HUGGINS HOSPITAL AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

and

SUPPLEMENTARY INFORMATION

September 30, 2018 and 2017

With Independent Auditor's Report

HUGGINS HOSPITAL AND SUBSIDIARY

Index to Consolidated Financial Statements and Supplementary Information

September 30, 2018 and 2017

BerryDunn

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Huggins Hospital and Subsidiary

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Huggins Hospital and Subsidiary as of September 30, 2018 and 2017, and the results of their operations, changes in their net assets, and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Board of Trustees
Huggins Hospital and Subsidiary

Other Matter

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. Schedules 1 and 2 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual organizations, and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
January 29, 2019

HUGGINS HOSPITAL AND SUBSIDIARY

Consolidated Balance Sheets

September 30, 2018 and 2017

ASSETS

	2018	2017
Current assets		
Cash and cash equivalents	**$ 8,994,916**	$ 9,333,089
Assets limited as to use - current portion	**-**	11,507
Accounts receivable from patients, less allowances for uncollectible accounts and contractuals (2018 - $8,228,000; 2017 - $6,642,000)	**7,436,595**	7,032,437
Other accounts and notes receivable	**3,446,185**	1,078,776
Other current assets	**812,190**	813,400
Total current assets	**20,689,886**	18,269,209
Assets limited as to use, less current portion	**42,742,434**	39,743,916
Property and equipment, net	**45,861,471**	46,120,376
Long-term investments	**12,425,093**	11,986,065
Beneficial interest in perpetual trust	**6,355,445**	6,366,715
Cash surrender value of life insurance	**1,248,266**	1,248,266
Total assets	**$ 129,322,595**	$123,734,547

LIABILITIES AND NET ASSETS

	2018	2017
Current liabilities		
Accounts payable and other current liabilities	**$ 3,097,973**	$ 2,032,499
Accrued salaries and related accounts	**2,011,756**	1,736,070
Current portion of long-term debt	**600,064**	581,655
Due to related parties	**318,061**	89,356
Estimated third-party payor settlements	**23,046,702**	23,106,709
Total current liabilities	**29,074,556**	27,546,289
Accrued pension cost	**-**	4,000,415
Interest rate swap	**1,838,679**	2,619,524
Long-term debt, excluding current portion	**20,052,442**	20,572,263
Total liabilities	**50,965,677**	54,738,491
Net assets		
Unrestricted	**59,006,407**	50,985,073
Temporarily restricted	**9,485,054**	8,134,256
Permanently restricted	**9,865,457**	9,876,727
Total net assets	**78,356,918**	68,996,056
Total liabilities and net assets	**$ 129,322,595**	$ 123,734,547

The accompanying notes are an integral part of these consoldiated financial statements.

HUGGINS HOSPITAL AND SUBSIDIARY

Consolidated Statements of Operations

Years Ended September 30, 2018 and 2017

	2018	2017
Unrestricted revenues and gains		
Patient service revenue (net of discounts and contractual allowances)	**$ 60,572,938**	$ 54,717,451
Less provision for bad debts	**3,376,783**	2,779,844
Net patient service revenue	**57,196,155**	51,937,607
Other operating revenues	**4,123,419**	4,349,442
Investment income allotted for operations	**564,000**	564,000
Net assets released from restrictions for operating purposes	**83,055**	62,655
Total revenues and gains	**61,966,629**	56,913,704
Expenses		
Salaries, wages and employee benefits	**35,025,019**	32,170,420
Supplies and other	**19,431,788**	18,565,770
Depreciation and amortization	**4,694,000**	4,729,077
Interest	**658,801**	1,269,682
Total expenses	**59,809,608**	56,734,949
Operating income	**2,157,021**	178,755
Nonoperating gains (losses)		
Contributions	**334,967**	682,031
Development costs	**(208,300)**	(201,798)
Nonoperating investment income	**1,907,992**	969,865
Change in value of interest rate swap	**780,845**	1,137,059
Pension curtailment loss	**(4,652,215)**	-
Nonoperating (losses) gains, net	**(1,836,711)**	2,587,157
Excess of revenues and gains over expenses	**320,310**	2,765,912
Net assets released from restrictions for capital acquisitions	**12,095**	30,521
Net unrealized gains on investments	**1,066,016**	2,468,971
Pension liability adjustment	**6,622,913**	1,687,820
Increase in unrestricted net assets	**$ 8,021,334**	$ 6,953,224

The accompanying notes are an integral part of these consoldiated financial statements.

