4V

STATE OF NEW HAMPSHIRE

DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF HUMAN SERVICES

DIVISION FOR CHILDREN, YOUTH & FAMILIES

Nicholas A. Toumpas
Commissioner

Lorraine Bartlett
Director

129 PLEASANT STREET, CONCORD, NH 03301-3857
603-271-4451 1-800-852-3345 Ext. 4451
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April 7, 2015

Her Excellency, Governor Margaret Wood Hassan
and the Honorable Council
State House
Concord, New Hampshire 03301

REQUESTED ACTION

Authorize the Department of Health and Human Services, Division for Children, Youth and Families to enter into an amendment to exercise the renewal option in the contract with Catholic Medical Center (Vendor # 177240 R003), 100 McGregor Street, Manchester, New Hampshire, for the provision of laboratory services to the John H. Sununu Youth Services Center, by increasing the price limitation by $54,000 from $54,000 to an amount not to exceed $108,000 and extending the end date of the agreement from June 30, 2015 to June 30, 2017, effective July 1, 2015 or date of Governor and Executive Council approval, whichever is later. Governor and Executive Council approved the original agreement on June 5, 2013 (Item # 81). 100% General Funds.

Funds to support this request are available in the following account for State Fiscal Year 2015, and are anticipated to be available in State Fiscal Year 2016 and State Fiscal Year 2017 upon availability and continued appropriation of funds in the future operating budget, with the ability to adjust encumbrances between State Fiscal Year through the Budget Office without Governor and Executive Council approval, if needed and justified.

05-95-42-421510-79150000 HEALTH AND SOCIAL SERVICES, DEPT OF HEALTH AND HUMAN SVCS, HHS: HUMAN SERVICES, SUNUNU YOUTH SERVICE CENTER, HEALTH SERVICES

State Fiscal Year	Class/ Object	Title	Activity Code	Current Modified Budget	Increase/ Decrease	Revised Modified Budget
2014	101-500729	Health Services	42151501	$27,000	$0	$27,000
2015	101-500729	Health Services	42151501	$27,000	$0	$27,000
2016	101-500729	Health Services	42151501	0	$27,000	$27,000
2017	101-500729	Health Services	42151501	0	$27,000	$27,000
Total:				**$54,000**	**$54,000**	**$108,000**

EXPLANATION

The purpose of this amendment is to continue the provision of laboratory services for the youth currently residing in the John H. Sununu Youth Services Center. The Division provides medical services through 24/7 nursing coverage, a staff psychiatrist, and a contract primary care physician for the Center residents. Laboratory services include a qualified technician that comes to the John H. Sununu Youth Center to collect specimens. This reduces the demand on Sununu Youth Service Center staff to transport residents to a location outside the Center for the collection of specimens.

The original contract was competitively bid.

Catholic Medical Center has provided these services well; they are a major health facility in the city of Manchester, and have served the community with state-of-the-art laboratory needs since 2006.

Should Governor and Executive Council not approve this request, the laboratory services needed for the youth at the John H. Sununu Youth Services Center will continue to be provided by the Division by utilizing staff and State vehicles which is costly and requires higher staffing ratios due to transporting the youth off campus to a lab facility. Having the vendor come to the John H. Sununu Youth Services Center is more efficient and considerably less expensive.

Geographic area served: John H. Sununu Youth Services Center, Manchester, NH

Source of funds: 100% General funds

Respectfully submitted,

Mary Ann Cooney
Associate Commissioner

Approved by:

Nicholas A. Toumpas
Commissioner

State of New Hampshire
Department of Health and Human Services
Amendment #1 to the Laboratory Services for the John H. Sununu Youth Services Center

This 1st Amendment to the Laboratory Services for the John H. Sununu Youth Services Center contract (hereinafter referred to as "Amendment #1") dated this 24th day of March, 2015, is by and between the State of New Hampshire, Department of Health and Human Services (hereinafter referred to as the "State" or "Department") and Catholic Medical Center Laboratory, (hereinafter referred to as "the Contractor"), a nonprofit corporation with a place of business at 100 McGregor Street , Manchester, NH 03102.

WHEREAS, pursuant to an agreement (the "Contract") approved by the Governor and Executive Council on June 5, 2013 (item #81), the Contractor agreed to perform certain services based upon the terms and conditions specified in the Contract as amended and in consideration of certain sums specified; and

WHEREAS, the State and the Contractor have agreed to make changes to the scope of work, payment schedules and terms and conditions of the contract; and

WHEREAS, pursuant to Form P37, General Provisions, Paragraph 18 of the Agreement, and Exhibit B, Methods, Schedule, and Conditions Precedent to Payment, Paragraph 3, and Standard Exhibit C-1, Additional Special Provisions, paragraph 1, the State may renew the contract for up to (4) four additional years by written agreement of the parties and approval of the Governor and Executive Council; and;

WHEREAS, the parties agree to increase the price limitation and extend the Contract for two (2) years; and

NOW THEREFORE, in consideration of the foregoing and the mutual covenants and conditions contained in the Contract and set forth herein, the parties hereto agree as follows:

To amend as follows:

1. Form P-37, General Provisions, Item 1.7, Completion Date, to read:

   June 30, 2017

2. Form P-37, General Provisions, Item 1.8, Price Limitation, to read:

   $108,000

3. Form P-37, General Provisions, Item 1.9, Contracting Officer for State Agency, to read:

   Eric D. Borrin

4. Form P-37, General Provisions, Item 1.10, to read:

   (603) 271-9558

5. Exhibit A, Scope of Services, CONTRACT PERIOD, to read:

   July 1, 2013 to June 30, 2017

6. Exhibit A, Scope of Services, Program Specifications, Section B. Program Operations, Paragraph 1 to read:

   1. Laboratory Services. The contractor agrees that all laboratory services to be provided, including those laboratory services referenced in Exhibit B-1 and Exhibit B2 – Amendment #1, meet the requirements of The Joint Commission, the Clinical Laboratory Improvement Act of 1988 (CLIA), as amended, or any other applicable accrediting bodies. The vendor agrees to notify the Division in writing within five (5) working days after notification that the

abovementioned services do not meet these requirements or that the vendor as a whole did not meet The Joint Commission or any other applicable accrediting agencies requirements.

7. Exhibit B, Method, Schedule, and Conditions Precedent to Payment, Program Period to read:

   July 1, 2013 to June 30, 2017

8. Exhibit B, Method, Schedule, and Conditions Precedent to Payment, Paragraph 1, to read:

   Subject to the availability of Federal funds, and in consideration for the satisfactory completion of the Services to be performed under this Agreement, the Division for Children, Youth and Families agrees to purchase from the Contractor, services in an amount not to exceed the amount in Form P-37, General Provisions, Item 1.8, Price Limitation.

9. Exhibit B, Method, Schedule, and Conditions Precedent to Payment, Paragraph 1.2., to read:

   Expenditures for each State Fiscal Year of the agreement shall be in accordance with the line items as shown in the Exhibit B-2 - Rate Table.

10. Add Exhibit B-2 – Amendment #1.

11. Delete Standard Exhibit C, Special Provisions, and replace with Exhibit C, Special Provisions.

12. Add Standard Exhibit C-1, Additional Special Provisions, Paragraph 2 to read:

    2. Subparagraph 14.1.1 of the General Provisions of this contract, is deleted and the following subparagraph is added:

    14.1.1 comprehensive general liability insurance against all claims of bodily injury, death or property damage, in amounts of not less than $250,000 per claim and $1,000,000 per occurrence with additional general liability umbrella insurance coverage of not less than $1,000,000; and

13. Standard Exhibit D, Certification Regarding Drug-Free Workplace Requirements, Period Covered by this Certification, to read:

    From 7/1/2013 to 6/30/2017

14. Delete Standard Exhibit G, Certification Regarding the Americans with Disabilities Act Compliance, and replace with Exhibit G, Certification of Compliance with Requirements Pertaining to Federal Nondiscrimination, Equal Treatment of Faith-Based Organizations and Whistleblower Protections.

This amendment shall be effective upon the date of Governor and Executive Council approval.

IN WITNESS WHEREOF, the parties have set their hands as of the date written below,

State of New Hampshire
Department of Health and Human Services

4/1/15
Date

Mary Ann Cooney
Associate Commissioner

Catholic Medical Center Laboratory

3/26/15
Date

Name: Joseph Pepe, MD
Title: President + CEO

Acknowledgement:
State of New Hampshire, County of Hillsborough on March 26/2015, before the undersigned officer, personally appeared the person identified above, or satisfactorily proven to be the person whose name is signed above, and acknowledged that s/he executed this document in the capacity indicated above.
Signature of Notary Public or Justice of the Peace

Dorothy C Welsh

Dorothy C. Welsh,
Name and Title of Notary or ~~Justice of the Peace~~

DOROTHY C. WELSH
MY COMMISSION EXPIRES MAY 8, 2019
NOTARY PUBLIC
NEW HAMPSHIRE

 RP|COS

The preceding Amendment, having been reviewed by this office, is approved as to form, substance, and execution.

OFFICE OF THE ATTORNEY GENERAL

4/6/15
Date

Name: Megan A. Yaple
Title: Attorney

I hereby certify that the foregoing Amendment was approved by the Governor and Executive Council of the State of New Hampshire at the Meeting on: _______________ (date of meeting)

OFFICE OF THE SECRETARY OF STATE

Date

Name:
Title:

State of New Hampshire
Department of Health and Human Services

Division for Children, Youth and Families

EXHIBIT B-2 - Amendment #1
PERSONNEL DATA - Catholic Medical Center - Labortory Services

State Fiscal Year 2016

	Name	Title	Annual Salary	% of Time to Work on the Project	Project Amount Charged for SFY 2016 (7/1/15 - 6/30/16)
1	Roberta Provencal	Executive Director, Laboratory	$ 135,844.80	0.1%	$ 13.58
2	Amy Schultz	Lab Technical Operations Mgr	$ 100,713.60	0.1%	$ 10.07
3	Thomas Hebert	Lab Outreach Liaison	$ 73,831.69	1%	$ 738.32
4	Penny Lajoie	Phlebotomy Supervisor	$ 81,861.10	1%	$ 818.61
5	Andrea Haddad	Phlebotomist 3	$ 36,608.00	5%	$ 1,830.40
6	Stephanie Caron	Phlebotomist 3	$ 34,320.00	4%	$ 1,372.80
7			$ -		$ -
8					
9					
		Total:			$ 4,783.78

State Fiscal Year 2017

	Name	Title	Annual Salary	% of Time to Work on the Project	Project Amount Charged for SFY 2017 (7/1/16 - 6/30/17)
1	Roberta Provencal	Executive Director, Laboratory	$ 135,844.80	0.1%	$ 13.58
2	Amy Schultz	Lab Technical Operations Mgr	$ 100,713.60	0.1%	$ 10.07
3	Thomas Hebert	Lab Outreach Liaison	$ 73,831.69	1%	$ 738.32
4	Penny Lajoie	Phlebotomy Supervisor	$ 81,861.10	1%	$ 818.61
5	Andrea Haddad	Phlebotomist 3	$ 36,608.00	5%	$ 1,830.40
6	Stephanie Caron	Phlebotomist 3	$ 34,320.00	4%	$ 1,372.80
7			$ -		$ -
8					
9					
		Total:			$ 4,783.78

Contractor Initials: [handwritten initials]
Date: 3/26/15

SPECIAL PROVISIONS

Contractors Obligations: The Contractor covenants and agrees that all funds received by the Contractor under the Contract shall be used only as payment to the Contractor for services provided to eligible individuals and, in the furtherance of the aforesaid covenants, the Contractor hereby covenants and agrees as follows:

1. **Compliance with Federal and State Laws:** If the Contractor is permitted to determine the eligibility of individuals such eligibility determination shall be made in accordance with applicable federal and state laws, regulations, orders, guidelines, policies and procedures.

2. **Time and Manner of Determination:** Eligibility determinations shall be made on forms provided by the Department for that purpose and shall be made and remade at such times as are prescribed by the Department.

3. **Documentation:** In addition to the determination forms required by the Department, the Contractor shall maintain a data file on each recipient of services hereunder, which file shall include all information necessary to support an eligibility determination and such other information as the Department requests. The Contractor shall furnish the Department with all forms and documentation regarding eligibility determinations that the Department may request or require.

4. **Fair Hearings:** The Contractor understands that all applicants for services hereunder, as well as individuals declared ineligible have a right to a fair hearing regarding that determination. The Contractor hereby covenants and agrees that all applicants for services shall be permitted to fill out an application form and that each applicant or re-applicant shall be informed of his/her right to a fair hearing in accordance with Department regulations.

5. **Gratuities or Kickbacks:** The Contractor agrees that it is a breach of this Contract to accept or make a payment, gratuity or offer of employment on behalf of the Contractor, any Sub-Contractor or the State in order to influence the performance of the Scope of Work detailed in Exhibit A of this Contract. The State may terminate this Contract and any sub-contract or sub-agreement if it is determined that payments, gratuities or offers of employment of any kind were offered or received by any officials, officers, employees or agents of the Contractor or Sub-Contractor.

6. **Retroactive Payments:** Notwithstanding anything to the contrary contained in the Contract or in any other document, contract or understanding, it is expressly understood and agreed by the parties hereto, that no payments will be made hereunder to reimburse the Contractor for costs incurred for any purpose or for any services provided to any individual prior to the Effective Date of the Contract and no payments shall be made for expenses incurred by the Contractor for any services provided prior to the date on which the individual applies for services or (except as otherwise provided by the federal regulations) prior to a determination that the individual is eligible for such services.

7. **Conditions of Purchase:** Notwithstanding anything to the contrary contained in the Contract, nothing herein contained shall be deemed to obligate or require the Department to purchase services hereunder at a rate which reimburses the Contractor in excess of the Contractors costs, at a rate which exceeds the amounts reasonable and necessary to assure the quality of such service, or at a rate which exceeds the rate charged by the Contractor to ineligible individuals or other third party funders for such service. If at any time during the term of this Contract or after receipt of the Final Expenditure Report hereunder, the Department shall determine that the Contractor has used payments hereunder to reimburse items of expense other than such costs, or has received payment in excess of such costs or in excess of such rates charged by the Contractor to ineligible individuals or other third party funders, the Department may elect to:
   7.1. Renegotiate the rates for payment hereunder, in which event new rates shall be established;
   7.2. Deduct from any future payment to the Contractor the amount of any prior reimbursement in excess of costs;

7.3. Demand repayment of the excess payment by the Contractor in which event failure to make such repayment shall constitute an Event of Default hereunder. When the Contractor is permitted to determine the eligibility of individuals for services, the Contractor agrees to reimburse the Department for all funds paid by the Department to the Contractor for services provided to any individual who is found by the Department to be ineligible for such services at any time during the period of retention of records established herein.

RECORDS: MAINTENANCE, RETENTION, AUDIT, DISCLOSURE AND CONFIDENTIALITY:

8. **Maintenance of Records:** In addition to the eligibility records specified above, the Contractor covenants and agrees to maintain the following records during the Contract Period:
   8.1. Fiscal Records: books, records, documents and other data evidencing and reflecting all costs and other expenses incurred by the Contractor in the performance of the Contract, and all income received or collected by the Contractor during the Contract Period, said records to be maintained in accordance with accounting procedures and practices which sufficiently and properly reflect all such costs and expenses, and which are acceptable to the Department, and to include, without limitation, all ledgers, books, records, and original evidence of costs such as purchase requisitions and orders, vouchers, requisitions for materials, inventories, valuations of in-kind contributions, labor time cards, payrolls, and other records requested or required by the Department.
   8.2. Statistical Records: Statistical, enrollment, attendance or visit records for each recipient of services during the Contract Period, which records shall include all records of application and eligibility (including all forms required to determine eligibility for each such recipient), records regarding the provision of services and all invoices submitted to the Department to obtain payment for such services.
   8.3. Medical Records: Where appropriate and as prescribed by the Department regulations, the Contractor shall retain medical records on each patient/recipient of services.

9. **Audit:** Contractor shall submit an annual audit to the Department within 60 days after the close of the agency fiscal year. It is recommended that the report be prepared in accordance with the provision of Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non Profit Organizations" and the provisions of Standards for Audit of Governmental Organizations, Programs, Activities and Functions, issued by the US General Accounting Office (GAO standards) as they pertain to financial compliance audits.
   9.1. Audit and Review: During the term of this Contract and the period for retention hereunder, the Department, the United States Department of Health and Human Services, and any of their designated representatives shall have access to all reports and records maintained pursuant to the Contract for purposes of audit, examination, excerpts and transcripts.
   9.2. Audit Liabilities: In addition to and not in any way in limitation of obligations of the Contract, it is understood and agreed by the Contractor that the Contractor shall be held liable for any state or federal audit exceptions and shall return to the Department, all payments made under the Contract to which exception has been taken or which have been disallowed because of such an exception.

10. **Confidentiality of Records:** All information, reports, and records maintained hereunder or collected in connection with the performance of the services and the Contract shall be confidential and shall not be disclosed by the Contractor, provided however, that pursuant to state laws and the regulations of the Department regarding the use and disclosure of such information, disclosure may be made to public officials requiring such information in connection with their official duties and for purposes directly connected to the administration of the services and the Contract; and provided further, that the use or disclosure by any party of any information concerning a recipient for any purpose not directly connected with the administration of the Department or the Contractor's responsibilities with respect to purchased services hereunder is prohibited except on written consent of the recipient, his attorney or guardian.

Notwithstanding anything to the contrary contained herein the covenants and conditions contained in the Paragraph shall survive the termination of the Contract for any reason whatsoever.

11. **Reports:** Fiscal and Statistical: The Contractor agrees to submit the following reports at the following times if requested by the Department.
    - 11.1. Interim Financial Reports: Written interim financial reports containing a detailed description of all costs and non-allowable expenses incurred by the Contractor to the date of the report and containing such other information as shall be deemed satisfactory by the Department to justify the rate of payment hereunder. Such Financial Reports shall be submitted on the form designated by the Department or deemed satisfactory by the Department.
    - 11.2. Final Report: A final report shall be submitted within thirty (30) days after the end of the term of this Contract. The Final Report shall be in a form satisfactory to the Department and shall contain a summary statement of progress toward goals and objectives stated in the Proposal and other information required by the Department.

12. **Completion of Services:** Disallowance of Costs: Upon the purchase by the Department of the maximum number of units provided for in the Contract and upon payment of the price limitation hereunder, the Contract and all the obligations of the parties hereunder (except such obligations as, by the terms of the Contract are to be performed after the end of the term of this Contract and/or survive the termination of the Contract) shall terminate, provided however, that if, upon review of the Final Expenditure Report the Department shall disallow any expenses claimed by the Contractor as costs hereunder the Department shall retain the right, at its discretion, to deduct the amount of such expenses as are disallowed or to recover such sums from the Contractor.

13. **Credits:** All documents, notices, press releases, research reports and other materials prepared during or resulting from the performance of the services of the Contract shall include the following statement:
    - 13.1. The preparation of this (report, document etc.) was financed under a Contract with the State of New Hampshire, Department of Health and Human Services, with funds provided in part by the State of New Hampshire and/or such other funding sources as were available or required, e.g., the United States Department of Health and Human Services.

14. **Prior Approval and Copyright Ownership:** All materials (written, video, audio) produced or purchased under the contract shall have prior approval from DHHS before printing, production, distribution or use. The DHHS will retain copyright ownership for any and all original materials produced, including, but not limited to, brochures, resource directories, protocols or guidelines, posters, or reports. Contractor shall not reproduce any materials produced under the contract without prior written approval from DHHS.

15. **Operation of Facilities: Compliance with Laws and Regulations:** In the operation of any facilities for providing services, the Contractor shall comply with all laws, orders and regulations of federal, state, county and municipal authorities and with any direction of any Public Officer or officers pursuant to laws which shall impose an order or duty upon the contractor with respect to the operation of the facility or the provision of the services at such facility. If any governmental license or permit shall be required for the operation of the said facility or the performance of the said services, the Contractor will procure said license or permit, and will at all times comply with the terms and conditions of each such license or permit. In connection with the foregoing requirements, the Contractor hereby covenants and agrees that, during the term of this Contract the facilities shall comply with all rules, orders, regulations, and requirements of the State Office of the Fire Marshal and the local fire protection agency, and shall be in conformance with local building and zoning codes, by-laws and regulations.

16. **Equal Employment Opportunity Plan (EEOP):** The Contractor will provide an Equal Employment Opportunity Plan (EEOP) to the Office for Civil Rights, Office of Justice Programs (OCR), if it has received a single award of $500,000 or more. If the recipient receives $25,000 or more and has 50 or

more employees, it will maintain a current EEOP on file and submit an EEOP Certification Form to the OCR, certifying that its EEOP is on file. For recipients receiving less than $25,000, or public grantees with fewer than 50 employees, regardless of the amount of the award, the recipient will provide an EEOP Certification Form to the OCR certifying it is not required to submit or maintain an EEOP. Non-profit organizations, Indian Tribes, and medical and educational institutions are exempt from the EEOP requirement, but are required to submit a certification form to the OCR to claim the exemption. EEOP Certification Forms are available at: http://www.ojp.usdoj/about/ocr/pdfs/cert.pdf.

17. **Limited English Proficiency (LEP):** As clarified by Executive Order 13166, Improving Access to Services for persons with Limited English Proficiency, and resulting agency guidance, national origin discrimination includes discrimination on the basis of limited English proficiency (LEP). To ensure compliance with the Omnibus Crime Control and Safe Streets Act of 1968 and Title VI of the Civil Rights Act of 1964, Contractors must take reasonable steps to ensure that LEP persons have meaningful access to its programs.

18. **Pilot Program for Enhancement of Contractor Employee Whistleblower Protections:** The following shall apply to all contracts that exceed the Simplified Acquisition Threshold as defined in 48 CFR 2.101 (currently, $150,000)

CONTRACTOR EMPLOYEE WHISTLEBLOWER RIGHTS AND REQUIREMENT TO INFORM EMPLOYEES OF WHISTLEBLOWER RIGHTS (SEP 2013)

(a) This contract and employees working on this contract will be subject to the whistleblower rights and remedies in the pilot program on Contractor employee whistleblower protections established at 41 U.S.C. 4712 by section 828 of the National Defense Authorization Act for Fiscal Year 2013 (Pub. L. 112-239) and FAR 3.908.

(b) The Contractor shall inform its employees in writing, in the predominant language of the workforce, of employee whistleblower rights and protections under 41 U.S.C. 4712, as described in section 3.908 of the Federal Acquisition Regulation.

(c) The Contractor shall insert the substance of this clause, including this paragraph (c), in all subcontracts over the simplified acquisition threshold.

19. **Subcontractors:** DHHS recognizes that the Contractor may choose to use subcontractors with greater expertise to perform certain health care services or functions for efficiency or convenience, but the Contractor shall retain the responsibility and accountability for the function(s). Prior to subcontracting, the Contractor shall evaluate the subcontractor's ability to perform the delegated function(s). This is accomplished through a written agreement that specifies activities and reporting responsibilities of the subcontractor and provides for revoking the delegation or imposing sanctions if the subcontractor's performance is not adequate. Subcontractors are subject to the same contractual conditions as the Contractor and the Contractor is responsible to ensure subcontractor compliance with those conditions.
When the Contractor delegates a function to a subcontractor, the Contractor shall do the following:
    19.1. Evaluate the prospective subcontractor's ability to perform the activities, before delegating the function
    19.2. Have a written agreement with the subcontractor that specifies activities and reporting responsibilities and how sanctions/revocation will be managed if the subcontractor's performance is not adequate
    19.3. Monitor the subcontractor's performance on an ongoing basis

19.4. Provide to DHHS an annual schedule identifying all subcontractors, delegated functions and responsibilities, and when the subcontractor's performance will be reviewed

19.5. DHHS shall, at its discretion, review and approve all subcontracts.

If the Contractor identifies deficiencies or areas for improvement are identified, the Contractor shall take corrective action.

DEFINITIONS

As used in the Contract, the following terms shall have the following meanings:

COSTS: Shall mean those direct and indirect items of expense determined by the Department to be allowable and reimbursable in accordance with cost and accounting principles established in accordance with state and federal laws, regulations, rules and orders.

DEPARTMENT: NH Department of Health and Human Services.

FINANCIAL MANAGEMENT GUIDELINES: Shall mean that section of the Contractor Manual which is entitled "Financial Management Guidelines" and which contains the regulations governing the financial activities of contractor agencies which have contracted with the State of NH to receive funds.

PROPOSAL: If applicable, shall mean the document submitted by the Contractor on a form or forms required by the Department and containing a description of the Services to be provided to eligible individuals by the Contractor in accordance with the terms and conditions of the Contract and setting forth the total cost and sources of revenue for each service to be provided under the Contract.

UNIT: For each service that the Contractor is to provide to eligible individuals hereunder, shall mean that period of time or that specified activity determined by the Department and specified in Exhibit B of the Contract.

FEDERAL/STATE LAW: Wherever federal or state laws, regulations, rules, orders, and policies, etc. are referred to in the Contract, the said reference shall be deemed to mean all such laws, regulations, etc. as they may be amended or revised from the time to time.

CONTRACTOR MANUAL: Shall mean that document prepared by the NH Department of Administrative Services containing a compilation of all regulations promulgated pursuant to the New Hampshire Administrative Procedures Act. NH RSA Ch 541-A, for the purpose of implementing State of NH and federal regulations promulgated thereunder.

SUPPLANTING OTHER FEDERAL FUNDS: The Contractor guarantees that funds provided under this Contract will not supplant any existing federal funds available for these services.

CERTIFICATION OF COMPLIANCE WITH REQUIREMENTS PERTAINING TO FEDERAL NONDISCRIMINATION, EQUAL TREATMENT OF FAITH-BASED ORGANIZATIONS AND WHISTLEBLOWER PROTECTIONS

The Contractor identified in Section 1.3 of the General Provisions agrees by signature of the Contractor's representative as identified in Sections 1.11 and 1.12 of the General Provisions, to execute the following certification:

Contractor will comply, and will require any subgrantees or subcontractors to comply, with any applicable federal nondiscrimination requirements, which may include:

- the Omnibus Crime Control and Safe Streets Act of 1968 (42 U.S.C. Section 3789d) which prohibits recipients of federal funding under this statute from discriminating, either in employment practices or in the delivery of services or benefits, on the basis of race, color, religion, national origin, and sex. The Act requires certain recipients to produce an Equal Employment Opportunity Plan;

- the Juvenile Justice Delinquency Prevention Act of 2002 (42 U.S.C. Section 5672(b)) which adopts by reference, the civil rights obligations of the Safe Streets Act. Recipients of federal funding under this statute are prohibited from discriminating, either in employment practices or in the delivery of services or benefits, on the basis of race, color, religion, national origin, and sex. The Act includes Equal Employment Opportunity Plan requirements;

- the Civil Rights Act of 1964 (42 U.S.C. Section 2000d, which prohibits recipients of federal financial assistance from discriminating on the basis of race, color, or national origin in any program or activity);

- the Rehabilitation Act of 1973 (29 U.S.C. Section 794), which prohibits recipients of Federal financial assistance from discriminating on the basis of disability, in regard to employment and the delivery of services or benefits, in any program or activity;

- the Americans with Disabilities Act of 1990 (42 U.S.C. Sections 12131-34), which prohibits discrimination and ensures equal opportunity for persons with disabilities in employment, State and local government services, public accommodations, commercial facilities, and transportation;

- the Education Amendments of 1972 (20 U.S.C. Sections 1681, 1683, 1685-86), which prohibits discrimination on the basis of sex in federally assisted education programs;

- the Age Discrimination Act of 1975 (42 U.S.C. Sections 6106-07), which prohibits discrimination on the basis of age in programs or activities receiving Federal financial assistance. It does not include employment discrimination;

- 28 C.F.R. pt. 31 (U.S. Department of Justice Regulations – OJJDP Grant Programs); 28 C.F.R. pt. 42 (U.S. Department of Justice Regulations – Nondiscrimination; Equal Employment Opportunity; Policies and Procedures); Executive Order No. 13279 (equal protection of the laws for faith-based and community organizations); Executive Order No. 13559, which provide fundamental principles and policy-making criteria for partnerships with faith-based and neighborhood organizations;

- 28 C.F.R. pt. 38 (U.S. Department of Justice Regulations – Equal Treatment for Faith-Based Organizations); and Whistleblower protections 41 U.S.C. §4712 and The National Defense Authorization Act (NDAA) for Fiscal Year 2013 (Pub. L. 112-239, enacted January 2, 2013) the Pilot Program for Enhancement of Contract Employee Whistleblower Protections, which protects employees against reprisal for certain whistle blowing activities in connection with federal grants and contracts.

The certificate set out below is a material representation of fact upon which reliance is placed when the agency awards the grant. False certification or violation of the certification shall be grounds for suspension of payments, suspension or termination of grants, or government wide suspension or debarment.

In the event a Federal or State court or Federal or State administrative agency makes a finding of discrimination after a due process hearing on the grounds of race, color, religion, national origin, or sex against a recipient of funds, the recipient will forward a copy of the finding to the Office for Civil Rights, to the applicable contracting agency or division within the Department of Health and Human Services, and to the Department of Health and Human Services Office of the Ombudsman.

The Contractor identified in Section 1.3 of the General Provisions agrees by signature of the Contractor's representative as identified in Sections 1.11 and 1.12 of the General Provisions, to execute the following certification:

1. By signing and submitting this proposal (contract) the Contractor agrees to comply with the provisions indicated above.

Contractor Name:

3/26/15
Date

Name: Joseph Pepe, MD
Title: President & CEO

State of New Hampshire
Department of State

CERTIFICATE

I, William M. Gardner, Secretary of State of the State of New Hampshire, do hereby certify that CATHOLIC MEDICAL CENTER is a New Hampshire nonprofit corporation formed November 7, 1974. I further certify that it is in good standing as far as this office is concerned, having filed the return(s) and paid the fees required by law.

In TESTIMONY WHEREOF, I hereto
set my hand and cause to be affixed
the Seal of the State of New Hampshire,
this 6th day of March A.D. 2015

William M. Gardner
Secretary of State

CERTIFICATE OF VOTE

I, Maria C. Mongan, Vice Chair of Catholic Medical Center, do hereby certify that:

1. I am a duly elected Officer and Vice Chair of Catholic Medical Center.
2. The following is a true copy of the resolution duly adopted at a meeting of the Board of Directors of the Agency duly held on March 26, 2015.

   RESOLVED: That the President and CEO is hereby authorized on behalf of this corporation to enter into the said contract with the State and to execute any and all documents, agreements and other instruments, and any amendments, revisions, or modifications thereto, as he/she may deem necessary, desirable or appropriate.

3. The forgoing resolutions have not been amended or revoked, and remain in full force and effect as of the 26th day of March, 2015.
4. Joseph Pepe, MD is the duly elected President and CEO of the corporation.

Maria C. Mongan, Vice Chair
Catholic Medical Center

STATE OF NEW HAMPSHIRE

County of Hillsborough

The forgoing instrument was acknowledged before me this 26th day of March, 2015 by. Maria C. Mongan.

DOROTHY C. WELSH
MY COMMISSION EXPIRES MAY 8, 2019
NOTARY PUBLIC
NEW HAMPSHIRE

Dorothy C. Welsh, Notary Public

Commission Expires: May 8, 2019

DHHS / Lab Service

ACORD®

CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY) 03/26/2015

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

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INSURER(S) AFFORDING COVERAGE	NAIC #
INSURER A : Pro Select Insurance Company	
INSURER B : N/A	N/A
INSURER C : N/A	N/A
INSURER D : Safety National Casualty Corp.	15105
INSURER E :	
INSURER F :	

INSURED
CMC HEALTHCARE SYSTEM, INC.
100 MCGREGOR STREET
MANCHESTER, NH 03102

COVERAGES **CERTIFICATE NUMBER:** NYC-007032266-01 **REVISION NUMBER:** 3

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSR	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS	
A	**GENERAL LIABILITY**			2-22596GL	07/01/2014	07/01/2015	EACH OCCURRENCE	$ 1,000,000
	X COMMERCIAL GENERAL LIABILITY						DAMAGE TO RENTED PREMISES (Ea occurrence)	$ 50,000
	CLAIMS-MADE X OCCUR						MED EXP (Any one person)	$ 5,000
							PERSONAL & ADV INJURY	$ 1,000,000
							GENERAL AGGREGATE	$ 3,000,000
	GEN'L AGGREGATE LIMIT APPLIES PER:						PRODUCTS - COMP/OP AGG	$ 3,000,000
	X POLICY PRO-JECT LOC							$
	AUTOMOBILE LIABILITY						COMBINED SINGLE LIMIT (Ea accident)	$
	ANY AUTO						BODILY INJURY (Per person)	$
	ALL OWNED AUTOS SCHEDULED AUTOS						BODILY INJURY (Per accident)	$
	HIRED AUTOS NON-OWNED AUTOS						PROPERTY DAMAGE (Per accident)	$
								$
	UMBRELLA LIAB OCCUR						EACH OCCURRENCE	$
	EXCESS LIAB CLAIMS-MADE						AGGREGATE	$
	DED RETENTION $							$
D	**WORKERS COMPENSATION AND EMPLOYERS' LIABILITY** Y/N			SP 4051216	07/01/2014	07/01/2015	WC STATU-TORY LIMITS / OTH-ER	
	ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? N	N/A					E.L. EACH ACCIDENT	$ 1,000,000
	(Mandatory in NH)			*SIR $450,000			E.L. DISEASE - EA EMPLOYEE	$ 1,000,000
	If yes, describe under DESCRIPTION OF OPERATIONS below						E.L. DISEASE - POLICY LIMIT	$ 1,000,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)

CERTIFICATE HOLDER

State of New Hampshire
Department of Health and Human Services
John H Sununu Youth Services Center
1056 North River Road
Manchester, NH 03104

CANCELLATION

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.

AUTHORIZED REPRESENTATIVE
of Marsh USA Inc.
Susan Molloy Susan Molloy

Our Mission

Our Chapel at Catholic Medical Center

"The heart of Catholic Medical Center is to provide health, healing and hope in a manner that offers innovative high quality services, compassion, and respect for the human dignity of every individual who seeks or needs our care as part of Christ's healing ministry through the Catholic Church."

Catholic Medical Center and Subsidiary

Audited Consolidated Financial Statements and Other Financial Information

Years Ended June 30, 2014 and 2013
With Independent Auditors' Report

CATHOLIC MEDICAL CENTER AND SUBSIDIARY

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

Years Ended June 30, 2014 and 2013

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Catholic Medical Center and Subsidiary

We have audited the accompanying consolidated financial statements of Catholic Medical Center and Subsidiary, which comprise the consolidated balance sheet as of June 30, 2014, and the related consolidated statements of operations, changes in net assets and cash flows for the year then ended, and the related notes to the consolidated 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Board of Trustees
Catholic Medical Center and Subsidiary

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Catholic Medical Center and Subsidiary as of June 30, 2014, 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 Matter

The consolidated financial statements of Catholic Medical Center and Subsidiary as of and for the year ended June 30, 2013, were audited by other auditors whose report dated October 30, 2013 expressed an unmodified opinion on those statements.

Baker Newman & Noyes

Manchester, New Hampshire
September 24, 2014

Limited Liability Company

CATHOLIC MEDICAL CENTER AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

June 30, 2014 and 2013

ASSETS

	2014	2013
Current assets:		
Cash and cash equivalents	$ 49,502,444	$ 79,629,091
Short-term investments	26,173,541	1,035,035
Accounts receivable from patients, less allowances of $21,454,883 in 2014 and $20,755,178 in 2013	29,270,115	26,183,203
Inventories	2,010,411	1,906,945
Amounts due from affiliates	1,060	1,121
Other current assets	4,059,472	3,412,225
Total current assets	111,017,043	112,167,620
Property, plant and equipment, net	72,977,392	72,365,670
Other assets:		
Notes receivable, less allowance of $800,000 in 2014 and 2013	72,648	147,577
Unamortized debt issuance costs	810,003	892,253
Intangible assets and other	8,024,989	7,390,524
	8,907,640	8,430,354
Assets whose use is limited:		
Pension and insurance obligations	14,246,337	12,688,351
Board designated and donor restricted investments	91,473,836	78,816,899
Held by trustee under revenue bond agreements	6,080,586	4,979,061
	111,800,759	96,484,311
Total assets	$304,702,834	$289,447,955

LIABILITIES AND NET ASSETS

	2014	2013
Current liabilities:		
Accounts payable and accrued expenses	$ 15,145,165	$ 15,318,627
Accrued salaries, wages and related accounts	14,188,183	12,623,741
Amounts payable to third-party payors	10,125,881	11,345,115
Amounts due to affiliates	1,311,372	2,390,126
Current portion of long-term debt	3,351,633	2,076,787
Total current liabilities	44,122,234	43,754,396
Accrued pension and other liabilities, less current portion	68,664,176	77,542,026
Long-term debt, less current portion	66,269,681	69,554,170
Total liabilities	179,056,091	190,850,592
Commitments and contingencies (note 14)		
Net assets:		
Unrestricted	116,956,183	91,123,519
Temporarily restricted	528,802	191,861
Permanently restricted	8,161,758	7,281,983
Total net assets	125,646,743	98,597,363
Total liabilities and net assets	$304,702,834	$289,447,955

See accompanying notes.

