BAKER
NEWMAN
NOYES

Catholic Medical Center

Audited Financial Statements and Other Information

Year Ended September 30, 2018
With Independent Auditors' Report

Baker Newman & Noyes LLC
MAINE | MASSACHUSETTS | NEW HAMPSHIRE
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CATHOLIC MEDICAL CENTER

AUDITED FINANCIAL STATEMENTS
AND OTHER INFORMATION

Year Ended September 30, 2018

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Catholic Medical Center

We have audited the accompanying financial statements of Catholic Medical Center, which comprise the balance sheet as of September 30, 2018, and the related statements of operations, changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Board of Trustees
Catholic Medical Center

Opinion

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2019 on our consideration of Catholic Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Catholic Medical Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Catholic Medical Center's internal control over financial reporting and compliance.

Baker Newman & Noyes LLC

Manchester, New Hampshire
February 12, 2019

CATHOLIC MEDICAL CENTER

BALANCE SHEET

September 30, 2018

ASSETS

Current assets:	
Cash and cash equivalents	$ 57,668,500
Short-term investments	29,009,260
Accounts receivable, less allowance for doubtful accounts of $19,525,261	54,074,988
Inventories	3,583,228
Other current assets	9,150,610
Total current assets	153,486,586
Property, plant and equipment, net	109,898,233
Other assets:	
Intangible assets and other	10,875,302
Assets whose use is limited:	
Pension and insurance obligations	17,859,458
Board designated and donor restricted investments and restricted grants	119,411,378
Held by trustee under revenue bond agreements	36,660,053
	173,930,889
Total assets	$448,191,010

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable and accrued expenses	$ 28,743,870
Accrued salaries, wages and related accounts	18,755,583
Amounts payable to third-party payors	14,643,104
Amounts due to affiliates	1,477,267
Current portion of long-term debt	4,131,199
Total current liabilities	67,751,023
Accrued pension and other liabilities, less current portion	115,111,279
Long-term debt, less current portion	115,229,329
Total liabilities	298,091,631
Net assets:	
Unrestricted	139,672,561
Temporarily restricted	1,190,721
Permanently restricted	9,236,097
Total net assets	150,099,379
Total liabilities and net assets	$448,191,010

See accompanying notes.

CATHOLIC MEDICAL CENTER

STATEMENT OF OPERATIONS

Year Ended September 30, 2018

Net patient service revenues, net of contractual allowances and discounts	$436,357,697
Provision for doubtful accounts	(19,593,714)
Net patient service revenues less provision for doubtful accounts	416,763,983
Other revenue	12,515,169
Disproportionate share funding	17,993,289
Total revenues	447,272,441
Expenses:	
Salaries, wages and fringe benefits	217,868,046
Supplies and other	153,527,155
New Hampshire Medicaid enhancement tax	19,968,497
Depreciation and amortization	14,972,724
Interest	3,933,617
Total expenses	410,270,039
Income from operations	37,002,402
Nonoperating gains (losses):	
Investment income	2,846,375
Net realized gains on sale of investments	2,853,325
Net periodic pension cost, other than service cost	(1,023,371)
Unrestricted contributions	629,198
Development costs	(635,408)
Other nonoperating loss	(511,679)
Total nonoperating gains, net	4,158,440
Excess of revenues and gains over expenses	41,160,842
Unrealized appreciation on investments	2,184,604
Change in fair value of interest rate swap agreement	302,826
Assets released from restriction used for capital	128,600
Pension-related changes other than net periodic pension cost	18,843,760
Net assets transferred to affiliates	(35,782,824)
Increase in unrestricted net assets	26,837,808
Unrestricted net assets at beginning of year	112,834,753
Unrestricted net assets at end of year	$139,672,561

See accompanying notes.

CATHOLIC MEDICAL CENTER

STATEMENT OF CHANGES IN NET ASSETS

Year Ended September 30, 2018

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Balances at September 30, 2017	$112,834,753	$ 924,871	$8,801,136	$122,560,760
Excess of revenues and gains over expenses	41,160,842	–	–	41,160,842
Restricted investment income	–	5,421	21,952	27,373
Changes in interest in perpetual trust	–	–	341,439	341,439
Restricted contributions	–	616,466	30,458	646,924
Unrealized appreciation on investments	2,184,604	–	61,431	2,246,035
Change in fair value of interest rate swap agreement	302,826	–	–	302,826
Net assets transferred to affiliates	(35,782,824)	–	–	(35,782,824)
Assets released from restriction used for operations	–	(227,437)	(20,319)	(247,756)
Assets released from restriction used for capital	128,600	(128,600)	–	–
Pension-related changes other than net periodic pension cost	18,843,760	–	–	18,843,760
	26,837,808	265,850	434,961	27,538,619
Balances at September 30, 2018	$139,672,561	$1,190,721	$9,236,097	$150,099,379

See accompanying notes.