HUGGINS HOSPITAL AND SUBSIDIARY

Consolidated Statements of Changes in Net Assets

Years Ended September 30, 2018 and 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balances, October 1, 2016	$ 44,031,849	$ 7,375,949	$ 9,945,213	$ 61,353,011
Excess of revenues and gains over expenses	2,765,912	-	-	2,765,912
Contributions	-	114,452	-	114,452
Investment income, net of fees	-	196,505	-	196,505
Net assets released from restrictions for operations	-	(62,655)	-	(62,655)
Net assets released from restrictions for capital acquisitions	30,521	(30,521)	-	-
Spending policy allotment	-	(564,000)	-	(564,000)
Realized gains on sales of investments	-	250,551	-	250,551
Net unrealized gains on investments	2,468,971	853,975	-	3,322,946
Pension liability adjustment	1,687,820	-	-	1,687,820
Change in beneficial interest in perpetual trust	-	-	(68,486)	(68,486)
Net increase (decrease) in net assets	6,953,224	758,307	(68,486)	7,643,045
Balances, September 30, 2017	50,985,073	8,134,256	9,876,727	68,996,056
Excess of revenues and gains over expenses	**320,310**	**-**	**-**	**320,310**
Contributions	**-**	**1,006,921**	**-**	**1,006,921**
Investment income, net of fees	**-**	**200,901**	**-**	**200,901**
Net assets released from restrictions for operations	**-**	**(83,055)**	**-**	**(83,055)**
Net assets released from restrictions for capital acquisitions	**12,095**	**(12,095)**	**-**	**-**
Spending policy allotment	**-**	**(564,000)**	**-**	**(564,000)**
Realized gains on sales of investments	**-**	**465,373**	**-**	**465,373**
Net unrealized gains on investments	**1,066,016**	**336,753**	**-**	**1,402,769**
Pension liability adjustment	**6,622,913**	**-**	**-**	**6,622,913**
Change in beneficial interest in perpetual trust	**-**	**-**	**(11,270)**	**(11,270)**
Net increase (decrease) in net assets	**8,021,334**	**1,350,798**	**(11,270)**	**9,360,862**
Balances, September 30, 2018	**$ 59,006,407**	**$ 9,485,054**	**$ 9,865,457**	**$ 78,356,918**

The accompanying notes are an integral part of these consoldiated financial statements.

HUGGINS HOSPITAL AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years Ended September 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	**$ 9,360,862**	$ 7,643,045
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Change in beneficial interest in perpetual trust	**11,270**	68,486
Depreciation and amortization	**4,774,243**	4,766,906
Provision for bad debts	**3,376,783**	2,779,844
Gain on sale of property held for sale	**-**	(205,282)
Net realized and unrealized gains on investments	**(3,204,490)**	(4,083,060)
Pension curtailment loss	**4,652,215**	-
Pension liability adjustment	**(6,622,913)**	(1,687,820)
Unrealized gain on interest rate swap	**(780,845)**	(1,137,059)
Decrease (increase) in		
Accounts receivable from patients	**(3,780,941)**	(4,982,367)
Other accounts and notes receivable	**(2,367,409)**	(489,474)
Other current assets	**1,210**	11,118
Increase (decrease) in		
Accounts payable and other current liabilities	**1,065,474**	(32,243)
Due to related parties	**228,705**	89,356
Accrued salaries and related accounts	**275,686**	15,012
Estimated third-party payor settlements	**(60,007)**	4,840,076
Accrued pension cost	**(2,029,717)**	(184,677)
Net cash provided by operating activities	**4,900,126**	7,411,861
Cash flows from investing activities		
Purchase of property and equipment	**(4,435,095)**	(1,695,419)
Proceeds from sale of property and equipment	**-**	329,393
Purchase of investments	**(13,076,654)**	(22,169,556)
Proceeds from sale of investments	**12,855,105**	20,247,187
Net cash used by investing activities	**(4,656,644)**	(3,288,395)
Cash flows from financing activities		
Payments on long-term debt	**(581,655)**	(380,000)
Additions to deferred financing costs	**-**	(1,620,034)
Net cash used by financing activities	**(581,655)**	(2,000,034)
Net (decrease) increase in cash and cash equivalents	**(338,173)**	2,123,432
Cash and cash equivalents, beginning of year	**9,333,089**	7,209,657
Cash and cash equivalents, end of year	**$ 8,994,916**	$ 9,333,089
Supplemental disclosure of cash flow information		
Interest paid	**$ 802,604**	$ 1,758,721

During 2017, the Hospital used proceeds from the issuance of the Series 2017A and 2017B Revenue Bonds of $23,541,155 to refinance the Series 2007 and 2009 Revenue Bonds.

The accompanying notes are an integral part of these consoldiated financial statements.

Organization

Huggins Hospital (the Hospital) is a not-for-profit Critical Access Hospital (CAH) in Wolfeboro, New Hampshire. The Hospital provides inpatient, outpatient, extended care, assisted living, primary care and emergency care services to residents of East-Central New Hampshire. Huggins Senior Housing, Inc. (HSH) is a wholly-owned subsidiary of the Hospital. HSH is the for-profit management company of a retirement community (Sugar Hill Retirement Community (SHRC)) in Wolfeboro, New Hampshire.

In January 2017, the Hospital became affiliated with Catholic Medical Center of Manchester, New Hampshire and Monadnock Community Hospital of Peterborough, New Hampshire, under a new organization and parent company, GraniteOne Health. GraniteOne Health is a non-profit entity and, as a healthcare system, allows the three hospitals to enhance collaboration, strengthen clinical partnerships, and meet the health needs of the communities it serves through high-quality care and a seamless patient experience. The Hospital has two representatives on the thirteen-member Board of Trustees of GraniteOne Health.

1. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements represent the parent and subsidiary activities after the elimination of all material intercompany balances and activity.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

Accounts Receivable from Patients

Patient accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to operations and a credit to a valuation allowance based on its assessment of individual accounts and historical adjustments. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to patient accounts receivable.