CATHOLIC MEDICAL CENTER AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended June 30, 2014 and 2013

	2014	2013
Net patient service revenues, net of contractual allowances and discounts	$323,608,207	$312,030,757
Provision for doubtful accounts	(23,778,708)	(26,957,932)
Net patient service revenues less provision for doubtful accounts	299,829,499	285,072,825
Other revenue	9,202,827	7,339,925
Disproportionate share funding	3,136,409	–
Total revenues	312,168,735	292,412,750
Expenses:		
Salaries, wages and fringe benefits	151,040,530	140,475,793
Supplies and other	108,712,500	101,919,246
New Hampshire Medicaid enhancement tax	13,865,109	9,759,737
Depreciation and amortization	10,312,228	10,655,743
Interest	3,306,829	3,122,464
Total expenses	287,237,196	265,932,983
Income from operations	24,931,539	26,479,767
Nonoperating gains (losses):		
Investment income	1,477,062	2,553,756
Net realized gains on sale of investments	5,242,633	1,052,954
(Loss) gain on sale of property and equipment	(43,175)	7,150
Loss on extinguishment of debt	–	(713,452)
Total nonoperating gains, net	6,676,520	2,900,408
Excess of revenues and gains over expenses	31,608,059	29,380,175
Unrealized appreciation on investments	6,901,638	6,018,132
Assets released from restriction used for capital	142,525	3,500
Pension-related changes other than net periodic pension cost	(1,696,942)	13,754,116
Net assets transferred to affiliates	(11,122,616)	(11,840,500)
Increase in unrestricted net assets	25,832,664	37,315,423
Unrestricted net assets at beginning of year	91,123,519	53,808,096
Unrestricted net assets at end of year	$116,956,183	$ 91,123,519

See accompanying notes.

CATHOLIC MEDICAL CENTER AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years Ended June 30, 2014 and 2013

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Balances at June 30, 2012	$ 53,808,096	$ 353,996	$6,693,072	$ 60,855,164
Excess of revenues and gains over expenses	29,380,175	–	–	29,380,175
Investment income	–	1,407	279	1,686
Changes in interest in perpetual trust	–	–	466,556	466,556
Restricted contributions	–	72,536	–	72,536
Unrealized appreciation on investments	6,018,132	–	122,076	6,140,208
Net assets transferred to affiliates	(11,840,500)	–	–	(11,840,500)
Assets released from restriction used for operations	–	(232,578)	–	(232,578)
Assets released from restriction used for capital	3,500	(3,500)	–	–
Pension-related changes other than net periodic pension cost	13,754,116	–	–	13,754,116
	37,315,423	(162,135)	588,911	37,742,199
Balances at June 30, 2013	91,123,519	191,861	7,281,983	98,597,363
Excess of revenues and gains over expenses	31,608,059	–	–	31,608,059
Investment income	–	1,083	3,346	4,429
Changes in interest in perpetual trust	–	–	740,821	740,821
Restricted contributions	–	500,599	–	500,599
Unrealized appreciation on investments	6,901,638	–	135,608	7,037,246
Net assets transferred to affiliates	(11,122,616)	–	–	(11,122,616)
Assets released from restriction used for operations	–	(22,216)	–	(22,216)
Assets released from restriction used for capital	142,525	(142,525)	–	–
Pension-related changes other than net periodic pension cost	(1,696,942)	–	–	(1,696,942)
	25,832,664	336,941	879,775	27,049,380
Balances at June 30, 2014	$116,956,183	$ 528,802	$8,161,758	$125,646,743

See accompanying notes.

CATHOLIC MEDICAL CENTER AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2014 and 2013

	2014	2013
Operating activities:		
Increase in net assets	$ 27,049,380	$ 37,742,199
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	10,312,228	10,434,687
Pension-related changes other than net periodic pension cost	1,696,942	(17,740,405)
Net assets transferred to affiliates	11,122,616	11,840,500
Restricted gifts and investment income	(505,028)	(74,222)
Net realized gains on sales of investments	(5,242,633)	(1,052,954)
Increase in interest in perpetual trust	(740,821)	(466,556)
Unrealized appreciation on investments	(7,037,246)	(6,140,206)
Change in fair value of interest rate swap	(136,466)	1,820,295
Loss (gain) on sale of property and equipment	43,175	(7,150)
Cash premium received upon issuance of bonds	–	2,974,382
Bond discount/premium amortization	(306,808)	–
Changes in operating assets and liabilities:		
Accounts receivable, net	(3,086,912)	4,562,368
Inventories	(103,466)	(612,997)
Other current assets	(647,247)	57,640
Amounts due from/to affiliates	(1,078,693)	2,847,672
Other assets	(699,194)	8,672,954
Accounts payable and accrued expenses	(173,462)	1,179,785
Accrued salaries, wages and related accounts	1,564,442	(707,158)
Amounts payable to third-party payors	(1,219,234)	2,425,111
Accrued pension and other liabilities	(8,138,339)	(18,088,252)
Net cash provided by operating activities	22,673,234	39,667,693
Investing activities:		
Purchases of property, plant and equipment	(10,393,653)	(6,927,400)
Proceeds from disposal of assets	–	7,150
Payments received from notes receivable	74,929	71,282
Net change in assets held by trustee under revenue bond agreements	(1,101,525)	188,955
Proceeds from sales of investments	38,286,989	23,517,637
Purchases of investments	(64,619,718)	(24,827,427)
Net cash used by investing activities	(37,752,978)	(7,969,803)
Financing activities:		
Payments on long-term debt	(1,415,000)	(30,840,956)
Proceeds from issuance of long-term debt, net of financing costs	–	35,004,339
Settlement of interest rate swap	(2,327,000)	–
Repayment of note payable	–	(6,000,000)
Payments on capital leases	(687,315)	(661,786)
Restricted gifts and investment income	505,028	74,222
Net assets transferred to affiliates	(11,122,616)	(11,840,500)
Net cash used by financing activities	(15,046,903)	(14,264,681)
(Decrease) increase in cash and cash equivalents	(30,126,647)	17,433,209

CATHOLIC MEDICAL CENTER AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years Ended June 30, 2014 and 2013

	2014	2013
(Decrease) increase in cash and cash equivalents	$ (30,126,647)	$ 17,433,209
Cash and cash equivalents at beginning of year	79,629,091	62,195,882
Cash and cash equivalents at end of year	$ 49,502,444	$ 79,629,091
Noncash investing and financing activities:		
Assets acquired under capital lease agreement	$ 399,480	$ –

See accompanying notes.

1. Organization

The consolidated financial statements for Catholic Medical Center and Subsidiary include the accounts of Catholic Medical Center (the Medical Center), a voluntary not-for-profit acute care hospital based in Manchester, New Hampshire, and its subsidiary, CMC Associates. During 2005, control of CMC Associates was transferred to the Medical Center. Subsequent to year end, CMC Associates was formally dissolved and all assets and liabilities were transferred to the Medical Center. The Medical Center, which primarily serves residents of New Hampshire and northern Massachusetts, is controlled by CMC Healthcare System, Inc. (the System), a not-for-profit corporation which functions as the parent company and sole member of the Medical Center.

2. Significant Accounting Policies

Basis of Presentation

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Medical Center and CMC Associates. Significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (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 and CMC Associates are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Management evaluated the 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 consolidated financial statements. With few exceptions, the Medical Center is no longer subject to income tax examination by the U.S. federal or state tax authorities for years before 2011.

2. Significant Accounting Policies (Continued)

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 realized gains and losses on the sales of securities and property and equipment, unrestricted investment income, and debt extinguishment losses.

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 $38,395,611 and $29,024,262 for the years ended June 30, 2014 and 2013, respectively.

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. Of the Medical Center's $287 million and $266 million total expenses reported in 2014 and 2013, respectively, an estimated $12.6 million and $9.4 million, respectively, arose from providing services to charity patients.

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 $789,719 and $934,075 for the years ended June 30, 2014 and 2013, respectively.

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 as of June 30, 2014.

2. Significant Accounting Policies (Continued)

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 $44,000,000 and $74,000,000 at June 30, 2014 and 2013, respectively, 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.

Included in cash and cash equivalents is an amount held in escrow by the Royal Bank of Canada Capital Markets (RBCCM) in the amount of $3,370,000 at June 30, 2013. These funds were on deposit with RBCCM as a condition of the Medical Center's 2005 swap agreement. As discussed in Note 5, the 2005 swap agreement was terminated during 2014 and, therefore, these funds are no longer restricted at June 30, 2014.

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 period the related services are rendered and adjusted in future periods as final settlements are determined. Changes in these estimates are reflected in the consolidated 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 period 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.

Periodically throughout the year, 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. The decrease in the provision for doubtful accounts in 2014 is driven primarily by revisions to the Medical Center's charity care policy eligibility. Accounts receivable are written off after collection efforts have been followed in accordance with internal policies.

2. Significant Accounting Policies (Continued)

Inventories

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

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 period 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 period, 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 consolidated statement of operations.

As of June 30, 2014 and 2013, $1,101,617 and $1,074,604, respectively, of conditional asset retirement obligations are included within accrued pension and other liabilities in the accompanying consolidated balance sheets.

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 years ended June 30, 2014 and 2013.

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 Medical Center also maintains tax-sheltered annuity benefit programs in which it matches one half of employee contributions up to either 2% or 3% of their annual salary, depending on date of hire. The Medical Center made matching contributions under the program of $4,759,527 and $4,550,407 for the years ended June 30, 2014 and 2013, respectively.

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 years ended June 30, 2014 and 2013.

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.

During 2007, the Medical Center created a supplemental executive retirement plan covering certain executives of the Medical Center. The Medical Center recorded compensation expense of $60,000 and $200,000 for the years ended June 30, 2014 and 2013, respectively, related to this plan.

2. Significant Accounting Policies (Continued)

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 using the straight-line method over the repayment period of the bonds. This approximates the effective interest method. The original issue discount or premium is presented as a component of bonds payable.

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 on investments, is included in the consolidated 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 consolidated financial statements.

2. Significant Accounting Policies (Continued)

Investments and Investment Income

Investments are carried at fair value in the accompanying consolidated financial statements. See Note 8 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.

During the year ended June 30, 2013, the Medical Center reported realized losses of $1,433 relating to declines in fair value of investments that were determined by management to be other than temporary. No such losses were reported during the year ended June 30, 2014.

Derivative Instruments

Derivatives are recognized as either assets or liabilities in the consolidated 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.

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.

2. Significant Accounting Policies (Continued)

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

Management of these assets is designed to 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 consolidated financial statements in conformity with accounting standards. The Medical Center expects to be able to obtain renewal or other coverage in future periods.

2. Significant Accounting Policies (Continued)

In accordance with Accounting Standards Update (ASU) No. 2010-24, "*Health Care Entities*" (Topic 954): *Presentation of Insurance Claims and Related Insurance Recoveries* (ASU 2010-24), at June 30, 2014 and 2013, the Medical Center recorded a liability of $11,447,463 and $11,198,692, respectively, related to estimated professional liability losses covered under this policy. At June 30, 2014 and 2013, the Medical Center also recorded a receivable of $7,435,463 and $7,013,692, respectively, 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 consolidated balance sheets.

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 $2,854,873 and $2,568,117 at June 30, 2014 and 2013, respectively, have been discounted at 1.25% and, in management's opinion, provide an adequate reserve for loss contingencies. At June 30, 2014, $1,281,770 and $1,573,103 is recorded within accounts payable and accrued expenses and accrued pension and other liabilities, respectively, in the accompanying consolidated balance sheets. At June 30, 2013, $1,166,689 and $1,401,428 is recorded within accounts payable and accrued expenses and accrued pension and other liabilities, respectively, in the accompanying consolidated balance sheets. A trustee held fund has been established as a reserve under the plan.

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 is insured above a stop-loss amount of $325,000 on individual claims. Estimated unpaid claims, and those claims incurred but not reported at June 30, 2014 and 2013 of $1,376,638 and $1,367,289, respectively, are reflected in the accompanying consolidated balance sheets within accounts payable and accrued expenses.

Advertising Costs

The Medical Center expenses advertising costs as incurred, and such costs totaled approximately $1,092,000 and $969,000 for the years ended June 30, 2014 and 2013, respectively.

Subsequent Events

Management of the Medical Center evaluated events occurring between the end of its fiscal year and September 24, 2014, the date the consolidated financial statements were available to be issued.

3. Net Patient Service Revenue

The following summarizes net patient service revenue for the years ended June 30:

	2014	2013
Gross patient service revenue	$876,940,388	$821,358,777
Less contractual allowances	553,332,181	509,328,020
Less provision for doubtful accounts	23,778,708	26,957,932
Net patient service revenue	$299,829,499	$285,072,825

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 36% and 4%, respectively, in 2014 and 39% and 2%, respectively, in 2013.

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.

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 years ended June 30, 2014 and 2013 from third-party payors and uninsured patients are as follows:

	Third-Party Payors	Uninsured Patients	Total All Payors
2014			
Patient service revenue, net of contractual allowance and discounts	99.1%	0.9%	100.0%
2013			
Patient service revenue, net of contractual allowance and discounts	98.5%	1.5%	100.0%

3. Net Patient Service Revenue (Continued)

An estimated breakdown of patient service revenues, net of contractual allowances and discounts and provision for doubtful accounts recognized in 2014 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)	$ 325,406,225	$139,577,341	$ 6,368,264	$ 179,460,620
Medicaid	59,490,036	47,375,535	1,831,319	10,283,182
Medicare	433,809,400	324,843,806	1,602,657	107,362,937
Self-pay	58,234,727	41,535,499	13,976,468	2,722,760
	$ 876,940,388	$553,332,181	$23,778,708	$ 299,829,499

The Medical Center recognizes changes in accounting estimates for net patient service revenue and third-party payor settlements as new events occur or as additional information is obtained. For the years ended June 30, 2014 and 2013, favorable adjustments recorded for changes to prior year estimates were approximately $349,000 and $303,000, respectively.

Under the State of New Hampshire's (the State) tax code, the State imposes a Medicaid enhancement tax equal to 5.5% of net patient service revenues. The amount of tax incurred by the Medical Center for 2014 and 2013 was $13,865,109 and $9,759,737, respectively. Disproportionate share (DSH) funding payments from the State are recorded in operating revenues and amounted to $3,136,409 in 2014. There were no DSH funding payments received from the State in 2013.

Electronic Health Records Incentive Payments

The CMS Electronic Health Records (EHR) incentive programs provide a financial incentive for the "meaningful use" of certified EHR technology to achieve health and efficiency goals. To qualify for incentive payments, eligible organizations must successfully demonstrate meaningful use of certified EHR technology through various stages defined by CMS. The Medical Center filed certain meaningful use attestations with CMS. Revenue totaling $2,348,944 associated with these meaningful use attestations is recorded as other revenue for the year ended June 30, 2014.

4. Property, Plant and Equipment

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

	Useful Lives	2014	2013
Land and land improvements	2-40 years	$ 1,233,490	$ 1,233,490
Buildings and improvements	2-40 years	75,519,929	75,493,384
Fixed equipment	3-25 years	41,496,770	41,320,996
Movable equipment	3-25 years	101,721,815	93,076,588
Construction in progress		4,321,603	2,590,255
		224,293,607	213,714,713
Less accumulated depreciation and amortization		151,316,215	141,349,043
Net property, plant and equipment		$ 72,977,392	$ 72,365,670

Depreciation expense amounted to $10,138,236 and $10,543,580 for the years ended June 30, 2014 and 2013, respectively.

The cost of equipment under capital leases was $4,783,240 and $4,383,760 at June 30, 2014 and 2013, respectively. Accumulated amortization of the leased equipment at June 30, 2014 and 2013 was $2,854,542 and $2,137,622, respectively. Amortization of assets under capital leases is included in depreciation and amortization expense.

5. Long-Term Debt and Note Payable

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

	2014	2013
New Hampshire Health and Education Facilities Authority (the Authority) Revenue Bonds:		
Series 2006 bonds with interest ranging from 4.875% to 5.00% per year and principal payable in annual installments ranging from $405,000 to $2,680,000 through July 2036	$30,835,000	$31,225,000
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	34,250,000	35,275,000
	65,085,000	66,500,000
Capitalized lease obligations	2,098,213	2,386,048
Unamortized original issue premiums/discounts	2,438,101	2,744,909
	69,621,314	71,630,957
Less current portion	(3,351,633)	(2,076,787)
	$66,269,681	$69,554,170

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

In May 2006, the Medical Center, in connection with the Authority, issued $32,910,000 of tax-exempt fixed rate revenue bonds (Series 2006). 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 for the year ending June 30, 2014. The proceeds of the Series 2006 bond issue were used to advance refund $9,010,000 of Series 2002A bonds, to provide funding for renovating additional space and equipment at the Medical Center, and to provide a portion of the funding for the construction of a parking garage.

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 for the year ending June 30, 2014. The proceeds of the Series 2012 bond issue were used to advance refund the remaining 2002A bonds, advance refund certain 2002B bonds and pay off a short term CAN note. In addition, a $3.0 million construction fund was established to fund routine capital purchases made in fiscal year 2013.

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. These funds are administered by a trustee, and income earned on certain of these funds is similarly restricted. One of the funds held by the trustee is the debt service reserve fund. This fund may be used should the Medical Center fail to meet principal and interest payments. The reserve fund requirement is the lesser of 10% of the original principal amount less original issue discount of bonds, the maximum amount of principal and interest due in any one future year, or 125% of the average annual debt service. Any amounts in excess of the requirements of the fund may be transferred at the direction of the Medical Center.

Interest paid by the Medical Center totaled $3,328,823 and $3,122,464 for the years ended June 30, 2014 and 2013, respectively.

Aggregate principal payments due on the revenue bonds and capital lease obligations for each of the five years ending June 30 and thereafter are as follows:

2015	$ 3,351,633
2016	3,418,499
2017	3,273,801
2018	3,004,896
2019	3,094,384
Thereafter	51,040,000
	$67,183,213

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

The scheduled principal maturities represent annual payments as required under long-term debt repayment schedules.

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 $66,417,070 and $66,621,268 at June 30, 2014 and 2013, respectively.

Pursuant to a Guaranty Agreement dated as of January 1, 1994 by and between Optima Health, Inc. (Optima) and the trustee for Hillcrest Terrace's (Hillcrest) Series 1994 bond issue, later transferred from Optima to the Medical Center, the Medical Center has guaranteed to fund, up to a maximum cumulative amount of $1,900,000, any deficiencies in Hillcrest's Debt Service Reserve Fund (the Reserve Fund) to the extent that the Reserve Fund value, as defined, is less than $800,000. The Medical Center has made cumulative payments of $251,564 as of June 30, 2014 and 2013 under this guarantee. The Medical Center has recorded a liability for the remaining $1,648,436 within accrued pension and other liabilities in the accompanying consolidated balance sheets as of June 30, 2014 and 2013 based upon management's estimate of future obligations.

Derivatives

The Medical Center uses derivative financial instruments principally to manage interest rate risk. During 2005, the Medical Center entered into an interest rate swap agreement to replace an existing agreement signed in 2003. This agreement involved the exchange of fixed rate payments by the Medical Center for variable rate payments from the counterparty without the exchange of the underlying notional amounts. The notional amount for this agreement was $15,000,000 and the agreement was to expire in November 2024. Under the provisions of this agreement, interest was paid to the counterparty, by the Medical Center, at 67% of USD-LIBOR-BBA through the remainder of the term. On June 11, 2014, the 2005 swap agreement was terminated. The Medical Center paid $2,354,300 to settle this swap agreement, which included a swap payoff amount of $2,327,000 along with certain termination fees.

The fair value of this derivative amounted to a liability of $2,463,466 as of June 30, 2013, which amount was included within accrued pension and other liabilities in the accompanying consolidated balance sheets. The changes in the fair value of the derivative of $136,466 and $1,288,350 have been included within nonoperating investment income for the years ended June 30, 2014 and 2013, respectively.

6. Notes Receivable

During February 1994, Hillcrest, together with the Authority, restructured $26,000,000 of special obligation revenue bonds (Series 1990). The bondholder consented to an amendment of the Series 1990 bond indenture, which permitted the redemption of the Series 1990 bonds at a price of 85% of the par value thereof, or $22,100,000. The redemption was accomplished partially with the issuance of $18,950,000 of Series 1994 revenue bonds to the Authority. The Authority then loaned, under a Loan Agreement and Mortgage, the proceeds thereof to Hillcrest, which proceeds, after payment of certain issuance expenses and accrued interest on the Series 1990 bonds, were used to pay a portion of the redemption price of the Series 1990 bonds. In addition, certain funds deposited into the Series 1990 Reserve Fund were paid to Fidelity Health Alliance, Inc. (the Medical Center's former parent company and one of the organizations which formed Optima and hereinafter referred to as Optima) to repay earlier advances. Optima then loaned $2,581,528 to Hillcrest pursuant to a subordinated loan agreement. Hillcrest owed Optima $400,856, which was converted from a current obligation to a long-term obligation and included in the subordinated loan agreement resulting in a total of $2,982,384 owed to Optima. In conjunction with the disaffiliation from Optima effective July 1, 2000, the subordinated loan became payable to the Medical Center. Hillcrest used a portion of the subordinated loan to pay a portion of the redemption price of the Series 1990 bonds. Also, upon redemption of the Series 1990 bonds, $1,500,000 from the Series 1990 Reserve Fund was transferred to the Series 1994 Reserve Fund and the remaining amount, $1,074,000, of the Series 1990 Reserve Fund was used to pay a portion of the redemption price of the Series 1990 bonds. The subordinated loan is subordinated in all respects to the Series 1994 revenue bonds. During 2004, the subordinated loan was restructured by the Medical Center. The principal was reduced. The new note bears interest at a stated rate of 5% per annum. The balance receivable from Hillcrest is $947,577 and $1,018,859 at June 30, 2014 and 2013, respectively. As of August 31, 2008, Hillcrest defaulted on their debt covenants. As a result, the Medical Center has reserved $800,000 at June 30, 2014 and 2013 against the note receivable in the event of default. As of June 30, 2014 all payments are current.

7. 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. The Medical Center has also assumed lease obligations for physician practices that became provider based. Certain real estate leases are with related parties. Total rent expense paid to related parties for the years ended June 30, 2014 and 2013 was $1,189,433 and $1,162,445, respectively. Rental expense under all leases for the years ended June 30, 2014 and 2013 was $5,296,928 and $6,239,430, respectively.

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

2015	$ 3,641,099
2016	2,840,619
2017	2,636,282
2018	2,581,271
2019	1,852,452
Thereafter	8,907,607
	$22,459,330

8. Investments and Assets Whose Use is Limited

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

	2014		2013	
	Fair Value	Cost	Fair Value	Cost
Cash and cash equivalents	$ 6,904,821	$ 6,904,821	$ 5,759,649	$ 5,759,649
U.S. federated treasury obligations	6,080,585	6,080,585	4,979,061	4,979,061
Marketable equity securities	31,492,795	25,952,651	21,741,518	18,021,612
Fixed income securities	40,665,955	40,352,584	10,744,033	10,675,990
Private investment funds	52,830,144	34,865,098	54,295,084	41,301,718
	$137,974,300	$114,155,739	$97,519,345	$80,738,030

Unrestricted investment income is summarized as follows:

	2014	2013
Nonoperating investment income	$ 1,477,062	$2,553,702
Realized gains on sales of investments, net	5,242,633	1,052,954
Change in unrealized appreciation on investments	6,901,638	6,018,132
	$13,621,333	$9,624,788

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 data. 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.

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.

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

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).

For the fiscal years ended June 30, 2014 and 2013, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used:

U.S. Treasury Obligations and Fixed Income Securities

The fair value is determined by using broker or dealer quotations, external pricing providers, or alternative pricing sources with reasonable levels of price transparency. The 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.

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. These investments are classified as Level 2 or 3, depending on the redemption terms.

Medical Center management is responsible for the fair value measurements of investments reported in the consolidated financial statements. Such amounts are generally determined using audited financial statements of the funds and/or recently settled transactions. 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 consolidated balance sheet dates are reasonable.

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

The following fair value hierarchy tables present 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.

	Level 1	Level 2	Level 3	Total
2014				
Cash and cash equivalents	$ 6,904,821	$ –	$ –	$ 6,904,821
U.S. federated treasury obligations	6,080,585	–	–	6,080,585
Marketable equity securities	31,492,795	–	–	31,492,795
Fixed income securities	40,665,955	–	–	40,665,955
Private investment funds	–	42,729,029	10,101,115	52,830,144
Total assets at fair valuc	$85,144,156	$42,729,029	$10,101,115	$137,974,300
2013				
Cash and cash equivalents	$ 5,759,649	$ –	$ –	$ 5,759,649
U.S. federated treasury obligations	4,979,061	–	–	4,979,061
Marketable equity securities	21,741,518	–	–	21,741,518
Fixed income securities	10,744,033	–	–	10,744,033
Private investment funds	–	42,168,226	12,126,858	54,295,084
Total assets at fair value	$43,224,261	$42,168,226	$12,126,858	$ 97,519,345
Interest rate swap	$ –	$ –	$ 2,463,466	$ 2,463,466

The following tables present the assets and liabilities carried at fair value as of June 30, 2014 and 2013 that are classified within Level 3 of the fair value hierarchy. The tables reflect gains and losses for the year. 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 and liabilities within Level 3 may include changes in fair value that were attributable to both observable and unobservable inputs.

	Private Investment Funds	Interest Rate Swap
Balance at June 30, 2012	$10,719,307	$ (3,751,816)
Unrealized gains	1,407,551	1,288,350
Balance at June 30, 2013	$12,126,858	$ (2,463,466)
Balance at June 30, 2013	$12,126,858	$ (2,463,466)
Realized gains	724,352	–
Sales	(3,019,817)	–
Swap termination	–	2,327,000
Unrealized gains	269,722	136,466
Balance at June 30, 2014	$10,101,115	$ –

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

There were no significant transfers between Levels 1, 2 or 3 for the year ended June 30, 2014.

In 2009, new guidance related to the Fair Value Measurement standard was issued for estimating the fair value of investments in investment companies (limited partnerships) that have a calculated value of their capital account or net asset value (NAV) in accordance with or in a manner consistent with U.S. GAAP. The Medical Center is permitted under U.S. GAAP to estimate the fair value of an investment at the measurement date using the reported NAV without further adjustment unless the Medical Center expects to sell the investment at a value other than NAV, or if the NAV is not calculated in accordance with U.S. GAAP. The Medical Center's investments in private investment funds are recorded at fair valued based on the most current NAV.

The Medical Center performs additional procedures, including due diligence reviews on its investments in investment companies and other procedures with respect to the capital account or NAV provided, to ensure conformity with U.S. GAAP. The Medical Center has assessed factors including, but not limited to, managers' compliance with the Fair Value Measurement standard, price transparency and valuation procedures in place, the ability to redeem at NAV at the measurement date, and existence of certain redemption restrictions at the measurement date.

The guidance also requires additional disclosures to enable users of the financial statements to understand the nature and risk of the Medical Center's investments. Furthermore, investments which can be redeemed at NAV by the Medical Center on the measurement date or in the near term are classified as Level 2. Investments which cannot be redeemed on the measurement date or in the near term are classified as Level 3. In accordance with this guidance, the table below sets forth additional disclosures for investment funds valued based on net asset value to further understand the nature and risk of the investments by category as of June 30, 2014.

Category	Fair Value	Unfunded Commitments	Redemption Frequency	Notice Period
Private investment funds – Level 2	$42,729,029	$ –	Daily/monthly	2-30 day notice
Private investment funds – Level 3	10,101,115	–	Quarterly/ annually	1-2 year lockup with 60-95 day notice

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.

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

Marketable Equity Securities

The primary purpose of equity investments is to provide appreciation of principal and growth of income with the recognition that this requires the assumption of greater market volatility and risk of loss. The total equity portion of the portfolio will be broadly diversified according to economic sector, industry, number of holdings and other characteristics, including style and capitalization. The 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.

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.

9. 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 years ended June 30, 2014 and 2013, and a statement of funded status of the plans as of June 30 for both years follows:

	Catholic Medical Center Pension Plan		Pre-1987 Supplemental Executive Retirement Plan	
	2014	2013	2014	2013
Changes in benefit obligations:				
Projected benefit obligations at beginning of year	$ (201,367,482)	$(206,954,442)	$ (5,136,340)	$ (5,518,307)
Service cost	(625,000)	(425,000)	–	–
Interest cost	(9,576,309)	(9,191,398)	(197,511)	(191,289)
Benefits paid	4,551,682	4,049,093	489,771	493,738
Actuarial (loss) gain	(15,480,194)	10,544,845	(274,190)	79,518
Expenses paid	654,743	609,420	–	–
Projected benefit obligations at end of year	(221,842,560)	(201,367,482)	(5,118,270)	(5,136,340)

9. Retirement Benefits (Continued)

	Catholic Medical Center Pension Plan		Pre-1987 Supplemental Executive Retirement Plan	
	2014	2013	2014	2013
Changes in plan assets:				
Fair value of plan assets at beginning of year	$ 143,507,222	$ 123,009,403	$ –	$ –
Actual return on plan assets	24,687,908	15,156,332	–	–
Employer contributions	10,000,000	10,000,000	489,771	493,738
Benefits paid	(4,551,682)	(4,049,093)	(489,771)	(493,738)
Expenses paid	(654,743)	(609,420)	–	–
Fair value of plan assets at end of year	172,988,705	143,507,222	–	–
Funded status of plan at June 30	$ (48,853,855)	$ (57,860,260)	$ (5,118,270)	$ (5,136,340)
Amounts recognized in the consolidated balance sheets consist of:				
Current liability	$ –	$ –	$ (446,695)	$ (476,623)
Noncurrent liability	(48,853,855)	(57,860,260)	(4,671,575)	(4,659,717)
Net amount recognized	$ (48,853,855)	$ (57,860,260)	$ (5,118,270)	$ (5,136,340)

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 $1,926,177.

The current portion of accrued pension costs included in the above amounts for the Medical Center amounted to $446,695 and $476,623 at June 30, 2014 and 2013, respectively, and has been included in accounts payable and accrued expenses.

The amounts recognized in unrestricted net assets for the years ended June 30, 2014 and 2013 consist of:

	Catholic Medical Center Pension Plan		Pre-1987 Supplemental Executive Retirement Plan	
	2014	2013	2014	2013
Amounts recognized in the consolidated balance sheets – total plan:				
Unrestricted net assets:				
Net loss	$(66,012,550)	$(65,854,393)	$ (2,538,078)	$ (2,392,006)
Net amount recognized	$(66,012,550)	$(65,854,393)	$ (2,538,078)	$ (2,392,006)

9. Retirement Benefits (Continued)

Net periodic pension cost includes the following components for the years ended June 30, 2014 and 2013:

	Catholic Medical Center Pension Plan		Pre-1987 Supplemental Executive Retirement Plan	
	2014	2013	2014	2013
Service cost	$ 625,000	$ 425,000	$ –	$ –
Interest cost	9,576,309	9,191,398	197,511	191,289
Expected return on plan assets	(10,872,113)	(10,083,371)	–	–
Amortization of actuarial loss	1,506,242	1,750,242	128,118	132,603
Net periodic pension cost	$ 835,438	$ 1,283,269	$325,629	$323,892

Other changes in plan assets and benefit obligations recognized in unrestricted net assets for the years ended June 30, 2014 and 2013 consist of:

	Catholic Medical Center Pension Plan		Pre-1987 Supplemental Executive Retirement Plan	
	2014	2013	2014	2013
Net loss (gain)	$ 1,664,398	$(15,617,806)	$ 274,190	$ (79,518)
Amortization of actuarial loss	(1,506,242)	(1,750,242)	(128,118)	(132,603)
Net amount recognized	$ 158,156	$(17,368,048)	$ 146,072	$(212,121)

The investments of the plans are comprised of the following at June 30:

	Target Allocation Fiscal Year Ending June 30, 2014	Catholic Medical Center Pension Plan 2014	Catholic Medical Center Pension Plan 2013
Marketable equity securities	70.0%	71.4%	62.5%
Fixed income securities	20.0	17.1	27.8
Other	10.0	11.5	9.7
	100.0%	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.

9. **Retirement Benefits (Continued)**

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

	Catholic Medical Center Pension Plan		Pre-1987 Supplemental Executive Retirement Plan	
	2014	2013	2014	2013
Discount rate	4.37%	4.82%	3.53%	3.96%
Rate of compensation increase	N/A	4.00	N/A	N/A

The weighted-average assumptions used to determine the defined benefit pension plan's net periodic benefit costs for the years ended June 30 are as follows:

	Catholic Medical Center Pension Plan		Pre-1987 Supplemental Executive Retirement Plan	
	2014	2013	2014	2013
Discount rate	4.82%	4.46%	3.96%	3.57%
Rate of compensation increase	N/A	4.00	N/A	N/A
Expected long-term return on plan assets	7.50	7.50	N/A	N/A

The expected employer contributions for the fiscal year ending June 30, 2015 are not expected to be significant.

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

	Catholic Medical Center Pension Plan	Pre-1987 Supplemental Executive Retirement Plan
2015	$ 5,820,272	$ 444,612
2016	6,417,712	433,859
2017	7,102,486	422,265
2018	7,871,031	409,779
2019 - 2022	50,962,473	1,831,651

The Medical Center contributed $10,000,000 and $489,771 to the Catholic Medical Center Pension Plan and the Pre-1987 Supplemental Executive Retirement Plan, respectively, for the year ended June 30, 2014. The Medical Center plans to make any necessary contributions during the upcoming fiscal 2015 year to ensure the plans continue to be adequately funded given the current market conditions.

9. Retirement Benefits (Continued)

The following fair value hierarchy tables present 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 June 30, 2014 and 2013:

	Level 1	Level 2	Level 3	Total
2014				
Cash and cash equivalents	$ 5,917,865	$ –	$ –	$ 5,917,865
Marketable equity securities	41,852,880	–	–	41,852,880
Fixed income securities	27,930,067	–	–	27,930,067
Private investment funds	–	84,715,189	12,572,704	97,287,893
Total assets at fair value	$75,700,812	$84,715,189	$12,572,704	$172,988,705
2013				
Cash and cash equivalents	$ 5,335,517	$ –	$ –	$ 5,335,517
Marketable equity securities	29,604,402	–	–	29,604,402
Fixed income securities	17,868,480			17,868,480
Private investment funds	–	79,244,125	11,454,698	90,698,823
Total assets at fair value	$52,808,399	$79,244,125	$11,454,698	$143,507,222

The following table presents the assets carried at fair values at June 30, 2014 and 2013 that are classified at Level 3 of the fair value hierarchy. The table reflects gains and losses for the year, including gains and losses on assets that were transferred to Level 3 as of June 30, 2014 and 2013. 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.

	Fair Value Measurement Using Significant Unobservable Inputs (Level 3) Private Investment Funds	
	2014	2013
Balance, beginning of year	$11,454,698	$10,099,408
Realized gains	720	–
Unrealized gains	1,136,859	1,355,290
Sales	(19,573)	–
Balance, end of year	$12,572,704	$11,454,698

10. Related Party Transactions

During 2014 and 2013, the Medical Center made and received transfers of net assets (to) from affiliated organizations as follows:

	2014	2013
Alliance Health Services	$ (3,550,000)	$ (3,850,000)
Physician Practice Associates	(8,596,500)	(10,450,500)
Alliance Ambulatory Service	2,485,000	2,575,000
Alliance Resources	(1,419,116)	–
NH Medical Laboratory	(42,000)	(115,000)
	$ (11,122,616)	$ (11,840,500)

The Medical Center enters into various other transactions with the aforementioned related organizations as well as certain other related organizations. The net effect of these transactions was an amount due to affiliates of $1,310,312 and $2,389,005 at June 30, 2014 and 2013, respectively. See Note 7 for related party leasing activity.