CATHOLIC MEDICAL CENTER

STATEMENT OF CASH FLOWS

Year Ended September 30, 2018

Operating activities:	
Increase in net assets	$ 27,538,619
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization	14,972,724
Pension-related changes other than net periodic pension cost	(18,843,760)
Net assets transferred to affiliates	35,782,824
Restricted gifts and investment income	(674,297)
Net realized gains on sales of investments	(2,853,325)
Increase in interest in perpetual trust	(341,439)
Unrealized appreciation on investments	(2,246,035)
Change in fair value of interest rate swap agreement	(302,826)
Bond discount/premium and issuance cost amortization	(324,032)
Changes in operating assets and liabilities:	
Accounts receivable, net	(5,692,536)
Inventories	(176,408)
Other current assets	1,660,997
Amounts due to affiliates	71,377
Other assets	(343,421)
Accounts payable and accrued expenses	(5,518,601)
Accrued salaries, wages and related accounts	1,948,851
Amounts payable to third-party payors	291,782
Accrued pension and other liabilities	6,250,950
Net cash provided by operating activities	51,201,444
Investing activities:	
Purchases of property, plant and equipment	(35,831,031)
Net change in assets held by trustee under revenue bond agreements	14,819,012
Proceeds from sales of investments	23,284,364
Purchases of investments	(31,034,584)
Net cash used by investing activities	(28,762,239)
Financing activities:	
Payments on long-term debt	(3,330,000)
Payments on capital leases	(707,299)
Restricted gifts and investment income	674,297
Net assets transferred to affiliates	(35,782,824)
Net cash used by financing activities	(39,145,826)
Decrease in cash and cash equivalents	(16,706,621)
Cash and cash equivalents at beginning of year	74,375,121
Cash and cash equivalents at end of year	$ 57,668,500

See accompanying notes.

1. Organization

Catholic Medical Center (the Medical Center) is a voluntary not-for-profit acute care hospital based in Manchester, New Hampshire. The Medical Center, which primarily serves residents of New Hampshire and northern Massachusetts, was controlled by CMC Healthcare System, Inc. (the System), a not-for-profit corporation which functioned as the parent company and sole member of the Medical Center until December 31, 2016, as discussed below.

On December 30, 2016, the System became affiliated with Huggins Hospital (HH), a 25-bed critical access hospital in Wolfeboro, New Hampshire, and Monadnock Community Hospital (MCH), a 25-bed critical access hospital in Peterborough, New Hampshire, through the formation of a common parent, GraniteOne Health (GraniteOne). GraniteOne is a New Hampshire voluntary corporation that is recognized as being a Section 501(c)(3) tax-exempt and "supporting organization" within the meaning of Section 509(a)(3) of the Internal Revenue Code of 1986, as amended (the Code). GraniteOne serves as the sole member of HH and MCH and co-member of the Medical Center, along with the System. GraniteOne is governed by a thirteen member Board of Trustees appointed by each of the respective hospitals within the GraniteOne system. The GraniteOne Board of Trustees governs the GraniteOne system through the existence and execution of reserved powers to approve certain actions by the Boards of Trustees of each of the hospitals. Through GraniteOne, this more integrated healthcare system enhances the affiliated hospitals' ability to coordinate the delivery of patient care, implement best practices, eliminate inefficiencies and collaborate on regional planning. These efforts strengthen the hospitals' ability to meet the healthcare needs of their respective communities and provide for a more seamless patient experience across the continuum of care. The accompanying financial statements for the year ended September 30, 2018 do not include the accounts and activity of GraniteOne, HH and MCH.

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 the System and the Roman Catholic Bishop of the Diocese of Manchester in terms of the Medical Center'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.

2. Significant Accounting Policies

Basis of Presentation

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

2. Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (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, and self-insurance reserves.

Income Taxes

The Medical Center is a not-for-profit corporation as described in Section 501(c)(3) of the Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Management evaluated the Medical Center's tax positions and concluded the Medical Center has maintained its tax-exempt status, does not have any significant unrelated business income and had taken no uncertain tax positions that require adjustment to the financial statements.

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 contributions, development costs, realized gains and losses on the sales of securities, unrestricted investment income, other nonoperating losses and contributions to community agencies.

Charity Care and Community Benefits

The Medical Center has a formal charity care policy under which patient care is provided to patients who meet certain criteria without charge or at amounts less than its established rates. The Medical Center does not pursue collection of amounts determined to qualify as charity care; therefore, they are not reported as revenues. The Medical Center rendered charity care in accordance with this policy, which, at established charges, amounted to $21,393,063 for the year ended September 30, 2018.