In evaluating the collectibility of accounts receivable, the Hospital analyzes past results and identifies trends for each major payor source of revenue for the purpose of estimating the appropriate amounts for the allowance for doubtful accounts and the provision for bad debts. Data in each major payor source are regularly reviewed to evaluate the adequacy of the allowance for doubtful accounts. Specifically, for receivables relating to services provided to patients having third-party coverage, an allowance for doubtful accounts and a corresponding provision for bad debts are established at varying levels based on the age of the receivables and payor source. For receivables relating to self-pay patients, a provision for doubtful accounts and corresponding allowance for doubtful accounts is made in the period services are rendered based on experience indicating the inability or unwillingness of patients to pay amounts for which they are financially responsible. Actual write-offs are charged against the allowance for doubtful accounts.

The allowance for doubtful accounts was approximately $2,640,000 and $1,887,000 at September 30, 2018 and 2017, respectively, and relates entirely to self-pay accounts. Self-pay accounts receivable were approximately $3,626,000 and $2,615,000 at September 30, 2018 and 2017, respectively. The increase in the allowance is attributed to the increase in self-pay accounts receivable.

Investments

Investments in equity securities with readily determinable fair values, and all investments in debt securities, are recorded at fair value. Investment income from funded depreciation, Board-designated investments, and unrestricted investments is reported as nonoperating investment income. The amount allotted for operations per the Hospital's spending policy is included in operating revenues.

Realized gains or losses on the sale of investments are determined by use of the average cost method. Unrealized gains and losses on investments are excluded from the excess of revenues and gains over expenses, and are reported as an increase or decrease in net assets, except that declines in fair value that are judged to be other than temporary are reported as realized losses. No unrealized losses were deemed to be other than temporary in 2018 and 2017.

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

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, 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 statements of operations as net assets released from restrictions.

Assets Limited as to Use

Assets limited as to use include designated assets set aside by the Board of Trustees for future capital improvements and funds held by trustees under the revenue bond agreement. Board-designated funds are controlled by the Board and it may, at its discretion, subsequently use them for other purposes.

Interest Rate Swap

The Hospital uses an interest rate swap contract to eliminate the cash flow exposure of interest rate movements on variable-rate debt. The Hospital has adopted Financial Accounting Standards Board Accounting Standards Codification Topic 815, *Derivatives and Hedging*, to account for its interest rate swap contract. The interest rate swap contract has not been designated as a cash flow hedge. Unrealized gains and losses on the fair value of derivative financial instruments not designated as cash flow hedges are required to be included in the performance indicator. As a result, the unrealized gains in fair value of the interest rate swap for 2018 and 2017 have been included in the excess of revenues and gains over expenses. The Hospital expects to hold the swap until its maturity, at which point unrealized gains or losses will be zero.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method.

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

Deferred Financing Costs

The costs incurred to obtain long-term financing are being amortized by the straight-line method over the repayment period of the related debt. The costs are included in long-term debt in the balance sheet.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital have been limited by donors to a specific time period or purpose and unappropriated appreciation on permanently restricted assets. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Excess of Revenues and Gains Over Expenses

Changes in unrestricted net assets which are excluded from the excess of revenues and gains over expenses, consistent with industry practice, include unrealized gains and temporary unrealized losses on investments, pension liability adjustments and contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purposes of acquiring such assets).

Functional Expenses

The Hospital provides healthcare services to residents within its geographic location. Expenses related to providing these services are as follows as of September 30:

	2018	2017
Acute and clinical care services	**$ 50,299,880**	$ 47,825,487
General and administrative	**9,509,728**	8,909,462
	$ 59,809,608	$ 56,734,949

Fundraising expenses were $208,300 in 2018 and $201,798 in 2017 and are reported in nonoperating (losses) gains in the consolidated statements of operations.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Employee Fringe Benefits

The Hospital has an "earned time" plan under which each employee earns paid leave for each period worked. These hours of paid leave may be used for vacations, holidays, or illnesses. Hours earned, but not used, are vested with the employee. Employees can vest up to 368 hours. The Hospital accrues a liability for such paid leave as it is earned.

Income Taxes

The Internal Revenue Service currently recognizes the Hospital as an exempt organization under Internal Revenue Code Section 501(c)(3). HSH is a for-profit corporation and, as such, is subject to federal and state taxes. Taxes were not material in 2018 or 2017.

Reclassifications

The following reclassifications were made to the 2017 consolidated statement of operations to confirm with the current year's presentation: contract labor expense of $567,221 was reclassified from supplies and other to salaries, wages and employee benefits; 340B drug expense of $518,738 was reclassified from supplies and other expense to other operating revenues; and employee insurance costs of $3,001,104 were reclassified from supplies and other to salaries, wages and employee benefits.

Subsequent Events

For purposes of the preparation of these financial statements in conformity with U.S. GAAP, the Hospital has considered transactions or events occurring through January 29, 2019, which was the date the financial statements were available to be issued.