11. 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 June 30:

	2014	2013
Health care services	$239,319,402	$ 222,183,671
General and administrative	47,917,794	43,749,300
	$287,237,196	$ 265,932,971

12. 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 June 30:

	2014	2013
Medicare	40%	40%
Medicaid	15	8
Commercial insurance and other	17	19
Patients (self pay)	14	19
Anthem Blue Cross	14	14
	100%	100%

13. 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 June 30, 2014 and 2013, 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
2014				
Donor-restricted funds	$ –	$528,802	$8,161,758	$ 8,690,560
Board-designated funds	82,783,276	–	–	82,783,276
Total funds	$82,783,276	$528,802	$8,161,758	$91,473,836
2013				
Donor-restricted funds	$ –	$191,861	$7,281,983	$ 7,473,844
Board-designated funds	71,343,055	–	–	71,343,055
Total funds	$71,343,055	$191,861	$7,281,983	$78,816,899

Changes in endowment net assets consisted of the following for the fiscal years ended June 30:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Balance at June 30, 2012	$64,054,092	$ 353,996	$6,693,072	$71,101,160
Investment return:				
Investment income	767,221	1,407	279	768,907
Net appreciation (realized and unrealized)	5,764,154	–	588,632	6,352,786
Total investment gain	6,531,375	1,407	588,911	7,121,693
Contributions	754,088	72,536	–	826,624
Appropriation for operations	–	(232,578)	–	(232,578)
Appropriation for capital	3,500	(3,500)	–	–
Balance at June 30, 2013	71,343,055	191,861	7,281,983	78,816,899

13. Endowments (Continued)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Balance at June 30, 2013	$71,343,055	$ 191,861	$7,281,983	$78,816,899
Investment return:				
Investment income	595,595	1,083	3,346	600,024
Net appreciation (realized and unrealized)	10,702,101	–	876,429	11,578,530
Total investment gain	11,297,696	1,083	879,775	12,178,554
Contributions	–	500,599	–	500,599
Appropriation for operations	–	(22,216)	–	(22,216)
Appropriation for capital	142,525	(142,525)	–	–
Balance at June 30, 2014	$82,783,276	$ 528,802	$8,161,758	$91,473,836

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 June 30, 2014 and 2013.

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.

Regulatory

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Recently, government activity has increased 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.

INDEPENDENT AUDITORS' REPORT ON OTHER FINANCIAL INFORMATION

Board of Trustees
Catholic Medical Center and Subsidiary

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as of and for the year ended June 30, 2014 as a whole. The accompanying consolidating information is presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual entities and is not a required part of the consolidated 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 consolidating information as of and for the year ended June 30, 2014 has been subjected to the auditing procedures applied in the audit 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 auditing standards generally accepted in the United States of America. In our opinion, the information as of and for the year ended June 30, 2014 is fairly stated in all material respects in relation to the consolidated financial statements as a whole. The accompanying consolidating information as of and for the year ended June 30, 2013 was audited by other auditors whose report, dated October 30, 2013, expressed an unmodified opinion on such information in relation to the consolidated financial statements as a whole.

Baker Newman & Noyes
Limited Liability Company

Manchester, New Hampshire
September 24, 2014

CATHOLIC MEDICAL CENTER AND SUBSIDIARY

CONSOLIDATING BALANCE SHEETS

June 30, 2014 and 2013

ASSETS

	2014				2013			
	Catholic Medical Center	CMC Associates	Elimi-nations	Consol-idated	Catholic Medical Center	CMC Associates	Elimi-nations	Consol-idated
Current assets:								
Cash and cash equivalents	$ 49,416,923	$ 85,521	$ –	$ 49,502,444	$ 79,440,778	$ 188,313	$ –	$ 79,629,091
Short-term investments	26,173,541	–	–	26,173,541	1,035,035	–	–	1,035,035
Accounts receivable from patients, net	29,270,115	–	–	29,270,115	26,183,203	–	–	26,183,203
Inventories	1,977,405	33,006	–	2,010,411	1,867,994	38,951	–	1,906,945
Amounts due from affiliates	–	1,060	–	1,060	–	1,121	–	1,121
Other current assets	4,071,472	(12,000)	–	4,059,472	3,412,225	–	–	3,412,225
Total current assets	110,909,456	107,587	–	111,017,043	111,939,235	228,385	–	112,167,620
Property, plant and equipment, net	72,959,704	17,688	–	72,977,392	72,344,096	21,574	–	72,365,670
Other assets:								
Notes receivable, net	72,648	–	–	72,648	147,577	–	–	147,577
Unamortized debt issuance costs	810,003	–	–	810,003	892,253	–	–	892,253
Intangible assets and other	8,024,989	–	–	8,024,989	7,390,524	–	–	7,390,524
	8,907,640	–	–	8,907,640	8,430,354	–	–	8,430,354
Assets whose use is limited:								
Pension and insurance obligations	14,246,337	–	–	14,246,337	12,688,351	–	–	12,688,351
Board designated and donor restricted investments	91,473,836	–	–	91,473,836	78,816,899	–	–	78,816,899
Held by trustee under revenue bond agreements	6,080,586	–	–	6,080,586	4,979,061	–	–	4,979,061
	111,800,759	–	–	111,800,759	96,484,311	–	–	96,484,311
Total assets	$ 304,577,559	$ 125,275	$ –	$ 304,702,834	$ 289,197,996	$ 249,959	$ –	$ 289,447,955

LIABILITIES AND NET ASSETS

	2014				2013			
	Catholic Medical Center	CMC Associates	Elimi-nations	Consol-idated	Catholic Medical Center	CMC Associates	Elimi-nations	Consol-idated
Current liabilities:								
Accounts payable and accrued expenses	$ 15,136,741	$ 8,424	$ –	$ 15,145,165	$ 15,292,408	$ 26,219	$ –	$ 15,318,627
Accrued salaries, wages and related accounts	14,188,183	–	–	14,188,183	12,623,741	–	–	12,623,741
Amounts payable to third-party payors	10,125,881	–	–	10,125,881	11,345,115	–	–	11,345,115
Amounts due to affiliates	1,319,399	(8,027)	–	1,311,372	2,403,436	(13,310)	–	2,390,126
Current portion of long-term debt	3,351,633	–	–	3,351,633	2,076,787	–	–	2,076,787
Total current liabilities	44,121,837	397	–	44,122,234	43,741,487	12,909	–	43,754,396
Accrued pension and other liabilities, less current portion	68,664,176	–	–	68,664,176	77,542,026	–	–	77,542,026
Long-term debt, less current portion	66,269,681	–	–	66,269,681	69,554,170	–	–	69,554,170
Total liabilities	179,055,694	397	–	179,056,091	190,837,683	12,909	–	190,850,592
Net assets:								
Unrestricted	116,831,305	124,878	–	116,956,183	90,886,469	237,050	–	91,123,519
Temporarily restricted	528,802	–	–	528,802	191,861	–	–	191,861
Permanently restricted	8,161,758	–	–	8,161,758	7,281,983	–	–	7,281,983
Total net assets	125,521,865	124,878	–	125,646,743	98,360,313	237,050	–	98,597,363
Total liabilities and net assets	$ 304,577,559	$ 125,275	$ –	$ 304,702,834	$ 289,197,996	$ 249,959	$ –	$ 289,447,955

CATHOLIC MEDICAL CENTER AND SUBSIDIARY

CONSOLIDATING STATEMENTS OF OPERATIONS

Years Ended June 30, 2014 and 2013

	2014				2013			
	Catholic Medical Center	CMC Associates	Elimi-nations	Consol-idated	Catholic Medical Center	CMC Associates	Elimi-nations	Consol-idated
Net patient service revenues, net of contractual allowances and discounts	$ 323,608,207	$ –	$ –	$ 323,608,207	$ 312,030,757	$ –	$ –	$ 312,030,757
Provision for doubtful accounts	(23,778,708)	–	–	(23,778,708)	(26,957,932)	–	–	(26,957,932)
Net patient service revenues less provision for doubtful accounts	299,829,499	–	–	299,829,499	285,072,825	–	–	285,072,825
Other revenue	8,792,681	410,146	–	9,202,827	6,989,231	350,694	–	7,339,925
Disproportionate share funding	3,136,409	–	–	3,136,409	–	–	–	–
Total revenues	311,758,589	410,146	–	312,168,735	292,062,056	350,694	–	292,412,750
Expenses:								
Salaries, wages and fringe benefits	150,954,701	85,829	–	151,040,530	140,389,779	86,014	–	140,475,793
Supplies and other	108,279,870	432,630	–	108,712,500	101,662,505	256,741	–	101,919,246
New Hampshire Medicaid enhancement tax	13,865,109	–	–	13,865,109	9,759,737	–	–	9,759,737
Depreciation and amortization	10,308,347	3,881	–	10,312,228	10,650,179	5,564	–	10,655,743
Interest	3,306,829	–	–	3,306,829	3,122,464	–	–	3,122,464
Total expenses	286,714,856	522,340	–	287,237,196	265,584,664	348,319	–	265,932,983
Income (loss) from operations	25,043,733	(112,194)	–	24,931,539	26,477,392	2,375	–	26,479,767
Nonoperating gains (losses):								
Investment income	1,477,040	22	–	1,477,062	2,553,702	54	–	2,553,756
Net realized gains on sale of investments	5,242,633	–	–	5,242,633	1,052,954	–	–	1,052,954
(Loss) gain on sale of property and equipment	(43,175)	–	–	(43,175)	7,150	–	–	7,150
Loss on extinguishment of debt	–	–	–	–	(713,452)	–	–	(713,452)
Total nonoperating gains, net	6,676,498	22	–	6,676,520	2,900,354	54	–	2,900,408
Excess (deficiency) of revenues and gains over expenses	31,720,231	(112,172)	–	31,608,059	29,377,746	2,429	–	29,380,175
Unrealized appreciation on investments	6,901,638	–	–	6,901,638	6,018,132	–	–	6,018,132
Assets released from restriction used for capital	142,525	–	–	142,525	3,500	–	–	3,500
Pension-related changes other than net periodic pension cost	(1,696,942)	–	–	(1,696,942)	13,754,116	–	–	13,754,116
Net assets transferred to affiliates	(11,122,616)	–	–	(11,122,616)	(11,840,500)	–	–	(11,840,500)
Increase (decrease) in unrestricted net assets	25,944,836	(112,172)	–	25,832,664	37,312,994	2,429	–	37,315,423
Unrestricted net assets at beginning of year	90,886,469	237,050	–	91,123,519	53,573,475	234,621	–	53,808,096
Unrestricted net assets at end of year	$ 116,831,305	$ 124,878	$ –	$ 116,956,183	$ 90,886,469	$ 237,050	$ –	$ 91,123,519

CMC Healthcare System, Inc.

Audited Consolidated Financial Statements and Other Financial Information

Years Ended June 30, 2014 and 2013
With Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

Board of Trustees
CMC Healthcare System, Inc.

We have audited the accompanying consolidated financial statements of CMC Healthcare System, Inc., which comprise the consolidated balance sheet as of June 30, 2014, and the related consolidated statements of operations, changes in net assets and cash flows for the year then ended, and the related notes to the consolidated 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Board of Trustees
CMC Healthcare System, Inc.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CMC Healthcare System, Inc. as of June 30, 2014, 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 Matter

The consolidated financial statements of CMC Healthcare System, Inc. as of and for the year ended June 30, 2013, were audited by other auditors whose report dated October 30, 2013 expressed an unmodified opinion on those statements.

Baker Newman & Noyes

Limited Liability Company

Manchester, New Hampshire
September 24, 2014

CMC HEALTHCARE SYSTEM, INC.

CONSOLIDATED BALANCE SHEETS

June 30, 2014 and 2013

ASSETS

	2014	2013
Current assets:		
Cash and cash equivalents	$ 54,632,046	$ 83,034,940
Short-term investments	26,173,541	1,035,035
Accounts receivable, less allowances of $23,528,991 in 2014 and $22,652,334 in 2013	30,310,791	27,265,062
Inventories	2,010,411	1,906,945
Other current assets	5,200,218	4,546,285
Total current assets	118,327,007	117,788,267
Property, plant and equipment, net	86,989,397	86,587,594
Other assets:		
Notes receivable, less allowance of $800,000 in 2014 and 2013	72,648	147,577
Unamortized debt issuance costs	840,257	930,575
Intangible assets and other	13,819,980	13,285,014
	14,732,885	14,363,166
Assets whose use is limited:		
Pension and insurance obligations	14,246,337	12,688,351
Board designated and donor restricted investments	98,454,431	85,354,070
Held by trustee under revenue bond agreements	6,080,586	4,979,061
	118,781,354	103,021,482
Total assets	$338,830,643	$321,760,509

LIABILITIES AND NET ASSETS

	2014	2013
Current liabilities:		
Accounts payable and accrued expenses	$ 18,398,696	$ 16,954,010
Accrued salaries, wages and related accounts	16,167,406	14,189,562
Amounts payable to third-party payors	10,125,881	11,345,115
Current portion of long-term debt	3,501,677	2,209,329
Total current liabilities	48,193,660	44,698,016
Accrued pension and other liabilities, less current portion	77,844,763	88,229,563
Long-term debt, less current portion	74,725,889	78,169,020
Total liabilities	200,764,312	211,096,599
Commitments and contingencies (note 14)		
Net assets:		
Unrestricted	129,375,771	103,190,066
Temporarily restricted	528,802	191,861
Permanently restricted	8,161,758	7,281,983
Total net assets	138,066,331	110,663,910
Total liabilities and net assets	$338,830,643	$321,760,509

See accompanying notes.

CMC HEALTHCARE SYSTEM, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended June 30, 2014 and 2013

	2014	2013
Net patient service revenues, net of contractual allowances and discounts	$337,728,005	$326,482,174
Provision for doubtful accounts	(24,345,766)	(27,591,885)
Net patient service revenues less provision for doubtful accounts	313,382,239	298,890,289
Other revenue	15,789,771	14,832,632
Disproportionate share funding	3,136,409	–
Total revenues	332,308,419	313,722,921
Expenses:		
Salaries, wages and fringe benefits	175,601,678	163,268,904
Supplies and other	114,948,304	109,727,312
New Hampshire Medicaid enhancement tax	13,865,109	9,759,737
Depreciation and amortization	11,045,450	11,443,552
Interest	3,887,160	3,716,787
Total expenses	319,347,701	297,916,292
Income from operations	12,960,718	15,806,629
Nonoperating gains (losses):		
Investment income	2,101,361	3,385,741
Net realized gains on sale of investments	5,197,478	1,122,291
(Loss) gain on sale of property and equipment	(1,025,395)	7,150
Loss on extinguishment of debt	–	(713,452)
Other nonoperating loss	(32,485)	(31,442)
Total nonoperating gains, net	6,240,959	3,770,288
Excess of revenues and gains over expenses	19,201,677	19,576,917
Unrealized appreciation on investments	7,081,308	5,710,005
Assets released from restriction used for capital	142,525	3,500
Pension-related changes other than net periodic pension cost	(239,805)	17,740,405
Increase in unrestricted net assets	26,185,705	43,030,827
Unrestricted net assets at beginning of year	103,190,066	60,159,239
Unrestricted net assets at end of year	$129,375,771	$103,190,066

See accompanying notes.

CMC HEALTHCARE SYSTEM, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years Ended June 30, 2014 and 2013

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Balances at June 30, 2012	$ 60,159,239	$ 353,996	$6,693,072	$ 67,206,307
Excess of revenues and gains over expenses	19,576,917	–	–	19,576,917
Investment income	–	1,407	279	1,686
Changes in interest in perpetual trust	–	–	466,556	466,556
Restricted contributions	–	72,536	–	72,536
Unrealized appreciation on investments	5,710,005	–	122,076	5,832,081
Assets released from restriction used for operations	–	(232,578)	–	(232,578)
Assets released from restriction used for capital	3,500	(3,500)	–	–
Pension-related changes other than net periodic pension cost	17,740,405	–	–	17,740,405
	43,030,827	(162,135)	588,911	43,457,603
Balances at June 30, 2013	103,190,066	191,861	7,281,983	110,663,910
Excess of revenues and gains over expenses	19,201,677	–	–	19,201,677
Investment income	–	1,083	3,346	4,429
Changes in interest in perpetual trust	–	–	740,821	740,821
Restricted contributions	–	500,599	–	500,599
Unrealized appreciation on investments	7,081,308	–	135,608	7,216,916
Assets released from restriction used for operations	–	(22,216)	–	(22,216)
Assets released from restriction used for capital	142,525	(142,525)	–	–
Pension-related changes other than net periodic pension cost	(239,805)	–	–	(239,805)
	26,185,705	336,941	879,775	27,402,421
Balances at June 30, 2014	$129,375,771	$ 528,802	$8,161,758	$138,066,331

See accompanying notes.

CMC HEALTHCARE SYSTEM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2014 and 2013

	2014	2013
Operating activities:		
Increase in net assets	$ 27,402,421	$ 43,457,603
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	11,045,450	11,219,707
Pension-related changes other than net periodic pension cost	239,805	(17,740,405)
Restricted gifts and investment income	(505,028)	(74,222)
Net realized gains on sales of investments	(5,197,478)	(415,989)
Increase in interest in perpetual trust	(740,821)	(466,555)
Unrealized appreciation on investments	(7,216,916)	(2,865,314)
Change in fair values of interest rate swaps	(408,640)	1,820,295
Loss (gain) on sale of property and equipment	1,025,395	(7,150)
Cash premium received upon issuance of bonds	–	2,974,382
Bond discount/premium amortization	(306,808)	–
Changes in operating assets and liabilities:		
Accounts receivable, net	(3,045,729)	4,277,405
Inventories	(103,466)	(612,997)
Other current assets	(653,933)	130,765
Other assets	(599,695)	9,101,380
Accounts payable and accrued expenses	1,444,686	1,365,907
Accrued salaries, wages and related accounts	1,977,844	(820,727)
Amounts payable to third-party payors	(1,219,234)	2,425,111
Accrued pension and other liabilities	(7,918,887)	(21,074,693)
Net cash provided by operating activities	15,218,966	32,694,503
Investing activities:		
Purchases of property, plant and equipment	(11,888,199)	(6,987,939)
Proceeds from disposal of assets	–	7,150
Payments received from notes receivable	74,929	71,282
Net change in assets held by trustee under revenue bond agreements	(1,101,525)	188,955
Proceeds from sales of investments	38,417,650	19,332,478
Purchases of investments	(65,059,288)	(24,827,427)
Net cash used by investing activities	(39,556,433)	(12,215,501)
Financing activities:		
Payments on long-term debt	(1,556,140)	(30,973,498)
Proceeds from issuance of long-term debt, net of financing costs	–	35,004,339
Settlement of interest rate swap	(2,327,000)	–
Repayment of note payable	–	(6,000,000)
Payments on capital leases	(687,315)	(661,786)
Restricted gifts and investment income	505,028	74,222
Net cash used by financing activities	(4,065,427)	(2,556,723)
(Decrease) increase in cash and cash equivalents	(28,402,894)	17,922,279

CMC HEALTHCARE SYSTEM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years Ended June 30, 2014 and 2013

	2014	2013
(Decrease) increase in cash and cash equivalents	$ (28,402,894)	$ 17,922,279
Cash and cash equivalents at beginning of year	83,034,940	65,112,661
Cash and cash equivalents at end of year	$ 54,632,046	$ 83,034,940
Noncash investing and financing activities:		
Assets acquired under capital lease agreement	$ 399,480	$ –

See accompanying notes.

1. Organization

CMC Healthcare System, Inc. (the System) is a not-for-profit organization formed effective July 1, 2001. The System functions as the parent company and sole member of Catholic Medical Center (the Medical Center), Physician Practice Associates, Inc. (PPA), Alliance Enterprises, Inc. (Enterprises), Alliance Resources, Inc. (Resources), Alliance Ambulatory Services, Inc. (AAS), Alliance Health Services, Inc. (AHS), Doctors Medical Association, Inc. (DMA) and St. Peter's Home, Inc.

2. Significant Accounting Policies

Basis of Presentation

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Medical Center, PPA, Enterprises, Resources, AAS, AHS, DMA and St. Peter's Home, Inc. Significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (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, accrued compensation and benefits, conditional asset retirement obligations, and self-insurance reserves.

Income Taxes

The System and all related entities, with the exception of Enterprises, are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Management evaluated the System's tax positions and concluded the System has maintained its tax-exempt status, does not have any significant unrelated business income and had taken no uncertain tax positions that require adjustment to the consolidated financial statements. With few exceptions, the System is no longer subject to income tax examination by the U.S. federal or state tax authorities for years before 2011.

2. Significant Accounting Policies (Continued)

Enterprises is a for-profit organization which files federal and New Hampshire state income tax returns. There was no provision for income taxes for each of the years ended June 30, 2014 and 2013. There are no significant deferred tax assets or liabilities. Enterprises has concluded there are no significant uncertain tax positions requiring disclosure and there is no material liability for unrecognized tax benefits. With few exceptions, Enterprises is no longer subject to income tax examination by the U.S. federal or state tax authorities for years before 2011. Enterprise's policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in income tax expense.

Performance Indicator

Excess of revenues and gains over expenses is comprised of operating revenues and expenses and nonoperating gains and losses. For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains or losses, which include contributions, realized gains and losses on the sales of securities and property and equipment, unrestricted investment income, debt extinguishment losses, and contributions to community agencies.

Charity Care

The System 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 System does not pursue collection of amounts determined to qualify as charity care; therefore, they are not reported as revenues.

Of the System's $319 million and $298 million total expenses reported in 2014 and 2013, respectively, an estimated $13.6 million and $9.4 million, respectively, arose from providing services to charity patients. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the System's total expenses divided by gross patient service revenue.

Concentration of Credit Risk

Financial instruments which subject the System to credit risk consist primarily of cash equivalents, accounts receivable and investments. The risk with respect to cash equivalents is minimized by the System's policy of investing in financial instruments with short-term maturities issued by highly rated financial institutions. The System's accounts receivable are primarily due from third-party payors and amounts are presented net of expected contractual allowances and uncollectible amounts. The System's investment portfolio consists of diversified investments, which are subject to market risk. Investments that exceeded 10% of investments include the SSGA S&P 500 Tobacco Free Fund as of June 30, 2014.

2. Significant Accounting Policies (Continued)

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 System maintains approximately $49,000,000 and $77,000,000 at June 30, 2014 and 2013, respectively, of its cash and cash equivalent accounts with a single institution. The System has not experienced any losses associated with deposits at this institution.

Included in cash and cash equivalents is an amount held in escrow by the Royal Bank of Canada Capital Markets (RBCCM) in the amount of $3,370,000 at June 30, 2013. These funds were on deposit with RBCCM as a condition of the Medical Center's 2005 swap agreement. As discussed in Note 5, the 2005 swap agreement was terminated during 2014 and, therefore, these funds are no longer restricted at June 30, 2014.

Net Patient Service Revenues and Accounts Receivable

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

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

The provision for doubtful accounts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in health care coverage, and other collection indicators. The System records a provision for doubtful accounts in the period 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.

Periodically throughout the year, 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. The decrease in the provision for doubtful accounts in 2014 is driven primarily by revisions to the System's charity care policy eligibility. Accounts receivable are written off after collection efforts have been followed in accordance with internal policies.

2. Significant Accounting Policies (Continued)

Inventories

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

Property, Plant and Equipment

Property, plant and equipment is stated at cost at time of purchase or fair value at the time of donation, less accumulated depreciation. The System's policy is to capitalize expenditures for major improvements and charge maintenance and repairs currently for expenditures which do not extend the lives of the related assets. The provisions for depreciation and amortization have been determined using the straight-line method at rates intended to amortize the cost of assets over their estimated useful lives, 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 System recognizes the fair value of a liability for legal obligations associated with asset retirements in the period 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 period, 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 consolidated statement of operations.

As of June 30, 2014 and 2013, $1,215,036 and $1,185,116, respectively, of conditional asset retirement obligations are included within accrued pension and other liabilities in the accompanying consolidated balance sheets.

Goodwill

The System reviews its goodwill and other long-lived assets annually to determine whether the carrying amount of such assets is impaired. Upon determination that an impairment has occurred, these assets are reduced to fair value. There were no impairments recorded for the years ended June 30, 2014 and 2013.

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 PPA 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 System'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 System also maintains tax-sheltered annuity benefit programs in which it matches one half of employee contributions up to either 2% or 3% of their annual salary, depending on date of hire. The System made matching contributions under the program of \$5,584,205 and \$5,326,522 for the years ended June 30, 2014 and 2013, respectively.

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 System for the years ended June 30, 2014 and 2013.

The System also provides a noncontributory supplemental executive retirement plan covering certain former executives of the Medical Center, as defined. The System'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.

During 2007, the System created a supplemental executive retirement plan covering certain executives of the Medical Center. The System recorded compensation expense of \$60,000 and \$200,000 for the years ended June 30, 2014 and 2013, respectively, related to this plan.

2. Significant Accounting Policies (Continued)

Employee Fringe Benefits

The System 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 System 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 System's construction and renovation programs and refinancing of prior bonds and the original issue discount or premium are amortized using the straight-line method over the repayment period of the bonds. This approximates the effective interest method. The original issue discount or premium is presented as a component of bonds payable.

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 System has been limited by donors to a specific time period or purpose. When a donor restriction expires (i.e., when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the 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 System in perpetuity. Income earned on permanently restricted net assets, to the extent not restricted by the donor, including net unrealized appreciation on investments, is included in the consolidated 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 consolidated financial statements.

2. Significant Accounting Policies (Continued)

Investments and Investment Income

Investments are carried at fair value in the accompanying consolidated financial statements. See Note 8 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.

During the year ended June 30, 2013, the System reported realized losses of $1,433 relating to declines in fair value of investments that were determined by management to be other than temporary. No such losses were reported during the year ended June 30, 2014.

Derivative Instruments

Derivatives are recognized as either assets or liabilities in the consolidated 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.

Beneficial Interest in Perpetual Trust

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

Investment Policies

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

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

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

2. Significant Accounting Policies (Continued)

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

Management of these assets is designed to 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 System targets a diversified asset allocation that places emphasis on achieving its long-term return objectives within prudent risk constraints.

Spending Policy for Appropriation of Assets for Expenditure

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

Spending policies may be adopted by the System, from time to time, to provide a stream of funding for the support of key programs. The spending policies are structured in a manner to ensure that the purchasing power of the assets is maintained while providing the desired level of annual funding to the programs. The System 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 System 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 System has established a reserve to cover professional liability exposure, which may not be covered by insurance. The possibility exists, as a normal risk of doing business, that malpractice claims in excess of insurance coverage may be asserted against the System. In the event a loss contingency should occur, the System would give it appropriate recognition in its consolidated financial statements in conformity with accounting standards. The System expects to be able to obtain renewal or other coverage in future periods.

2. Significant Accounting Policies (Continued)

In accordance with Accounting Standards Update (ASU) No. 2010-24, "*Health Care Entities*" (Topic 954): *Presentation of Insurance Claims and Related Insurance Recoveries* (ASU 2010-24), at June 30, 2014 and 2013, the System recorded a liability of $11,447,463 and $11,198,692, respectively, related to estimated professional liability losses covered under this policy. At June 30, 2014 and 2013, the System also recorded a receivable of $7,435,463 and $7,013,692, respectively, 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 consolidated balance sheets.

Workers' Compensation

The System 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 System against excessive losses. The System has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Accrued workers' compensation losses of $2,854,873 and $2,568,117 at June 30, 2014 and 2013, respectively, have been discounted at 1.25% and, in management's opinion, provide an adequate reserve for loss contingencies. At June 30, 2014, $1,281,770 and $1,573,103 is recorded within accounts payable and accrued expenses and accrued pension and other liabilities, respectively, in the accompanying consolidated balance sheets. At June 30, 2013, $1,166,689 and $1,401,428 is recorded within accounts payable and accrued expenses and accrued pension and other liabilities, respectively, in the accompanying consolidated balance sheets. A trustee held fund has been established as a reserve under the plan.

Health Insurance

The System has a self-funded health insurance plan. The plan is administered by an insurance company which assists in determining the current funding requirements of participants under the terms of the plan and the liability for claims and assessments that would be payable at any given point in time. The System is insured above a stop-loss amount of $325,000 on individual claims. Estimated unpaid claims, and those claims incurred but not reported at June 30, 2014 and 2013 of $1,376,638 and $1,367,289, respectively, are reflected in the accompanying consolidated balance sheets within accounts payable and accrued expenses.

Advertising Costs

The System expenses advertising costs as incurred, and such costs totaled approximately $1,092,000 and $969,000 for the years ended June 30, 2014 and 2013, respectively.

Subsequent Events

Management of the System evaluated events occurring between the end of its fiscal year and September 24, 2014, the date the consolidated financial statements were available to be issued.

3. Net Patient Service Revenue

The following summarizes net patient service revenue for the years ended June 30:

	2014	2013
Gross patient service revenue	$902,145,398	$846,638,905
Less contractual allowances	564,417,393	520,156,731
Less provision for doubtful accounts	24,345,766	27,591,885
Net patient service revenue	$313,382,239	$298,890,289

The System maintains contracts with the Social Security Administration ("Medicare") and the State of New Hampshire Department of Health and Human Services ("Medicaid"). The System 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 System 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 36% and 4%, respectively, in 2014 and 38% and 2%, respectively, in 2013.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The System believes that it is in compliance with all applicable laws and regulations; compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs (Note 14).

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

3. **Net Patient Service Revenue (Continued)**

The approximate percentages of patient service revenues, net of contractual allowances and discounts and provision for doubtful accounts for the years ended June 30, 2014 and 2013 from third-party payors and uninsured patients are as follows:

	Third-Party Payors	Uninsured Patients	Total All Payors
2014			
Patient service revenue, net of contractual allowance and discounts	98.7%	1.3%	100.0%
2013			
Patient service revenue, net of contractual allowance and discounts	98.3%	1.7%	100.0%

An estimated breakdown of patient service revenues, net of contractual allowances, discounts and provision for doubtful accounts recognized in 2014 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)	$ 334,759,047	$142,600,503	$ 6,520,130	$ 185,638,414
Medicaid	61,199,898	48,401,662	1,874,991	10,923,245
Medicare	446,277,944	331,879,729	1,640,875	112,757,340
Self-pay	59,908,509	41,535,499	14,309,770	4,063,240
	$ 902,145,398	$564,417,393	$24,345,766	$ 313,382,239

The System recognizes changes in accounting estimates for net patient service revenues and third-party payor settlements as new events occur or as additional information is obtained. For the years ended June 30, 2014 and 2013, favorable adjustments recorded for changes to prior year estimates were approximately $349,000 and $303,000, respectively.

Under the State of New Hampshire's (the State) tax code, the State imposes a Medicaid enhancement tax equal to 5.5% of net patient service revenues. The amount of tax incurred by the Medical Center for 2014 and 2013 was $13,865,109 and $9,759,737, respectively. Disproportionate share (DSH) funding payments from the State are recorded in operating revenues and amounted to $3,136,409 in 2014. There were no DSH funding payments received from the State in 2013.

3. Net Patient Service Revenue (Continued)

Electronic Health Records Incentive Payments

The CMS Electronic Health Records (EHR) incentive programs provide a financial incentive for the "meaningful use" of certified EHR technology to achieve health and efficiency goals. To qualify for incentive payments, eligible organizations must successfully demonstrate meaningful use of certified EHR technology through various stages defined by CMS. The System filed certain meaningful use attestations with CMS. Revenue totaling $2,348,944 associated with these meaningful use attestations is recorded as other revenue for the year ended June 30, 2014.

4. Property, Plant and Equipment

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

	Useful Lives	2014	2013
Land and land improvements	2-40 years	$ 2,475,944	$ 2,475,944
Buildings and improvements	2-40 years	93,524,751	93,622,542
Fixed equipment	3-25 years	43,210,158	43,038,842
Movable equipment	3-25 years	102,989,943	94,375,063
Construction in progress		4,321,603	2,590,255
		246,522,399	236,102,646
Less accumulated depreciation and amortization		159,533,002	149,515,052
Net property, plant and equipment		$ 86,989,397	$ 86,587,594

Depreciation expense amounted to $10,860,481 and $11,331,389 for the years ended June 30, 2014 and 2013, respectively.

The cost of equipment under capital leases was $4,783,240 and $4,383,760 at June 30, 2014 and 2013, respectively. Accumulated amortization of the leased equipment at June 30, 2014 and 2013 was $2,854,542 and $2,137,622, respectively. Amortization of assets under capital leases is included in depreciation and amortization expense.

5. Long-Term Debt and Note Payable

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

	2014	2013
New Hampshire Health and Education Facilities Authority (the Authority) Revenue Bonds:		
Series 2006 bonds with interest ranging from 4.875% to 5.00% per year and principal payable in annual installments ranging from \$405,000 to \$2,680,000 through July 2036	\$30,835,000	\$31,225,000
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	34,250,000	35,275,000
	65,085,000	66,500,000
Note payable – see below	8,606,252	8,747,392
	73,691,252	75,247,392
Capitalized lease obligations	2,098,213	2,386,041
Unamortized original issue premiums/discounts	2,438,101	2,744,909
	78,227,566	80,378,342
Less current portion	(3,501,677)	(2,209,329)
	\$74,725,889	\$78,169,013

In May 2006, the Medical Center, in connection with the Authority, issued \$32,910,000 of tax-exempt fixed rate revenue bonds (Series 2006). 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 for the year ending June 30, 2014. The proceeds of the Series 2006 bond issue were used to advance refund \$9,010,000 of Series 2002A bonds, to provide funding for renovating additional space and equipment at the Medical Center, and to provide a portion of the funding for the construction of a parking garage.

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 for the year ending June 30, 2014. The proceeds of the Series 2012 bond issue were used to advance refund the remaining 2002A bonds, advance refund certain 2002B bonds and pay off a short term CAN note. In addition, a \$3.0 million construction fund was established to fund routine capital purchases made in fiscal year 2013.

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

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. These funds are administered by a trustee, and income earned on certain of these funds is similarly restricted. One of the funds held by the trustee is the debt service reserve fund. This fund may be used should the Medical Center fail to meet principal and interest payments. The reserve fund requirement is the lesser of 10% of the original principal amount less original issue discount of bonds, the maximum amount of principal and interest due in any one future year, or 125% of the average annual debt service. Any amounts in excess of the requirements of the fund may be transferred at the direction of the Medical Center.

Interest paid by the System totaled $3,909,154 and $3,716,787 for the years ended June 30, 2014 and 2013, respectively.

Aggregate principal payments due on the revenue bonds and other debt obligations for each of the five years ending June 30 and thereafter are as follows:

2015	$ 3,501,677
2016	3,577,299
2017	3,444,167
2018	11,131,938
2019	3,094,384
Thereafter	51,040,000
	$75,789,465

The scheduled principal maturities represent annual payments as required under long-term debt repayment schedules.

The fair value of the System's long-term debt is estimated using discounted cash flow analysis, based on the System's current incremental borrowing rate for similar types of borrowing arrangements. The fair value of the System's long-term debt, excluding capitalized lease obligations, was $75,023,322 and $75,368,660 at June 30, 2014 and 2013, respectively.

Pursuant to a Guaranty Agreement dated as of January 1, 1994 by and between Optima Health, Inc. (Optima) and the trustee for Hillcrest Terrace's (Hillcrest) Series 1994 bond issue, later transferred from Optima to the Medical Center, the Medical Center has guaranteed to fund, up to a maximum cumulative amount of $1,900,000, any deficiencies in Hillcrest's Debt Service Reserve Fund (the Reserve Fund) to the extent that the Reserve Fund value, as defined, is less than $800,000. The Medical Center has made cumulative payments of $251,564 as of June 30, 2014 and 2013 under this guarantee. The Medical Center has recorded a liability for the remaining $1,648,436 as of June 30, 2014 and 2013 within accrued pension and other liabilities in the accompanying consolidated balance sheets based upon management's estimate of future obligations.

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

MOB LLC Note Payable

During 2007, MOB LLC (a subsidiary of Enterprises) established a nonrevolving line of credit for $9,350,000 with a bank in order to fund construction of a medical office building. The line of credit bore interest at the LIBOR lending rate plus 1% (1.551% at June 30, 2014). Payments of interest only were due on a monthly basis until the completed construction of the medical office. During 2008, the building construction was completed and the line of credit was converted to a note payable with payments of interest (at the LIBOR lending rate plus 1%) and principal due on a monthly basis, with all payments to be made no later than April 1, 2018.