Of the Medical Center's $410,270,039 total expenses reported for the year ended September 30, 2018, an estimated $6,700,000 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 Medical Center's total expenses divided by gross patient service revenue.

The Medical Center provides community service programs, without charge, such as the Medication Assistance Program, Community Education and Wellness, Patient Transport, and the Parish Nurse Program. The costs of providing these programs amounted to $983,861 for the year ended September 30, 2018.

2. Significant Accounting Policies (Continued)

Concentration of Credit Risk

Financial instruments which subject the Medical Center to credit risk consist primarily of cash equivalents, accounts receivable and investments. The risk with respect to cash equivalents is minimized by the Medical Center's policy of investing in financial instruments with short-term maturities issued by highly rated financial institutions. The Medical Center's accounts receivable are primarily due from third-party payors and amounts are presented net of expected contractual allowances and uncollectible amounts. The Medical Center's investment portfolio consists of diversified investments, which are subject to market risk. Investments that exceeded 10% of investments include the SSGA S&P 500 Tobacco Free Fund and the Dreyfus Treasury Securities Cash Management Fund as of September 30, 2018.

Cash and Cash Equivalents

Cash and cash equivalents include certificates of deposit with 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 Medical Center maintains approximately $56,000,000 at September 30, 2018 of its cash and cash equivalent accounts with a single institution. The Medical Center has not experienced any losses associated with deposits at this institution.

Net Patient Service Revenues and Accounts Receivable

The Medical Center 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 financial statements in the year in which they occur.

The Medical Center 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 Medical Center 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 Medical Center 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 Medical Center'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, which range from 2 to 40 years. 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 Medical Center 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 statement of operations.

As of September 30, 2018, $1,001,165 of conditional asset retirement obligations are included within accrued pension and other liabilities in the accompanying balance sheet.

Goodwill

The Medical Center 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.

2. Significant Accounting Policies (Continued)

Retirement Benefits

The Catholic Medical Center Pension Plan (the Plan) provides retirement benefits for certain employees of the Medical Center and certain employees of an affiliated organization who have attained age twenty-one and work at least 1,000 hours per year. The Plan consists of a benefit accrued to July 1, 1985, plus 2% of plan year earnings (to legislative maximums) per year. The Medical Center's funding policy is to contribute amounts to the Plan sufficient to meet minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, plus such additional amounts as may be determined to be appropriate from time to time. The 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 Plan.

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

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

The 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.

The Medical Center 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. The Medical Center made matching contributions under the program of $5,942,550 for the year ended September 30, 2018.

During 2007, the Medical Center created a nonqualified deferred compensation plan covering certain employees under Section 457(b) of the Code. Under the 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 the Medical Center'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 the Medical Center for the year ended September 30, 2018.

The Medical Center also provides a noncontributory supplemental executive retirement plan covering certain former executives of the Medical Center, as defined. The Medical Center'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 have been designated for payment of benefits under this plan and are included in assets whose use is limited–pension and insurance obligations.

2. Significant Accounting Policies (Continued)

During 2007, the Medical Center created a supplemental executive retirement plan covering certain executives of the Medical Center under Section 457(f) of the Code. The Medical Center recorded compensation expense of $682,820 for the year ended September 30, 2018 related to this plan.

Employee Fringe Benefits

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

Debt Issuance Costs/Original Issue Discount or Premium

The debt issuance costs incurred to obtain financing for the Medical Center's construction and renovation programs and refinancing of prior bonds and the original issue discount or premium are amortized to interest expense using the effective interest method over the repayment period of the bonds. 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, designated assets set aside by the Board of Trustees, over which the Board retains control and may, at its discretion, subsequently use for other purposes, and donor-restricted investments.

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 Medical Center 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 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).

Permanently restricted net assets have been restricted by donors to be maintained by the Medical Center 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 statement of operations as unrestricted resources or as a change in temporarily restricted net assets in accordance with donor-intended purposes or applicable law.

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

2. Significant Accounting Policies (Continued)

Investments and Investment Income

Investments are carried at fair value in the accompanying 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.

Derivative Instruments

Derivatives are recognized as either assets or liabilities in the 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 Trust

The Medical Center is the beneficiary of trust funds administered by trustees or other third parties. Trusts wherein the Medical Center 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 Medical Center's investment policies provide guidance for the prudent and skillful management of invested assets with the objective of preserving capital and maximizing returns. The invested assets include endowment, specific purpose and board designated (unrestricted) funds.

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

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

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

2. Significant Accounting Policies (Continued)

Management of these assets is designed to maximize total return while preserving the capital values of the funds, protecting the funds from inflation and providing liquidity as needed. The objective is to provide a real rate of return that meets inflation, plus 4% to 5%, over a long-term time horizon.

The Medical Center targets a diversified asset allocation that places emphasis on achieving its long-term return objectives within prudent risk constraints.