2. Net Patient Service Revenue

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

Medicare

Effective June 1, 2005, the Hospital was granted CAH status. With CAH designation, the Hospital is reimbursed at 101% of allowable costs for its inpatient and outpatient services provided to Medicare patients. The 101% is currently reduced by a federal sequestration of 2%. The Hospital is reimbursed at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been settled by the Medicare fiscal intermediary through September 30, 2013.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per day of hospitalization. The prospectively determined per-diem rates are not subject to retroactive adjustment. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary. The Hospital's Medicaid cost reports have been settled by the fiscal intermediary through September 30, 2013.

Medicaid disproportionate share hospital (DSH) payments provide financial assistance to hospitals that serve a large number of low-income patients. The federal government distributes federal DSH funds to each state based on a statutory formula. The states, in turn, distribute their portion of the DSH funding among qualifying hospitals. The states are to use their federal DSH allotments to help cover costs of hospitals that provide care to low-income patients when those costs are not covered by other payors. The State of New Hampshire's distribution of DSH monies to the hospitals is subject to audit by the Centers for Medicare & Medicaid Services. Amounts recorded by the Hospital are therefore subject to change. The disproportionate share payment revenue was estimated to be $2,821,000 and $1,898,000 for 2018 and 2017, respectively, and was recorded as an increase in net patient service revenue. Because the methodologies used to determine disproportionate share payments remain unsettled, the Hospital has established reserves on the amounts received.

Revenues from the Medicare and Medicaid programs accounted for approximately 50% and 9%, respectively, of the Hospital's patient revenue for the year ended September 30, 2018, and approximately 51% and 10%, respectively, for the year ended September 30, 2017. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2018 net patient service revenue increased approximately $1,716,000 and in 2017 net patient service revenue decreased approximately $374,000, due to prior year retroactive adjustments in excess of amounts previously estimated.

Anthem Blue Cross

Inpatient and outpatient services rendered to Anthem Blue Cross subscribers are reimbursed at submitted charges less a negotiated discount. The amounts paid to the Hospital are not subject to any retroactive adjustments.

Patient service revenue and contractual and other allowances consisted of the following for the years ended September 30:

	2018	2017
Patient services		
Inpatient	**$ 20,142,507**	$ 19,538,064
Outpatient	**95,998,277**	84,588,589
	116,140,784	104,126,653
Less Medicare allowances	**29,118,869**	25,436,068
Less other payor allowances	**25,214,022**	22,725,022
Less free care and charity allowances	**1,234,955**	1,248,112
Patient service revenue (net of discounts and contractual allowances)	**60,572,938**	54,717,451
Less provision for bad debts	**3,376,783**	2,779,844
Net patient service revenue	**$ 57,196,155**	$ 51,937,607

Revenue related to self-pay patients was approximately $2,855,000 and $2,588,000 for the years ended September 30, 2018 and 2017, respectively.

3. Charity Care

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, as well as the estimated cost of those services and supplies and equivalent service statistics. The following information measures the level of charity care provided during the years ended September 30:

	2018	2017
Charges forgone, based on established rates	**$ 1,234,955**	$ 1,248,112
Estimated costs and expenses incurred to provide charity care	**$ 634,000**	$ 678,000
Equivalent percentage of charity care charges to all Hospital patient charges	**1.06 %**	1.20 %

Costs of providing charity care services have been estimated based on the relationship of charges for these services to total expenses.

4. Investments

Assets Limited as to Use

The composition of assets limited as to use as of September 30, 2018 and 2017 is set forth in the following table. Investments are stated at fair value.

	2018	2017
Cash and cash equivalents	**$ 3,446,076**	$ 4,542,870
Mutual funds	**18,877,690**	18,331,432
Equity securities	**8,055,498**	6,666,404
Government securities	**4,970,681**	3,891,842
Corporate notes and bonds	**6,746,506**	5,675,916
Alternative investments	**645,983**	646,959
	$ 42,742,434	$ 39,755,423

Other Investments

Other investments stated at fair value as of September 30 include:

	2018	2017
Cash and cash equivalents	**$ 69,431**	$ 153,093
Mutual funds	**4,074,009**	4,105,374
Equity securities	**4,199,987**	3,635,827
Government securities	**1,832,229**	1,681,534
Corporate notes and bonds	**1,811,404**	1,971,655
Alternative investments	**363,433**	363,982
Other investments	**74,600**	74,600
Total long-term investments	**12,425,093**	11,986,065
Beneficial interest in perpetual trust	**6,355,445**	6,366,715
	$ 18,780,538	$ 18,352,780

Investment income and gains for assets limited as to use, cash equivalents, and other investments are comprised of the following for the years ended September 30:

	2018	2017
Income		
Investment income	**$ 1,355,990**	$ 1,231,501
Net realized gains on sales of securities	**1,801,721**	760,114
	$ 3,157,711	$ 1,991,615
Investment income is reported as follows:		
Nonoperating investment income	**$ 1,907,992**	$ 969,865
Investment income allotted for operations	**564,000**	564,000
Included in other operating revenues	**19,445**	10,694
Temporarily restricted investment income	**200,901**	196,505
Temporarily restricted realized gains	**465,373**	250,551
	$ 3,157,711	$ 1,991,615
Other changes in net assets		
Net unrealized gains		
- unrestricted	**$ 1,066,016**	$ 2,468,971
- temporarily restricted	**336,753**	853,975
	$ 1,402,769	$ 3,322,946

5. Endowment

The Hospital's endowment primarily consists of donor-restricted endowment funds. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization has interpreted the State of New Hampshire Uniform Prudent Management of Institutional Funds Act such that the Board of Trustees is allowed to appropriate for expenditure for the uses and purposes for which the endowment fund is established, unless otherwise specified by the donor, so much of the net appreciation, realized and unrealized, in the fair value of the assets of the endowment fund over the historic dollar value of the fund as is prudent. In so doing, the Board must consider the long- and short-term needs of the Hospital in carrying out its purpose, its present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. Appreciation over the amounts expended is retained in temporarily restricted net assets.