Derivatives

The System uses derivative financial instruments principally to manage interest rate risk. During 2005, the Medical Center entered into an interest rate swap agreement to replace an existing agreement signed in 2003. This agreement involved the exchange of fixed rate payments by the Medical Center for variable rate payments from the counterparty without the exchange of the underlying notional amounts. The notional amount for this agreement was $15,000,000, and the agreement expires in November 2024. Under the provisions of this agreement, interest was to be paid to the counterparty, by the Medical Center, at 67% of USD-LIBOR-BBA through the remainder of the term. On June 11, 2014, the 2005 swap agreement was terminated. The Medical Center paid $2,354,300 to settle this swap agreement, which included a swap payoff amount of $2,327,000 along with certain termination fees.

During 2007, MOB LLC entered into an interest rate swap agreement with an initial notional amount of $9,350,000 in connection with its line of credit. Under this agreement, MOB LLC pays a fixed rate equal to 5.21%, and receives a variable rate of the one-month LIBOR rate (0.16825% at June 30, 2014). Payments under the swap agreement began April 1, 2008 and the agreement will terminate April 1, 2018.

The fair value of these derivatives amounted to liabilities of $1,295,819 and $4,031,459 as of June 30, 2014 and 2013, respectively, which amounts have been included within accrued pension and other liabilities in the accompanying consolidated balance sheets. The changes in the fair value of the derivatives of $408,640 and $1,820,295 have been included within nonoperating investment income for the years ended June 30, 2014 and 2013, respectively.

6. Notes Receivable

During February 1994, Hillcrest, together with the Authority, restructured $26,000,000 of special obligation revenue bonds (Series 1990). The bondholder consented to an amendment of the Series 1990 bond indenture, which permitted the redemption of the Series 1990 bonds at a price of 85% of the par value thereof, or $22,100,000. The redemption was accomplished partially with the issuance of $18,950,000 of Series 1994 revenue bonds to the Authority. The Authority then loaned, under a Loan Agreement and Mortgage, the proceeds thereof to Hillcrest, which proceeds, after payment of certain issuance expenses and accrued interest on the Series 1990 bonds, were used to pay a portion of the redemption price of the Series 1990 bonds. In addition, certain funds deposited into the Series 1990 Reserve Fund were paid to Fidelity Health Alliance, Inc. (the Medical Center's former parent company and one of the organizations which formed Optima and hereinafter referred to as Optima) to repay earlier advances. Optima then loaned $2,581,528 to Hillcrest pursuant to a subordinated loan agreement. Hillcrest owed Optima $400,856, which was converted from a current obligation to a long-term obligation and included in the subordinated loan agreement resulting in a total of $2,982,384 owed to Optima. In conjunction with the disaffiliation from Optima effective July 1, 2000, the subordinated loan became payable to the Medical Center. Hillcrest used a portion of the subordinated loan to pay a portion of the redemption price of the Series 1990 bonds. Also, upon redemption of the Series 1990 bonds, $1,500,000 from the Series 1990 Reserve Fund was transferred to the Series 1994 Reserve Fund and the remaining amount, $1,074,000, of the Series 1990 Reserve Fund was used to pay a portion of the redemption price of the Series 1990 bonds. The subordinated loan is subordinated in all respects to the Series 1994 revenue bonds. During 2004, the subordinated loan was restructured by the Medical Center. The principal due was reduced. The new note bears interest at a stated rate of 5% per annum. The balance receivable from Hillcrest is $947,577 and $1,018,859 at June 30, 2014 and 2013, respectively. As of August 31, 2008, Hillcrest defaulted on their debt covenants. As a result, the Medical Center has reserved $800,000 at June 30, 2014 and 2013 against the note receivable in the event of default. As of June 30, 2014 all payments are current.

7. Operating Leases

The System has various noncancelable agreements to lease various pieces of medical equipment. The System also has noncancelable leases for office space. The System has also assumed lease obligations for physician practices that became provider based. Rental expense under all leases for the years ended June 30, 2014 and 2013 was $5,747,475 and $6,776,499, respectively.

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

2015	$ 3,393,644
2016	2,509,175
2017	2,179,594
2018	2,110,882
2019	1,892,313
Thereafter	13,080,257
	$25,165,865

8. Investments and Assets Whose Use is Limited

Investments and assets whose use is limited are comprised of the following at June 30:

	2014		2013	
	Fair Value	Cost	Fair Value	Cost
Cash and cash equivalents	$ 7,135,207	$ 7,135,207	$ 5,957,192	$ 5,957,192
U.S. federated treasury obligations	6,080,585	6,080,585	4,979,061	4,979,061
Marketable equity securities	31,492,795	25,952,651	21,741,518	18,021,612
Fixed income securities	47,416,164	46,870,479	17,083,661	16,962,974
Private investment funds	52,830,144	34,865,098	54,295,084	41,301,718
	$144,954,895	$120,904,020	$104,056,516	$87,222,557

Unrestricted investment income is summarized as follows:

	2014	2013
Nonoperating investment income	$ 2,101,361	$ 3,385,741
Realized gains on sales of investments, net	5,197,478	1,122,291
Change in unrealized appreciation on investments	7,081,308	5,710,005
	$14,380,147	$10,218,037

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 data. 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.

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

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

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

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).

For the fiscal years ended June 30, 2014 and 2013, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used:

U.S. Treasury Obligations and Fixed Income Securities

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

Marketable Equity Securities

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

Private Investment Funds

The System invests in private investment funds that consist primarily of limited partnership interests in investment funds, which, in turn, invest in diversified portfolios predominantly comprised of equity and fixed income securities, as well as options, futures contracts, and some other less liquid investments. Management has approved procedures pursuant to the methods in which the System values these investments, which ordinarily will be the amount equal to the pro-rata interest in the net assets of the limited partnership, as such value is supplied by, or on behalf of, each investment manager from time to time, usually monthly and/or quarterly. These investments are classified as Level 2 or 3, depending on the redemption terms.

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

System management is responsible for the fair value measurements of investments reported in the consolidated financial statements. Such amounts are generally determined using audited financial statements of the funds and/or recently settled transactions. 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 consolidated balance sheet dates are reasonable.

The following fair value hierarchy tables present information about the System's assets and liabilities measured at fair value on a recurring basis based upon the lowest level of significant input to the valuations.

	Level 1	Level 2	Level 3	Total
2014				
Cash and cash equivalents	$ 7,135,207	$ –	$ –	$ 7,135,207
U.S. federated treasury obligations	6,080,585	–	–	6,080,585
Marketable equity securities	31,492,795	–	–	31,492,795
Fixed income securities	47,416,164	–	–	47,416,164
Private investment funds	–	42,729,029	10,101,115	52,830,144
Total assets at fair value	$92,124,751	$42,729,029	$10,101,115	$144,954,895
Interest rate swaps	$ –	$ –	$ 1,295,819	$ 1,295,819
2013				
Cash and cash equivalents	$ 5,957,192	$ –	$ –	$ 5,957,192
U.S. federated treasury obligations	4,979,061	–	–	4,979,061
Marketable equity securities	21,741,518	–	–	21,741,518
Fixed income securities	17,083,661	–	–	17,083,661
Private investment funds	–	42,168,226	12,126,858	54,295,084
Total assets at fair value	$49,761,432	$42,168,226	$12,126,858	$104,056,516
Interest rate swaps	$ –	$ –	$ 4,031,459	$ 4,031,459

The following tables present the assets and liabilities carried at fair value as of June 30, 2014 and 2013 that are classified within Level 3 of the fair value hierarchy. The tables reflect gains and losses for the year. Additionally, both observable and unobservable inputs may be used to determine the fair value of positions that the System has classified within the Level 3 category. As a result, the unrealized gains and losses for assets and liabilities within Level 3 may include changes in fair value that were attributable to both observable and unobservable inputs.

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

	Private Investment Funds	Interest Rate Swap
Balance at June 30, 2012	$10,719,307	$ (5,851,754)
Realized gains	1,407,551	1,820,295
Balance at June 30, 2013	$12,126,858	$ (4,031,459)
Balance at June 30, 2013	$12,126,858	$ (4,031,459)
Realized gains	724,352	–
Sales	(3,019,817)	–
Swap termination	–	2,327,000
Unrealized gains	269,722	408,640
Balance at June 30, 2014	$10,101,115	$ (1,295,819)

There were no significant transfers between Levels 1, 2 or 3 for the year ended June 30, 2014.

In 2009, new guidance related to the Fair Value Measurement standard was issued for estimating the fair value of investments in investment companies (limited partnerships) that have a calculated value of their capital account or net asset value (NAV) in accordance with or in a manner consistent with U.S. GAAP. The System is permitted under U.S. GAAP to estimate the fair value of an investment at the measurement date using the reported NAV without further adjustment unless the System expects to sell the investment at a value other than NAV, or if the NAV is not calculated in accordance with U.S. GAAP. The System's investments in private investment funds are recorded at fair valued based on the most current NAV.

The System performs additional procedures, including due diligence reviews on its investments in investment companies and other procedures with respect to the capital account or NAV provided, to ensure conformity with U.S. GAAP. The System has assessed factors including, but not limited to, managers' compliance with the Fair Value Measurement standard, price transparency and valuation procedures in place, the ability to redeem at NAV at the measurement date, and existence of certain redemption restrictions at the measurement date.

The guidance also requires additional disclosures to enable users of the financial statements to understand the nature and risk of the System's investments. Furthermore, investments which can be redeemed at NAV by the System on the measurement date or in the near term are classified as Level 2. Investments which cannot be redeemed on the measurement date or in the near term are classified as Level 3. In accordance with this guidance, the table below sets forth additional disclosures for investment funds valued based on net asset value to further understand the nature and risk of the investments by category as of June 30, 2014:

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

Category	Fair Value	Unfunded Commitments	Redemption Frequency	Notice Period
Private investment funds – Level 2	$42,729,029	$ –	Daily/monthly	2-30 day notice
Private investment funds – Level 3	10,101,115	–	Quarterly/ annually	1-2 year lockup with 60-95 day notice

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 System may employ multiple equity investment managers, each of whom may have distinct investment styles. Accordingly, while each manager's portfolio may not be fully diversified, it is expected that the combined equity portfolio will be broadly diversified.

Private Investment Funds

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

Fair Value of Other Financial Instruments

Other financial instruments consist of accounts receivable, 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.

9. Retirement Benefits

A reconciliation of the changes in the Catholic Medical Center Pension Plan, the Medical Center's Supplemental Executive Retirement Plan and the New Hampshire Medical Laboratories Retirement Income Plan projected benefit obligations and the fair value of assets for the years ended June 30, 2014 and 2013, and a statement of funded status of the plans as of June 30 for both years follows:

	Catholic Medical Center Pension Plan		Pre-1987 Supplemental Executive Retirement Plan		New Hampshire Medical Laboratories Retirement Income Plan	
	2014	2013	2014	2013	2014	2013
Changes in benefit obligations:						
Projected benefit obligations at beginning of year	$(201,367,482)	$(206,954,442)	$(5,136,340)	$(5,518,307)	$(2,593,904)	$(2,628,040)
Service cost	(625,000)	(425,000)	–	–	(15,000)	(7,500)
Interest cost	(9,576,309)	(9,191,398)	(197,511)	(191,289)	(113,552)	(112,518)
Benefits paid	4,551,682	4,049,093	489,771	493,738	114,499	99,004
Actuarial (loss) gain	(15,480,194)	10,544,845	(274,190)	79,518	(168,114)	43,796
Expenses paid	654,743	609,420	–	–	12,796	11,354
Projected benefit obligations at end of year	(221,842,560)	(201,367,482)	(5,118,270)	(5,136,340)	(2,763,275)	(2,593,904)
Changes in plan assets:						
Fair value of plan assets at beginning of year	143,507,222	123,009,403	–	–	1,914,484	1,700,233
Actual return on plan assets	24,687,908	15,156,332	–	–	320,392	209,609
Employer contributions	10,000,000	10,000,000	489,771	493,738	59,000	115,000
Benefits paid	(4,551,682)	(4,049,093)	(489,771)	(493,738)	(114,499)	(99,004)
Expenses paid	(654,743)	(609,420)	–	–	(12,796)	(11,354)
Fair value of plan assets at end of year	172,988,705	143,507,222	–	–	2,166,581	1,914,484
Funded status of plan at June 30	$ (48,853,855)	$ (57,860,260)	$(5,118,270)	$(5,136,340)	$ (596,694)	$ (679,420)
Amounts recognized in the consolidated balance sheets consist of:						
Current liability	$ –	$ –	$ (446,695)	$ (476,623)	$ –	$ –
Noncurrent liability	(48,853,855)	(57,860,260)	(4,671,575)	(4,659,717)	(596,694)	(679,420)
Net amount recognized	$ (48,853,855)	$ (57,860,260)	$(5,118,270)	$(5,136,340)	$ (596,694)	$ (679,420)

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 $1,979,452.

The current portion of accrued pension costs included in the above amounts for the System amounted to $446,695 and $476,623 at June 30, 2014 and 2013, respectively, and has been included in accounts payable and accrued expenses.

9. Retirement Benefits (Continued)

The amounts recognized in unrestricted net assets for the years ended June 30, 2014 and 2013 consist of:

	Catholic Medical Center Pension Plan		Pre-1987 Supplemental Executive Retirement Plan		New Hampshire Medical Laboratories Retirement Income Plan	
	2014	2013	2014	2013	2014	2013
Amounts recognized in the consolidated balance sheets – total plan:						
Unrestricted net assets:						
Net loss	$ (66,012,550)	$(65,854,393)	$(2,538,078)	$(2,392,006)	$(1,306,677)	$(1,371,100)
Net amount recognized	$ (66,012,550)	$(65,854,393)	$(2,538,078)	$(2,392,006)	$(1,306,677)	$(1,371,100)

Net periodic pension cost includes the following components for the years ended June 30, 2014 and 2013:

	Catholic Medical Center Pension Plan		Pre-1987 Supplemental Executive Retirement Plan		New Hampshire Medical Laboratories Retirement Income Plan	
	2014	2013	2014	2013	2014	2013
Service cost	$ 625,000	$ 425,000	$ –	$ –	$ 15,000	$ 7,500
Interest cost	9,576,309	9,191,398	197,511	191,289	113,552	112,518
Expected return on plan assets	(10,872,113)	(10,083,371)	–	–	(140,079)	(140,061)
Amortization of actuarial loss	1,506,242	1,750,242	128,118	132,603	52,224	46,892
Net periodic pension cost	$ 835,438	$ 1,283,269	$ 325,629	$ 323,892	$ 40,697	$ 26,849

Other changes in plan assets and benefit obligations recognized in unrestricted net assets for the years ended June 30, 2014 and 2013 consist of:

	Catholic Medical Center Pension Plan		Pre-1987 Supplemental Executive Retirement Plan		New Hampshire Medical Laboratories Retirement Income Plan	
	2014	2013	2014	2013	2014	2013
Net loss (gain)	$ 1,664,398	$ (15,617,806)	$ 274,190	$ (79,518)	$ (12,199)	$ (113,344)
Amortization of actuarial loss	(1,506,242)	(1,750,242)	(128,118)	(132,603)	(52,224)	(46,892)
Net amount recognized	$ 158,156	$(17,368,048)	$ 146,072	$(212,121)	$ (64,423)	$ (160,236)

9. Retirement Benefits (Continued)

The investments of the plans are comprised of the following at June 30:

	Target Allocation Fiscal Year 2014	Catholic Medical Center Pension Plan 2014	Catholic Medical Center Pension Plan 2013	Pre-1987 Supplemental Executive Retirement Plan 2014	Pre-1987 Supplemental Executive Retirement Plan 2013	New Hampshire Medical Laboratories Retirement Income Plan 2014	New Hampshire Medical Laboratories Retirement Income Plan 2013
Marketable equity securities	70.0%	71.4%	62.5%	0.0%	0.0%	71.4%	68.4%
Fixed income securities	20.0	17.1	27.8	0.0	0.0	17.1	19.0
Other	10.0	11.5	9.7	0.0	0.0	11.5	12.6
	100.0%	100.0%	100.0%	0.0%	0.0%	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 June 30 are as follows:

	Catholic Medical Center Pension Plan 2014	Catholic Medical Center Pension Plan 2013	Pre-1987 Supplemental Executive Retirement Plan 2014	Pre-1987 Supplemental Executive Retirement Plan 2013	New Hampshire Medical Laboratories Retirement Income Plan 2014	New Hampshire Medical Laboratories Retirement Income Plan 2013
Discount rate	4.37%	4.82%	3.53%	3.96%	3.97%	4.43%
Rate of compensation increase	N/A	4.00	N/A	N/A	N/A	N/A

The weighted-average assumptions used to determine the defined benefit pension plan net periodic benefit costs for the years ended June 30 are as follows:

	Catholic Medical Center Pension Plan 2014	Catholic Medical Center Pension Plan 2013	Pre-1987 Supplemental Executive Retirement Plan 2014	Pre-1987 Supplemental Executive Retirement Plan 2013	New Hampshire Medical Laboratories Retirement Income Plan 2014	New Hampshire Medical Laboratories Retirement Income Plan 2013
Discount rate	4.82%	4.46%	3.96%	3.57%	4.43%	4.46%
Rate of compensation increase	N/A	4.00	N/A	N/A	N/A	N/A
Expected long-term return on plan assets	7.50	7.50	N/A	N/A	7.50	7.50

9. Retirement Benefits (Continued)

The expected employer contributions for the fiscal year ending June 30, 2015 are not expected to be significant.

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

	Catholic Medical Center Pension Plan	Pre-1987 Supplemental Executive Retirement Plan	New Hampshire Medical Laboratories Retirement Income Plan
2015	$ 5,820,272	$ 444,612	$138,976
2016	6,417,712	433,859	149,033
2017	7,102,486	422,265	163,186
2018	7,871,037	409,779	169,752
2019 - 2023	50,962,473	1,831,651	925,844

The Medical Center contributed $10,000,000, $489,771, and $59,000 to the Catholic Medical Center Pension Plan, the Pre-1987 Supplemental Executive Retirement Plan, and the New Hampshire Medical Laboratories Retirement Income Plan respectively, for the year ended June 30, 2014. The Medical Center plans to make any necessary contributions during the upcoming fiscal 2015 year to ensure the plans continue to be adequately funded given the current market conditions.

The following fair value hierarchy tables present 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 June 30, 2014 and 2013:

	Level 1	Level 2	Level 3	Total
2014				
Cash and cash equivalents	$ 5,991,983	$ –	$ –	$ 5,991,983
Marketable equity securities	42,377,063	–	–	42,377,063
Fixed income securities	28,279,873	–	–	28,279,873
Private investment funds	–	85,776,198	12,730,169	98,506,367
Total assets at fair value	$76,648,919	$85,776,198	$12,730,169	$175,155,286
2013				
Cash and cash equivalents	$ 5,064,914	$ –	$ –	$ 5,064,914
Marketable equity securities	29,926,326	–	–	29,926,326
Fixed income securities	24,208,947	–	–	24,208,947
Private investment funds	–	74,533,548	11,687,972	86,221,520
Total assets at fair value	$59,200,187	$74,533,548	$11,687,972	$145,421,707

9. Retirement Benefits (Continued)

The following table presents the assets carried at fair values at June 30, 2014 and 2013 that are classified at Level 3 of the fair value hierarchy. The table reflects gains and losses for the year, including gains and losses on assets that were transferred to Level 3 as of June 30, 2014 and 2013. Additionally, both observable and unobservable inputs may be used to determine the fair value of positions that the System has classified within the Level 3 category. As a result, the unrealized gains and losses for assets within Level 3 may include changes in fair value that were attributable to both observable and unobservable inputs.

	Fair Value Measurement Using Significant Unobservable Inputs (Level 3) Private Investment Funds	
	2014	2013
Balance, beginning of year	$11,687,972	$10,314,139
Realized gains	729	–
Unrealized gains	1,061,286	1,373,833
Sales	(19,818)	–
Balance, end of year	$12,730,169	$11,687,972

10. Community Benefits

The System rendered charity care in accordance with its formal charity care policy, which, at established charges, amounted to $39,047,794 and $29,547,379 for the years ended June 30, 2014 and 2013, respectively. Also, the System 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 $789,719 and $934,075 for the years ended June 30, 2014 and 2013, respectively.

11. Functional Expenses

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

	2014	2013
Health care services	$256,063,051	$239,870,408
General and administrative	63,284,650	58,045,884
	$319,347,701	$297,916,292

12. Concentration of Credit Risk

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

	2014	2013
Medicare	39%	41%
Medicaid	14	6
Commercial insurance and other	18	20
Patients (self pay)	14	17
Anthem Blue Cross	15	16
	100%	100%

13. 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 June 30, 2014 and 2013, 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
2014				
Donor-restricted funds	$ –	$528,802	$8,161,758	$ 8,690,560
Board-designated funds	89,763,871	–	–	89,763,871
Total funds	$89,763,871	$528,802	$8,161,758	$98,454,431
2013				
Donor-restricted funds	$ –	$191,861	$7,281,983	$ 7,473,844
Board-designated funds	77,880,226	–	–	77,880,226
Total funds	$77,880,226	$191,861	$7,281,983	$85,354,070

13. Endowments (Continued)

Changes in endowment net assets consisted of the following for the fiscal years ended June 30:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Balance at June 30, 2012	$70,317,963	$ 353,996	$6,693,071	$77,365,030
Investment return:				
Investment income	1,177,822	1,407	279	1,179,508
Net appreciation (realized and unrealized)	5,764,154	–	588,633	6,352,787
Total investment gain	6,941,976	1,407	588,912	7,532,295
Contributions	616,787	72,536	–	689,323
Appropriation for operations	–	(232,578)	–	(232,578)
Appropriation for capital	3,500	(3,500)	–	–
Balance at June 30, 2013	77,880,226	191,861	7,281,983	85,354,070
Investment return:				
Investment income	939,393	1,083	3,346	943,822
Net appreciation (realized and unrealized)	10,801,727	–	876,429	11,678,156
Total investment gain	11,741,120	1,083	879,775	12,621,978
Contributions	–	500,599	–	500,599
Appropriation for operations	–	(22,216)	–	(22,216)
Appropriation for capital	142,525	(142,525)	–	–
Balance at June 30, 2014	$89,763,871	$ 528,802	$8,161,758	$98,454,431

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the System to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2014 and 2013.

14. Commitments and Contingencies

Litigation

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

14. Commitments and Contingencies (Continued)

Regulatory

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Recently, government activity has increased 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.

INDEPENDENT AUDITORS' REPORT
ON OTHER FINANCIAL INFORMATION

Board of Trustees
CMC Healthcare System, Inc.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as of and for the year ended June 30, 2014 as a whole. The accompanying consolidating information is presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual entities and is not a required part of the consolidated 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 consolidating information as of and for the year ended June 30, 2014 has been subjected to the auditing procedures applied in the audit 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 auditing standards generally accepted in the United States of America. In our opinion, the information as of and for the year ended June 30, 2014 is fairly stated in all material respects in relation to the consolidated financial statements as a whole. The accompanying consolidating information as of and for the year ended June 30, 2013 was audited by other auditors whose report, dated October 30, 2013, expressed an unmodified opinion on such information in relation to the consolidated financial statements as a whole.

Baker Newman & Noyes
Limited Liability Company

Manchester, New Hampshire
September 24, 2014

CMC HEALTHCARE SYSTEM, INC.

CONSOLIDATING BALANCE SHEET

June 30, 2014

ASSETS

	Catholic Medical Center	Physician Practice Associates	Alliance Enterprises	Alliance Resources	Alliance Ambulatory Services	Alliance Health Services	Doctors Medical Association	Saint Peter's Home	Elimi-nations	Consolidated
Current assets:										
Cash and cash equivalents	$ 49,502,444	$ 375,929	$ 1,691,041	$ 119,518	$ 477,249	$1,343,831	$ 74,572	$ 1,047,462	$ –	$ 54,632,046
Short-term investments	26,173,541	–	–	–	–	–	–	–	–	26,173,541
Accounts receivable, net	29,270,115	–	–	–	–	1,040,676	–	–	–	30,310,791
Inventories	2,010,411	–	–	–	–	–	–	–	–	2,010,411
Other current assets	4,060,532	(33,568)	78,015	19,912	–	1,082,324	2,181	(9,178)	–	5,200,218
Total current assets	111,017,043	342,361	1,769,056	139,430	477,249	3,466,831	76,753	1,038,284	–	118,327,007
Property, plant and equipment, net	72,977,392	–	9,501,464	2,401,525	–	303,845	–	1,805,171	–	86,989,397
Other assets:										
Notes receivable, net	72,648	–	–	–	–	–	–	–	–	72,648
Unamortized debt issuance costs	810,003	–	30,254	–	–	–	–	–	–	840,257
Intangible assets and other	8,024,989	–	–	–	5,794,991	–	–	–	–	13,819,980
	8,907,640	–	30,254	–	5,794,991	–	–	–	–	14,732,885
Assets whose use is limited:										
Pension and insurance obligations	14,246,337	–	–	–	–	–	–	–	–	14,246,337
Board designated and donor restricted investments	91,473,836	–	–	–	–	–	–	6,980,595	–	98,454,431
Held by trustee under revenue bond agreements	6,080,586	–	–	–	–	–	–	–	–	6,080,586
	111,800,759	–	–	–	–	–	–	6,980,595	–	118,781,354
Total assets	$304,702,834	$ 342,361	$11,300,774	$2,540,955	$6,272,240	$3,770,676	$ 76,753	$ 9,824,050	$ –	$338,830,643

LIABILITIES AND NET ASSETS

	Catholic Medical Center	Physician Practice Associates	Alliance Enterprises	Alliance Resources	Alliance Ambulatory Services	Alliance Health Services	Doctors Medical Association	Saint Peter's Home	Elimi-nations	Consolidated
Current liabilities:										
Accounts payable and accrued expenses	$ 15,145,165	$ 55,354	$ 250,618	$ 54,350	$ 915	$2,885,370	$ 6,924	$ –	$ –	$ 18,398,696
Accrued salaries, wages and related accounts	14,188,183	1,782,831	–	–	–	–	–	196,392	–	16,167,406
Amounts payable to third-party payors	10,125,881	–	–	–	–	–	–	–	–	10,125,881
Amounts due to (from) affiliates	1,311,372	(1,271,696)	10,568	(58,437)	–	15,332	(7,090)	(49)	–	–
Current portion of long-term debt	3,351,633	–	150,044	–	–	–	–	–	–	3,501,677
Total current liabilities	44,122,234	566,489	411,230	(4,087)	915	2,900,702	(166)	196,343	–	48,193,660
Accrued pension and other liabilities, less current portion	68,664,176	6,843,641	1,985,480	95,822	–	255,644	–	–	–	77,844,763
Long-term debt, less current portion	66,269,681	–	8,456,208	–	–	–	–	–	–	74,725,889
Total liabilities	179,056,091	7,410,130	10,852,918	91,735	915	3,156,346	(166)	196,343	–	200,764,312
Net assets (deficit):										
Unrestricted	116,956,183	(7,067,769)	447,856	2,449,220	6,271,325	614,330	76,919	9,627,707	–	129,375,771
Temporarily restricted	528,802	–	–	–	–	–	–	–	–	528,802
Permanently restricted	8,161,758	–	–	–	–	–	–	–	–	8,161,758
Total net assets (deficit)	125,646,743	(7,067,769)	447,856	2,449,220	6,271,325	614,330	76,919	9,627,707	–	138,066,331
Total liabilities and net assets	$304,702,834	$ 342,361	$11,300,774	$2,540,955	$6,272,240	$3,770,676	$ 76,753	$ 9,824,050	$ –	$338,830,643

CMC HEALTHCARE SYSTEM, INC.

CONSOLIDATING STATEMENT OF OPERATIONS

Year Ended June 30, 2014

	Catholic Medical Center	Physician Practice Associates	Alliance Enterprises	Alliance Resources	Alliance Ambulatory Services	Alliance Health Services	Doctors Medical Association	Saint Peter's Home	Elimi- nations	Consolidated
Net patient service revenues, net of contractual allowances and discounts	$323,608,207	$ –	$ –	$ –	$ –	$14,119,798	$ –	$ –	$ –	$337,728,005
Provision for doubtful accounts	(23,778,708)	–	–	–	–	(567,058)	–	–	–	(24,345,766)
Net patient service revenues less provision for doubtful accounts	299,829,499	–	–	–	–	13,552,740	–	–	–	313,382,239
Other revenue	9,202,827	17,486,207	1,904,010	574,475	2,580,501	833,198	128,602	2,806,070	(19,726,119)	15,789,771
Disproportionate share funding	3,136,409	–	–	–	–	–	–	–	–	3,136,409
Total revenues	312,168,735	17,486,207	1,904,010	574,475	2,580,501	14,385,938	128,602	2,806,070	(19,726,119)	332,308,419
Expenses:										
Salaries, wages and fringe benefits	151,040,530	26,149,068	40,697	–	–	13,080,741	–	2,426,632	(17,135,990)	175,601,678
Supplies and other	108,712,500	1,480,950	789,507	685,081	–	5,444,333	126,014	300,048	(2,590,129)	114,948,304
New Hampshire Medicaid enhancement tax	13,865,109	–	–	–	–	–	–	–	–	13,865,109
Depreciation and amortization	10,312,228	–	370,509	92,196	–	54,926	–	215,591	–	11,045,450
Interest	3,306,829	–	580,331	–	–	–	–	–	–	3,887,160
Total expenses	287,237,196	27,630,018	1,781,044	777,277	–	18,580,000	126,014	2,942,271	(19,726,119)	319,347,701
Income (loss) from operations	24,931,539	(10,143,811)	122,966	(202,802)	2,580,501	(4,194,062)	2,588	(136,201)	–	12,960,718
Nonoperating gains (losses):										
Investment income	1,477,062	–	272,174	14	27	–	–	352,084	–	2,101,361
Net realized gains (losses) on sale of investments	5,242,633	–	–	–	–	–	–	(45,155)	–	5,197,478
(Loss) gain on sale of property and equipment	(43,175)	–	–	(988,787)	–	–	–	6,567	–	(1,025,395)
Other nonoperating loss	–	–	(32,485)	–	–	–	–	–	–	(32,485)
Total nonoperating gains (losses), net	6,676,520	–	239,689	(988,773)	27	–	–	313,496	–	6,240,959
Excess (deficiency) of revenues and gains over expenses	31,608,059	(10,143,811)	362,655	(1,191,575)	2,580,528	(4,194,062)	2,588	177,295	–	19,201,677
Unrealized appreciation on investments	6,901,638	–	–	–	–	–	–	179,670	–	7,081,308
Assets released from restriction used for capital	142,525	–	–	–	–	–	–	–	–	142,525
Pension-related changes other than net periodic pension cost	(1,696,942)	1,375,714	81,423	–	–	–	–	–	–	(239,805)
Net transfers (to) from affiliates	(11,122,616)	8,596,500	42,000	1,419,116	(2,485,000)	3,550,000	–	–	–	–
Increase (decrease) in unrestricted net assets	$ 25,832,664	$ (171,597)	$ 486,078	$ 227,541	$ 95,528	$ (644,062)	$ 2,588	$ 356,965	$ –	$ 26,185,705

CMC HEALTHCARE SYSTEM, INC.

CONSOLIDATING BALANCE SHEET

June 30, 2013

ASSETS

	Catholic Medical Center	Physician Practice Associates	Alliance Enterprises	Alliance Resources	Alliance Ambulatory Services	Alliance Health Services	Doctors Medical Association	Saint Peter's Home	Eliminations	Consolidated
Current assets:										
Cash and cash equivalents	$ 79,629,091	$ 378,921	$ 1,190,208	$ 195,133	$ 282,222	$ 348,749	$ 70,743	$ 939,873	$ –	$ 83,034,940
Short-term investments	1,035,035	–	–	–	–	–	–	–	–	1,035,035
Accounts receivable, net	26,183,203	–	–	–	–	1,081,859	–	–	–	27,265,062
Inventories	1,906,945	–	–	–	–	–	–	–	–	1,906,945
Other current assets	3,413,346	(41,725)	53,192	20,117	–	1,110,858	2,858	(12,361)	–	4,546,285
Total current assets	112,167,620	337,196	1,243,400	215,250	282,222	2,541,466	73,601	927,512	–	117,788,267
Property, plant and equipment, net	72,365,670	–	9,863,247	2,061,141	–	358,772	–	1,938,764	–	86,587,594
Other assets:										
Notes receivable, net	147,577	–	–	–	–	–	–	–	–	147,577
Unamortized debt issuance costs	892,253	–	38,322	–	–	–	–	–	–	930,575
Intangible assets and other	7,390,524	–	–	–	5,894,490	–	–	–	–	13,285,014
	8,430,354	–	38,322	–	5,894,490	–	–	–	–	14,363,166
Assets whose use is limited:										
Pension and insurance obligations	12,688,351	–	–	–	–	–	–	–	–	12,688,351
Board designated and donor restricted investments	78,816,899	–	–	–	–	–	–	6,537,171	–	85,354,070
Held by trustee under revenue bond agreement	4,979,061	–	–	–	–	–	–	–	–	4,979,061
	96,484,311	–	–	–	–	–	–	6,537,171	–	103,021,482
Total assets	$289,447,955	$ 337,196	$11,144,969	$2,276,391	$6,176,712	$2,900,238	$ 73,601	$ 9,403,447	$ –	$321,760,509

LIABILITIES AND NET ASSETS

	Catholic Medical Center	Physician Practice Associates	Alliance Enterprises	Alliance Resources	Alliance Ambulatory Services	Alliance Health Services	Doctors Medical Association	Saint Peter's Home	Eliminations	Consolidated
Current liabilities:										
Accounts payable and accrued accounts	$ 15,318,627	$ 77,424	$ 103,885	$ 11,169	$ 915	$1,431,188	$ 9,512	$ 1,290	$ –	$ 16,954,010
Accrued salaries, wages and related accounts	12,623,741	1,434,406	–	–	–	–	–	131,415	–	14,189,562
Amounts payable to third-party payors	11,345,115	–	–	–	–	–	–	–	–	11,345,115
Amounts due to affiliates	2,390,126	(2,381,964)	18,236	(51,629)	–	35,473	(10,242)	–	–	–
Current portion of long-term debt	2,076,787	–	132,542	–	–	–	–	–	–	2,209,329
Total current liabilities	43,754,396	(870,134)	254,663	(40,460)	915	1,466,661	(730)	132,705	–	44,698,016
Accrued pension and other liabilities, less current portion	77,542,026	8,103,502	2,313,678	95,172	–	175,185	–	–	–	88,229,563
Long-term debt, less current portion	69,554,170	–	8,614,850	–	–	–	–	–	–	78,169,020
Total liabilities	190,850,592	7,233,368	11,183,191	54,712	915	1,641,846	(730)	132,705	–	211,096,599
Net assets (deficit):										
Unrestricted	91,123,519	(6,896,172)	(38,222)	2,221,679	6,175,797	1,258,392	74,331	9,270,742	–	103,190,066
Temporarily restricted	191,861	–	–	–	–	–	–		–	191,861
Permanently restricted	7,281,983	–	–	–	–	–	–	–	–	7,281,983
Total net assets (deficit)	98,597,363	(6,896,172)	(38,222)	2,221,679	6,175,797	1,258,392	74,331	9,270,742	–	110,663,910
Total liabilities and net assets	$289,447,955	$ 337,196	$11,144,969	$2,276,391	$6,176,712	$2,900,238	$ 73,601	$ 9,403,447	$ –	$321,760,509

CMC HEALTHCARE SYSTEM, INC.