Spending Policy for Appropriation of Assets for Expenditure

In accordance with the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA), the Medical Center 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 Medical Center, 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 Medical Center 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.

Federal Grant Revenue and Expenditures

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

Malpractice Loss Contingencies

The Medical Center has a claims-made basis policy for its malpractice insurance coverage. A claims-made basis policy provides specific coverage for claims reported during the policy term. The Medical Center 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 Medical Center. In the event a loss contingency should occur, the Medical Center would give it appropriate recognition in its financial statements in conformity with accounting standards. The Medical Center 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 Medical Center recorded a liability of $12,520,618 related to estimated professional liability losses covered under this policy. At September 30, 2018, the Medical Center also recorded a receivable of $8,829,118 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 balance sheet.

2. Significant Accounting Policies (Continued)

Workers' Compensation

The Medical Center maintains workers' compensation insurance under a self-insured plan. The plan offers, among other provisions, certain specific and aggregate stop-loss coverage to protect the Medical Center against excessive losses. The Medical Center 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 balance sheet. The Medical Center has also recorded $284,403 and $408,513 within other current assets and intangible assets and other, respectively, in the accompanying balance sheet to limit the accrued losses to the retention amount at September 30, 2018.

Health Insurance

The Medical Center has a self-funded health insurance plan. The plan is administered by an insurance company which assists in determining the current funding requirements of participants under the terms of the plan and the liability for claims and assessments that would be payable at any given point in time. The Medical Center was insured above a stop-loss amount of $325,000 for the period October 1, 2017 through December 31, 2017 and $375,000 for the period January 1, 2018 through September 30, 2018 on individual claims. Estimated unpaid claims, and those claims incurred but not reported, at September 30, 2018 of $2,849,427 are reflected in the accompanying balance sheet within accounts payable and accrued expenses.

Advertising Costs

The Medical Center expenses advertising costs as incurred, and such costs totaled approximately $1,716,000 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 Medical Center 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 Medical Center on October 1, 2019. ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. The Medical Center is evaluating the impact that ASU 2014-09 will have on its financial statements and related disclosures.

2. Significant Accounting Policies (Continued)

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 Medical Center 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 Medical Center is currently evaluating the impact of the pending adoption of ASU 2016-02 on the Medical Center's 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 Medical Center's fiscal year ending September 30, 2019, with early adoption permitted. The Medical Center is currently evaluating the impact of the pending adoption of ASU 2016-14 on the Medical Center's financial statements.

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

In March 2017, the FASB issued ASU No. 2017-07, *Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (ASU 2017-07). ASU 2017-07 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 Medical Center on October 1, 2019, with early adoption permitted. The Medical Center adopted ASU 2017-07 during the year ended September 30, 2018.

2. Significant Accounting Policies (Continued)

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

Subsequent Events

Management of the Medical Center evaluated events occurring between the end of the Medical Center's fiscal year and February 12, 2019, the date the financial statements were available to be issued.

3. Net Patient Service Revenue

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

Gross patient service revenue	$1,309,372,108
Less contractual allowances	(873,014,411)
Less provision for doubtful accounts	(19,593,714)
Net patient service revenue	$ 416,763,983

The Medical Center maintains contracts with the Social Security Administration ("Medicare") and the State of New Hampshire Department of Health and Human Services ("Medicaid"). The Medical Center 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. The Medical Center receives payment 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.

Differences between amounts previously estimated and amounts subsequently determined to be recoverable or payable are included in net patient service revenues in the year that such amounts become known. The percentage of net patient service revenues earned from the Medicare and Medicaid programs was 39% and 5%, respectively, for the year ended September 30, 2018.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Medical Center 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 (Note 14).

3. Net Patient Service Revenue (Continued)

The Medical Center 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 Medical Center does not currently hold reimbursement contracts which contain financial risk components.

The approximate percentages of 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
Net patient service revenue, net of contractual allowance and discounts	99.6%	0.4%	100.0%

An estimated breakdown of 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)	$ 460,815,614	$(221,115,162)	$ (8,909,152)	$ 230,791,300
Medicaid	134,155,231	(111,760,430)	(579,838)	21,814,963
Medicare	684,086,037	(518,673,771)	(2,876,172)	162,536,094
Self-pay	30,315,226	(21,465,048)	(7,228,552)	1,621,626
	$1,309,372,108	$(873,014,411)	$(19,593,714)	$ 416,763,983

The Medical Center 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, favorable adjustments recorded for changes to prior year estimates were approximately $1,000,000.

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 the Medical Center's net patient service revenues in State fiscal year 2018, with certain exclusions. The amount of tax incurred by the Medical Center for the year ended September 30, 2018 was $19,968,497.