Changes in endowment (donor restricted) net assets for the years ended September 30, 2018 and 2017 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, October 1, 2016	$ 7,302,968	$ 3,510,012	$ 10,812,980
Interest and dividends, net of fees	196,505	-	196,505
Realized gains on investments	250,551	-	250,551
Unrealized gains on investments	853,975	-	853,975
Total investment gain	1,301,031	-	1,301,031
Spending policy allotment	(564,000)	-	(564,000)
Endowment net assets, September 30, 2017	8,039,999	3,510,012	11,550,011
Interest and dividends, net of fees	**200,901**	**-**	**200,901**
Realized gains on investments	**465,373**	**-**	**465,373**
Unrealized gains on investments	**336,753**	**-**	**336,753**
Total investment gain	**1,003,027**	**-**	**1,003,027**
Spending policy allotment	**(564,000)**	**-**	**(564,000)**
Endowment assets, September 30, 2018	**$ 8,479,026**	**$ 3,510,012**	**$ 11,989,038**

Investment Policy and Strategies Employed for Achieving Investment Objectives

The Hospital's investment strategy is for long-term growth and tolerance for a fair amount of volatility to achieve this growth. The investment time horizon is five years or more. The overall objective is to provide a strategic mix of asset classes that produce the highest expected return while controlling risk. The Hospital's target investment allocation is 55% equities, 35% fixed income, and 10% alternatives. Investment advisors are prohibited from purchasing hedge fund and private equity investments, without prior approval of the Hospital.

Spending Policy

Effective October 1, 2009, each year a calculation is made to determine the maximum amount of money that can be withdrawn from the long-term portfolio to be used for each donor-restricted and Board-designated purpose. The annual amount available for spending is not to exceed 7% of the fair market value calculated on the basis of market values determined at least quarterly and averaged over a period of not less than three years immediately preceding the year in which the appropriation for the expenditure is made. The amount distributed under the spending policy was $564,000 for 2018 and 2017. Investment income, within the spending policy guidelines, is reported in unrestricted revenues and gains in the accompanying financial statements.

6. Fair Value Measurements

U.S. GAAP established a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy):

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Assets and liabilities measured at fair value on a recurring basis are summarized below.

	Fair Value Measurements at September 30, 2018			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Assets limited as to use				
Cash and cash equivalents	$ 3,446,076	$ 3,446,076	$ -	$ -
Fixed income				
U.S. Government bonds	4,970,681	4,970,681	-	-
Corporate notes and bonds	6,746,506	-	6,746,506	-
Total fixed income	11,717,187	4,970,681	6,746,506	-
Equity securities	8,055,498	8,055,498	-	-
Mutual funds	18,877,690	18,877,690	-	-
	42,096,451	$ 35,349,945	$ 6,746,506	$ -
Investments measured at net asset value (NAV)	645,983			
Total assets limited as to use	$ 42,742,434			
Other investments				
Cash and cash equivalents	$ 69,431	$ 69,431	$ -	$ -
Fixed income				
Government securities	1,832,229	1,832,229	-	-
Corporate notes and bonds	1,811,404	-	1,811,404	-
Total fixed income	3,643,633	1,832,229	1,811,404	-
Equity securities	4,199,987	4,199,987	-	-
Mutual funds	4,074,009	4,074,009	-	-
Other investments	74,600	-	-	74,600
	12,061,660	$ 10,175,656	$ 1,811,404	$ 74,600
Investments measured at NAV	363,433			
Total long-term investments	$ 12,425,093			
Beneficial interest in perpetual trust	$ 6,355,445	$ -	$ -	$ 6,355,445
Liabilities:				
Interest rate swap	$ 1,838,679	$ -	$ 1,838,679	$ -
Investments - held by defined benefit pension plan (Note 12):				
Cash and cash equivalents	$ 187,097	$ 187,097	$ -	$ -
Total	$ 187,097	$ 187,097	$ -	$ -

