciation of restricted net assets	12,004,014
	$15,053,432

Permanently restricted net assets are restricted to the following at September 30, 2018:

Investments to be held in perpetuity, the income from which is reported as operating when released and is expendable to support:	
Health care services	$ 8,248,431
Indigent care	546,294
Interests in perpetual trusts	19,346,216
	$28,140,941

12. Endowments

In July 2008, the State of New Hampshire enacted a version of UPMIFA (the Act). The new law, which had an effective date of July 1, 2008, eliminates the historical dollar threshold and establishes prudent spending guidelines that consider both the duration and preservation of the fund. As a result of this enactment, subject to the donor's intent as expressed in a gift agreement or similar document, a New Hampshire charitable organization may now spend the principal and income of an endowment fund, even from an underwater fund, after considering the factors listed in the Act.

At September 30, 2018, the endowment net asset composition by type of fund consisted of the following:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Donor-restricted funds	$ –	$13,194,735	$16,966,591	$ 30,161,326
Board-designated funds	107,832,023	–	–	107,832,023
Total funds	$107,832,023	$13,194,735	$16,966,591	$137,993,349

See Independent Accountants' Review Report.

13. Endowments (Continued)

Changes in endowment net assets consisted of the following for the year ended September 30, 2018:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Balance at September 30, 2017	$102,045,292	$11,703,878	$16,531,630	$130,280,800
Investment return:				
Investment income	1,645,491	330,491	21,952	1,997,934
Net appreciation (realized and unrealized)	4,012,640	1,827,755	402,870	6,243,265
Total investment gain	5,658,131	2,158,246	424,822	8,241,199
Contributions	–	616,466	30,458	646,924
Appropriation for operations	–	(1,031,086)	(20,319)	(1,051,405)
Appropriation for capital	128,600	(252,769)	–	(124,169)
Balance at September 30, 2018	$107,832,023	$13,194,735	$16,966,591	$137,993,349

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the System to retain as a fund of perpetual duration. There were no such deficiencies as of September 30, 2018.

14. Investments in Joint Ventures

AAS has a 44% ownership interest in the Bedford Ambulatory Surgical Center and a 50% ownership interest in the Alliance Urgent Care Services, LLC. AAS accounts for its investment in these joint ventures under the equity method.

CMC, along with four other participating hospitals and Tufts Health Plan, formed Tufts Health Freedom Plan (THFP), a joint venture. THFP is a health insurance company which began operations as of January 1, 2016. CMC has an approximate 12% ownership interest in this joint venture.

Selected financial information relating to the above entities at September 30, 2018 is not shown as such amounts are not significant to the combined financial statements.

15. Commitments and Contingencies

Litigation

Various legal claims, generally incidental to the conduct of normal business, are pending or have been threatened against the System. The System intends to defend vigorously against these claims. While ultimate liability, if any, arising from any such claim is presently indeterminable, it is management's opinion that the ultimate resolution of these claims will not have a material adverse effect on the financial condition of the System.

Regulatory

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Government activity continues with respect to investigations and allegations concerning possible violations by health care providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Compliance with such laws and regulations are subject to government review and interpretations as well as regulatory actions unknown or unasserted at this time.

CMC HEALTHCARE SYSTEM, INC. AND
GRANITEONE HEALTH AND AFFILIATES

COMBINING BALANCE SHEET (UNAUDITED)

September 30, 2018

ASSETS

	GraniteOne Health	CMC Healthcare System, Inc.	Monadnock Community Hospital	Huggins Hospital	Eliminations	Combined
Current assets:						
Cash and cash equivalents	$175,529	$ 61,849,320	$ 12,271,683	$ 8,994,916	$ –	$ 83,291,448
Short-term investments	–	29,009,260	–	–	–	29,009,260
Accounts receivable, net	–	55,326,986	9,473,219	7,436,595	–	72,236,800
Inventories	–	3,583,228	1,410,000	511,591	–	5,504,819
Other current assets	137,401	10,664,957	1,808,025	1,571,784	(811,313)	13,370,854
Total current assets	312,930	160,433,751	24,962,927	18,514,886	(811,313)	203,413,181
Property, plant and equipment, net	–	134,597,894	40,129,082	43,177,337	–	217,904,313
Long-term investments	–	–	–	12,425,093	–	12,425,093
Assets whose use is limited:						
Pension and insurance obligations	–	17,859,458	–	–	–	17,859,458
Board designated and donor restricted investments and restricted grants	–	127,267,085	67,523,029	49,097,879	–	243,887,993
Held by trustee under revenue bond agreements	–	36,660,053	–	–	–	36,660,053
	–	181,786,596	67,523,029	49,097,879	–	298,407,504
Other assets:						
Intangible assets and other	–	17,581,549	2,414,918	4,083,266	–	24,079,733
Total assets	$312,930	$494,399,790	$135,029,956	$127,298,461	$(811,313)	$756,229,824