3. Net Patient Service Revenue (Continued)

In the fall of 2010, in order to remain in compliance with stated federal regulations, the State of New Hampshire adopted a new approach related to Medicaid disproportionate share funding (DSH) retroactive to July 1, 2010. Unlike the former funding method, the State's approach led to a payment that was not directly based on, and did not equate to, the level of tax imposed. As a result, the legislation created some level of losses at certain New Hampshire hospitals, while other hospitals realized gains. DSH payments from the State are recorded in operating revenues and amounted to $17,993,289 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 Medical Center has recorded reserves to address its exposure based on the audit results to date.

4. Property, Plant and Equipment

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

	Useful Lives	
Land and land improvements	2-40 years	$ 855,991
Buildings and improvements	2-40 years	97,791,941
Fixed equipment	3-25 years	44,759,299
Movable equipment	3-25 years	137,026,708
Construction in progress		9,259,588
		289,693,527
Less accumulated depreciation and amortization		(179,795,294)
Net property, plant and equipment		$ 109,898,233

Depreciation expense amounted to $14,928,402 for the year ended September 30, 2018.

The cost of equipment under capital leases was $7,844,527 at September 30, 2018. Accumulated amortization of the leased equipment at September 30, 2018 was $7,059,231. Amortization of assets under capital leases is included in depreciation and amortization expense.

5. Long-Term Debt and Note Payable

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

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 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
	114,080,000
Capitalized lease obligations	1,020,278
Unamortized original issue premiums/discounts	5,450,325
Unamortized debt issuance costs	(1,190,075)
	119,360,528
Less current portion	(4,131,199)
	$115,229,329

In December 2012, the Medical Center, 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, the Medical Center has granted the Authority a first collateralized interest in all gross receipts and a mortgage lien on existing and future property, plant and equipment. The Medical Center is required to maintain a minimum debt service coverage ratio of 1.20. The Medical Center was in compliance with this covenant as of 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, Catholic Medical Center 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. Although the Series 2015B Bonds were issued, they were not drawn on until July 1, 2016, as discussed below. Under the terms of the loan agreements, the Medical Center has granted the Authority a first collateralized interest in all gross receipts and a mortgage lien on existing and future property, plant and equipment. The Medical Center is required to maintain a minimum debt service coverage ratio of 1.20. The Medical Center was in compliance with this covenant as of September 30, 2018.

5. Long-Term Debt and Note Payable (Continued)

The 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.

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 Medical Center totaling $555,000 were used to currently refund the remaining balance of the 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, the Medical Center has granted the Authority a first collateralized interest in all gross receipts and a mortgage lien on existing and future property, plant and equipment. The Medical Center is required to maintain a minimum debt service coverage ratio of 1.20. The Medical Center was in compliance with this covenant as of September 30, 2018.

The Medical Center 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.

Interest paid by the Medical Center totaled $3,926,297 (including capitalized interest of $251,490) for the year ended September 30, 2018.

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

2019	$ 4,131,199
2020	3,924,079
2021	2,390,000
2022	2,470,000
2023	2,690,000
Thereafter	99,495,000
	$115,100,278

The fair value of the Medical Center's long-term debt is estimated using discounted cash flow analysis, based on the Medical Center's current incremental borrowing rate for similar types of borrowing arrangements. The fair value of the Medical Center's long-term debt, excluding capitalized lease obligations, was $114,080,000 at September 30, 2018.

5. Long-Term Debt and Note Payable (Continued)

On March 27, 2018, the MOB LLC (a subsidiary of Alliance Enterprises, Inc., which is a subsidiary of the System) refinanced an existing note payable 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, 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, the Medical Center and MOB LLC (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. The Medical Center and the System 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.

Derivatives

The Medical Center uses derivative financial instruments principally to manage interest rate risk. In January 2016, the Medical Center 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 the Medical Center'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, the Medical Center 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 the Medical Center's interest rate swap agreement amounted to an asset of $262,725 as of September 30, 2018, which amount has been included within intangible assets and other in the accompanying balance sheet. The increase in the fair value of this derivative of $302,826 has been included within the statement of changes in net assets as a change in unrestricted net assets for the year ended September 30, 2018.

6. Operating Leases

The Medical Center has various noncancelable agreements to lease various pieces of medical equipment. The Medical Center also has noncancelable leases for office space and its physician practices. Certain real estate leases are with related parties. Total rent expense paid to related parties for the year ended September 30, 2018 was $2,396,723. Rental expense under all leases for the year ended September 30, 2018 was $5,371,336.