	Fair Value Measurements at September 30, 2017			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Assets limited as to use				
Cash and cash equivalents	$ 4,542,870	$ 4,542,870	$ -	$ -
Fixed income				
U.S. Government bonds	3,891,842	3,891,842	-	-
Corporate notes and bonds	5,675,916	-	5,675,916	-
Total fixed income	9,567,758	3,891,842	5,675,916	-
Equity securities	6,666,404	6,666,404	-	-
Mutual funds	18,331,432	18,331,432	-	-
	39,108,464	$ 33,432,548	$ 5,675,916	$ -
Investments measured at NAV	646,959			
Total assets limited as to use	$ 39,755,423			
Other investments				
Cash and cash equivalents	$ 153,093	$ 153,093	$ -	$ -
Fixed income				
Government securities	1,681,534	1,681,534	-	-
Corporate notes and bonds	1,971,655	-	1,971,655	-
Total fixed income	3,653,189	1,681,534	1,971,655	-
Equity securities	3,635,827	3,635,827	-	-
Mutual funds	4,105,374	4,105,374	-	-
Other investments	74,600	-	-	74,600
	11,622,083	$ 9,575,828	$ 1,971,655	$ 74,600
Investments measured at NAV	363,982			
Total long-term investments	$ 11,986,065			
Beneficial interest in perpetual trust	$ 6,366,715	$ -	$ -	$ 6,366,715
Liabilities:				
Interest rate swap	$ 2,619,524	$ -	$ 2,619,524	$ -
Investments - held by defined benefit pension plan (Note 12):				
Cash and cash equivalents	$ 13,517,217	$ 13,517,217	$ -	$ -
Total	$ 13,517,217	$ 13,517,217	$ -	$ -

The fair value of Level 2 assets and liabilities is primarily based on market prices of comparable securities, interest rates, and credit ratings. These techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

As the beneficial interest in perpetual trust is not readily available to the Hospital, the interest is classified as Level 3 and recorded based upon the fair value of the underlying assets.

Changes in fair value of assets classified as Level 3 are comprised of the following for the years ended September 30:

	Beneficial Interest
Balance, October 1, 2016	$ 6,435,201
Change in value	(68,486)
Balance, September 30, 2017	6,366,715
Change in value	**(11,270)**
Balance, September 30, 2018	**$ 6,355,445**

The following table sets forth a summary of the Hospital's investments valued using a reported NAV at September 30, 2018:

	Fair Value Estimated Using NAV Per Share at September 30:				
Investment	**2018**	2017	Redemption Frequency	Other Redemption Restrictions	Redemption Notice Period
The Optima Discretionary Macro Fund Ltd Offshore Multi-Manager	**$ 1,009,416**	$ 1,010,941	Quarterly	Purchased or redeemed at the NAV on the first business day of each month	Subject to 65 days' prior written notice
	$ 1,009,416	$ 1,010,941			

7. Property and Equipment

The major categories of property and equipment are as follows as of September 30:

	2018	2017
Land	**$ 1,828,322**	$ 1,828,322
Land improvements	**6,251,093**	6,594,262
Buildings	**54,139,920**	54,139,920
Building services equipment	**10,534,541**	10,166,945
Major moveable equipment	**12,857,972**	12,781,852
Construction in progress	**2,704,087**	711,586
	88,315,935	86,222,887
Less accumulated depreciation	**42,454,464**	40,102,511
	$ 45,861,471	$ 46,120,376

During 2018, the Hospital began the installation and implementation of new enterprise resource planning and electronic health record systems. At September 30, 2018, the Hospital had approximately $1,660,000 of costs in construction in progress related to this project. Total estimated costs for completion are $3,500,000 and this project is expected to be completed in Spring 2019.

8. Long-Term Debt

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

	2018	2017
New Hampshire Health and Education Facilities Authority (NHHEFA) (Huggins Hospital Issue) Series 2017A 2.59% fixed rate direct placement bonds payable in annual installments ranging from $333,695 in 2019 to $671,000 in 2046; collateralized by gross revenues and substantially all assets of the Hospital.	**$ 14,055,318**	$ 14,380,488
NHHEFA (Huggins Hospital Issue) Series 2017B variable rate (2.7048% at September 30, 2018) direct placement bonds payable in annual installments ranging from $266,369 in 2019 to $776,358 in 2046; collateralized by gross revenues and substantially all assets of the Hospital.	**8,904,182**	9,160,667
Total long-term debt before unamortized debt issuance costs	**22,959,500**	23,541,155
Unamortized deferred financing costs	**(2,306,994)**	(2,387,237)
Total long-term debt	**20,652,506**	21,153,918
Less current portion	**600,064**	581,655
Long-term debt, excluding current portion	**$ 20,052,442**	$ 20,572,263

Principal maturities are as follows:

2019	$ 600,064
2020	618,470
2021	639,445
2022	659,252
2023	680,380
Thereafter	19,761,889
	$ 22,959,500

Under its bond agreements with NHHEFA, the Hospital must meet certain restrictive loan covenants. At September 30, 2018, the Hospital was in compliance with its financial covenants related to the bond agreements.

Interest Rate Swap

In connection with the issuance of the 2007 bonds, the Hospital entered into an interest rate swap agreement. The swap agreement's notional amount was $9,105,000 and $9,250,000 at September 30, 2018 and 2017, respectively. The swap terminates on October 1, 2042. The Hospital pays a fixed rate of 3.6175% and receives a variable rate of 68% of USD-LIBOR-BBA. The Hospital records the interest rate swap at fair value, and has recorded a liability of $1,838,679 and $2,619,524 as of September 30, 2018 and 2017, respectively.

9. Related Parties

As a member of GraniteOne Health, the Hospital shares in various services with the other member hospitals and the parent. For the years ended September 30, 2018 and 2017, the Hospital billed Catholic Medical Center $49,879 and $35,717, respectively, and was billed $846,662 and $563,560, respectively, in shared services. The Hospital also was charged a management fee of $92,585 and $95,264 which is included in amounts due to related parties at September 30, 2018 and 2017, respectively.