CONSOLIDATING STATEMENT OF OPERATIONS

Year Ended June 30, 2013

	Catholic Medical Center	Physician Practice Associates	Alliance Enterprises	Alliance Resources	Alliance Ambulatory Services	Alliance Health Services	Doctors Medical Association	Saint Peter's Home	Elimi-nations	Consolidated
Net patient service revenues, net of contractual allowances and discounts	$312,030,757	$ –	$ –	$ –	$ –	$14,451,417	$ –	$ –	$ –	$326,482,174
Provision for doubtful accounts	(26,957,932)	–	–	(5,170)	–	(628,783)	–	–	–	(27,591,885)
Net patient service revenues less provision for doubtful accounts	285,072,825	–	–	(5,170)	–	13,822,634	–	–	–	298,890,289
Other revenue	7,339,925	14,320,969	1,869,523	572,920	2,266,572	811,000	128,717	2,763,666	(15,240,660)	14,832,632
Total revenues	292,412,750	14,320,969	1,869,523	567,750	2,266,572	14,633,634	128,717	2,763,666	(15,240,660)	313,722,921
Expenses:										
Salaries, wages and fringe benefits	140,475,793	21,623,961	26,849	–	–	12,904,162	–	2,294,159	(14,056,020)	163,268,904
Supplies and other	101,919,246	1,729,918	735,161	570,357	–	5,513,469	132,681	311,120	(1,184,640)	109,727,312
New Hampshire Medicaid enhancement tax	9,759,737	–	–	–	–	–	–	–	–	9,759,737
Depreciation and amortization	10,655,743	–	370,482	125,277	–	80,090	–	211,960	–	11,443,552
Interest	3,122,464	–	594,323	–	–	–	–	–	–	3,716,787
Total expenses	265,932,983	23,353,879	1,726,815	695,634	–	18,497,721	132,681	2,817,239	(15,240,660)	297,916,292
Income (loss) from operations	26,479,767	(9,032,910)	142,708	(127,884)	2,266,572	(3,864,087)	(3,964)	(53,573)	–	15,806,629
Nonoperating gains (losses):										
Investment income	1,847,454	–	500,503	54	83	–	–	299,903	–	2,647,997
Net realized gains on sale of investments	1,052,954	–	–	–	–	–	–	69,337	–	1,122,291
Total nonoperating gains (losses), net	2,900,408	–	500,503	54	83	–	–	369,240	–	3,770,288
Excess (deficiency) of revenues and gains over expenses	29,380,175	(9,032,910)	643,211	(127,830)	2,266,655	(3,864,087)	(3,964)	315,667	–	19,576,917
Unrealized appreciation on investments	6,018,154	–	–	–	–	–	–	(308,149)	–	5,710,005
Assets released from restriction used for capital	3,500	–	–	–	–	–	–	–	–	3,500
Pension-related changes other than net periodic pension cost	13,754,116	3,826,053	160,236	–	–	–	–	–	–	17,740,405
Net transfers (to) from affiliates	(11,840,500)	10,450,500	115,000	–	(2,575,000)	3,850,000	–	–	–	–
Increase (decrease) in unrestricted net assets	$ 37,315,445	$ 5,243,643	$ 918,447	$(127,830)	$ (308,345)	$ (14,087)	$ (3,964)	$ 7,518	$ –	$ 43,030,827

Catholic Medical Center and Subsidiaries

Consolidated Financial Statements

June 30, 2012 and 2011

Catholic Medical Center and Subsidiaries
Index
June 30, 2012 and 2011

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Report of Independent Auditors

To the Board of Trustees of
Catholic Medical Center and Subsidiaries

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in net assets and cash flows present fairly, in all material respects, the financial position of Catholic Medical Center and Subsidiaries (the "Medical Center") at June 30, 2012 and 2011, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

November 12, 2012

Catholic Medical Center and Subsidiaries
Consolidated Balance Sheets
June 30, 2012 and 2011

	2012	2011
Assets		
Current assets		
Cash and cash equivalents	$ 62,195,882	$ 45,288,102
Short-term investments	1,030,384	6,386,296
Accounts receivable from patients, less allowance of $14,520,666 in 2012 and $11,863,966 in 2011	30,745,571	32,302,845
Inventories	1,293,948	1,280,590
Amounts due from affiliates	458,667	-
Other current assets	3,469,865	3,408,425
Total current assets	99,194,317	88,666,258
Property, plant and equipment, net	75,961,268	77,719,483
Other assets		
Notes receivable, less allowance of $800,000 in 2012 and 2011	218,859	319,476
Unamortized debt issuance costs	834,884	892,422
Other assets	16,063,478	-
Total other assets	17,117,221	1,211,898
Assets whose use is limited		
Pension and insurance obligations	11,439,235	12,426,652
Board-designated and donor-restricted investments	71,101,160	73,468,961
Held by trustee under revenue bond agreement	5,168,016	5,072,246
Total assets whose use is limited	87,708,411	90,967,859
Total assets	$ 279,981,217	$ 258,565,498
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 2,128,404	$ 1,473,605
Accounts payable and accrued expenses	14,138,842	15,135,972
Accrued salaries, wages and related accounts	13,330,899	12,818,247
Amounts payable to third-party payors	8,920,004	4,528,053
Notes payable	6,000,000	7,000,000
Amounts due to affiliates	-	966,496
Total current liabilities	44,518,149	41,922,373
Accrued pension and other liabilities, net of current portion	111,550,388	53,434,346
Long-term debt, net of current portion	63,057,516	62,336,472
Total liabilities	219,126,053	157,693,191
Commitments and contingencies		
Net assets		
Unrestricted	53,808,096	93,608,543
Temporarily restricted	353,996	381,533
Permanently restricted	6,693,072	6,882,231
Total net assets	60,855,164	100,872,307
Total liabilities and net assets	$ 279,981,217	$ 258,565,498

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

Catholic Medical Center and Subsidiaries
Consolidated Statements of Operations
Years Ended June 30, 2012 and 2011

	2012	2011
Operating revenue		
Net patient service revenue	$ 284,416,129	$ 271,261,302
DSH funding	-	12,027,952
Other revenue	11,636,838	5,360,633
Total operating revenue	296,052,967	288,649,887
Operating expenses		
Salaries, wages and fringe benefits	144,508,938	150,635,948
Supplies and other expenses	102,107,794	100,999,385
Medicaid enhancement tax	15,240,270	12,521,429
Depreciation and amortization	10,560,419	10,797,556
Interest	2,765,357	2,798,611
Total operating expenses	275,182,778	277,752,929
Income from operations	20,870,189	10,896,958
Nonoperating gains (losses)		
Investment (loss) income	(757,645)	1,982,323
Net realized gains on sales of investments (including other-than-temporary impairment losses of $2,887 in 2012)	3,120,955	2,003,005
Loss on sale of property and equipment	(159,445)	(15,946)
Nonoperating gains, net	2,203,865	3,969,382
Excess of revenue over expenses	23,074,054	14,866,340
Other changes in net assets		
Unrealized (depreciation) appreciation on investments	(5,949,001)	9,794,325
Assets released from restriction used for capital	13,825	19,980
Pension-related changes other than net periodic pension cost	(45,281,196)	29,331,769
Adoption of new accounting principle - goodwill impairment	-	(12,496)
Net assets transferred to affiliates	(11,658,129)	(7,798,423)
(Decrease) increase in unrestricted net assets	$ (39,800,447)	$ 46,201,495

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

Catholic Medical Center and Subsidiaries
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2012 and 2011

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Balances at June 30, 2010	$ 47,407,048	$ 357,814	$ 6,266,470	$ 54,031,332
Excess of revenue over expenses	14,866,340	-	-	14,866,340
Investment income	-	2,454	601	3,055
Unrealized appreciation on investments	9,794,325	-	206,790	10,001,115
Restricted contributions	-	81,408	-	81,408
Change in interest in perpetual trust	-	-	408,370	408,370
Net assets transferred to affiliates	(7,798,423)	-	-	(7,798,423)
Assets released from restriction used for operations	-	(40,163)	-	(40,163)
Assets released from restriction used for capital	19,980	(19,980)	-	-
Adoption of new accounting principle - goodwill impairment	(12,496)	-	-	(12,496)
Pension-related changes other than net periodic pension cost	29,331,769	-	-	29,331,769
Increase in net assets	46,201,495	23,719	615,761	46,840,975
Balances at June 30, 2011	93,608,543	381,533	6,882,231	100,872,307
Excess of revenue over expenses	23,074,054	-	-	23,074,054
Investment income	-	2,156	2,171	4,327
Unrealized depreciation on investments	(5,949,001)	-	(86,244)	(6,035,245)
Restricted contributions	-	51,208	-	51,208
Change in interest in perpetual trust	-	-	(105,086)	(105,086)
Net assets transferred to affiliates	(11,658,129)	-	-	(11,658,129)
Assets released from restriction used for operations	-	(67,076)	-	(67,076)
Assets released from restriction used for capital	13,825	(13,825)	-	-
Pension-related changes other than net periodic pension cost	(45,281,196)	-	-	(45,281,196)
Decrease in net assets	(39,800,447)	(27,537)	(189,159)	(40,017,143)
Balances at June 30, 2012	$ 53,808,096	$ 353,996	$ 6,693,072	$ 60,855,164

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

Catholic Medical Center and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Operating activities		
Change in net assets	$ (40,017,143)	$ 46,840,975
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	10,560,419	10,797,556
Adoption of new accounting principle - goodwill impairment	-	12,496
Pension-related changes other than net periodic pension cost	45,281,196	(29,331,769)
Net assets transferred to affiliates	11,658,129	7,798,423
Restricted gifts and investment income	(55,535)	(84,463)
Net realized gain on sales of investments	(3,120,955)	(2,003,005)
Decrease (increase) in interest in perpetual trust	105,086	(408,370)
Unrealized depreciation (appreciation) on investments	6,035,245	(10,001,115)
Change in fair value of interest rate swap	1,856,926	(380,831)
Loss on sale of property and equipment	159,445	15,946
Increase (decrease) in cash from working capital and other items		
Accounts receivable from patients and residents, net	1,557,274	(4,612,863)
Inventories	(13,358)	4,147
Other current assets	(61,440)	(1,093,191)
Amounts due from/to affiliates	(1,425,163)	(290,217)
Other assets	(16,063,478)	-
Accounts payable and accrued expenses	(84,961)	998,699
Accrued salaries, wages and related accounts	512,652	1,389,953
Amounts payable to third-party payors	4,391,951	3,364,324
Accrued pension and other liabilities	10,953,088	3,315,451
Net cash provided by operating activities	32,229,378	26,332,146
Investing activities		
Acquisition of property, plant and equipment	(6,729,660)	(5,814,761)
Proceeds from disposal of assets	16,150	14,000
Payments received from notes receivable	100,617	138,058
(Increase) decrease in funds held by trustee under revenue bond agreement	(95,770)	103,169
Purchases of short-term investments	-	(35,350)
Sales of short-term investments	5,355,912	-
Sales of investments	14,795,179	17,853,236
Purchases of investments	(14,459,337)	(18,245,992)
Net cash used in investing activities	(1,016,909)	(5,987,640)
Financing activities		
Repayment of debt	(1,420,000)	(1,556,173)
Repayment of capital lease	(250,183)	(38,403)
Repayment of note payable	(7,000,000)	(7,000,000)
Issuance of note payable	6,000,000	7,000,000
Bond issuance cost - CAN Note	(31,912)	(10,401)
Restricted gifts and investment income	55,535	84,463
Cash transferred to affiliates	(11,658,129)	(7,798,423)
Net cash used in financing activities	(14,304,689)	(9,318,937)
Increase in cash and cash equivalents	16,907,780	11,025,569
Cash and cash equivalents		
Beginning of year	45,288,102	34,262,533
End of year	$ 62,195,882	$ 45,288,102
Supplemental cash flow information		
Cash paid for interest	$ 2,784,388	$ 2,798,612
Property, plant and equipment additions included in accounts payable and accrued expenses	1,434,837	522,668
Noncash additions to fixed assets related to capital leases	3,031,126	286,912

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

1. Organization

The consolidated financial statements for Catholic Medical Center and Subsidiaries include the accounts of Catholic Medical Center (the "Medical Center"), a voluntary not-for-profit acute care hospital based in Manchester, New Hampshire, and its subsidiaries. Subsidiaries of the Medical Center include New England Heart Institute Foundation ("NEHIF") and CMC Associates. During 2005, control of NEHIF and CMC Associates was transferred to the Medical Center. In 2011, NEHIF was formally dissolved and assets were transferred to the Medical Center. The Medical Center, which primarily serves residents of New Hampshire and northern Massachusetts, is controlled by CMC Healthcare System, Inc. (the "System"), a not-for-profit corporation which functions as the parent company and sole member of the Medical Center.

2. Significant Accounting Policies

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

Principles of Consolidation
The consolidated financial statements include the accounts of the Medical Center, NEHIF and CMC Associates. Significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("US 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 these estimates. The primary estimates relate to collectability of receivables from patients and third-party payors, accrued compensation and benefits, conditional asset retirement obligations and self-insurance reserves.

Income Taxes
The Medical Center, NEHIF and CMC Associates are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

Temporarily and Permanently Restricted Net Assets
Gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of donated assets.

Temporarily restricted net assets are those whose use 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 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.

Performance Indicator

Excess of revenues over expenses is compromised 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, realized gains and losses on the sales of securities, unrestricted investment income 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 $26,731,627 and $26,928,605 for the years ended June 30, 2012 and 2011, respectively.

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 Hospital's total operating expenses divided by gross patient service revenue. Of the Hospital's $275 million of total operating expenses reported, an estimated $8.7 million and $8.1 million arose from providing services to charity patients in fiscal 2012 and 2011, respectively.

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 $1,230,283 and $2,195,477 for the years ended June 30, 2012 and 2011, respectively.

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 maintained approximately $57,000,000 and $38,300,000 at June 30, 2012 and 2011, respectively, 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.

Included in cash and cash equivalents is an amount held in escrow by the Royal Bank of Canada Capital Markets ("RBCCM"), in the amount of $3,250,000 and $2,460,000 at June 30, 2012 and 2011, respectively. These funds are on deposit with RBCCM as a condition of the Medical Center's swap agreement on the Series 2002B revenue bonds.

Inventories

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

Property, Plant and Equipment
Property, plant and equipment is stated at cost at time of purchase or fair market 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, which are intended to amortize the cost of assets over their estimated useful lives, which range from 2 to 40 years.

Goodwill
The Medical Center reviews its goodwill and other long-lived assets annually to determine whether the carrying amount of such assets are impaired. Upon determination that an impairment has occurred, these assets are reduced to fair value. Recorded impairments at the time of adoption of the new accounting principle on July 1, 2010 were $12,496. The impairments relate to goodwill related to purchased physician practices impaired under a valuation technique based on multiples of earnings. There were no impairments recorded for the year ended June 30, 2012.

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 Internal Revenue 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. There was no impact on the liability, as no current benefits were frozen and the amendment only affected future employees.

During 2011, the Board of Trustees voted to freeze the accrual of benefits under the Plan effective December 31, 2011. Accordingly, the Medical Center recorded a curtailment gain of $26,455,853 at June 30, 2011.

The Medical Center also maintains a tax-sheltered annuity benefit program in which it matches one-half of employee contributions up to either 2% or 3% of their annual salary, depending on date of hire. The Medical Center made matching contributions under the program of $3,083,972 and $1,469,681 for the years ended June 30, 2012 and 2011, respectively.

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 to 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 years ended June 30, 2012 or 2011.

The Medical Center also provides a noncontributory supplemental executive retirement plan covering certain former executives, 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.

During 2007, the Medical Center created a supplemental executive retirement plan covering certain executives of the Medical Center. The Medical Center recorded compensation expense of $667,526 and $398,471 for the years ended June 30, 2012 and 2011, respectively, 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
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 are amortized in declining amounts by the effective interest method over the repayment period of the bonds. The original issue discount of bonds is presented as a reduction of the face amount of bonds payable.

Investments and Investment Income
Investments in debt and equity securities, including funds held by trustee under revenue bond agreements, are measured at fair value primarily based on quoted market prices. Realized gains or losses on the sale of investment securities are determined by the specific identification method and are recorded on the settlement date. 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.

The Medical Center holds investments in privately held investment funds of $48,132,000 and $56,005,000 at June 30, 2012 and 2011, respectively, which are carried at estimated fair value determined by management, based upon valuations provided by management of the privately held investment funds as of June 30, 2012 and 2011. Since investments in privately held investment funds are not readily marketable, the estimated value is subject to uncertainty and therefore, may differ from the value that would have been used had a market for such investments existed and such differences could be material.

During the years ended June 30, 2012 and 2011, the Medical Center reported realized losses of approximately $2,887 and $0, respectively, relating to declines in fair value of investments, that were determined by management to be other than temporary.

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 them. Changes in the fair value of derivatives are recognized either in the excess of revenues over expenses or net assets, depending on whether the derivative is speculative or being used to hedge changes in fair value or cash flows.

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.

Malpractice Loss Contingencies

The Medical Center has a claims-made basis policy for its malpractice insurance coverage. A claims-made 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 periods.

Recently Issued Accounting Pronouncements

In August 2010, the FASB issued *Health Care Entities: Presentation of Insurance Claims and Related Insurance Recoveries* (ASU 2010-24), which provides that the net presentation of receivables for insurance recoveries and related claims liabilities is not permitted. The Medical Center adopted the provisions of ASU 2010-24 during the year ended June 30, 2012.

In August 2010, the FASB issued Health *Care Entities: Measuring Charity Care for Disclosure* (ASU 2010-23), which clarified the disclosure of charity care provided by healthcare organizations, providing that such disclosure should be measured using cost and that related reimbursements recorded should also be separately disclosed. The Medical Center adopted the provisions of ASU 2010-23 during the year ended June 30, 2012.

In July 2011, the FASB issued *Health Care Entities: Presentation and Disclosure of Patient Service Revenue, Provisions for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (ASU 2011-07), which requires certain healthcare entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from net patient service revenue. Additionally those healthcare entities are required to provide enhanced disclosures about their policies for recognizing revenue and assessing bad debts. The Medical Center elected to early adopt ASU 2011-07 during the year ended June 30, 2012 and changed its reporting of the provision for bad debt. Accordingly, the previously reported provision for bad debt of $23,309,000 for the year ended June 30, 2011 has been reclassified as a reduction to net patient service revenue. The reclassification had no impact on the previously reported excess of revenue over expenses for fiscal 2011.

Subsequent Events
Management of the Medical Center has assessed the impact of subsequent events through November 12, 2012, the date that the audited financial statements were issued and has concluded that there were no such events that would require adjustment to the audited financial statements or disclosure in the notes to the audited financial statements.

3. Net Patient Service Revenues

The following summarizes net patient service revenues:

	2012	2011
Gross patient service revenues	$ 789,050,137	$ 754,830,631
Less: Contractual allowances	478,643,816	460,259,874
Less: Provision for bad debt	25,990,192	23,309,455
Net patient service revenues	$ 284,416,129	$ 271,261,302

The Medical Center participates in the Federal Medicare Program ("Medicare") and the State of New Hampshire Department of Health and Human Services Medicaid Program ("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 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 2%, respectively, in 2012 and 34% and 1%, respectively, in 2011.

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.

The Medical Center 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 revenue, net of contractual allowances and discounts (before the provision for bad debts), for the year ended September 30, 2012, from third-party payors and uninsured patients are as follows:

	Third-Party Payors	Uninsured Patients	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	99.0 %	1.0 %	100.0 %

The Medical Center recognizes changes in accounting estimates for net patient service revenue and third-party payor settlements as new events occur or as additional information is obtained. For the years ended June 30, 2012 and 2011, favorable (unfavorable) adjustments recorded for changes to prior year estimates were approximately $1,380,000 and ($180,000), respectively.

Under the State of New Hampshire's (the "State") tax code, the State imposes a Medicaid enhancement tax equal to 5.5% of net patient service revenues. The amount of tax incurred by the Medical Center for 2012 and 2011 was $15,240,000 and $12,521,000 respectively. Disproportionate share ("DSH") funding payments from the State are recorded in operating revenues and amounted to $0 and $12,028,000 in 2012 and 2011, respectively.

4. Property, Plant and Equipment

The major categories of property, plant and equipment at June 30, 2012 and 2011 are as follows:

	Useful Life	2012	2011
Land and land improvements	2-40 years	$ 1,177,304	$ 1,177,304
Buildings and improvements	2-40 years	75,380,884	75,260,904
Fixed equipment	3-25 years	41,042,802	40,989,631
Movable equipment	3-25 years	85,947,020	80,601,377
Construction in progress		3,239,303	488,815
		206,787,313	198,518,031
Less: Accumulated depreciation and amortization		130,826,045	120,798,548
Net property, plant and equipment		$ 75,961,268	$ 77,719,483

Depreciation expense amounted to $10,446,141 and $10,653,876 for the years ended June 30, 2012 and 2011, respectively.

5. Note Payable and Long-Term Debt

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

	2012	2011
New Hampshire Health and Education Facilities Authority (the "Authority") Revenue Bonds		
Series 2002A bonds with interest ranging from 5.000% to 6.125% per year and principal payable in annual installments ranging from $380,000 to $730,000 through July 1, 2032. The bonds may be redeemed in whole or in part on or after July 1, 2012 at a premium which is not to exceed 1% of the bonds value	$ 7,425,000	$ 7,825,000
Series 2002B bonds with a variable interest rate computed based on a weekly floater rate as determined in the agreement, a portion of which is swapped for a fixed interest rate of 3.500% through November 1, 2024. Principal is payable in annual installments ranging from $640,000 to $1,650,000 through July 2032	23,335,000	24,000,000
Series 2006 bonds with interest ranging from 4.875% to 5.000% per year and principal payable in annual installments ranging from $340,000 to $2,680,000 through July 2036	31,595,000	31,950,000
	62,355,000	63,775,000
Capitalized lease obligations	3,029,451	248,509
Less: Unamortized original issue discount	198,531	213,432
	65,185,920	63,810,077
Less: Current portion	2,128,404	1,473,605
Long-term debt, net of current portion	$ 63,057,516	$ 62,336,472

In December 2002, the Medical Center, in connection with the Authority, issued $19,225,000 of tax-exempt fixed rate revenue bonds (Series 2002A) and $28,000,000 of tax-exempt variable rate revenue bonds (Series 2002B). 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 1.25.

The proceeds of the Series 2002A and 2002B bond issues were used to advance refund the Series 1989 bonds, to reimburse the Medical Center for prior capital expenditures and to provide funding for the Medical Center's major capital expansion project, a 72,000 square foot addition.

The Series 2002B bonds are subject to purchase from time to time at the option of the owners thereof. To enhance the marketability of the bonds and in order to provide the availability of funds for the payment of the tendered bonds, the Authority has provided for the remarketing of the bonds. To the extent that the remarketing may not be successful, the Authority, and the Medical Center have provided for the purchase of such bonds by entering into a Letter of Credit Reimbursement Agreement (the "Agreement") with Citizens Bank (the "Bank"). The Bank will purchase the Series 2002B bonds that have been tendered and not remarketed. Amounts advanced under the Agreement and not reimbursed to the Bank by the 180th day will automatically be converted into a term loan.

The letter of credit also collateralizes the Series 2002B bonds which allows the Trustee to draw up to $25,609,726 for repayment of principal and interest on the Series 2002B bonds. Drawings on the letter of credit will bear interest at 1.55%. The letter of credit expires on July 1, 2016. As of June 30, 2012 and 2011, approximately $16,200,000 has been successfully remarketed by the remarketing agency.

In May 2006, the Medical Center, in connection with the Authority, issued $32,910,000 of tax-exempt fixed rate revenue bonds (Series 2006). 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 1.25.

The proceeds of the Series 2006 bond issue were used to advance refund $9,010,000 of the Series 2002A bonds, to provide funding for renovating additional space and equipment at the hospital, and to provide a portion of the funding for the construction of a new parking garage.

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. These funds are administered by a trustee and income earned on certain of these funds is similarly restricted. One of the funds held by the trustee is the debt service reserve fund. This fund may be used should the Medical Center fail to meet principal and interest payments. The reserve fund requirement is the lesser of 10% of the original principal amount less original issue discount of bonds, the maximum amount of principal and interest due in any one future year or 125% of the average annual debt service. Any amounts in excess of the requirements of the fund may be transferred at the discretion of the Medical Center.

Interest paid by the Medical Center totaled $2,765,357 and $2,798,611 for the years ended June 30, 2012 and 2011, respectively.

Aggregate principal payments due on the revenue bonds and capitalized lease obligations for each of the five years and thereafter ending June 30 are as follows:

2013	$ 2,128,404
2014	2,216,785
2015	2,316,735
2016	2,368,580
2017 and thereafter	56,353,947
	$ 65,384,451

The scheduled principal maturities represent annual payments as required under long-term debt repayment schedules.

Included in the Medical Center's debt is $23,335,000 of variable rate demand bonds ("VRDBs"). The Medical Center has entered into an irrevocable letter of credit ("LOC") with a financial institution to secure bond repayment and interest obligations associated with its VRDBs. In the event a bond cannot be remarketed, the bond may be "put" to the LOC provider, resulting in a loan to fund redemption of the bond. If it is assumed that outstanding bonds are put as of July 1, 2012, aggregate scheduled repayments under the VRDB related LOC would be as follows: $695,000 in 2013, $725,000 in 2014, $760,000 in 2015, $795,000 in 2016 and $20,360,000 in 2017 and thereafter.

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 $63,228,248 and $60,021,250 at June 30, 2012 and 2011, respectively.

Pursuant to a Guaranty Agreement dated as of January 1, 1994 by and between Optima Health, Inc. ("Optima") and the trustee for Hillcrest Terrace's Series 1994 bond issue, later transferred from Optima to the Medical Center, the Medical Center has guaranteed to fund, up to a maximum cumulative amount of $1,900,000, any deficiencies in the Hillcrest Terrace's Debt Service Reserve Fund (the "Reserve Fund") to the extent that the Reserve Fund value, as defined, is less than $800,000. As of June 30, 2012 and 2011, the Medical Center has made cumulative payments of $251,564 under this guarantee. As of June 30, 2012 and 2011, the Medical Center has recorded a liability for the remaining $1,648,436, based upon management's estimate of future obligations.

Notes Payable
In April 2005, the Medical Center, in connection with the Authority, issued $7,000,000 of Revenue Anticipation/Capital Notes (Series 2005F). The proceeds were used to purchase capital equipment throughout the year and to renew the Series 2004I notes. The notes mature annually and have been renewed each year since inception. In April 2011, the Medical Center reissued $7,000,000 of Revenue Anticipation/Capital Notes (Series 2011A) to renew the Series 2010E notes. In April 2012, the Medical Center reissued $6,000,000 of Revenue Anticipation/Capital Notes (Series 2012A) to renew the Series 2011A notes. These notes mature on April 17, 2013 with an interest rate of 2.25%.

Derivatives
The Medical Center uses derivative financial instruments principally to manage interest rate risk. During 2005, the Medical Center entered into an interest rate swap agreement to release the existing agreement signed in 2003. This agreement involves the exchange of fixed rate payments by the Medical Center for variable rate payments from the counterparty without the exchange of the underlying notional amounts. The notional amount for this agreement is $15,000,000 and expires in November 2024. Under the provisions of this agreement, interest is to be paid to the counterparty, by the Medical Center at 67% of USD-LIBOR-BBA through the remainder of the term.

The fair values of these derivatives amounted to ($3,751,816) and ($1,894,890) as of June 30, 2012 and 2011, respectively, and have been included in accrued pension and other liabilities. The changes in the fair value of the derivative of ($1,858,926) and $380,831 have been included within nonoperating investment income for the years ended June 30, 2012 and 2011, respectively.

6. Notes Receivable

During February 1994, Hillcrest Terrace ("Hillcrest") together with the Authority restructured $26,000,000 of special obligation revenue bonds (Series 1990). The bondholder consented to an amendment of the Series 1990 bond indenture, which permitted the redemption of the Series 1990 bonds at a price of 85% of the par value thereof, or $22,100,000. The redemption was accomplished partially with the issuance of $18,950,000 of Series 1994 revenue bonds to the Authority. The Authority then loaned, under a the Loan Agreement and Mortgage, the proceeds thereof to Hillcrest, which proceeds, after payment of certain issuance expenses and accrued interest on the Series 1990 bonds, were used to pay a portion of the redemption price of the Series 1990 bonds. In addition, certain funds deposited into the Series 1990 Reserve Fund were paid to Fidelity Health Alliance, Inc. (the Medical Center's former parent company and one of the organizations which formed Optima and hereinafter referred to as Optima) to repay earlier advances. Optima then loaned $2,581,528 to Hillcrest pursuant to a subordinated loan agreement. Hillcrest owed Optima $400,856, which was converted from a current obligation to a long-term obligation and included in the subordinated loan agreement resulting in a total of $2,982,384 owed to Optima. In conjunction with the disaffiliation from Optima effective July 1, 2000, the subordinated loan became payable to the Medical Center. Hillcrest used a portion of the subordinated loan to pay a portion of the redemption price of the Series 1990 bonds. Also, upon redemption of the Series 1990 bonds, $1,500,000 from the Series 1990 Reserve Fund was transferred to the Series 1994 Reserve Fund and the remaining amount, $1,074,000, of the Series 1990 Reserve Fund was used to pay a portion of the redemption price of the Series 1990 bonds. The subordinated loan is subordinated in all respects to the Series 1994 revenue bonds. During 2004, the subordinated loan was restructured by the Medical Center. The principal due was reduced from $2,982,384 to $1,522,909. The new note bears interest at a stated rate of 5% per annum. The balance receivable from Hillcrest is $1,086,672 and $1,151,184 at June 30, 2012 and 2011, respectively. As of August 31, 2008, Hillcrest defaulted on their debt covenants. As a result, the Medical Center has reserved $800,000 against the note receivable in the event of default, at June 30, 2012 and 2011. As of June 30, 2012 all payments are current.

7. 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. The Medical Center has also assumed lease obligations for certain physician practices that became provider based. Rental expense on all leases for the years ended June 30, 2012 and 2011 was $6,004,428 and $5,561,836, respectively.

Estimated future minimum lease payments under noncancelable facility and equipment operating leases for the years ending June 30 are as follows:

2013	$ 5,198,548
2014	3,552,249
2015	2,365,198
2016	1,621,358
2017 and thereafter	13,010,204
	$ 25,747,557

8. Investments and Assets Whose Use is Limited

Investments and assets whose use is limited, are comprised of the following:

	2012 Fair Value	2012 Cost	2011 Fair Value	2011 Cost
Cash and cash equivalents	$ 7,040,423	$ 7,040,423	$ 8,095,887	$ 8,095,887
US Federated Treasury Obligations	5,168,016	5,168,016	5,072,246	5,072,246
Marketable equity securities	17,716,455	15,787,130	17,836,632	15,093,287
Fixed income	10,681,890	10,088,871	10,343,992	9,899,746
Private investment funds	48,132,011	40,289,548	56,005,398	43,944,957
	$ 88,738,795	$ 78,373,988	$ 97,354,155	$ 82,106,123

Unrestricted investment (loss) income is summarized as follows:

	2012	2011
Nonoperating investment income	$ (757,645)	$ 1,982,323
Realized gains (losses) on sales of investments (including other-than-temporary impairments)	3,120,955	2,003,005
Change in unrealized appreciation on investments	(5,949,001)	9,794,325
	$ (3,585,691)	$ 13,779,653

Effective July 1, 2008, the Medical Center adopted new accounting guidance which defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. 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 data. 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 entities 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.

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).

The following fair value hierarchy tables present 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.

As of June 30, 2012:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 7,040,423	$ -	$ -	$ 7,040,423
U.S. Federated Treasury Obligations	5,168,016	-	-	5,168,016
Marketable equity securities	17,716,455	-	-	17,716,455
Fixed income	10,681,890	-	-	10,681,890
Private investment funds	-	37,412,704	10,719,307	48,132,011
Total assets at fair value	$ 40,606,784	$ 37,412,704	$ 10,719,307	$ 88,738,795

	Level 1	Level 2	Level 3	Total
Interest rate swap	$ -	$ -	$ (3,751,816)	$ (3,751,816)
Total liabilities at fair value	$ -	$ -	$ (3,751,816)	$ (3,751,816)

As of June 30, 2011:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 8,095,887	$ -	$ -	$ 8,095,887
U.S. Federated Treasury Obligations	5,072,246	-	-	5,072,246
Marketable equity securities	17,836,632	-	-	17,836,632
Fixed income	10,343,992	-	-	10,343,992
Private investment funds	-	45,085,122	10,920,276	56,005,398
Total assets at fair value	$ 41,348,757	$ 45,085,122	$ 10,920,276	$ 97,354,155

	Level 1	Level 2	Level 3	Total
Interest rate swap	$ -	$ -	$ (1,894,890)	$ (1,894,890)
Total liabilities at fair value	$ -	$ -	$ (1,894,890)	$ (1,894,890)

The following tables present the assets and liabilities carried at fair value as of June 30, 2012 and 2011 that are classified within Level 3 of the fair value hierarchy. The tables reflect gains and losses for each year, including gains and losses on assets and liabilities that were transferred to Level 3 during the year. 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 and liabilities within Level 3 may include changes in fair value that were attributable to both observable and unobservable inputs.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	Private Investment Funds	Interest Rate Swap
Balance at July 1, 2011	$ 10,920,276	$ (1,894,890)
Unrealized losses	(189,934)	(1,856,926)
Realized losses	(1,126)	-
Sales	(9,909)	-
Balance at June 30, 2012	$ 10,719,307	$ (3,751,816)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	Private Investment Funds	Interest Rate Swap
Balance at July 1, 2010	$ 10,259,860	$ (2,275,721)
Realized losses	(9,150)	380,831
Unrealized gains	875,993	-
Sales	(206,427)	-
Balance at June 30, 2011	$ 10,920,276	$ (1,894,890)

There were no significant transfers between Level 1, 2 or 3 for the year ended June 30, 2012.

In 2009, new guidance related to the Fair Value Measurement standard was issued for estimating the fair value of investments in investment companies (limited partnerships) that have a calculated value of their capital account or net asset value ("NAV") in accordance with, or in a manner consistent with US GAAP. The Medical Center is permitted under US GAAP to estimate the fair value of an investment at the measurement date using the reported NAV without further adjustment unless the Medical Center expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with US GAAP. The Medical Center's investments in private investment funds are fair valued based on the most current NAV.

The Medical Center performs additional procedures including due diligence reviews on its investments in investment companies and other procedures with respect to the capital account or NAV provided to ensure conformity with US GAAP. The Medical Center has assessed factors including, but not limited to, managers' compliance with Fair Value Measurement standard, price transparency and valuation procedures in place, the ability to redeem at NAV at the measurement date, and existence of certain redemption restrictions at the measurement date.

The guidance also requires additional disclosures to enable user of the financial statements to understand the nature and risk of the Medical Center's investments. Furthermore, investments which can be redeemed at NAV by the Medical Center on the measurement date or in the near term are classified as Level 2. Investments which cannot be redeemed on the measurement date or in the near term are classified as Level 3. The new guidance did not materially affect the Medical Center's consolidated financial statements.

Category	Fair Value	Redemption Frequency	Redemption Notice Period
Private Investment Funds - Level 2	$ 37,412,704	Daily, Monthly	2-30 days notice
Private Investment Funds - Level 3	10,719,307	Quarterly, Annually	1 year lock up with 65-90 days notice

9. 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 years ended June 30, 2012 and 2011, and a statement of funded status of the plans as of June 30 for both years follows:

	Catholic Medical Center Pension Plan		Pre-1987 Supplemental Executive Retirement Plan	
	2012	2011	2012	2011
Change in benefit obligations				
Benefit obligation at beginning of year	$ (157,787,395)	$ (165,821,556)	$ (5,394,452)	$ (5,290,290)
Service cost	(3,191,124)	(7,953,006)		-
Interest cost	(8,979,811)	(9,451,428)	(237,723)	(249,976)
Benefits paid	3,225,064	2,634,090	499,627	508,251
Actuarial loss	(40,619,502)	(4,145,691)	(385,759)	(362,437)
Expenses paid	398,326	494,343	-	-
Curtailments, settlements, and special termination benefits	-	26,455,853	-	-
Benefit obligation at end of year	(206,954,442)	(157,787,395)	(5,518,307)	(5,394,452)
Accumulated benefit obligation	206,954,442	152,373,702	5,518,307	5,394,452
Change in plan assets				
Fair value of plan assets at beginning of year	118,571,202	93,896,501	-	-
Actual return on plan assets	(2,226,409)	18,331,134	-	-
Employer contributions	10,288,000	9,472,000	499,627	508,251
Benefits paid	(3,225,064)	(2,634,090)	(499,627)	(508,251)
Expenses paid	(398,326)	(494,343)	-	-
Fair value of plan assets at end of year	123,009,403	118,571,202	-	-
Funded status of plan at June 30	(83,945,039)	(39,216,193)	(5,518,307)	(5,394,452)
Amounts recognized in the statement of financial position consist of				
Current liability	-	-	(470,523)	(493,072)
Noncurrent liability	(83,945,039)	(39,216,193)	(5,047,784)	(4,901,380)
Net amount recognized	$ (83,945,039)	$ (39,216,193)	$ (5,518,307)	$ (5,394,452)

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 $1,791,963.

The current portion of accrued pension costs included in the above amounts for the Medical Center amounted to $478,922 and $504,709 at June 30, 2012 and 2011, respectively, and has been included in accounts payable and accrued expenses.