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

2019	$ 4,187,219
2020	4,214,425
2021	4,253,245
2022	4,312,267
2023	2,343,123
Thereafter	6,891,560
	$26,201,839

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	Cost
Cash and cash equivalents	$ 16,330,473	$ 16,330,473
U.S. federated treasury obligations	36,950,913	36,957,748
Marketable equity securities	38,360,061	34,394,784
Fixed income securities	55,768,356	56,864,630
Private investment funds	55,530,346	25,886,418
	$202,940,149	$170,434,053

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

Unrestricted:	
Nonoperating investment income	$2,846,375
Realized gains on sales of investments, net	2,853,325
Change in unrealized appreciation on investments	2,184,604
	$7,884,304
Restricted:	
Investment income	$ 27,373
Change in unrealized appreciation on investments	61,431
Changes in interest in perpetual trust	341,439
	$ 430,243

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 Medical Center 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 Medical Center 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. Federated 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 Medical Center 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 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 Medical Center at year end, which generally results in classification as Level 1 within the fair value hierarchy.

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

Private Investment Funds

The Medical Center 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 Medical Center 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.

Medical Center management is responsible for the fair value measurements of investments reported in the 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 balance sheet dates are reasonable.

Fair Value on a Recurring Basis

The following table presents information about the Medical Center'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	$ 16,330,473	$ –	$ –	$ 16,330,473
U.S. federated treasury obligations	36,950,913	–	–	36,950,913
Marketable equity securities	38,360,061	–	–	38,360,061
Fixed income securities	55,768,356	–	–	55,768,356
Interest rate swap agreement	–	–	262,725	262,725
	$147,409,803	$ –	$262,725	147,672,528
Investments measured at net asset value:				
Private investment funds				55,530,346
Total assets at fair value				$203,202,874

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 Medical Center has classified within the Level 3 category. As a result, the unrealized gains and losses for assets within Level 3 may include changes in fair value that were attributable to both observable and unobservable inputs.

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

	Fair Value Measurement Using Significant Unobservable Inputs (Level 3) Interest Rate Swap Agreement
Balance at September 30, 2017	$ (40,101)
Unrealized gains	302,826
Balance at September 30, 2018	$262,725

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	3,421,556	–	Quarterly	10-30 day notice*

* One fund allows redemptions quarterly, with certain restrictions.

Investment Strategies

U.S. Federated 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.

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 Medical Center 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.

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

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, 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

A reconciliation of the changes in the Catholic Medical Center Pension Plan and the Medical Center's Supplemental Executive Retirement 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:

	Catholic Medical Center Pension Plan	Pre-1987 Supplemental Executive Retirement Plan
Changes in benefit obligations:		
Projected benefit obligations at beginning of year	$(284,200,778)	$ (4,567,286)
Service cost	(1,500,000)	–
Interest cost	(10,628,197)	(140,414)
Benefits paid	7,117,759	411,692
Actuarial gain	17,666,264	155,253
Expenses paid	1,430,445	–
Projected benefit obligations at end of year	(270,114,507)	(4,140,755)
Changes in plan assets:		
Fair value of plan assets at beginning of year	181,485,201	–
Actual return on plan assets	12,074,468	–
Employer contributions	403,125	411,692
Benefits paid	(7,117,759)	(411,692)
Expenses paid	(1,430,445)	–
Fair value of plan assets at end of year	185,414,590	–
Funded status of plan at September 30, 2018	$ (84,699,917)	$ (4,140,755)

8. Retirement Benefits (Continued)

	Catholic Medical Center Pension Plan	Pre-1987 Supplemental Executive Retirement Plan
Amounts recognized in the balance sheet consist of:		
Current liability	$ –	$ (398,750)
Noncurrent liability	(84,699,917)	(3,742,005)
Net amount recognized	$ (84,699,917)	$ (4,140,755)

The net loss for the defined benefit pension plans that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is $2,841,118.

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

The amounts recognized in unrestricted net assets for the year ended September 30, 2018 consist of:

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

Net periodic pension cost includes the following components for the year ended September 30, 2018:

	Catholic Medical Center Pension Plan	Pre-1987 Supplemental Executive Retirement Plan
Service cost	$ 1,500,000	$ –
Interest cost	10,628,197	140,414
Expected return on plan assets	(13,110,637)	–
Amortization of actuarial loss	3,275,000	147,466
Net periodic pension cost	$ 2,292,560	$287,880

8. Retirement Benefits (Continued)

Other changes in plan assets and benefit obligations recognized in unrestricted net assets for the year ended September 30, 2018 consist of:

	Catholic Medical Center Pension Plan	Pre-1987 Supplemental Executive Retirement Plan
Net gain	$(16,630,095)	$(155,253)
Amortization of actuarial loss	(3,275,000)	(147,466)
Net amount recognized	$(19,905,095)	$(302,719)

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

	Target Allocation	Catholic Medical Center Pension Plan
Marketable equity securities	70.0%	66.2%
Fixed income securities	20.0	23.7
Other	10.0	10.1
	100.0%	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
Discount rate	4.23%	3.93%
Rate of compensation increase	N/A	N/A