The Hospital owns the land on which SHRC is built and leases it to SHRC. The rental fee increased from $2,432 per month in 2017 to $2,469 per month in 2018. SHRC paid HSH management fees of $92,361 and $78,662 for the years ended 2018 and 2017, respectively.

10. Commitments and Contingencies

The Hospital carries malpractice insurance coverage under a claims-made policy. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured. The Hospital intends to renew its coverable on a claims-made basis and has no reason to believe that it may be prevented from renewing such coverage. The Hospital is subject to complaints, claims and litigation due to potential claims which arise in the normal course of business. U.S. GAAP requires the Hospital to accrue the ultimate cost of malpractice claims when the incident that gives rise to the claim occurs, without consideration of insurance recoveries. Expected recoveries are presented as a separate asset. The Hospital has evaluated its exposure to losses arising from potential claims and has properly accounted for them in the consolidated financial statements as of September 30, 2018 and 2017.

The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results of operations.

The Hospital leases various equipment and facilities under operating leases expiring at various dates through December 2023. Total rental expense in 2018 and 2017 for all operating leases was approximately $248,000 and $285,000, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of September 30, 2018 that have initial or remaining lease terms in excess of one year.

Year Ending September 30	Amount
2019	$ 80,000
2020	80,000
2021	30,000
2022	30,000
2023	20,000
	$ 240,000

11. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods:

	2018	2017
Healthcare services		
Capital acquisitions	**$ 968,939**	$ 10,213
Adult daycare	**4,098**	3,623
Health education	**20,223**	27,253
Indigent care	**12,768**	16,865
Building pledges	**-**	36,303
Net appreciation of permanently restricted net assets:		
Healthcare services	**7,788,826**	7,415,514
Indigent care	**690,200**	624,485
	$ 9,485,054	$ 8,134,256

Permanently restricted net assets are restricted to:

	2018	2017
Investments to be held in perpetuity, the income from which is reported as operating when released and is expendable to support:		
Healthcare services	**$ 3,098,718**	$ 3,098,718
Indigent care	**411,294**	411,294
Beneficial interest in perpetual trust	**6,355,445**	6,366,715
	$ 9,865,457	$ 9,876,727

The Hospital is an income beneficiary of a perpetual trust controlled by an unrelated third-party trustee. The beneficial interest in the assets of the trust is included in the Hospital's consolidated financial statements as permanently restricted net assets. Income is distributed in accordance with the trust documents and is included in investment return. Trust income distributed to the Hospital for the years ended September 30, 2018 and 2017 was $266,502 and $308,458, respectively, and is unrestricted.

12. Retirement Plans

Beginning July 2005, the Hospital sponsors a contributory defined contribution plan available to substantially all employees. The Hospital's policy under the defined contribution plan is to fund its portion of amounts due under the plan on a current basis and to recognize expense as incurred. Expense related to this plan for the years ended September 30, 2018 and 2017 approximated $731,900 and $621,900, respectively.

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

The following tables set forth the funded status of the defined benefit plan and amounts recognized in the Hospital's consolidated financial statements as of and for the years ended September 30:

	2018	2017
Change in projected benefit obligation:		
Benefit obligation, beginning of year	**$ 17,517,632**	$ 18,423,898
Interest cost	**583,966**	591,885
Actuarial (gain) loss	**(777,070)**	33,899
Benefits paid	**(505,327)**	(491,902)
Gain on settlement	**(736,461)**	-
Plan settlement	**(16,082,740)**	-
Assumption changes	**-**	(1,040,148)
Benefit obligation, end of year	**$ -**	$ 17,517,632
Accumulated benefit obligation	**$ -**	$ 17,517,632
Change in plan assets		
Fair value of plan assets, beginning of year	**$ 13,517,217**	$ 12,550,986
Actual return (loss) on plan assets	**27,947**	(41,867)
Employer contributions	**3,230,000**	1,500,000
Benefits paid	**(505,327)**	(491,902)
Plan settlement	**(16,082,740)**	-
Fair value of plan assets, end of year	**$ 187,097**	$ 13,517,217

Funded status - accrued asset (liability)	**$ 187,097**	$ (4,000,415)
Cumulative amounts recognized in other changes in unrestricted net assets at September 30 for:		
Actuarial loss	**$ -**	$ 6,622,913

The incremental increase in the amounts recognized in other changes in unrestricted net assets was $6,622,913 and $1,687,820 in 2018 and 2017, respectively. These amounts have been reflected outside the excess of revenues and gains over expenses in the consolidated statements of operations.

Net pension cost for the Plan included the following components for the years ended September 30:

	2018	2017
Interest cost on projected benefit obligation	**$ 583,966**	$ 591,885
Expected return on Plan assets	**(148,427)**	(130,550)
Amortization of net loss	**577,647**	853,988
Settlement expense	**4,652,215**	-
Net periodic pension benefit cost	**$ 5,665,401**	$ 1,315,323

The weighted average assumptions used in the measurement of the Hospital's net periodic pension cost for the years ended September 30 are as follows:

	2018	2017
Discount rate	**3.55 %**	3.25 %
Expected long-term return on plan assets	**1.00 %**	1.00 %

13. Concentrations of Credit Risk

The Hospital has cash balances in financial institutions that exceed federal depository insurance limits. However, management believes that credit risk related to these investments is minimal. The Hospital has not experienced any losses in such accounts.