The amounts recognized in unrestricted net assets for the years ended June 30, 2012 and 2011 consist of:

	Catholic Medical Center Pension Plan		Pre-1987 Supplemental Executive Retirement Plan	
	2012	2011	2012	2011
Unrestricted net assets				
Prior service cost	$ -	$ -	$ -	$ -
Net loss	(83,222,441)	(30,916,224)	(2,604,127)	(2,318,731)
Total unrestricted net assets	$ (83,222,441)	$ (30,916,224)	$ (2,604,127)	$ (2,318,731)

Net periodic pension cost includes the following components for the years ended June 30, 2012 and 2011:

	Catholic Medical Center Pension Plan		Pre-1987 Supplemental Executive Retirement Plan	
	2012	2011	2012	2011
Service cost	$ 3,191,124	$ 7,953,006	$ -	$ -
Interest cost	8,979,811	9,451,428	237,723	249,976
Expected return on plan assets	(10,114,335)	(8,917,758)	-	-
Prior service cost amortization	-	13,535	-	-
Amount of loss recognized	654,032	2,567,325	100,363	97,066
Recognition due to settlement or curtailment	-	59,559	-	-
Net periodic pension cost	$ 2,710,632	$ 11,127,095	$ 338,086	$ 347,042

Other changes in plan assets and benefit obligations recognized in unrestricted net assets for the years ended June 30, 2012 and 2011 consist of:

	Catholic Medical Center Pension Plan		Pre-1987 Supplemental Executive Retirement Plan	
	2012	2011	2012	2011
New net loss (gain)	$ 52,960,246	$ (31,723,538)	$ 385,759	$ 362,437
Amortization of prior service cost (credit)	-	(13,535)	-	-
Recognition or prior service cost due to curtailment	-	(59,559)	-	-
Amortization of net loss	(654,032)	(2,567,325)	(100,363)	(97,066)
Net amount recognized	$ 52,306,214	$ (34,363,957)	$ 285,396	$ 265,371

The Medical Center's investment strategy is to maintain a diversified portfolio of investments with an investment and risk profile consistent with pension liabilities.

The investments of the plans are comprised of the following at June 30:

	Target Allocation Fiscal Year Ending June 30, 2012	Catholic Medical Center Pension Plan 2012	Catholic Medical Center Pension Plan 2011
Equity securities	60 %	56.4 %	60.6 %
Debt securities	30	35.4	30.7
Other	10	8.2	8.7
	100 %	100 %	100 %

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 for the defined benefit pension plans obligations at June 30 are as follows:

	Catholic Medical Center Pension Plan		Pre-1987 Supplemental Executive Retirement Plan	
	2012	2011	2012	2011
Discount rate	4.46 %	5.89 %	3.57 %	4.72 %
Rate of increase in future compensation levels	4.00	4.00	-	-

The weighted-average assumptions used to determine the defined benefit pension plans net periodic benefit costs for the years ended June 30 are as follows:

	Catholic Medical Center Pension Plan		Pre-1987 Supplemental Executive Retirement Plan	
	2012	2011	2012	2011
Discount rate	5.89 %	5.75 %	4.72 %	4.90 %
Rate increase in future compensation levels	4.00	4.00	-	-
Expected long-term rate of return on plan assets	8.00	7.75	-	-

The expected employer contributions for the fiscal year ending June 30, 2013 are $10,478,922.

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

	Catholic Medical Center Pension Plan	Pre-1987 Supplemental Executive Retirement Plan
2013	$ 3,721,236	$ 478,922
2014	4,164,717	470,701
2015	4,701,121	440,121
2016	5,391,212	430,534
2017	6,123,156	420,168
2018-2022	42,807,018	1,915,593

The Medical Center contributed $10,288,000 and $499,627 to the Catholic Medical Center Pension Plan, the Pre-1987 Supplemental Executive Retirement Plan, respectively, for the year ended June 30, 2012. The Medical Center plans to make any necessary contributions during the upcoming fiscal 2013 year to ensure the Plans continue to be adequately funded given the current market conditions.

The following fair value hierarchy tables present information about the Medical Center pension plan's financial assets measured at fair value on a recurring basis based upon the lowest level of significant input valuation.

As of June 30, 2012:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 6,269,276	$ -	$ -	$ 6,269,276
Marketable equity securities	22,156,649	-	-	22,156,649
Fixed income	24,091,935	-	-	24,091,935
Private investment funds	-	60,392,135	10,099,408	70,491,543
Total assets at fair value	$ 52,517,860	$ 60,392,135	$ 10,099,408	$ 123,009,403

As of June 30, 2011:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 1,705,152	$ -	$ -	$ 1,705,152
Marketable equity securities	20,217,166	-	-	20,217,166
Fixed income	16,503,041	-	-	16,503,041
Private investment funds	-	69,799,800	10,346,043	80,145,843
Total assets at fair value	$ 38,425,359	$ 69,799,800	$ 10,346,043	$ 118,571,202

The following tables present the assets carried at fair values at June 30, 2012 and 2011 that are classified at Level 3 of the fair value hierarchy. The table reflects gains and losses for the year, including gains and losses on assets that were transferred to Level 3 as of June 30, 2012 and 2011. 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.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Private Investment Funds
Balance at July 1, 2011	$ 10,346,043
Realized losses	(1,664)
Unrealized losses	(230,108)
Sales	(14,863)
Balance at June 30, 2012	$ 10,099,408

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Private Investment Funds
Balance at July 1, 2011	$ 7,931,511
Realized losses	(13,508)
Unrealized gains	765,015
Purchases	1,951,200
Sales	(288,175)
Balance at June 30, 2012	$ 10,346,043

10. Related Party Transactions

During 2012 and 2011, the Medical Center made and received transfers (to) from affiliated organizations as follows:

	2012	2011
Alliance Health Services	$ (5,400,000)	$ (2,500,000)
Physician Practice Associates	(9,117,000)	(7,672,800)
Alliance Ambulatory Service	2,930,000	2,440,000
Alliance Resources, Inc.	-	(65,000)
Alliance Enterprises	(72,000)	-
St. Peter's Home, Inc.	871	(623)
	$ (11,658,129)	$ (7,798,423)

The Medical Center enters into various other transactions with the aforementioned related organizations as well as certain other related organizations in the prior year. The net effect of these transactions was an amount due from (to) affiliates of $458,667 and ($966,496) at June 30, 2012 and 2011, respectively.

11. 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:

	2012	2011
Health care services	$ 226,923,966	$ 229,750,026
General and administrative	48,258,812	48,002,903
	$ 275,182,778	$ 277,752,929

12. 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:

	2012	2011
Medicare	41 %	41 %
Medicaid	6	5
Commercial insurance and other	20	22
Patients	17	16
Blue Cross	16	16
	100 %	100 %

13. Endowments

In July 2008, the State of New Hampshire enacted a version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). The new law which has 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 June 30, 2012, the endowment net asset composition by type of fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ -	$ 353,996	$ 6,693,072	$ 7,047,068
Board-designated funds	64,054,092	-	-	64,054,092
Total funds	$ 64,054,092	$ 353,996	$ 6,693,072	$ 71,101,160

Changes in endowment net assets for the fiscal year ended June 30, 2012, consisted of the

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 66,205,197	$ 381,533	$ 6,882,231	$ 73,468,961
Investment return				
Investment income	686,672	2,156	2,171	690,999
Net depreciation (realized and unrealized)	(5,592,682)	-	(191,331)	(5,784,013)
Total investment (loss) gain	(4,906,010)	2,156	(189,160)	(5,093,014)
Contributions	2,741,081	51,208	-	2,792,289
Appropriation of endowment assets for expenditure	13,825	(80,901)	-	(67,076)
Endowment net assets, end of year	$ 64,054,093	$ 353,996	$ 6,693,071	$ 71,101,160

At June 30, 2011, the endowment net asset composition by type of fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ -	$ 381,533	$ 6,882,231	$ 7,263,764
Board-designated funds	66,205,197	-	-	66,205,197
Total funds	$ 66,205,197	$ 381,533	$ 6,882,231	$ 73,468,961

Changes in endowment net assets for the fiscal year ended June 30, 2011 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 54,710,363	$ 357,814	$ 6,266,470	$ 61,334,647
Investment return				
Investment income	1,242,172	2,454	601	1,245,227
Net appreciation (realized and unrealized)	10,978,393	-	615,160	11,593,553
Total investment gain	12,220,565	2,454	615,761	12,838,780
Contributions	(745,711)	81,408	-	(664,303)
Appropriation of endowment assets for expenditure	19,980	(60,143)	-	(40,163)
Endowment net assets, end of year	$ 66,205,197	$ 381,533	$ 6,882,231	$ 73,468,961

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 June 30, 2012 and 2011.

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 claims 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. Recently, government activity has increased 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.

Other Financial Information

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Report of Independent Auditors on Accompanying Consolidating Information

To the Board of Trustees of
Catholic Medical Center and Subsidiaries

We have audited the consolidated financial statements of Catholic Medical Center and Subsidiaries as of June 30, 2012 and 2011 and for the years then ended and our report thereon appears on page 1 of this document. Those audits were conducted for the purposes of forming an opinion on the consolidated financial statements taken as a whole. The consolidating 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 consolidating information has been subjected to the auditing procedures applied in the audits 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 consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is 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 companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position and results of operations of the individual companies.

PricewaterhouseCoopers LLP

November 12, 2012

Catholic Medical Center and Subsidiaries
Consolidating Balance Sheet
June 30, 2012

	Catholic Medical Center	CMC Associates	Eliminations	Total
Assets				
Current assets				
Cash and cash equivalents	$ 62,005,310	$ 190,572	$ -	$ 62,195,882
Short-term investments	1,030,384	-	-	1,030,384
Accounts receivable from patients, less allowance of $14,520,866 in 2012	30,745,571	-	-	30,745,571
Inventories	1,248,598	45,350	-	1,293,948
Due from affiliates	443,573	15,094	-	458,667
Other current assets	3,469,354	511	-	3,469,865
Total current assets	98,942,790	251,527	-	99,194,317
Property, plant and equipment, net	75,934,131	27,137		75,961,268
Other assets				
Note receivable, less allowance of $800,000	218,859	-	-	218,859
Unamortized debt issuance costs	834,884	-	-	834,884
Other assets	16,063,478	-	-	16,063,478
	17,117,221	-	-	17,117,221
Assets whose use is limited				
Pension and insurance obligations	11,439,235	-	-	11,439,235
Board-designated and donor-restricted investments	71,101,160	-	-	71,101,160
Held by trustee under revenue bond agreement	5,166,016	-	-	5,166,016
Total assets whose use is limited	87,706,411	-	-	87,706,411
Total assets	$ 279,702,553	$ 278,664	$ -	$ 279,981,217
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term debt	$ 2,128,404	$ -	$ -	$ 2,128,404
Accounts payable and accrued expenses	14,094,800	44,042	-	14,138,842
Accrued salaries, wages and related accounts	13,330,899	-	-	13,330,899
Amounts payable to third-party payors	8,920,004	-	-	8,920,004
Notes payable	6,000,000	-	-	6,000,000
Amounts due to affiliates	-	-	-	-
Total current liabilities	44,474,107	44,042	-	44,518,149
Accrued pension and other liabilities, net of current portion	111,550,388	-	-	111,550,388
Long-term debt, net of current portion	63,057,516	-	-	63,057,516
Total liabilities	219,082,011	44,042	-	219,126,053
Commitments and contingencies				
Net assets				
Unrestricted	53,573,474	234,622	-	53,808,096
Temporarily restricted	353,996	-	-	353,996
Permanently restricted	6,693,072	-	-	6,693,072
Total net assets	60,620,542	234,622	-	60,855,164
Total liabilities and net assets	$ 279,702,553	$ 278,664	$ -	$ 279,981,217

Catholic Medical Center and Subsidiaries
Consolidating Balance Sheet
June 30, 2011

	Catholic Medical Center	CMC Associates	New England Heart Institute Foundation	Eliminations	Total
Assets					
Current assets					
Cash and cash equivalents	$ 45,078,847	$ 209,255	$ -	$ -	$ 45,288,102
Short-term investments	6,386,296	-	-	-	6,386,296
Accounts receivable from patients, less allowance of $11,863,966 in 2011	32,302,845	-	-	-	32,302,845
Inventories	1,228,166	52,424	-	-	1,280,590
Other current assets	3,402,177	6,248	-	-	3,408,425
Total current assets	88,398,331	267,927	-	-	88,666,258
Property, plant and equipment, net	77,686,783	32,700	-	-	77,719,483
Other assets					
Note receivable, less allowance of $800,000	319,476	-	-	-	319,476
Unamortized debt issuance costs	892,422	-	-	-	892,422
	1,211,898	-	-	-	1,211,898
Assets whose use is limited					
Pension and insurance obligations	12,426,652	-	-	-	12,426,652
Board-designated and donor-restricted investments	73,468,961	-	-	-	73,468,961
Held by trustee under revenue bond agreement	5,072,246	-	-	-	5,072,246
Total assets whose use is limited	90,967,859	-	-	-	90,967,859
Total assets	$ 258,264,671	$ 300,627	$ -	$ -	$ 258,565,498
Liabilities and Net Assets					
Current liabilities					
Current portion of long-term debt	$ 1,473,605	$ -	$ -	$ -	$ 1,473,605
Accounts payable and accrued expenses	15,118,478	17,494	-	-	15,135,972
Accrued salaries, wages and related accounts	12,818,247	-	-	-	12,818,247
Amounts payable to third-party payors	4,528,053	-	-	-	4,528,053
Notes payable	7,000,000	-	-	-	7,000,000
Amounts due to affiliates	973,886	(7,390)	-	-	966,496
Total current liabilities	41,912,269	10,104	-	-	41,922,373
Accrued pension and other liabilities, net of current portion	53,434,346	-	-	-	53,434,346
Long-term debt, net of current portion	62,336,472	-	-	-	62,336,472
Total liabilities	157,683,087	10,104	-	-	157,693,191
Commitments and contingencies					
Net assets					
Unrestricted	93,318,020	290,523	-	-	93,608,543
Temporarily restricted	381,533	-	-	-	381,533
Permanently restricted	6,882,231	-	-	-	6,882,231
Total net assets	100,581,784	290,523	-	-	100,872,307
Total liabilities and net assets	$ 258,264,871	$ 300,627	$ -	$ -	$ 258,565,498

Catholic Medical Center and Subsidiaries
Consolidating Statement of Operations
Year Ended June 30, 2012

	Catholic Medical Center	CMC Associates	Eliminations	Total
Operating revenue				
Net patient service revenue	$ 284,416,129	$ -	$ -	$ 284,416,129
DSH funding	-	-	-	-
Other revenue	11,306,224	330,614	-	11,636,838
Total operating revenue	295,722,353	330,614	-	296,052,967
Operating expenses				
Salaries, wages and fringe benefits	144,427,317	81,621	-	144,508,938
Supplies and other expenses	101,808,378	299,416	-	102,107,794
Medicaid enhancement tax	15,240,270	-	-	15,240,270
Depreciation and amortization	10,554,856	5,563	-	10,560,419
Interest	2,765,357	-	-	2,765,357
Total operating expenses	274,796,178	386,600	-	275,182,778
Income from operations	20,926,175	(55,986)	-	20,870,189
Nonoperating gains (losses)				
Investment (loss) income	(757,730)	85	-	(757,645)
Net realized gains on sales of investments	3,120,955	-	-	3,120,955
Loss on sale of property and equipment	(159,445)	-	-	(159,445)
Nonoperating gains, net	2,203,780	85	-	2,203,865
Excess/(deficit) of revenue over expenses	23,129,955	(55,901)	-	23,074,054
Other changes in net assets				
Change in unrealized depreciation on investments	(5,949,001)	-	-	(5,949,001)
Assets released from restrictions used for capital	13,825	-	-	13,825
Pension-related changes other than net periodic pension cost	(45,281,196)	-	-	(45,281,196)
Adoption of new accounting principle - goodwill impairment	-	-	-	-
Net assets transferred to affiliates	(11,658,129)	-	-	(11,658,129)
Decrease in unrestricted net assets	$ (39,744,546)	$ (55,901)	$ -	$ (39,800,447)

Catholic Medical Center and Subsidiaries
Consolidating Statement of Operations
Year Ended June 30, 2011

	Catholic Medical Center	CMC Associates	New England Heart Institute Foundation	Eliminations	Total
Operating revenue					
Net patient service revenue	$ 271,261,302	$ -	$ -	$ -	$ 271,261,302
DSH funding	12,027,952	-	-	-	12,027,952
Other revenue	5,013,015	344,342	3,276	-	5,360,633
Total operating revenue	288,302,269	344,342	3,276	-	288,649,887
Operating expenses					
Salaries, wages and fringe benefits	150,560,438	75,510	-	-	150,635,948
Supplies and other expenses	100,757,135	239,090	3,160	-	100,999,385
Medicaid enhancement tax	12,521,429	-	-	-	12,521,429
Depreciation and amortization	10,791,993	5,563	-	-	10,797,556
Interest	2,798,611	-	-	-	2,798,611
Total operating expenses	277,429,606	320,163	3,160	-	277,752,929
Income from operations	10,872,663	24,179	116	-	10,896,958
Nonoperating gains					
Investment income	1,980,705	138	1,480	-	1,982,323
Net realized gains on sales of investments	2,003,005	-	-	-	2,003,005
Loss on sale of property and equipment	(15,946)	-	-	-	(15,946)
Nonoperating gains, net	3,967,764	138	1,480	-	3,969,382
Excess of revenue over expenses	14,840,427	24,317	1,596	-	14,866,340
Other changes in net assets					
Change in unrealized appreciation on investments	9,794,325	-	-	-	9,794,325
Assets released from restrictions used for capital	19,980	-	-	-	19,980
Pension-related changes other than net periodic pension cost	29,331,769	-	-	-	29,331,769
Adoption of new accounting principle - goodwill impairment	(12,496)	-	-	-	(12,496)
Net assets transferred to affiliates	(7,530,577)	-	(267,846)	-	(7,798,423)
Increase (decrease) in unrestricted net assets	$ 46,443,428	$ 24,317	$ (266,250)	$ -	$ 46,201,495

CMC Healthcare System, Inc.

Consolidated Financial Statements
June 30, 2012 and 2011

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Report of Independent Auditors

To the Board of Trustees of
CMC Healthcare System, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in net assets and cash flows present fairly, in all material respects, the financial position of CMC Healthcare System, Inc. and its subsidiaries (the "System") at June 30, 2012 and 2011, and the results of their operations, changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

November 12, 2012

PricewaterhouseCoopers LLP, 125 High Street, Boston, MA 02110
T: (617) 530 5000, F: (617) 530 5001, www.pwc.com/us

CMC Healthcare System, Inc.
Consolidated Balance Sheets
June 30, 2012 and 2011

	2012	2011
Assets		
Current assets		
Cash and cash equivalents	$ 65,112,661	$ 50,518,030
Short-term investments	1,030,384	6,386,296
Accounts receivable from patients and residents, less allowance of $16,632,214 in 2012 and $13,635,144 in 2011	31,542,467	33,090,693
Inventories	1,293,948	1,280,590
Other current assets	4,677,050	4,343,860
Total current assets	103,656,510	95,619,469
Property, plant and equipment, net	90,899,605	93,474,740
Other assets		
Notes receivable, less allowance of $800,000 in 2012 and 2011	218,859	319,476
Unamortized debt issuance costs	881,274	946,880
Intangible assets and other	22,386,394	6,324,737
	23,486,527	7,591,093
Assets whose use is limited		
Pension and insurance obligations	11,439,235	12,426,652
Board designated and donor restricted investments	77,365,030	79,327,210
Held by trustee under revenue bond agreement	5,168,016	5,072,246
	93,972,281	96,826,108
Total assets	$ 312,014,923	$ 293,511,410
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 2,260,946	$ 1,596,870
Accounts payable and accrued expenses	15,588,103	19,805,352
Accrued salaries, wages and related accounts	15,010,289	14,434,716
Amounts payable to third-party payors	8,920,004	4,528,053
Notes payable	6,000,000	7,000,000
Total current liabilities	47,779,342	47,364,991
Accrued pension and other liabilities, net of current portion	125,224,366	59,818,664
Long-term debt, net of current portion	71,804,908	71,216,406
Total liabilities	244,808,616	178,400,061
Commitments and contingencies		
Net assets		
Unrestricted	60,159,239	107,847,585
Temporarily restricted	353,996	381,533
Permanently restricted	6,693,072	6,882,231
Total net assets	67,206,307	115,111,349
Total liabilities and net assets	$ 312,014,923	$ 293,511,410

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

CMC Healthcare System, Inc.
Consolidated Statements of Operations
Years Ended June 30, 2012 and 2011

	2012	2011
Operating revenue		
Net patient service revenue	$ 294,277,602	$ 281,406,263
DSH funding	-	12,027,952
Other revenue	19,234,607	12,887,857
Total operating revenue	313,512,209	306,322,072
Operating expenses		
Salaries, wages and fringe benefits	165,584,202	170,939,164
Supplies and other expenses	108,311,737	106,425,710
Medicaid enhancement tax	15,240,270	12,521,429
Depreciation and amortization	11,391,722	12,309,782
Interest	3,366,645	3,406,270
Total operating expenses	303,894,576	305,602,355
Income from operations	9,617,633	719,717
Nonoperating gains (losses)		
Investment (loss) income	(1,029,269)	2,435,954
Net realized gains on sale of investments (including other-than-temporary impairment losses of $2,887 in 2012)	3,072,094	2,039,277
(Loss) gain on sale of property and equipment	(475,095)	451,643
Other nonoperating loss	(31,468)	(32,483)
Nonoperating gains, net	1,536,262	4,894,391
Excess of revenue over expenses	11,153,895	5,614,108
Unrealized (depreciation) appreciation on investments	(5,737,584)	9,738,268
Assets released from restrictions used for capital	13,825	19,980
Pension-related changes other than net periodic pension cost	(53,118,482)	34,260,158
Adoption of new accounting principle - goodwill impairment	-	(194,496)
(Decrease) increase in unrestricted net assets	$ (47,688,346)	$ 49,438,018

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

CMC Healthcare System, Inc.
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2012 and 2011

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Balances at June 30, 2010	$ 58,409,567	$ 357,814	$ 6,266,470	$ 65,033,851
Excess of revenue over expenses	5,614,108	-	-	5,614,108
Investment income	-	2,454	601	3,055
Change in interest in perpetual trust	-	-	408,370	408,370
Restricted contributions	-	81,408	-	81,408
Unrealized appreciation on investments	9,738,268	-	206,790	9,945,058
Assets released from restriction used for operations	-	(40,163)	-	(40,163)
Assets released from restriction used for capital	19,980	(19,980)	-	-
Pension-related costs other than net periodic pension cost	34,260,158	-	-	34,260,158
Adoption of new accounting principle - goodwill impairment	(194,496)	-	-	(194,496)
Increase in net assets	49,438,018	23,719	615,761	50,077,498
Balances at June 30, 2011	107,847,585	381,533	6,882,231	115,111,349
Excess of revenue over expenses	11,153,895	-	-	11,153,895
Investment income	-	2,156	2,171	4,327
Change in interest in perpetual trust	-	-	(105,086)	(105,086)
Restricted contributions	-	51,208	-	51,208
Unrealized depreciation on investments	(5,737,584)	-	(86,244)	(5,823,828)
Assets released from restriction used for operations	-	(67,076)	-	(67,076)
Assets released from restriction used for capital	13,825	(13,825)	-	-
Pension-related costs other than net periodic pension cost	(53,118,482)	-	-	(53,118,482)
Decrease in net assets	(47,688,346)	(27,537)	(189,159)	(47,905,042)
Balances at June 30, 2012	$ 60,159,239	$ 353,996	$ 6,693,072	$ 67,206,307

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

CMC Healthcare System, Inc.
Consolidated Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Operating activities		
Change in net assets	$ (47,905,042)	$ 50,077,498
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	11,391,722	12,309,782
Adoption of new accounting principle - goodwill impairment	-	194,496
Pension-related changes other than net periodic pension cost	53,118,482	(34,260,158)
Restricted gifts and investment income	(55,535)	(84,463)
Net realized gain on sales of investments	(3,072,094)	(2,039,277)
Decrease (increase) in interest in perpetual trust	105,086	(408,370)
Unrealized depreciation (appreciation) on investments	5,823,828	(9,945,058)
Change in fair values of interest rate swaps	2,400,400	(540,485)
Loss (gain) on sale of property and equipment	475,095	(451,643)
Increase (decrease) in cash from working capital and other items		
Accounts receivable from patients and residents, net	1,548,226	(4,476,051)
Inventories	(13,358)	4,147
Other current assets	(333,190)	(821,971)
Other assets	(16,061,657)	(973,376)
Accounts payable and accrued expenses	(3,305,080)	4,402,558
Accrued salaries, wages and related accounts	575,573	1,359,480
Amounts payable to third-party payors	4,391,951	3,364,324
Accrued pension and other liabilities	9,851,395	4,330,720
Net cash provided by operating activities	18,935,802	22,042,153
Investing activities		
Acquisition of property, plant and equipment	(7,166,032)	(6,132,628)
Proceeds from disposals of assets	141,150	514,000
Payments received from notes receivable	100,617	138,058
(Decrease) increase in funds held by trustee under revenue bond agreement	(95,770)	103,169
Purchases of short-term investments	-	(35,350)
Sales of short-term investments	5,355,912	-
Sales of investments	14,957,735	17,833,451
Purchases of investments	(14,864,959)	(18,499,512)
Net cash used in investing activities	(1,571,347)	(6,078,812)
Financing activities		
Repayment of debt	(1,543,264)	(1,672,904)
Repayment of note payable	(7,000,000)	(7,000,000)
Issuance of note payable	6,000,000	7,000,000
Repayment of capital lease	(250,183)	(38,403)
Bond issuance costs - CAN note	(31,912)	(10,401)
Restricted gifts and investment income	55,535	84,463
Net cash used in financing activities	(2,769,824)	(1,637,245)
Increase in cash and cash equivalents	14,594,631	14,326,096
Cash and cash equivalents		
Beginning of year	50,518,030	36,191,934
End of year	$ 65,112,661	$ 50,518,030
Supplemental cash flow information		
Cash paid for interest	$ 3,385,677	$ 3,428,159
Property, plant and equipment additions included in accounts payable and accrued expenses	1,434,837	522,668
Noncash additions to fixed assets related to capital leases	3,031,126	286,912

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

1. Organization

CMC Healthcare System, Inc. (the "System") is a not-for-profit organization formed effective July 1, 2001. The System functions as the parent company and sole member of Catholic Medical Center (the "Medical Center"), Physician Practice Associates, Inc. ("PPA"), Alliance Enterprises, Inc. ("Enterprises"), Alliance Resources, Inc. ("Resources"), Alliance Ambulatory Services, Inc. ("AAS"), Alliance Health Services, Inc. ("AHS"), Doctors Medical Association, Inc. ("DMA") and St. Peter's Home, Inc.

2. Significant Accounting Policies

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

Principles of Consolidation
The consolidated financial statements include the accounts of the Medical Center, PPA, Enterprises, Resources, AAS, AHS, DMA and St. Peter's Home, Inc. Significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("US 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, accrued compensation and benefits, conditional asset retirement obligations, and self-insurance reserves.

Income Taxes
The System, the Medical Center, PPA, Resources, AAS, Hillcrest, AHS, DMA and St. Peter's Home, Inc. are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

Enterprises is a for-profit organization which files federal and New Hampshire state income tax returns. Provision for income taxes was $0 for each the years ended June 30, 2012 and 2011. There are no significant deferred tax assets or liabilities.

Temporarily and Permanently Restricted Net Assets
Gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of donated assets.

Temporarily restricted net assets are those whose use by the System has been limited by donors to a specific time period or purpose. When a donor restriction expires (i.e., when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the 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 System in perpetuity. Income earned on permanently restricted net assets, to the extent not restricted by the donor, including net unrealized appreciation 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.

Performance Indicator
Excess of revenues 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, realized gains and losses on the sales of securities, unrestricted investment income and contributions to community agencies.

Charity Care and Community Benefits
The System 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 System does not pursue collection of amounts determined to qualify as charity care; therefore, they are not reported as revenues. The System rendered charity care in accordance with this policy, which, at established charges, amounted to $27,114,961 and $27,503,502 for the years ended June 30, 2012 and 2011, respectively.

The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the System's total operating expenses divided by gross patient service revenue. Of the System's $304 million of total operating expenses reported, an estimated $9.1 million and $8.3 million arose from providing services to charity patients in fiscal 2012 and 2011, respectively.

The System provides community service programs, without charge, such as the Medication Assistance Program, Community Education and Wellness, Parent Transport, and the Parish Nurse Program. The costs of providing these programs amounted to $1,230,283 and $2,195,477 for the years ended June 30, 2012 and 2011, respectively.

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 System maintained approximately $58,940,000 and $42,800,000 at June 30, 2012 and 2011, respectively, of its cash and cash equivalent accounts with a single institution. The System has not experienced any losses associated with deposits at this institution.

Included in cash and cash equivalents is an amount held in escrow by the Royal Bank of Canada Capital Markets ("RBCCM") in the amount of $3,250,000 and $2,460,000 at June 30, 2012 and 2011, respectively. These funds are on deposit with RBCCM as a condition of the Medical Center's swap agreement on the Series 2002B revenue bonds.

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

Property, Plant and Equipment
Property, plant and equipment is stated at cost at time of purchase or fair market value at the time of donation, less accumulated depreciation. The System's policy is to capitalize expenditures for major improvements and charge maintenance and repairs currently for expenditures which do not extend the lives of the related assets. The provisions for depreciation and amortization have been determined using the straight-line method at rates, which are intended to amortize the cost of assets over their estimated useful lives, which range from 2 to 40 years.

Goodwill
The System reviews its goodwill and other long-lived assets annually to determine whether the carrying amount of such assets is impaired. Upon determination that an impairment has occurred, these assets are reduced to fair value. Recorded impairments at the time of adoption of the new accounting principle on July 1, 2010 were $194,496. Recorded impairments from the year ended June 30, 2011 were $380,000. The impairments relate to goodwill related to purchased physician practices impaired under a valuation technique based on multiples of earnings. There were no impairments recorded for the year ended June 30, 2012.

Retirement Benefits
The Catholic Medical Center Pension Plan (the "Plan") provides retirement benefits for certain employees of the Medical Center and PPA 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 System'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 Internal Revenue 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. There was no impact on the liability, as no current benefits were frozen and the amendment only affected future employees.

During 2011, the Board of Trustees voted to freeze the accrual of benefits under the Plan effective December 31, 2011. Accordingly, the Medical Center recorded a curtailment gain of $26,455,853 at June 30, 2011.

The System also maintains tax-sheltered annuity benefit programs in which it matches one half of employee contributions up to either 2% or 3% of their annual salary, depending on date of hire. The System made matching contributions under the program of $3,709,366 and $1,794,011 for the years ended June 30, 2012 and 2011, respectively.

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 to 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 System for the years ended June 30, 2012 and 2011.

The System also provides a noncontributory supplemental executive retirement plan covering certain former executives of the Medical Center, as defined. The System'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.

During 2007, the System created a supplemental executive retirement plan covering certain executives of the Medical Center. The System recorded compensation expense of $667,526 and $398,471 for the years ended June 30, 2012 and 2011, respectively, related to this plan.

Employee Fringe Benefits

The System 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 System expenses the cost of these benefits as they are earned by the employees.

Debt Issuance Costs/Original Issue Discount

The debt issuance costs incurred to obtain financing for the System's construction and renovation programs and refinancing of prior bonds and the original issue discount are amortized in declining amounts by the effective interest method over the repayment period of the bonds. The original issue discount is presented as a reduction of the face amount of bonds payable.

Investments and Investment Income

Investments in debt and equity securities, including funds held by trustee under revenue bond agreements, are measured at fair value primarily based on quoted market prices. Realized gains or losses on the sale of investment securities are determined by the specific identification method and are recorded on the settlement date. 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.

The Medical Center holds investments in privately held investment funds of $48,132,000 and $56,005,000, at June 30, 2012 and 2011, respectively, which are carried at estimated fair value determined by management, based upon valuations provided by management of the privately held investment funds as of June 30, 2012 and 2011. Since investments in privately held investment funds are not readily marketable, the estimated value is subject to uncertainty and therefore, may differ from the value that would have been used had a market for such investments existed and such differences could be material.

During the years ended June 30, 2012 and 2011, the System reported realized losses of approximately $2,887 and $0, respectively, relating to declines in fair value of investments that were determined by management to be other than temporary.

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 them. Changes in the fair value of derivatives are recognized either in the excess of revenues over expenses or net assets, depending on whether the derivative is speculative or being used to hedge changes in fair value or cash flows.

Beneficial Interest in Perpetual Trust

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

Malpractice Loss Contingencies

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

Recently Issued Accounting Pronouncements

In August 2010, the FASB issued Health Care Entities: Presentation of Insurance Claims and Related Insurance Recoveries (ASU 2010-24), which provides that the net presentation of receivables for insurance recoveries and related claims liabilities is not permitted. The System adopted the provisions of ASU 2010-24 during the year ended June 30, 2012.

In August 2010, the FASB issued Health Care Entities: Measuring Charity Care for Disclosure (ASU 2010-23), which clarified the disclosure of charity care provided by healthcare organizations, providing that such disclosure should be measured using cost and that related reimbursements recorded should also be separately disclosed. The System adopted the provisions of ASU 2010-23 during the year ended June 30, 2012.

In July 2011, the FASB issued Health Care Entities: Presentation and Disclosure of Patient Service Revenue, Provisions for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities (ASU 2011-07), which requires certain healthcare entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from net patient service revenue. Additionally those healthcare entities are required to provide enhanced disclosures about their policies for recognizing revenue and assessing bad debts. The System elected to early adopt ASU 2011-07 during the year ended June 30, 2012 and changed its reporting of the provision for bad debt. Accordingly, the previously reported provision for bad debt of $23,839,000 for the year ended June 30, 2011 has been reclassified as a reduction to net patient service revenue. The reclassification had no impact on the previously reported excess of revenue over expenses for fiscal 2011.

Subsequent Events
Management of the System has assessed the impact of subsequent events through November 12, 2012, the date that the audited financial statements were issued and has concluded that there were no such events that would require adjustment to the audited financial statements or disclosure in the notes to the audited financial statements.

3. Net Patient Service Revenue

The following summarizes net patient service revenue:

	Years Ended June 30, 2012	Years Ended June 30, 2011
Gross patient service revenue	$ 807,575,268	$ 773,568,712
Less: Contractual allowances	486,851,225	468,323,891
Less: Provision for bad debt	26,446,441	23,838,558
Net patient service revenue	$ 294,277,602	$ 281,406,263

The System participates in the Federal Medicare Program ("Medicare") and the State of New Hampshire Department of Health and Human Services Medicaid Program ("Medicaid"). The System 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 System 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 38% and 2%, respectively, in 2012 and 34% and 1%, respectively, in 2011.

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

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

The approximate percentages of patient service revenue, net of contractual allowances and discounts (before the provision for bad debts), for the year ended September 30, 2012, from third-party payors and uninsured patients are as follows:

	Third-party payors	Uninsured Patients	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	98.9%	1.1%	100.0%

The System recognizes changes in accounting estimates for net patient service revenue and third-party payor settlements as new events occur or as additional information is obtained. For the years ended June 30, 2012, and 2011 favorable (unfavorable) adjustments recorded for changes to prior year estimates were approximately $1,380,000 and ($180,000), respectively.

Under the State of New Hampshire's (the "State") tax code, the State imposes a Medicaid enhancement tax equal to 5.5% of net patient service revenues. The amount of tax incurred by the Medical Center for 2012 and 2011 was $15,240,000 and $12,521,000, respectively. Disproportionate share ("DSH") funding payments from the State are recorded in operating revenues and amounted to $0 and $12,028,000 in 2012 and 2011, respectively.

4. Property, Plant and Equipment

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

	Useful Lives	2012	2011
Land and land improvements	2-40 years	$ 2,381,233	$ 2,321,935
Buildings and improvements	2-40 years	93,610,042	93,944,088
Fixed equipment	3-25 years	42,760,648	42,689,921
Movable equipment	3-25 years	87,170,901	81,534,919
Construction in progress		3,291,883	498,822
		229,214,707	220,989,685
Less: Accumulated depreciation and amortization		138,315,102	127,514,945
Net property, plant and equipment		$ 90,899,605	$ 93,474,740

Depreciation expense amounted to $11,258,783 and $11,434,145 for the years ended June 30, 2012 and 2011, respectively.