8. Retirement Benefits (Continued)

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
Discount rate	3.79%	3.22%
Rate of compensation increase	N/A	N/A
Expected long-term return on plan assets	7.30%	N/A

The Medical Center 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 employer contributions to the Pre-1987 Supplemental Executive Retirement 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 for the years ending September 30 are as follows:

	Catholic Medical Center Pension Plan	Pre-1987 Supplemental Executive Retirement Plan
2019	$ 8,409,949	$ 406,510
2020	9,225,819	394,940
2021	9,970,846	382,785
2022	10,796,864	370,020
2023	11,627,944	356,615
2024 - 2028	69,395,428	1,557,963

The Medical Center contributed $403,125 and $411,692 to the Catholic Medical Center Pension Plan and the Pre-1987 Supplemental Executive Retirement Plan, respectively, for the year ended September 30, 2018. The Medical Center 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.

8. Retirement Benefits (Continued)

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	$ 2,135,972	$ –	$ –	$ 2,135,972
Marketable equity securities	38,773,946	–	–	38,773,946
Fixed income securities	43,989,255	–	–	43,989,255
	$84,899,173	$ –	$ –	84,899,173
Investments measured at net asset value:				
Private investment funds				100,515,417
Total assets at fair value				$185,414,590

9. Related Party Transactions

During 2018, the Medical Center made and received transfers of net assets (to) from affiliated organizations as follows:

Alliance Health Services	$ (4,130,000)
Physician Practice Associates	(31,967,000)
Alliance Ambulatory Service	1,650,000
Alliance Resources	(1,092,878)
NH Medical Laboratory	(42,936)
Saint Peter's Home	(10)
MOB LLC	(200,000)
	$ (35,782,824)

The Medical Center entered into various other transactions with the aforementioned related organizations. The net effect of these transactions was an amount due to affiliates of $1,477,267 at September 30, 2018. See Note 6 for related party leasing activity.

The Medical Center has also engaged in various transactions with GraniteOne, HH and MCH. The Medical Center recognized approximately $3.4 million in revenue from these related parties for the year ended September 30, 2018, which is reflected within other revenues in the accompanying statement of operations. The Medical Center also incurred approximately $399,000 in expenses from transactions with these related parties for the year ended September 30, 2018, which is reflected within operating expenses in the accompanying statement of operations. As of September 30, 2018, the Medical Center has a net amount due from these related parties of approximately $507,000, which is reflected within other current assets in the accompanying balance sheet.

10. Functional Expenses

The Medical Center 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	$ 332,542,503
General and administrative	77,727,536
	$ 410,270,039

11. Concentration of Credit Risk

The Medical Center 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	44%
Medicaid	13
Commercial insurance and other	23
Patients (self pay)	8
Anthem Blue Cross	12
	100%

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	$ –	$1,190,721	$9,236,097	$ 10,426,818
Board-designated funds	99,976,116	–	–	99,976,116
Total funds	$99,976,116	$1,190,721	$9,236,097	$110,402,934

12. 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	$94,579,515	$ 924,871	$8,801,136	$104,305,522
Investment return:				
Investment income	1,485,352	5,421	21,952	1,512,725
Net appreciation (realized and unrealized)	3,782,649	–	402,870	4,185,519
Total investment gain	5,268,001	5,421	424,822	5,698,244
Contributions	–	616,466	30,458	646,924
Appropriation for operations	–	(227,437)	(20,319)	(247,756)
Appropriation for capital	128,600	(128,600)	–	–
Balance at September 30, 2018	$99,976,116	$1,190,721	$9,236,097	$110,402,934

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 Medical Center to retain as a fund of perpetual duration. There were no such deficiencies as of September 30, 2018.

13. Investments in Joint Venture

The Medical Center, 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. The Medical Center has an approximate 12% ownership interest in this joint venture. Selected financial information related to this joint venture for the year ended September 30, 2018 is not shown as such amounts are not significant to the financial statements.

14. Commitments and Contingencies

Litigation

Various legal claims, generally incidental to the conduct of normal business, are pending or have been threatened against the Medical Center. The Medical Center 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 Medical Center.

14. Commitments and Contingencies (Continued)

Litigation

Various legal claims, generally incidental to the conduct of normal business, are pending or have been threatened against the Medical Center. The Medical Center 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 Medical Center.

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.