LIABILITIES AND NET ASSETS

	GraniteOne Health	CMC Healthcare System, Inc.	Monadnock Community Hospital	Huggins Hospital	Elimi-nations	Combined
Current liabilities:						
Accounts payable and accrued expenses	$326,180	$ 30,789,153	$ 6,632,927	$ 1,241,034	$(811,313)	$ 38,177,981
Accrued salaries, wages and related accounts	–	22,673,489	1,956,977	2,011,756	–	26,642,222
Amounts payable to third-party payors	–	14,643,104	17,828,486	23,046,702	–	55,518,292
Current portion of long-term debt and capital lease obligations	–	4,365,199	717,483	600,064	–	5,682,746
Total current liabilities	326,180	72,470,945	27,135,873	26,899,556	(811,313)	126,021,241
Interest rate swap agreements	–	–	1,177,576	1,838,679	–	3,016,255
Accrued pension and other liabilities, less current portion	–	122,463,230	239,618	2,175,000	–	124,877,848
Long-term debt and capital lease obligations, less current portion	–	122,913,717	23,704,690	20,052,442	–	166,670,849
Total liabilities	326,180	317,847,892	52,257,757	50,965,677	(811,313)	420,586,193
Net assets (deficit):						
Unrestricted	(13,250)	166,125,080	69,355,155	56,982,273	–	292,449,258
Temporarily restricted	–	1,190,721	4,377,657	9,485,054	–	15,053,432
Permanently restricted	–	9,236,097	9,039,387	9,865,457	–	28,140,941
Total net assets (deficit)	(13,250)	176,551,898	82,772,199	76,332,784	–	335,643,631
Total liabilities and net assets	$312,930	$494,399,790	$135,029,956	$127,298,461	$(811,313)	$756,229,824

CMC HEALTHCARE SYSTEM, INC. AND
GRANITEONE HEALTH AND AFFILIATES

COMBINING STATEMENT OF OPERATIONS (UNAUDITED)

Year Ended September 30, 2018

	GraniteOne Health	CMC Healthcare System, Inc.	Monadnock Community Hospital	Huggins Hospital	Elimi-nations	Combined
Net patient service revenues, net of contractual allowances and discounts	$ –	$452,510,375	$ 82,827,389	$ 57,751,899	$ –	$593,089,663
Provision for doubtful accounts	–	(20,334,249)	(4,966,097)	(3,376,783)	–	(28,677,129)
Net patient service revenues less provision for doubtful accounts	–	432,176,126	77,861,292	54,375,116	–	564,412,534
Other revenue	462,927	19,454,686	6,373,842	4,770,474	(4,241,457)	26,820,472
Disproportionate share funding	–	17,993,289	4,100,348	2,821,039	–	24,914,676
Total revenues and other support	462,927	469,624,101	88,335,482	61,966,629	(4,241,457)	616,147,682
Expenses:						
Salaries, wages and fringe benefits	375,639	266,813,278	44,398,572	34,011,833	(68,144)	345,531,178
Supplies and other	75,287	160,290,214	34,526,812	17,179,805	(4,173,313)	207,898,805
New Hampshire Medicaid enhancement tax	–	19,968,497	3,613,664	2,251,983	–	25,834,144
Depreciation and amortization	–	16,136,984	6,556,173	4,772,419	–	27,465,576
Interest	–	4,368,765	1,078,378	658,801	–	6,105,944
Total expenses	450,926	467,577,738	90,173,599	58,874,841	(4,241,457)	612,835,647
Income (loss) from operations	12,001	2,046,363	(1,838,117)	3,091,788	–	3,312,035

	GraniteOne Health	CMC Healthcare System, Inc.	Monadnock Community Hospital	Huggins Hospital	Elimi-nations	Combined
Nonoperating gains (losses):						
Investment income	$ –	$ 2,983,979	$ 877,913	$ 571,644	$ –	$ 4,433,536
Realized gains on sale of investments, net	–	2,918,048	5,919,940	1,336,348	–	10,174,336
Net periodic benefits costs, other than service cost	–	(1,099,092)	–	(1,013,186)	–	(2,112,278)
Pension curtailment loss	–	–	–	(4,652,215)	–	(4,652,215)
Unrestricted contributions	–	629,198	546,272	498,177	–	1,673,647
Development costs	–	(635,408)	(478,044)	(371,510)	–	(1,484,962)
Change in fair value of interest rate swap agreements	–	184,767	–	780,845	–	965,612
Other nonoperating loss, net	–	(489,294)	(285,346)	–	–	(774,640)
Total nonoperating gains (losses), net	–	4,492,198	6,580,735	(2,849,897)	–	8,223,036
Excess of revenues and gains over expenses	12,001	6,538,561	4,742,618	241,891	–	11,535,071
Unrealized appreciation (depreciation) on investments	–	2,325,151	(103,293)	1,066,016	–	3,287,874
Change in fair value of interest rate swap agreements	–	302,826	816,425	–	–	1,119,251
Assets released from restriction used for capital	–	128,600	415,851	12,095	–	556,546
Pension-related changes other than net periodic pension cost	–	20,436,931	–	6,622,913	–	27,059,844
Increase in unrestricted net assets	$ 12,001	$ 29,732,069	$ 5,871,601	$ 7,942,915	$ –	$ 43,558,586