5. Note Payable and Long-Term Debt

Long term debt at June 30, consists of the following:

	2012	2011
New Hampshire Health and Education Facilities Authority (the "Authority") Revenue Bonds		
Series 2002A bonds with interest ranging from 5.000% to 6.125% per year and principal payable in annual installments ranging from $380,000 to $730,000 through July 1, 2032. The bonds may be redeemed in whole or in part on or after July 1, 2012 at a premium which is not to exceed 1% of the bonds value	$ 7,425,000	$ 7,825,000
Series 2002B bonds with a variable interest rate computed based on a weekly floater rate as determined in the agreement, a portion of which is swapped for a fixed interest rate of 3.500% through November 1, 2024. Principal is payable in annual installments ranging from $640,000 to $1,650,000 through July 2032	23,335,000	24,000,000
Series 2006 bonds with interest rate of 4.875% to 5.000% per year and principal payable in annual installments ranging from $340,000 to $2,680,000 through July 2036	31,595,000	31,950,000
	62,355,000	63,775,000
Note payable with interest rate of LIBOR + 1% at June 30, 2008 and maturity date of April 1, 2018	8,879,934	9,003,199
	71,234,934	72,778,199
Capitalized lease obligations	3,029,451	248,509
Less: Unamortized original issue discounts	198,531	213,432
	74,065,854	72,813,276
Less: Current portion	2,260,946	1,596,870
	$ 71,804,908	$ 71,216,406

In December 2002, the Medical Center in connection with the Authority, issued $19,225,000 of tax-exempt fixed rate revenue bonds (Series 2002A) and $28,000,000 of tax-exempt variable rate revenue bonds (Series 2002B). 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 1.25.

The proceeds of the Series 2002A and 2002B bond issues were used to advance refund the Series 1989 bonds, to reimburse the Medical Center for prior capital expenditures and to provide funding of the Medical Center's major capital expansion project, a 72,000 square foot addition.

The Series 2002B bonds are subject to purchase from time to time at the option of the owners thereof. To enhance the marketability of the bonds and in order to provide the availability of funds for the payment of the tendered bonds, the Authority has provided for the remarketing of the bonds. To the extent that the remarketing may not be successful, the Authority, and the Medical Center have provided for the purchase of such bonds by entering into a Letter of Credit Reimbursement Agreement (the "Agreement") with Citizens Bank (the "Bank"). The Bank will purchase the Series 2002B bonds that have been tendered and not remarketed. Amounts advanced under the Agreement and not reimbursed to the Bank by the 180th day will automatically be converted into a term loan.

The letter of credit also collateralizes the Series 2002B bonds, which allows the Trustee to draw up to $25,609,726 for repayment of principal and interest on the Series 2002B bonds. Drawings on the letter of credit will bear interest at 1.55%. The letter of credit expires on July 1, 2016. As of June 30, 2012 and 2011, approximately $16,200,000 has been successfully remarketed by the remarketing agent.

In May 2006, the Medical Center, in connection with the Authority, issued $32,910,000 of tax-exempt fixed rate revenue bonds (Series 2006). 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 1.25.

The proceeds of the Series 2006 bond issue were used to advance refund $9,010,000 of the Series 2002A bonds, to provide funding for renovating additional space and equipment at the hospital, and to provide a portion of the funding for the construction of a new parking garage.

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. These funds are administered by a trustee and income earned on certain of these funds is similarly restricted. One of the funds held by the trustee is the debt service reserve fund. This fund may be used should the Medical Center fail to meet principal and interest payments. The reserve fund requirement is the lesser of 10% of the original principal amount less original issue discount of bonds, the maximum amount of principal and interest due in any one future year or 125% of the average annual debt service. Any amounts in excess of the requirements of the fund may be transferred at the direction of the Medical Center.

Interest paid by the System totaled $3,366,645 and $3,395,661 for the years ended June 30, 2012 and 2011, respectively.

Aggregate principal payments due on the revenue bonds and other debt obligations for each of the five years and thereafter ending June 30 are as follows:

2013	$ 2,260,946
2014	2,357,825
2015	2,466,879
2016	2,527,380
2017 and thereafter	64,651,355
	$ 74,264,385

The scheduled principal maturities represent annual payments as required under long-term debt repayment schedules.

Included in the Medical Center's debt is $23,335,000 of variable rate demand bonds ("VRDBs"). The Medical Center has entered into an irrevocable letter of credit ("LOC") with a financial institution to secure bond repayment and interest obligations associated with its VRDBs. In the event a bond cannot be remarketed, the bond may be "put" to the LOC provider, resulting in a loan to fund redemption of the bond. If it is assumed that outstanding bonds are put as of July 1, 2012, aggregate scheduled repayments under the VRDB related LOC would be as follows: $695,000 in 2013, $725,000 in 2014, $760,000 in 2015, $795,000 in 2016 and $20,360,000 in 2017 and thereafter.

The fair value of the System's long-term debt is estimated using discounted cash flow analysis, based on the System's current incremental borrowing rate for similar types of borrowing arrangements. The fair value of the System's long-term debt, excluding capitalized lease obligations and mortgages was $72,108,182 and $69,024,448 at June 30, 2012 and 2011, respectively.

Pursuant to a Guaranty Agreement dated as of January 1, 1994 by and between Optima Health, Inc. ("Optima") and the trustee for Hillcrest Terrace's Series 1994 bond issue, later transferred from Optima to the Medical Center, the Medical Center has guaranteed to fund, up to a maximum cumulative amount of $1,900,000, any deficiencies in the Hillcrest Terrace's Debt Service Reserve Fund (the "Reserve Fund") to the extent that the Reserve Fund value, as defined, is less than $800,000. As of June 30, 2012 and 2011, the Medical Center has made cumulative payments of $251,564 under this guarantee. As of June 30, 2012 and 2011, the Medical Center has recorded a liability for the remaining $1,648,436, based upon management's estimate of future obligations.

MOB LLC Note Payable
During 2007, MOB LLC established a nonrevolving line of credit for $9,350,000 with a bank in order to fund construction of a medical office building. The line of credit bears interest at the LIBOR lending rate plus 1%. Payments of interest only are due on a monthly basis until the completion of the medical office building or April 1, 2008, whichever is earlier (the "Conversion Date"). During 2008, the building was completed and the line of credit was converted to a note payable with payments of interest and principal due on a monthly basis with all payments to be made no later than April 1, 2018.

Notes Payable
In April 2005, the Medical Center, in connection with the Authority, issued $7,000,000 of Revenue Anticipation/Capital Notes (Series 2005F). The proceeds were used to purchase capital equipment throughout the year and to renew Series 2004I Notes. The notes mature annually and have been renewed each year since inception. In April 2011, the System reissued $7,000,000 of Revenue Anticipation/Capital Notes (Series 2011A) to renew the Series 2010E notes. In April 2012, the Medical Center reissued $6,000,000 of Revenue Anticipation/Capital Notes (Series 2012A) to renew the Series 2011A notes. These notes mature on April 17, 2013 with an interest rate of 2.25%.

Derivatives
The System uses derivative financial instruments principally to manage interest rate risk. During 2005, the Medical Center entered into an interest rate swap agreement to replace the existing agreement signed in 2003. This agreement involves the exchange of fixed rate payments by the Medical Center for variable rate payments from the counterparty without the exchange of the underlying notional amounts. The notional amount for this agreement is $15,000,000 and expires in November 2024. Under the provisions of this agreement, interest is to be paid to the counterparty, by the Medical Center, at 67% of USD-LIBOR-BBA through the remainder of the term..

During 2007, MOB LLC entered into an interest rate swap agreement with an initial notional amount of $9,350,000 in connection with its line of credit. Under this agreement, MOB LLC will pay a fixed rate equal to 5.21% and will receive a variable rate of the one-month LIBOR rate. Payments under the swap agreement began April 1, 2008 and the agreement will terminate April 1, 2018.

The fair value of these derivatives amounted to ($5,851,754) and ($3,451,354) as of June 30, 2012 and 2011, respectively, and have been included within accrued pension and other liabilities. The change in the fair value of the derivatives of ($2,400,400) and $540,485 have been included within nonoperating investment income for the years ended June 30, 2012 and 2011, respectively.

6. Notes Receivable

During February 1994, Hillcrest Terrace ("Hillcrest") together with the Authority restructured $26,000,000 of special obligation revenue bonds (Series 1990). The bondholder consented to an amendment of the Series 1990 bond indenture, which permitted the redemption of the Series 1990 bonds at a price of 85% of the par value thereof, or $22,100,000. The redemption was accomplished partially with the issuance of $18,950,000 of Series 1994 revenue bonds to the Authority. The Authority then loaned, under a the Loan Agreement and Mortgage, the proceeds thereof to Hillcrest, which proceeds, after payment of certain issuance expenses and accrued interest on the Series 1990 bonds, were used to pay a portion of the redemption price of the Series 1990 bonds. In addition, certain funds deposited into the Series 1990 Reserve Fund were paid to Fidelity Health Alliance, Inc. (the Medical Center's former parent company and one of the organizations which formed Optima and hereinafter referred to as Optima) to repay earlier advances. Optima then loaned $2,581,528 to Hillcrest pursuant to a subordinated loan agreement. Hillcrest owed Optima $400,856, which was converted from a current obligation to a long-term obligation and included in the subordinated loan agreement resulting in a total of $2,982,384 owed to Optima. In conjunction with the disaffiliation from Optima effective July 1, 2000, the subordinated loan became payable to the Medical Center. Hillcrest used a portion of the subordinated loan to pay a portion of the redemption price of the Series 1990 bonds. Also, upon redemption of the Series 1990 bonds, $1,500,000 from the Series 1990 Reserve Fund was transferred to the Series 1994 Reserve Fund and the remaining amount, $1,074,000, of the Series 1990 Reserve Fund was used to pay a portion of the redemption price of the Series 1990 bonds. The subordinated loan is subordinated in all respects to the Series 1994 revenue bonds. During 2004, the subordinated loan was restructured by the Medical Center. The principal due was reduced from $2,982,384 to $1,522,909. The new note bears interest at a stated rate of 5% per annum. The balance receivable from Hillcrest is $1,086,672 and $1,151,184 at June 30, 2012 and 2011, respectively. As of August 31, 2008, Hillcrest defaulted on their debt covenants. As a result, the Medical Center has reserved $800,000 against the note receivable in the event of default, at June 30, 2012 and 2011. As of June 30, 2012 all payments are current.

7. Operating Leases

The System has various noncancelable agreements to lease various pieces of medical equipment. The System also has noncancelable leases for office space. The System has also assumed lease obligations for certain physician practices that became provider based. Rental expense under all leases for the years ended June 30, 2012 and 2011 was $6,973,394 and $6,910,328, respectively.

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

2013	$ 5,920,765
2014	4,056,785
2015	2,884,871
2016	2,156,620
2017 and thereafter	19,039,822
	$ 34,058,863

8. Investments and Assets Whose Use is Limited

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

	2012		2011	
	Fair Value	Cost	Fair Value	Cost
Cash and cash equivalents	$ 7,157,539	$ 7,157,539	$ 8,232,465	$ 8,232,465
US federated treasury obligations	5,168,016	5,168,016	5,072,246	5,072,246
Marketable equity securities	17,716,455	15,787,130	17,836,632	15,093,287
Fixed income	16,828,644	16,235,624	16,065,663	15,621,417
Private investment funds	48,132,011	40,289,548	56,005,398	43,944,957
	$ 95,002,665	$ 84,637,857	$ 103,212,404	$ 87,964,372

Unrestricted investment (loss) income is summarized as follows:

	June 30,	
	2012	2011
Nonoperating investment income	$ (1,029,269)	$ 2,435,954
Realized gains on sales of investments (net of other-than-temporary impairments)	3,072,094	2,039,277
Change in unrealized appreciation on investments	(5,737,584)	9,738,268
	$ (3,694,759)	$ 14,213,499

Effective July 1, 2008, the System adopted new accounting guidance which defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. 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 data. 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 entities 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.

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

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

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

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

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

- *Market approach* – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- *Cost approach* – Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and
- *Income approach* – Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques).

The following fair value hierarchy tables present information about the System's assets and liabilities measured at fair value on a recurring basis based upon the lowest Level of significant input to the valuations.

As of June 30, 2012:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 7,157,539	$ -	$ -	$ 7,157,539
US federated treasury obligations	5,168,016	-	-	5,168,016
Marketable equity securities	17,716,455	-	-	17,716,455
Fixed income	16,828,644	-	-	16,828,644
Private investment funds	-	37,412,704	10,719,307	48,132,011
Total assets at fair value	$ 46,870,654	$ 37,412,704	$ 10,719,307	$ 95,002,665

	Level 1	Level 2	Level 3	Total
Interest rate swaps	$ -	$ -	$ (5,851,754)	$ (5,851,754)
Total liabilities at fair value	$ -	$ -	$ (5,851,754)	$ (5,851,754)

As of June 30, 2011:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 8,232,465	$ -	$ -	$ 8,232,465
US federated treasury obligations	5,072,246	-	-	5,072,246
Marketable equity securities	17,836,632	-	-	17,836,632
Fixed income	16,065,663	-	-	16,065,663
Private investment funds	-	45,085,122	10,920,276	56,005,398
Total assets at fair value	$ 47,207,006	$ 45,085,122	$ 10,920,276	$ 103,212,404

	Level 1	Level 2	Level 3	Total
Interest rate swaps	$ -	$ -	$ (3,451,354)	$ (3,451,354)
Total liabilities at fair value	$ -	$ -	$ (3,451,354)	$ (3,451,354)

The following tables present the assets and liabilities carried at fair value as of June 30, 2012 and 2011 that are classified within Level 3 of the fair value hierarchy. The tables reflect gains and losses for the year. 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 and liabilities within Level 3 may include changes in fair value that were attributable to both observable and unobservable inputs.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	Private Investment Funds	Interest Rate Swap
Balance at June 30, 2011	$ 10,920,276	$ (3,451,354)
Unrealized losses	(189,934)	(2,400,400)
Realized losses	(1,126)	-
Sales	(9,909)	-
Balance at June 30, 2012	$ 10,719,307	$ (5,851,754)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	Private Investment Funds	Interest Rate Swap
Balance at July 1, 2010	$ 10,259,860	$ (3,991,839)
Realized losses	(9,150)	540,485
Unrealized losses	875,993	-
Sales	(206,427)	-
Balance at June 30, 2011	$ 10,920,276	$ (3,451,354)

There were no significant transfers between Levels 1, 2 or 3 for the year ended June 30, 2012.

In 2009, new guidance related to the Fair Value Measurement standard was issued for estimating the fair value of investments in investment companies (limited partnerships) that have a calculated value of their capital account or net asset value ("NAV") in accordance with, or in a manner consistent with US GAAP. The System is permitted under US GAAP to estimate the fair value of an investment at the measurement date using the reported NAV without further adjustment unless the System expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with US GAAP. The System's investments in private investment funds are fair valued based on the most current NAV.

The System performs additional procedures including due diligence reviews on its investments in investment companies and other procedures with respect to the capital account or NAV provided to ensure conformity with US GAAP. The System has assessed factors including, but not limited to, managers' compliance with Fair Value Measurement standard, price transparency and valuation procedures in place, the ability to redeem at NAV at the measurement date, and existence of certain redemption restrictions at the measurement date.

The guidance also requires additional disclosures to enable user of the financial statements to understand the nature and risk of the System's investments. Furthermore, investments which can be redeemed at NAV by the System on the measurement date or in the near term are classified as Level 2. Investments which cannot be redeemed on the measurement date or in the near term are classified as Level 3. The new guidance did not materially affect the System's consolidated financial statements.

Category	Fair Value	Redemption Frequency	Redemption Notice Period
Private Investment Funds - Level 2	$ 37,412,704	Daily, Monthly	2-30 days notice
Private Investment Funds - Level 3	10,719,307	Quarterly, Annually	1 year lock up with 65-90 days notice

9. Retirement Benefits

A reconciliation of the changes in the Catholic Medical Center Pension Plan, the Medical Center's Supplemental Executive Retirement Plan and the New Hampshire Medical Laboratories Retirement Income Plan projected benefit obligations and the fair value of assets for the years ended June 30, 2012 and 2011, and a statement of funded status of the plans as of June 30 for both years follows:

	Catholic Medical Center Pension Plan		Pre-1987 Supplemental Executive Retirement Plan		New Hampshire Medical Laboratories Retirement Income Plan	
	2012	2011	2012	2011	2012	2011
Change in benefit obligations						
Benefit obligation at beginning of year	$ (157,787,395)	$ (165,821,556)	$ (5,394,452)	$ (5,290,290)	$ (2,220,520)	$ (2,173,902)
Service cost	(3,191,124)	(7,953,006)		-	(7,500)	(7,500)
Interest cost	(8,979,811)	(9,451,428)	(237,723)	(249,976)	(126,408)	(120,731)
Benefits paid	3,225,064	2,634,090	499,627	508,251	89,341	85,983
Actuarial loss	(40,619,502)	(4,145,691)	(385,759)	(362,437)	(368,565)	(13,021)
Expenses paid	398,326	494,343	-	-	5,612	8,651
Curtailments, settlements, and special termination benefits	-	26,455,853	-	-	-	-
Benefit obligation at end of year	(206,954,442)	(157,787,395)	(5,518,307)	(5,394,452)	(2,628,040)	(2,220,520)
Accumulated benefit obligation	206,954,442	152,373,702	5,518,307	5,394,452	2,628,040	2,220,520
Change in plan assets						
Fair value of plan assets at beginning of year	118,571,202	93,896,501	-	-	1,758,720	1,556,551
Actual return on plan assets	(2,226,409)	18,331,134	-	-	(35,534)	296,803
Employer contributions	10,288,000	9,472,000	499,627	508,251	72,000	-
Benefits paid	(3,225,064)	(2,634,090)	(499,627)	(508,251)	(89,341)	(85,983)
Expenses paid	(398,326)	(494,343)	-	-	(5,612)	(8,651)
Fair value of plan assets at end of year	123,009,403	118,571,202	-	-	1,700,233	1,758,720
Funded status of plan at June 30	(83,945,039)	(39,216,193)	(5,518,307)	(5,394,452)	(927,807)	(461,800)
Amounts recognized in the statement of financial position consist of:						
Current liability	-	-	(470,523)	(493,072)	-	-
Noncurrent liability	(83,945,039)	(39,216,193)	(5,047,784)	(4,901,380)	(927,807)	(461,800)
Net amount recognized	$ (83,945,039)	$ (39,216,193)	$ (5,518,307)	$ (5,394,452)	$ (927,807)	$ (461,800)

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 $1,839,396.

The current portion of accrued pension costs included in the above amounts for the System amounted to $478,922 and $504,709 at June 30, 2012 and 2011, respectively, and has been included in accounts payable and accrued expenses.

The amounts recognized in unrestricted net assets for the years ended June 30, 2012 and 2011 consist of:

	Catholic Medical Center Pension Plan		Pre-1987 Supplemental Executive Retirement Plan		New Hampshire Medical Laboratories Retirement Income Plan	
	2012	2011	2012	2011	2012	2011
Amounts recognized in the balance sheets - total plan						
Unrestricted net assets						
Prior service cost	$ -	$ -	$ -	$ -	$ -	$ -
Net loss	(83,222,441)	(30,916,224)	(2,604,127)	(2,318,731)	(1,531,336)	(1,004,464)
Total unrestricted net assets	$ (83,222,441)	$ (30,916,224)	$ (2,604,127)	$ (2,318,731)	$ (1,531,336)	$ (1,004,464)

Net periodic pension cost includes the following components for the years ended June 30, 2012 and 2011:

	Catholic Medical Center Pension Plan		Pre-1987 Supplemental Executive Retirement Plan		New Hampshire Medical Laboratories Retirement Income Plan	
	2012	2011	2012	2011	2012	2011
Service cost	$ 3,191,124	$ 7,953,006	$ -	$ -	$ 7,500	$ 7,500
Interest cost	8,979,811	9,451,428	237,723	249,976	126,408	120,731
Expected return on plan assets	(10,114,335)	(8,917,758)	-	-	(149,483)	(145,535)
Prior service cost amortization	-	13,535	-	-	-	-
Amount of loss (gain) recognized	654,032	2,567,325	100,363	97,066	26,710	23,316
Recognition due to settlement or curtailment	-	59,559	-	-	-	-
Net periodic pension cost	$ 2,710,632	$ 11,127,095	$ 338,086	$ 347,042	$ 11,135	$ 6,012

Other changes in plan assets and benefit obligations recognized in unrestricted net assets for the years ended June 30, 2012 and 2011 consist of:

	Catholic Medical Center Pension Plan		Pre-1987 Supplemental Executive Retirement Plan		New Hampshire Medical Laboratories Retirement Income Plan	
	2012	2011	2012	2011	2012	2011
New net loss (gain)	$ 52,960,246	$ (31,723,538)	$ 385,759	$ 362,437	$ 553,582	$ (138,247)
Amortization of prior service cost (credit)	-	(13,535)	-	-	-	-
Recognition or prior service cost due to curtailment	-	(59,559)	-	-	-	-
Amortization of net loss	(654,032)	(2,567,325)	(100,363)	(97,066)	(26,710)	(23,316)
Net amount recognized	$ 52,306,214	$ (34,363,957)	$ 285,396	$ 265,371	$ 526,872	$ (161,563)

The System's investment strategy is to maintain a diversified portfolio of investments with an investment and risk profile consistent with pension liabilities.

The investments of the plans are comprised of the following at June 30:

	Target Allocation Fiscal Year June 30,	Catholic Medical Center Pension Plan		Pre-1987 Supplemental Executive Retirement Plan		New Hampshire Medical Laboratories Retirement Income Plan	
	2012	2012	2011	2012	2011	2012	2011
Equity securities	60 %	56.4 %	60.6 %	0.0 %	0.0 %	61.6 %	65.5 %
Debt securities	30	35.4	30.7	0.0	0.0	25.0	22.4
Other	10	8.2	8.7	0.0	0.0	13.4	12.1
	100.0 %	100.0 %	100.0 %	0.0 %	0.0 %	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 plans obligations at June 30 are as follows:

	Catholic Medical Center Pension Plan		Pre-1987 Supplemental Executive Retirement Plan		New Hampshire Medical Laboratories Retirement Income Plan	
	2012	2011	2012	2011	2012	2011
Discount rate	4.46 %	5.89 %	3.57 %	4.72 %	4.46 %	5.89 %
Rate of increase in future compensation levels	4.00	4.00	-	-	-	-

The weighted-average assumptions used to determine the defined benefit pension plans net periodic benefit costs for the years ended June 30 are as follows:

	Catholic Medical Center Pension Plan		Pre-1987 Supplemental Executive Retirement Plan		New Hampshire Medical Laboratories Retirement Income Plan	
	2012	2011	2012	2011	2012	2011
Discount rate	5.89 %	5.75 %	4.72 %	4.90 %	5.89 %	5.75 %
Rate of compensation increase	4.00	4.00	-	-	-	-
Expected long-term return on plan assets	8.00	7.75	-	-	8.00	7.75

The expected employer contributions for the fiscal year ending June 30, 2013 are $10,624,112.

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

	Catholic Medical Center Pension Plan	Pre-1987 Supplemental Executive Retirement Plan	New Hampshire Medical Laboratories Retirement Income Plan
2012	$ 3,721,236	$ 478,922	$ 95,802
2013	4,164,717	470,701	117,066
2014	4,701,121	440,121	125,956
2015	5,391,212	430,534	142,041
2016	6,123,156	420,168	151,928
2017-2021	42,807,018	1,915,593	900,298

The Medical Center contributed $10,288,000, $499,627, and $72,000 to the Catholic Medical Center Pension Plan, the Pre-1987 Supplemental Executive Retirement Plan, and the New Hampshire Medical Laboratories Retirement Income Plan respectively, for the year ended June 30, 2012. The Medical Center plans to make any necessary contributions during the upcoming fiscal

2012 year to ensure the Plans continue to be adequately funded given the current market conditions.

The following fair value hierarchy tables present information about the Medical Center pension plan's financial assets measured at fair value on a recurring basis based upon the lowest Level of significant input valuation.

As of June 30, 2012:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 6,018,450	$ -	$ -	$ 6,018,450
Marketable equity securities	22,382,651	-	-	22,382,651
Fixed income	24,518,487	-	-	24,518,487
Private investment funds	-	61,475,909	10,314,139	71,790,048
Total assets at fair value	$ 52,919,588	$ 61,475,909	$ 10,314,139	$ 124,709,636

As of June 30, 2011:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 1,477,162	$ -	$ -	$ 1,477,162
Marketable equity securities	20,492,727	-	-	20,492,727
Fixed income	16,798,768	-	-	16,798,768
Private investment funds	-	70,996,936	10,564,329	81,561,265
Total assets at fair value	$ 38,768,657	$ 70,996,936	$ 10,564,329	$ 120,329,922

The following tables present the assets carried at fair values at June 30, 2012 and 2011 that are classified at Level 3 of the fair value hierarchy. The table reflects gains and losses for the year, including gains and losses on assets that were transferred to Level 3 as of June 30, 2012 and 2011. 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.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
	Private Investment Funds
Balance at June 30, 2011	$ 10,564,329
Realized losses	(1,688)
Unrealized losses	(233,638)
Sales	(14,864)
Balance at June 30, 2012	$ 10,314,139

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Private Investment Funds
Balance at July 1, 2010	$ 8,110,495
Realized losses	(13,724)
Unrealized gains	777,213
Purchases	1,951,200
Sales	(260,855)
Balance at June 30, 2011	$ 10,564,329

10. Functional Expenses

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

	Years Ended June 30, 2012	2011
Health care services	$ 242,607,479	$ 245,281,690
General and administrative	61,287,097	60,320,665
	$ 303,894,576	$ 305,602,355

11. Concentration of Credit Risk

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

	June 30, 2012	2011
Medicare	40 %	41 %
Medicaid	6	5
Commercial insurance and other	21	22
Patients	17	17
Blue Cross	16	15
	100 %	100 %

12. Endowments

In July 2008, the State of New Hampshire enacted a version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). The new law which has 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 June 30, 2012, the endowment net asset composition by type of fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ -	$ 353,996	$ 6,693,072	$ 7,047,068
Board-designated funds	70,317,962	-	-	70,317,962
Total funds	$ 70,317,962	$ 353,996	$ 6,693,072	$ 77,365,030

Changes in endowment net assets for the fiscal year ended June 30, 2012, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 72,063,446	$ 381,533	$ 6,882,231	$ 79,327,210
Investment return				
Investment income	938,326	2,156	2,171	942,653
Net depreciation (realized and unrealized)	(5,592,682)	-	(191,331)	(5,784,013)
Total investment (loss) gain	(4,654,356)	2,156	(189,160)	(4,841,360)
Contributions	2,895,048	51,208	-	2,946,256
Appropriation of endowment assets for expenditure	13,825	(80,901)	-	(67,076)
Endowment net assets, end of year	$ 70,317,963	$ 353,996	$ 6,693,071	$ 77,365,030

At June 30, 2011, the endowment net asset composition by type of fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ -	$ 381,533	$ 6,882,231	$ 7,263,764
Board-designated funds	72,063,446	-	-	72,063,446
Total funds	$ 72,063,446	$ 381,533	$ 6,882,231	$ 79,327,210

Changes in endowment net assets for the fiscal year ended June 30, 2011, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 60,315,092	$ 357,814	$ 6,266,470	$ 66,939,376
Investment return				
Investment income	1,242,172	2,454	601	1,245,227
Net appreciation (realized and unrealized)	10,978,393	-	615,160	11,593,553
Total investment gain	12,220,565	2,454	615,761	12,838,780
Contributions	(492,191)	81,408	-	(410,783)
Appropriation of endowment assets for expenditure	19,980	(60,143)	-	(40,163)
Endowment net assets, end of year	$ 72,063,446	$ 381,533	$ 6,882,231	$ 79,327,210

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the Level that the donor requires the System to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2012 and 2011.

13. Commitments and Contingencies

Litigation

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

Regulatory

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Recently, government activity has increased 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.

Consolidating Supplemental Schedules

pwc

Report of Independent Auditors
on Accompanying Consolidating Information

To the Board of Trustees of
CMC Healthcare System, Inc.

We have audited the consolidated financial statements of CMC Healthcare System, Inc. as of June 30, 2012 and 2011 and for the years then ended and our report thereon appears on page 1 of this document. Those audits were conducted for the purposes of forming an opinion on the consolidated financial statements taken as a whole. The consolidating 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 consolidating information has been subjected to the auditing procedures applied in the audits 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 consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is 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 companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position and results of operations of the individual companies.

PricewaterhouseCoopers LLP

November 12, 2012

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CMC Healthcare System, Inc.
Consolidating Balance Sheet
June 30, 2012

	Catholic Medical Center	Physician Practice Associates	Alliance Enterprises	Alliance Resources	Alliance Ambulatory Services	Alliance Health Services	Doctors Medical Association	Saint Peters Home	Eliminations	Total
Assets										
Current assets										
Cash and cash equivalents	$ 62,195,882	$ 340,080	$ 844,341	$ 221,588	$ 161,225	$ 173,616	$ 75,301	$ 1,100,428	$ -	$ 65,112,661
Short-term investments	1,030,384	-	-	-	-	-	-	-	-	1,030,384
Accounts receivable from patients and residents, less allowance of $16,632,214	30,745,571	-	-	-	-	796,896	-	-	-	31,542,467
Inventories	1,293,948	-	-	-	-	-	-	-	-	1,293,948
Amounts due from affiliates	458,667	-	3,266	26,274	-	25,125	9,115	-	(522,447)	-
Other current assets	3,469,865	2,419	69,700	29,821	-	1,082,987	2,258		-	4,677,050
Total current assets	99,194,317	342,499	937,307	277,683	161,225	2,078,624	86,674	1,100,428	(522,447)	103,656,510
Property, plant and equipment, net	75,961,268	-	10,225,030	2,238,843	-	432,532	-	2,043,932		90,899,605
Other assets										
Notes receivable from affiliate, less allowance of $800,000	218,859	-	-	-	-	-	-	-	-	218,859
Unamortized debt issuance costs	834,884	-	46,390	-	-	-	-	-	-	881,274
Intangible assets and other	16,063,478	-	-	-	6,322,916	-	-	-	-	22,386,394
	17,117,221	-	46,390	-	6,322,916	-	-	-	-	23,486,527
Assets whose use is limited										
Pension and insurance obligations	11,439,235	-	-	-	-	-	-	-	-	11,439,235
Board designated and donor restricted investments	71,101,160	-	-	-	-	-	-	6,263,870	-	77,365,030
Held by trustee under revenue bond agreement	5,168,016	-	-	-	-	-	-	-	-	5,168,016
Total assets whose use is limited	87,708,411	-	-	-	-	-	-	6,263,870	-	93,972,281
Total assets	$ 279,981,217	$ 342,499	$ 11,208,727	$ 2,514,526	$ 6,484,141	$ 2,511,356	$ 86,674	$ 9,408,230	$ (522,447)	$ 312,014,923
Liabilities and Net Assets										
Current liabilities										
Current portion of long-term debt	$ 2,126,404	$ -	$ 132,542	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,260,946
Accounts payable and accrued expenses	14,138,842	57,689	141,840	70,403	-	1,144,155	8,382	26,992	-	15,588,103
Accrued salaries, wages and related accounts	13,330,899	1,561,534	-	-	-	-	-	117,856	-	15,010,289
Amounts payable to third-party payors	8,920,004	-	-	-	-	-	-	-	-	8,920,004
Notes payable	6,000,000	-	-	-	-	-	-	-	-	6,000,000
Amounts due to affiliates	-	510,952	11,335	-	-	-	-	160	(522,447)	-
Total current liabilities	44,518,149	2,130,175	285,517	70,403	-	1,144,155	8,382	145,008	(522,447)	47,779,342
Accrued pension and other liabilities, net of current portion	111,550,366	10,352,154	3,132,464	94,614	-	94,726	-	-	-	125,224,366
Long-term debt, net of current portion	63,057,516	-	8,747,392	-	-	-	-	-	-	71,804,908
Total liabilities	219,126,053	12,482,329	12,165,393	165,017	-	1,238,881	8,382	145,008	(522,447)	244,808,616
Commitments and contingencies										
Net assets										
Unrestricted	53,808,096	(12,139,830)	(956,666)	2,349,509	6,484,141	1,272,475	78,292	9,263,222	-	60,159,239
Temporarily restricted	353,996	-	-	-	-	-	-	-	-	353,996
Permanently restricted	6,693,072	-	-	-	-	-	-	-	-	6,693,072
Total net assets	60,855,164	(12,139,830)	(956,666)	2,349,509	6,484,141	1,272,475	78,292	9,263,222	-	67,206,307
Total liabilities and net assets	$ 279,981,217	$ 342,499	$ 11,208,727	$ 2,514,526	$ 6,484,141	$ 2,511,356	$ 86,674	$ 9,408,230	$ (522,447)	$ 312,014,923

CMC Healthcare System, Inc.
Consolidating Balance Sheet
June 30, 2011

	Catholic Medical Center	Physician Practice Associates	Alliance Enterprises	Alliance Resources	Alliance Ambulatory Services	Alliance Health Services	Doctors Medical Association	Saint Peters Home	Eliminations	Total
Assets										
Current assets										
Cash and cash equivalents	$ 45,288,102	$ 695,957	$ 513,834	$ 50,078	$ 211,065	$ 2,790,606	$ 78,859	$ 889,529	$ -	$ 50,518,030
Short-term investments	6,386,296	-	-	-	-	-	-	-	-	6,386,296
Accounts receivable from patients and residents, less allowance of $13,635,144	32,302,845	-	-	-	-	787,848	-	-	-	33,090,693
Inventories	1,280,590	-	-	-	-	-	-	-	-	1,280,590
Amounts due from affiliates	-	936,796	-	49,113	-	-	5,910	-	(991,819)	-
Other current assets	3,408,425	5,373	148,486	24,237	-	702,853	796	53,690	-	4,343,860
Total current assets	88,666,258	1,638,126	662,320	123,428	211,065	4,281,307	85,565	943,219	(991,819)	95,819,469
Property, plant and equipment, net	77,719,483	-	10,586,813	2,782,376	-	239,490	-	2,146,578	-	93,474,740
Other assets										
Notes receivable from affiliate, less allowance of $800,000	319,476	-	-	-	-	-	-	-	-	319,476
Unamortized debt issuance costs	892,422	-	54,458	-	-	-	-	-	-	946,880
Intangible assets and other	-	-	-	-	6,324,737	-	-	-	-	6,324,737
	1,211,898	-	54,458	-	6,324,737	-	-	-	-	7,591,093
Assets whose use is limited										
Pension and insurance obligations	12,428,652	-	-	-	-	-	-	-	-	12,428,652
Board designated and donor restricted investments	73,468,961	-	-	-	-	-	-	5,858,249	-	79,327,210
Held by trustee under revenue bond agreement	5,072,246	-	-	-	-	-	-	-	-	5,072,246
Total assets whose use is limited	90,967,859	-	-	-	-	-	-	5,858,249	-	96,826,108
Total assets	$ 258,565,498	$ 1,838,126	$ 11,303,591	$ 2,905,804	$ 6,535,802	$ 4,520,797	$ 85,565	$ 8,948,046	$ (991,819)	$ 293,511,410
Liabilities and Net Assets										
Current liabilities										
Current portion of long-term debt	$ 1,473,605	$ -	$ 123,265	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,596,870
Accounts payable and accrued expenses	15,135,973	14,600	118,621	6,850	-	4,429,333	12,465	87,510	-	19,805,352
Accrued salaries, wages and related accounts	12,818,247	1,502,683	-	-	-	-	-	113,786	-	14,434,716
Amounts payable to third-party payors	4,528,053	-	-	-	-	-	-	-	-	4,528,053
Notes payable	7,000,000	-	-	-	-	-	-	-	-	7,000,000
Amounts due to affiliates	966,495	-	6,190	-	-	19,134	-	-	(991,819)	-
Total current liabilities	41,922,373	1,517,283	248,076	6,850	-	4,448,467	12,465	201,296	(991,819)	47,364,991
Accrued pension and other liabilities, net of current portion	53,434,346	4,099,658	2,181,196	103,464	-	-	-	-	-	59,818,664
Long-term debt, net of current portion	62,336,472	-	8,879,934	-	-	-	-	-	-	71,216,406
Total liabilities	157,693,191	5,616,941	11,309,206	110,314	-	4,448,467	12,465	201,296	(991,819)	178,400,061
Commitments and contingencies										
Net assets										
Unrestricted	93,608,543	(3,978,815)	(5,615)	2,795,490	6,535,802	72,330	73,100	8,746,750	-	107,847,585
Temporarily restricted	381,533	-	-	-	-	-	-	-	-	381,533
Permanently restricted	6,882,231	-	-	-	-	-	-	-	-	6,882,231
Total net assets	100,872,307	(3,978,815)	(5,615)	2,795,490	6,535,802	72,330	73,100	8,746,750	-	115,111,349
Total liabilities and net assets	$ 258,565,498	$ 1,638,126	$ 11,303,591	$ 2,905,804	$ 6,535,802	$ 4,520,797	$ 85,565	$ 8,948,046	$ (991,819)	$ 293,511,410