CATHOLIC MEDICAL CENTER

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2018

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Pass-Through Award Number	Federal CFDA Number	Provided to Subrecipients	Federal Expenditures
U.S. Department of Health and Human Services:				
Pass-through City of Manchester Department of Health:				
Health Centers Cluster:				
Consolidated Health Centers (Community Health Centers Migrant Health):				
Consolidated Health Centers	H80CS00002-16-02/17-02	93.224	$ –	$ 1,193,904
Access Increases in Mental Health and Substance Abuse Services Grant	H80CS00002-16-06	93.224	–	175,359
Health Center Quality Improvement Grant	H80CS00002-16-04/17-03	93.224	–	81,447
Delivery System Health Information Investment Grant	H80CS00002-15-05	93.224	–	6,055
Total Health Centers Program Cluster			–	1,456,765
Maternal and Child Health Services Block Grant to the States	05-95-90-902010-5190-102-500731	93.994	–	19,587
Pass-through State of New Hampshire Department of Health and Human Services:				
Preventive Health and Health Services Block Grant:				
Community-Based Oral Health Services	05-95-90-902010-4527-102-500731	93.758	–	20,067
Pass-through New York University School of Medicine:				
NIDA Clinical Trials Network:				
Greater New York Node	15-A0-S6-003671-01	93.279	–	13,235
Total expenditures of federal awards			$ –	$ 1,509,654

See notes to this schedule.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2018

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) summarizes the federal grant activity of Catholic Medical Center (the Medical Center) for the year ended September 30, 2018, and is presented on the accrual basis of accounting. The Schedule includes all applicable federal grants for the Medical Center. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Since the Schedule presents only a selected portion of the operations of the Medical Center, it is not intended to and does not present the financial position, results of operations, changes in net assets or cash flows of the Medical Center.

For purposes of the Schedule, federal awards include all grants, contracts and similar agreements entered into directly between the Medical Center and agencies and departments of the federal government and all subawards to the Medical Center by nonfederal organizations pursuant to federal grants, contracts and similar agreements.

2. Summary of Significant Accounting Policies

Expenditures for direct costs are recognized as incurred using the accrual method of accounting and the cost accounting principles contained in Uniform Guidance, as applicable. Under these cost principles, certain types of expenditures are not allowable or are limited as to reimbursement. The categorization of expenditures by program included in the Schedule is based upon the Catalog of Federal Domestic Assistance (CFDA). Expenditures include only direct costs, as the Medical Center did not negotiate any indirect cost rate with the awarding agencies.

3. Pass-Through Awards

The Medical Center receives certain federal awards in the form of pass-through awards. Such amounts received as pass-through awards are specifically identified on the Schedule.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Catholic Medical Center

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of Catholic Medical Center (the Medical Center), which comprise the balance sheet as of September 30, 2018, and the related statements of operations, changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 12, 2019.

Internal Control Over Financial Reporting

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

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

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

Board of Trustees
Catholic Medical Center

Compliance and Other Matters

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

Purpose of this Report

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

Baker Newman & Noyes LLC

Manchester, New Hampshire
February 12, 2019

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Board of Trustees
Catholic Medical Center

Report on Compliance for Each Major Federal Program

We have audited Catholic Medical Center's (the Medical Center) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Medical Center's major federal programs for the year ended September 30, 2018. The Medical Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of Federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Medical Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 of the U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Medical Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Medical Center's compliance.

Board of Trustees
Catholic Medical Center

Opinion on Each Major Federal Program

In our opinion, the Medical Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2018.

Report on Internal Control Over Compliance

Management of the Medical Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Medical Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Board of Trustees
Catholic Medical Center

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Catholic Medical Center as of and for the year ended September 30, 2018, and have issued our report thereon dated February 12, 2019 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Baker Newman & Noyes LLC

Manchester, New Hampshire
February 12, 2019

CATHOLIC MEDICAL CENTER

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2018

I. Summary of Auditors' Results

Financial Statements:

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	*Unmodified*
Internal control over financial reporting:	
• Material weakness(es) identified?	___ yes _X_ no
• Significant deficiency(ies)?	___ yes _X_ none reported
Noncompliance material to financial statements noted?	___ yes _X_ no

Federal Awards:

Internal control over major programs:	
• Material weakness(es) identified?	___ yes _X_ no
• Significant deficiency(ies) identified?	___ yes _X_ none reported
Type of auditors' report issued on compliance for major programs:	*Unmodified*
Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)?	___ yes _X_ no

Identification of Major Programs:

CFDA #	Name of Federal Program or Cluster
	U.S. Department of Health and Human Services:
	Pass-Through City of Manchester Department of Health:
	Health Centers Cluster:
93.224	Consolidated Health Centers
93.224	Access Increases in Mental Health and Substance Abuse Services Grant
93.224	Health Center Quality Improvement Grant
93.224	Delivery System Health Information Investment Grant

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as low-risk auditee?	_X_ yes ___ no

II. Financial Statement Findings

None.

III. Federal Award Findings and Questioned Costs

None.

CATHOLIC MEDICAL CENTER

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended September 30, 2018

There were no reported findings from the prior period.