The Hospital 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 was as follows as of September 30:

	2018	2017
Medicare	**42 %**	45 %
Medicaid	**6**	6
Anthem Blue Cross	**8**	7
Other third-party payors	**21**	24
Patients	**23**	18
	100 %	100 %

SUPPLEMENTARY INFORMATION

Schedule 1

HUGGINS HOSPITAL AND SUBSIDIARY

Consolidating Balance Sheet

September 30, 2018

ASSETS

	Huggins Hospital	Huggins Senior Housing	Eliminations	Consolidated
Current assets				
Cash and cash equivalents	$ 8,864,176	$ 130,740	$ -	**$ 8,994,916**
Accounts receivable from patients, net	7,436,595	-	-	**7,436,595**
Other accounts and notes receivable	3,446,185	-	-	**3,446,185**
Other current assets	809,670	2,520	-	**812,190**
Total current assets	20,556,626	133,260	-	**20,689,886**
Assets limited as to use	42,742,434	-	-	**42,742,434**
Property and equipment, net	45,583,019	278,452	-	**45,861,471**
Long-term investments	12,425,093	-	-	**12,425,093**
Beneficial interest in perpetual trust	6,355,445	-	-	**6,355,445**
Cash surrender value of life insurance	1,248,266	-	-	**1,248,266**
Due from subsidiary	700,872	-	(700,872)	**-**
Total assets	$ 129,611,755	$ 411,712	$ (700,872)	**$ 129,322,595**

LIABILITIES AND NET ASSETS (DEFICIT)

	Huggins Hospital	Huggins Senior Housing	Eliminations	Consolidated
Current liabilities				
Accounts payable and other current liabilities	$ 3,095,672	$ 2,301	$ -	**$ 3,097,973**
Accrued salaries and related accounts	2,011,756	-	-	**2,011,756**
Current portion of long-term debt	600,064	-	-	**600,064**
Due to related parties	318,061	-	-	**318,061**
Estimated third-party payor settlements	23,046,702	-	-	**23,046,702**
Total current liabilities	29,072,255	2,301	-	**29,074,556**
Interest rate swap	1,838,679	-	-	**1,838,679**
Long-term debt, excluding current portion	20,052,442	-	-	**20,052,442**
Due to subsidiary	-	700,872	(700,872)	**-**
Total liabilities	50,963,376	703,173	(700,872)	**50,965,677**
Net assets (deficit)				
Unrestricted	59,297,868	(291,461)	-	**59,006,407**
Temporarily restricted	9,485,054	-	-	**9,485,054**
Permanently restricted	9,865,457	-	-	**9,865,457**
Total net assets (deficit)	78,648,379	(291,461)	-	**78,356,918**
Total liabilities and net assets (deficit)	$ 129,611,755	$ 411,712	$ (700,872)	**$ 129,322,595**

Schedule 2

HUGGINS HOSPITAL AND SUBSIDIARY

Consolidating Statement of Operations

Year Ended September 30, 2018

	Huggins Hospital	Huggins Senior Housing	Eliminations	Consolidated
Unrestricted revenues and gains				
Patient service revenue (net of discounts and contractual allowances)	$ 60,572,938	$ -	$ -	**$ 60,572,938**
Less provision for bad debts	3,376,783	-	-	**3,376,783**
Net patient service revenue	57,196,155	-	-	**57,196,155**
Other operating revenues	3,868,464	264,955	(10,000)	**4,123,419**
Investment income allotted for operations	564,000	-	-	**564,000**
Net assets released from restrictions for operating purposes	83,055	-	-	**83,055**
Total revenues and gains	61,711,674	264,955	(10,000)	**61,966,629**
Expenses				
Salaries, wages and employee benefits	35,025,019	-	-	**35,025,019**
Supplies and other	19,305,928	135,860	(10,000)	**19,431,788**
Depreciation and amortization	4,672,248	21,752	-	**4,694,000**
Interest	658,801	-	-	**658,801**
Total expenses	59,661,996	157,612	(10,000)	**59,809,608**
Operating income	2,049,678	107,343	-	**2,157,021**
Nonoperating gains (losses)				
Contributions	334,967	-	-	**334,967**
Development costs	(208,300)	-	-	**(208,300)**
Nonoperating investment income	1,907,992	-	-	**1,907,992**
Change in value of interest rate swap	780,845	-	-	**780,845**
Pension curtailment loss	(4,652,215)	-	-	**(4,652,215)**
Nonoperating losses, net	(1,836,711)	-	-	**(1,836,711)**
Excess of revenues and gains over expenses	212,967	107,343	-	**320,310**
Net assets released from restrictions for capital acquisitions	12,095	-	-	**12,095**
Net unrealized gains on investments	1,066,016	-	-	**1,066,016**
Pension liability adjustment	6,622,913	-	-	**6,622,913**
Increase in unrestricted net assets	$ 7,913,991	$ 107,343	$ -	**$ 8,021,334**