CMC Healthcare System, Inc.
Consolidating Statement of Operations
Year Ended June 30, 2012

	Catholic Medical Center	Physician Practice Associates	Alliance Enterprises	Alliance Resources	Alliance Ambulatory Services	Alliance Health Services	Doctors Medical Association	Saint Peters Home	Eliminations	Total
Operating revenue										
Net patient service revenue	$ 284,416,129	$ -	$ -	$ -	$ -	$ 9,861,473	$ -	$ -	$ -	$ 294,277,602
DSH Funding	-	-	-	-	-	-	-	-	-	-
Other revenue	11,636,838	13,458,010	1,838,886	586,689	2,876,179	455,483	128,263	2,772,164	(14,521,905)	19,234,607
Total operating revenue	296,052,967	13,458,010	1,838,886	586,689	2,876,179	10,316,956	128,263	2,772,164	(14,521,905)	313,512,209
Operating expenses										
Salaries, wages and fringe benefits	144,508,938	21,825,884	11,135	-	-	10,366,335	-	2,121,578	(13,249,668)	165,584,202
Supplies and other expenses	102,107,794	1,599,727	777,244	551,635	64	4,078,996	123,071	345,443	(1,272,237)	108,311,737
Medicaid enhancement tax	15,240,270	-	-	-	-	-	-	-	-	15,240,270
Depreciation and amortization	10,560,419	-	370,456	167,450	-	71,480	-	221,917	-	11,391,722
Interest	2,765,357	-	601,288	-	-	-	-	-	-	3,366,645
Total operating expenses	275,182,778	23,425,611	1,760,123	719,085	64	14,516,811	123,071	2,688,938	(14,521,905)	303,894,576
Income (loss) from operations	20,870,189	(9,967,601)	76,763	(130,396)	2,876,115	(4,199,855)	5,192	83,226	-	9,617,633
Nonoperating gains (losses)										
Investment (loss) income	(757,845)	-	(543,474)	65	224	-	-	271,561	-	(1,029,269)
Net realized gains (losses) on sales of investments	3,120,955	-	-	-	-	-	-	(48,861)	-	3,072,094
Loss on sale of property and equipment	(159,445)	-	-	(315,650)	-	-	-	-	-	(475,095)
Minority interest expense	-	-	(31,468)	-	-	-	-	-	-	(31,468)
Nonoperating gains (losses), net	2,203,865	-	(574,942)	(315,585)	224	-	-	222,700	-	1,536,262
Excess/(deficit) of revenue over expenses	23,074,054	(9,967,601)	(498,179)	(445,981)	2,876,339	(4,199,855)	5,192	305,926	-	11,153,895
Change in unrealized (depreciation)/appreciation on investments	(5,949,001)	-	-	-	-	-	-	211,417	-	(5,737,584)
Assets released from restrictions used for capital	13,825	-	-	-	-	-	-	-	-	13,825
Pension-related changes other than net periodic pension cost	(45,281,198)	(7,310,414)	(526,872)	-	-	-	-	-	-	(53,118,482)
Adoption of new accounting principle - goodwill impairment	-	-	-	-	-	-	-	-	-	-
Net transfers (to) from affiliates	(11,658,129)	9,117,000	72,000	-	(2,930,000)	5,400,000	-	(871)	-	-
Increase (decrease) in unrestricted net assets	$ (39,800,447)	$ (8,161,015)	$ (951,051)	$ (445,981)	$ (51,661)	$ 1,200,145	$ 5,192	$ 516,472	$ -	$ (47,688,346)

CMC Healthcare System, Inc.
Consolidating Statement of Operations
Year Ended June 30, 2011

	Catholic Medical Center	Physician Practice Associates	Alliance Enterprises	Alliance Resources	Alliance Ambulatory Services	Alliance Health Services	Doctors Medical Association	Saint Peters Home	Eliminations	Total
Operating revenue										
Net patient service revenue	$ 271,281,302	$ -	$ -	$ -	$ -	$ 10,144,981	$ -	$ -	$ -	$ 281,406,283
DSH Funding	12,027,952	-	-	-	-	-	-	-	-	12,027,952
Other revenue	5,360,633	14,234,159	1,884,409	589,878	3,130,375	120,000	155,317	2,871,329	(15,038,243)	12,887,857
Total operating revenue	288,649,887	14,234,159	1,884,409	589,878	3,130,375	10,264,981	155,317	2,871,329	(15,038,243)	306,322,072
Operating expenses										
Salaries, wages and fringe benefits	150,635,948	21,782,183	8,012	-	-	10,475,165	-	2,027,662	(13,967,806)	170,939,184
Supplies and other expenses	100,999,385	1,359,415	759,330	575,828	-	3,316,963	157,378	307,650	(1,050,437)	106,425,710
Medicaid enhancement tax	12,521,429	-	-	-	-	-	-	-	-	12,521,429
Depreciation and amortization	10,797,558	5,635	375,133	180,900	317,432	402,486	-	230,640	-	12,309,782
Interest	2,798,811	-	607,659	-	-	-	-	-	-	3,406,270
Total operating expenses	277,752,929	23,147,233	1,748,134	756,728	317,432	14,194,614	157,378	2,566,152	(15,038,243)	305,602,355
Income (loss) from operations	10,896,958	(8,913,074)	(63,725)	(186,848)	2,812,943	(3,929,653)	(2,061)	105,177	-	719,717
Nonoperating gains (losses)										
Investment income	1,982,323	-	159,654	109	262	-	-	293,606	-	2,435,954
Net realized gains on sales of investments	2,003,005	-	-	-	-	-	-	36,272	-	2,039,277
Gain (loss) on sale of property and equipment	(15,946)			467,589	-	-	-	-	-	451,643
Minority interest expense	-	-	(32,483)	-	-	-	-	-	-	(32,483)
Nonoperating gains, net	3,969,382	-	127,171	467,698	262	-	-	329,878	-	4,894,391
Excess/(deficit) of revenue over expenses	14,866,340	(8,913,074)	63,446	280,850	2,813,205	(3,929,653)	(2,061)	435,055	-	5,614,108
Change in unrealized appreciation/(depreciation) on investments	9,794,325	-	-	-	-	-	-	(56,057)	-	9,738,268
Assets released from restrictions used for capital	19,980	-	-	-	-	-	-	-	-	19,980
Pension-related changes other than net periodic pension cost	29,331,789	4,766,826	161,583	-	-	-	-	-	-	34,260,158
Adoption of new accounting principle - goodwill impairment	(12,496)	(182,000)	-	-	-	-	-	-	-	(194,496)
Net transfers (to) from affiliates	(7,798,423)	7,672,800	-	85,000	(2,440,000)	2,500,000	-	623	-	-
Increase (decrease) in unrestricted net assets	$ 46,201,495	$ 3,344,552	$ 225,009	$ 345,850	$ 373,205	$ (1,429,853)	$ (2,061)	$ 379,621	$ -	$ 49,438,018

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Updated: January 29, 2015

ROBERTA E. PROVENCAL, M.B.A., MT(ASCP)
[redacted]

EXPERIENCE

CATHOLIC MEDICAL CENTER, Manchester, NH 2006 - Present
A 330-bed acute care facility, specializing in cardiac care.

Executive Director, Laboratory & Outpatient Rehab (2012 – Present)
Director, Laboratory Services (2006 – 2012)
Responsible for providing laboratory services through 106 exempt/non-exempt professional and support staff, in a 24/7 environment with hospital-based laboratory, 2 satellite collection and testing laboratory sites and 8 laboratory patient service centers. Oversee an operating budget of $14 million. Achievements include: creating start-up hospital-based LEAN clinical and pathology laboratories with new facilities, creating urgent care testing laboratory, satellite cancer center testing laboratory and collection sites throughout the community, and developing outreach laboratory business.

CONCORD HOSPITAL, Concord, NH 1997 - 2006
Regional Medical Center

Director, Laboratory Services
Responsible for providing laboratory services through 124 exempt/non-exempt professional and support staff, in a 24/7 environment with hospital-based laboratory, 2 satellite collection and testing laboratory sites and 8 laboratory patient service centers. Oversee an operating budget of $10 million.

BROCKTON HOSPITAL, Brockton, MA 1993 - 1997
A 301-bed acute care facility, specializing in emergency medicine.

Administrative Director, Laboratory
Responsible for overall operations in a 24/7 hospital-based laboratory. Oversaw an operating budget of $33.2 million.

HEALTHCARE DIAGNOSTICS, INC., Lynnfield, MA 1993
Analyst
Responsible for assessment of quality programs at Duke University Medical Center's Laboratories (Consulting tasks performed on contract basis; approximately 20 hours total time over 2 month period; performed in addition to full time Brockton Hospital position)

ELLIOT HOSPITAL, Manchester, NH 1980 - 1993
A 296-bed acute care facility, specializing in emergency medicine.....
Laboratory Manager (1985 – 1993)
Responsibility for clinical laboratory operations in a 24/7 hospital environment.
Second Shift Supervisor (1983 – 1985)
Medical Technologist (1980 – 1983)

LOWELL GENERAL HOSPITAL, Lowell, MA 1979 - 1980
Medical Technologist

LAWRENCE GENERAL HOSPITAL, Lawrence, MA 1977 - 1980
Medical Technologist

NEW ROCHELLE HOSPITAL MEDICAL CENTER, New Rochelle, NY 1976 – 1977
Chemistry Supervisor (1976 – 1977)
Medical Technologist (1976)

SCARSDALE MEDICAL CENTER, Scarsdale, NY 1976
A multi-specialty group practice with nine physicians.
Medical Technologist

ST. JOSEPH'S HOSPITAL, Yonkers, NY 1975
Medical Technologist (temporary position)

EDUCATION

Masters of Business Administration, Rivier College, Nashua, New Hampshire
Bachelor of Science, Medical Technology, Lowell State College, Lowell, MA

MEMBERSHIPS

American College of Healthcare Executives
American Society of Clinical Pathologists
Clinical Laboratory Management Association
University of New Hampshire Medical Laboratory Science Program Advisory Board

AMY SCHULTZ, MT(ASCP)
[redacted]

EXPERIENCE

CATHOLIC MEDICAL CENTER, Manchester, NH 2007 - Present
A 330-bed acute care facility, specializing in cardiac care.

<u>Laboratory Technical Operations Manager</u>
Responsible for managing and coordinating the technical laboratory to include Microbiology, Chemistry, Hematology, Blood Bank, Pathology, Point of Care Testing and Specimen Processing to meet internal and external customer requirements within budget guidelines. Manage 60 FTEs, exempt/non-exempt professional and support staff, in a 24/7 hospital-based laboratory, one satellite cancer center laboratory and one urgent care laboratory. Maintain accreditations for College of American Pathologists (CAP), American Association of Blood Banks (AABB), The Joint Commission (TJC), and Centers for Medicare & Medicaid Services (CMS) Clinical Laboratory Improvement Amendments (CLIA).

LABORATORY CORPORATION OF AMERICA/PATH LAB, Manchester, NH 2002 - 2007
Contracted Laboratory operations at Catholic Medical Center

<u>Hospital Laboratory Manager</u>
Responsible for managing the technical laboratory to include Microbiology, Chemistry, Hematology, Blood Bank and Specimen Processing within budget guidelines. Manage 35 FTEs, exempt/non-exempt professional and support staff, in a 24/7 hospital-based laboratory. Represented corporate headquarters on-site in hospital setting. Maintain accreditations for College of American Pathologists (CAP), American Association of Blood Banks (AABB), State of New Hampshire , and Centers for Medicare & Medicaid Services (CMS) Clinical Laboratory Improvement Amendments (CLIA).

NEW HAMPSHIRE MEDICAL LABORATORY, Manchester, NH
A Catholic Medical Center (CMC) affiliated for-profit laboratory; STAT Laboratory located at CMC.

<u>Laboratory STAT Lab</u> Supervisor 2001 - 2002
Responsible for overall operations in a 24/7 hospital-based STAT laboratory.

<u>Laboratory Lead Technologist</u> 1997 - 2001
Responsible for the STAT laboratory operations of technical areas, i.e. Chemistry, Hematology, Blood Bank and limited Microbiology.

<u>Medical Technologist - Generalist</u> 1992 - 1997
Responsible for the performing clinical laboratory testing in the areas of Chemistry, Hematology limited Microbiology, and Phlebotomy.

<u>Medical Technologist - Chemistry</u> 1987 - 1992
Responsible for the performing clinical laboratory testing in Chemistry and Special Chemistry

CATHOLIC MEDICAL CENTER, Manchester, NH 1979 - 1987
A 330-bed acute care facility.

<u>Medical Technologist - Generalist</u>

FRANKLIN REGIONAL HOSPITAL, Franklin, NH 1972 - 1979
<u>Assistant Chief Technologist</u>
<u>Medical Technologist – Generalist</u>

EDUCATION

Clinical Laboratory Internship, Nassau County Medical Center, East Meadow, New York
Bachelor of Arts, Biology, Adelphi University, Garden City, New York

MEMBERSHIPS

American Society of Clinical Pathologists (ASCP)
Clinical Laboratory Management Association (CLMA)

Thomas D. Hebert

Achieve an executive healthcare management position utilizing my professional skills, education and experience, creating continued responsibility, challenge and growth.

Summary of Qualifications

I hold a Bachelor of Science degree in Business Management from Franklin Pierce University, graduating with honors.

- Twelve years of successful sales and account management experience. I collaborated with national corporate accounts for eight years. I possess excellent persuasive sales techniques producing buyers to want to increase sales in existing and new markets. I have demonstrated success in penetrating through gatekeepers coupled with building solid sales relationships.
- Able to communicate technical information clearly and accurately to individuals or large groups. Extremely entrepreneurial keeping abreast of the latest business trends including Six Sigma, Five S, and Viral Media Marketing.
- I have demonstrated success in applying strategic thinking, driving a WOW customer experience to both internal and external customers.

Career Experience 03/2011-Present **Catholic Medical Center Laboratory** Manchester, NH

Customer Service Supervisor/Outreach Liaison

- I coach Customer Service representatives on best practices to drive high level customer service to internal and external customers. I monitor workflow and create procedures to promote LEAN processes.
- I collaborate with multiple departments and personnel to promote laboratory offerings and look for opportunities to grow the business. This is a new business model that required creating marketing materials, and go to market strategies organically within the laboratory.
- This is a challenging and diverse role that requires the ability to transition between responsitbilies transparently and works through many projects simultaneously.

Career Experience 12/2008 - 03/2011 **W.W. Grainger Inc** Manchester, N.H. Market

Relationship Manager 12/2009-03/2011

On-site Services Manager 12/2008 to 12/2009

- I proactively developed customer relationships in the New Hampshire market, by partnering with local business's to understand and uncover their needs. Following the Grainger Value Advantage, educate the customer on how they can successfully fill service gaps using Grainger products and or services.

- Effectively organize and implement a strategic plan to achieve regional and corporate goals by identifying and classifying barriers in both existing and potential customer opportunities.

- I evaluated and implemented the Inventory Solutions program within customer accounts effectively creating a reduction of customer business costs, creating LEAN operating environments. I coached resources to manage operations at customer engagements driving a WOW customer experience every time.

07/2000 - 08/2008 NeighborCare Pharmacy Pembroke, N.H.

Account Executive

- I was responsible for the relationship development and retention of all customers, both private and government. I conducted formal presentations, contract drafting and presentation, along with in-service education of pharmacy programs and services. Developed strategic processes that increased customer service and product quality using continuous quality improvement indicators. I created quarterly and yearly reporting for the region presenting data to corporate. This is one of the highest regulated industries requiring attention to detail and thorough understanding of the laws.

Education

Pembroke Academy College Preparatory Diploma.

Franklin Pierce University Bachelor of Science in Business Management.
Graduating with Honors.

ANDREA HADDAD
Manchester, NH 03104

EXPERIENCE

CATHOLIC MEDICAL CENTER, Manchester, NH — 2008 - Present
A 330-bed acute care facility, specializing in cardiac care.

Phlebotomist
Responsible for the identification, collection, labeling, stabilization and transport of patient specimens at the patient service center(s) and various client sites, according to established methods and procedures.

LABCORP, Portsmouth, NH — 2001 - 2006
Phlebotomist
Responsible for the identification, collection, labeling, data entry, stabilization and transport of patient specimens at the patient service center(s) and various client sites, according to established methods and procedures.

NEW HAMPSHIRE MEDICAL LAB, Manchester, NH — 1999 - 2001
Phlebotomist
Responsible for the identification, collection, labeling, data entry, stabilization and transport of patient specimens at the patient service center(s) and various client sites, according to established methods and procedures.

CENTRAL MAINE MEDICAL CENTER, Lewiston, ME — 1991 - 1998
Phlebotomist/Lab Assistant
Responsible for the identification, collection, labeling, data entry, stabilization and transport of patient specimens at the patient service center(s) and various client sites, according to established methods and procedures.

EDUCATION

Mid-State College, Auburn, ME - Associate Degree, Medical Assistant
St. Dominic's Regional High School, Lewiston, ME - Diploma

PROFESSIONAL LICENSE / CERTIFICATION

American Society of Clinical Pathologists, Phlebotomy Technician, PBT(ASCP)-11287; 9/30/1994

PENNY LAJOIE, PBT(ASCP)

EXPERIENCE

CATHOLIC MEDICAL CENTER, Manchester, NH 2007 - Present
A 330-bed acute care facility, specializing in cardiac care.

PSC, Registration & Phlebotomy Supervisor 2011 - Present
Coordinates the operation and licensure of the Laboratory's Patient Service Centers (PSCs) and related phlebotomy services, including scheduling, selection, orientation, training and daily direction of staff and managing the site budgets; coordinates phlebotomy operations at main hospital site.

PSC/Phlebotomy Supervisor 2007 - 2011
Coordinates the operation and licensure of the Laboratory's Patient Service Centers (PSCs) and related phlebotomy services, including scheduling, selection, orientation, training and daily direction of staff and managing the site budgets; coordinates phlebotomy operations at main hospital site.

LABORATORY CORPORATION OF AMERICA/PATH LAB, Manchester, NH 2004 - 2007
Contracted Laboratory Operations at Catholic Medical Center

PST Supervisor/Support Services Supervisor/Manager CMC
Supervises, organizes and manages support operations in the hospital for Accessioning, Specimen Management, Referrals, Data Entry, Results transmissions, and Customer Service. Supervises the activities of 20-25 Patient Service Technicians and supervises the operations of the PSC within the hospital. Performs a wide variety of administrative duties and is a liaison between laboratory support services, hospital staff and laboratory departments. Responsible for the adherence to quality assurance measures. Processes and maintains payroll records, and is responsible for policies and procedures.

NORTHEAST DERMATOLOGY ASSOCIATES, Londonderry, NH 2002 - 2004
Medical Assistant / Surgical Technician

NEW HAMPSHIRE MEDICAL LABORATORY, Manchester, NH 1989 - 2002
Supervisor,Phlebotomy & Patient Care Centers and Administrative Call Rotation
Lead Phlebotomist
Satellite Station Phlebotomist and Customer Representative

ANNA JACQUES HOSPITAL, Newburyport, MA 1986 - 1989
Phlebotomy Supervisor and Section Supervisor of Urinalysis

UPPER CONNECTICUT VALLEY HOSPITAL, Colebrook, NH 1979 - 1982
Laboratory Technician, Secretary, EEG's and EKG's

EDUCATION

Groveton High School, Groveton, NH

MEMBERSHIPS/CERTIFICATIONS

American Society of Clinical Pathologists Certification: PBT(ASCP)

STEPHANIE CARON, PBT(ASCP)cm

EXPERIENCE

CATHOLIC MEDICAL CENTER, Manchester, NH 2007 - Present
A 330-bed acute care facility, specializing in cardiac care.

Phlebotomist
Responsible for the registration, identification, collection, labeling and processing of patient specimens at the patient service centers, main hospital facility, and various client sites, according to established methods and procedures.

LABORATORY CORPORATION OF AMERICA/PATH LAB, Manchester, NH 2006 - 2007
Contracted Laboratory Operations at Catholic Medical Center

PST Specialist
Responsible for the registration, identification, collection, labeling and processing of patient specimens at the patient service center.

TBONES, Bedford, NH 1997 - 2006
Waitress/Server

EDUCATION

Concord Christian High School, Concord, NH
New Hampshire Community Technical College, Manchester, NH

MEMBERSHIPS/CERTIFICATIONS

American Society of Clinical Pathologists Certification: PBT(ASCP)cm

KEY ADMINISTRATIVE PERSONNEL

NH Department of Health and Human Services
Division for Children, Youth and Families

Agency Name: Catholic Medical Center

Name of Bureau/Section: ______________________

BUDGET PERIOD	SFY14-15		
Name & Title Key Administrative Personnel	**Annual Salary Of Key Administrative Personnel**	**Percentage of Salary Paid By Contract**	**Total Salary Amount Paid By Contract**
Joseph Pepe, MD; President & CEO	$445,000	0.00%	$0.00
Edward L. Dudley, Executive Vice President/CFO	$309,000	0.00%	$0.00
Alexander J. Walker, Jr, Esq.; Senior Vice President, Operations & Strategic Development	$300,000	0.00%	$0.00
		0.00%	$0.00
		0.00%	$0.00
		0.00%	$0.00
TOTAL SALARIES (Not to exceed Total/Salary Wages, Line Item 1 of Budget request)			$0.00

Key Administrative Personnel are top-level agency leadership (President, Executive Director, CEO, CFO, etc), and individuals directly involved in operating and managing the program (project director, program manager, etc.). These personnel MUST be listed, <u>even if no salary is paid from the contract</u>. Provide their name, title, annual salary and percentage of annual salary paid from agreement.

MAY 13 '13 1:57 DAS

81 95

STATE OF NEW HAMPSHIRE
DEPARTMENT OF HEALTH AND HUMAN SERVICES
DIVISION FOR CHILDREN, YOUTH & FAMILIES

129 PLEASANT STREET, CONCORD, NH 03301-3857
603-271-4451 1-800-852-3345 Ext. 4451
FAX: 603-271-4729 TDD Access: 1-800-735-2964

Nicholas A. Toumpas
Commissioner

Maggie Bishop
Director

April 19, 2013

Her Excellency, Governor Margaret Wood Hassan
and the Honorable Council
State House
Concord, NH 03301

100 % general

REQUESTED ACTION

Authorize the Department of Health and Human Services, Divisions for Children, Youth and Families to enter into an agreement with Catholic Medical Center Laboratory, 100 McGregor Street, Manchester, NH 03102 (Vendor #177240 R003), for the provision of providing laboratory services to the John H. Sununu Youth Services Center, effective July 1, 2013 or date of Governor and Executive Council approval, whichever comes later, through June 30, 2015, in an amount not to exceed $54,000.00. Funds are anticipated to be available in State Fiscal Years 2014 and 2015 upon the availability and continued appropriation of funds in the future operating budgets, with authority to adjust amounts, if needed and justified, between State Fiscal Years:

05-95-42-421510-79150000 HEALTH AND SOCIAL SERVICES, HEALTH AND HUMAN SVCS DEPT OF, HHS: HUMAN SERVICES, SUNUNU YOUTH SERVICE CENTER, HEALTH SERVICES

Class/Object	Title	Activity Code	SFY 2014	SFY 2015	TOTAL
101-500729	Health Services	41111130	$27,000.00	$27,000.00	$54,000.00

EXPLANATION

The above action is requested for the provision of providing laboratory services to the youth at the John H. Sununu Youth Services Center. The Division provides medical services through a 24/7 nursing coverage, staff psychiatrist, and a contract primary physician to Center residents. Currently, when laboratory services are ordered staff at the Center transport the residents to a location outside the Center for the specimen collection. Generally, two staff are required for each transport. With up to fifteen (15) residents each month requiring transport to the collection site it becomes costly and negatively impacts staffing levels. This is a burdensome process for the Division. To improve efficient use of Center staff the Division is seeking laboratory services to include a qualified technician acceptable to the Division that will come to the Center to collect specimens. The mission of this initiative is to reduce the demand on Center staffing to transport residents to a location outside the Center for the collection of specimens.

Competitive Bidding Process

On August 1, 2012, the Division issued a Request for Proposals for this program. The Request for Proposals was published on the Department of Health and Human Services website. There was no response to this initial RFP. The Division reissued the RFP on October 3, 2012 and the Division also announced the release of the Request for Proposals via a letter sent to major medical facilities in the area.

The Request for Proposals included evaluation criteria and a description of factors that the Division would utilize in assessing the effectiveness of proposals received. The Division formed an Evaluation Committee comprised of Division staff from the John H. Sununu Youth Services Center and the Division's Financial Analyst and Contract Specialist. Committee members individually reviewed Catholic Medical Center's proposal; out of 100 possible points the agency's proposal scored an average of 93 points. As a result, the Committee recommended awarding an agreement to Catholic Medical Center to serve the youth at the Sununu Youth Services Center.

Catholic Medical Center is a major health facility in the city of Manchester and has served the community for with state-of-the-art laboratory needs since 2006.

In the event that this contract is not approved by the Governor and Executive Council, the laboratory services needed for the youth at the Sununu Youth Services Center will continue to be provided by the Division by utilizing staff and State vehicles which is costly and requires higher staffing ratios due to transporting the youth off campus to a lab facility.

Agreement Terms

The agreement calls for the provision of these services for two years and reserves the Division's right to renew them for up to four additional years based on the satisfactory delivery of services, continued availability of supporting funds, and Governor and Council approval.

Geographic area served: John H. Sununu Youth Services Center, Manchester, NH

Source of funds: 100% General funds

Respectfully submitted,

Maggie Bishop (LES)

Maggie Bishop
Director

Approved by:
Nicholas A. Toumpas
Commissioner

State of NH
Proposal Evaluation Summary
RFP Name: SYSC Lab Srvs

JHHJ

Date: 11-13-12

Evaluator Name: Average of All Scores

		CMC		EH		Individual Evaluator Scores					Individual Evaluator Scores				
						Catholic Medical Center (CMC)					Elliot Hospital (EH)				
						[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Tim McAvoy	Donna Bourbeau	John Harringto		
1. Agency Capacity Section (Up to 12 Points Total)		Average	Raw	Average	Raw										
a	Agency Mission: The overall mission, program, and services of the organization relate to the program's goals and priorities as described in the RFP.	4.00	12.00	3.67	11.00	[illegible]	[illegible]	4.00	0.00	0.00	3.00	4.00	4.00	0.00	0.00
b	Relevant Agency Experience The organization demonstrates the experience and capacity necessary to carry out the services, provide the deliverables, and to meet the performance measures proposed. This includes their overall ability to perform the technica	4.00	12.00	3.33	10.00	[illegible]	4.00	4.00	0.00	0.00	3.00	3.00	4.00	0.00	0.00
c	Agency Update The organization demonstrates that any significant changes and accomplishments (for example, changes in geographic area served, staffing, or reorganization of agency structure) which occurred during the current fiscal year, or which are plan	4.00	12.00	4.00	12.00	[illegible]	4.00	4.00	0.00	0.00	4.00	4.00	4.00	0.00	0.00
	Sub Total	12.00	36.00	11.00	33.00	12.00	12.00	12.00	0.00	0.00	10.00	11.00	12.00	0.00	0.00
2. Program Structure/Plan of Operation Section (Up to 48 Points Total)															
a	Program Specifications: The proposal is programmatically relevant taking into account the parameters set out in the RFP.	7.67	23.00	6.33	19.00	8.00	8.00	7.00	0.00	0.00	5.00	7.00	7.00	0.00	0.00
b	Development and Implementation: The proposal describes the applicant's strategy and methodology for development and implementation of the program based on the criteria in the RFP.	7.67	23.00	1.67	5.00	8.00	8.00	7.00	0.00	0.00	0.00	3.00	2.00	0.00	0.00
c	Program Management: The proposal describes the systems the agency will use to manage the program based on the requirements set form in the RFP.	7.67	23.00	6.67	20.00	8.00	8.00	7.00	0.00	0.00	6.00	7.00	7.00	0.00	0.00
d	Program EvaluationThe proposal presents a sound monitoring and evaluation plan. The plan states how progress toward meeting deliverables and performance targets (if applicable) will be measured. The plan includes a description of the systems that will b	7.33	22.00	6.33	19.00	8.00	7.00	7.00	0.00	0.00	5.00	7.00	7.00	0.00	0.00
e	Deliverables and Performance MeasuresDeliverables and goals for performance measures chosen by the applicant are realistic and agency-specific. Applicant is to provide a description about how their service will: Increase staff efficiency, provide quality	7.67	23.00	3.33	10.00	8.00	8.00	7.00	0.00	0.00	3.00	5.00	2.00	0.00	0.00
f	Work PlanA work plan is detailed for all objectives and performance measures and the plan describes steps necessary to meet or maintain the applicant's performance measure target in a clear and rational process.	7.00	21.00	1.33	4.00	7.00	7.00	7.00	0.00	0.00	0.00	2.00	2.00	0.00	0.00
	Sub Total	45.00	135.00	25.67	77.00	47.00	46.00	42.00	0.00	0.00	19.00	31.00	27.00	0.00	0.00
3. Budget and Justification (Up to 32 Points Total)															
a	Relevance and Justification: The budget is appropriate in relation to the proposed activities; is reasonable, clearly justified, and consistent with the intended use of funds. A separate budget is submitted for each project year.	7.00	21.00	4.25	17.00	7.00	7.00	7.00	0.00	0.00	5.00	6.00	6.00	0.00	0.00
b	Budget Narrative: The budget narrative provides a detailed description and justification for the use of funds needed to carry out the program.	6.33	19.00	3.50	14.00	6.00	6.00	7.00	0.00	0.00	4.00	4.00	6.00	0.00	0.00
c	The Program Staff List: The Key Personnel lists all program staff including those paid for by the contract and those paid by other sources.	7.67	23.00	5.50	22.00	8.00	8.00	7.00	0.00	0.00	7.00	7.00	8.00	0.00	0.00
d	Indirect CostIndirect costs are accurately demonstrated on the budget documentation. They are reasonable and make every effort to assure the maximum amount of funds are applied to services for the contract. They do not exceed 10%.	7.67	23.00	4.25	17.00	8.00	8.00	7.00	0.00	0.00	6.00	5.00	6.00	0.00	0.00
	Sub Total	28.67	86.00	23.33	70.00	29.00	29.00	28.00	0.00	0.00	22.00	22.00	26.00	0.00	0.00

FORM NUMBER P-37 (version 1/09)

Subject: John H. Sununu Youth Services Laboratory Services

AGREEMENT

The State of New Hampshire and the Contractor hereby mutually agree as follows:

GENERAL PROVISIONS

1. IDENTIFICATION.

1.1 State Agency Name Department of Health and Human Services Division for Children, Youth and Familie		**1.2 State Agency Address** 129 Pleasant Street Concord, NH 03301	
1.3 Contractor Name Catholic Medical Center Laboratory		**1.4 Contractor Address** 100 McGregor Street Manchester, NH 03102	
1.5 Contractor Phone Number 603-668-3545	**1.6 Account Number** 10-040-58130000-101-500729	**1.7 Completion Date** 6/30/2015	**1.8 Price Limitation** $54,000.00
1.9 Contracting Officer for State Agency John Harrington		**1.10 State Agency Telephone Number** 603-271-9540	
1.11 Contractor Signature		**1.12 Name and Title of Contractor Signatory** Joseph Pepe, MD, CEO & President, CMC	
1.13 Acknowledgement: State of NH, County of Hillsborough On 4/18/13 before the undersigned officer, personally appeared the person identified in block 1.12, or satisfactorily proven to be the person whose name is signed in block 1.11, and acknowledged that s/he executed this document in the capacity indicated in block			
1.13.1 Signature of Notary Public or Justice of the Peace Dorothy C Welsh [Seal]			
1.13.2 Name and Title of Notary or Justice of the Peace Dorothy C. Welsh Notary Public			
1.14 State Agency Signature Maggie Bishop (REB)		**1.15 Name and Title of State Agency Signatory** Maggie Bishop, Director	
1.16 Approval by the N.H. Department of Administration, Division of Personnel *(if applicable)* By:		Director, On:	
1.17 Approval by the Attorney General (Form, Substance and Execution) By: Jeanne P. Herrick, Attorney		On: 22 April 2013	
1.18 Approval by the Governor and Executive Council By:		On:	

VP

2. EMPLOYMENT OF CONTRACTOR/SERVICES TO BE PERFORMED. The State of New Hampshire, acting through the agency identified in block 1.1 ("State"), engages contractor identified in block 1.3 ("Contractor") to perform, and the Contractor shall perform, the work or sale of goods, or both, identified and more particularly described in the attached EXHIBIT A which is incorporated herein by reference ("Services").

3. EFFECTIVE DATE/COMPLETION OF SERVICES.
3.1 Notwithstanding any provision of this Agreement to the contrary, and subject to the approval of the Governor and Executive Council of the State of New Hampshire, this Agreement, and all obligations of the parties hereunder, shall not become effective until the date the Governor and Executive Council approve this Agreement ("Effective Date").
3.2 If the Contractor commences the Services prior to the Effective Date, all Services performed by the Contractor prior to the Effective Date shall be performed at the sole risk of the Contractor, and in the event that this Agreement does not become effective, the State shall have no liability to the Contractor, including without limitation, any obligation to pay the Contractor for any costs incurred or Services performed. Contractor must complete all Services by the Completion Date specified in block 1.7.

4. CONDITIONAL NATURE OF AGREEMENT.
Notwithstanding any provision of this Agreement to the contrary, all obligations of the State hereunder, including, without limitation, the continuance of payments hereunder, are contingent upon the availability and continued appropriation of funds, and in no event shall the State be liable for any payments hereunder in excess of such available appropriated funds. In the event of a reduction or termination of appropriated funds, the State shall have the right to withhold payment until such funds become available, if ever, and shall have the right to terminate this Agreement immediately upon giving the Contractor notice of such termination. The State shall not be required to transfer funds from any other account to the Account identified in block 1.6 in the event funds in that Account are reduced or unavailable.

5. CONTRACT PRICE/PRICE LIMITATION/ PAYMENT.
5.1 The contract price, method of payment, and terms of payment are identified and more particularly described in EXHIBIT B which is incorporated herein by reference.
5.2 The payment by the State of the contract price shall be the only and the complete reimbursement to the Contractor for all expenses, of whatever nature incurred by the Contractor in the performance hereof, and shall be the only and the complete compensation to the Contractor for the Services. The State shall have no liability to the Contractor other than the contract price.
5.3 The State reserves the right to offset from any amounts otherwise payable to the Contractor under this Agreement those liquidated amounts required or permitted by N.H. RSA 80:7 through RSA 80:7-c or any other provision of law.
5.4 Notwithstanding any provision in this Agreement to the contrary, and notwithstanding unexpected circumstances, in no event shall the total of all payments authorized, or actually made hereunder, exceed the Price Limitation set forth in block 1.8.

6. COMPLIANCE BY CONTRACTOR WITH LAWS AND REGULATIONS/ EQUAL EMPLOYMENT OPPORTUNITY.
6.1 In connection with the performance of the Services, the Contractor shall comply with all statutes, laws, regulations, and orders of federal, state, county or municipal authorities which impose any obligation or duty upon the Contractor, including, but not limited to, civil rights and equal opportunity laws. In addition, the Contractor shall comply with all applicable copyright laws.
6.2 During the term of this Agreement, the Contractor shall not discriminate against employees or applicants for employment because of race, color, religion, creed, age, sex, handicap, sexual orientation, or national origin and will take affirmative action to prevent such discrimination.
6.3 If this Agreement is funded in any part by monies of the United States, the Contractor shall comply with all the provisions of Executive Order No. 11246 ("Equal Employment Opportunity"), as supplemented by the regulations of the United States Department of Labor (41 C.F.R. Part 60), and with any rules, regulations and guidelines as the State of New Hampshire or the United States issue to implement these regulations. The Contractor further agrees to permit the State or United States access to any of the Contractor's books, records and accounts for the purpose of ascertaining compliance with all rules, regulations and orders, and the covenants, terms and conditions of this Agreement.

7. PERSONNEL.
7.1 The Contractor shall at its own expense provide all personnel necessary to perform the Services. The Contractor warrants that all personnel engaged in the Services shall be qualified to perform the Services, and shall be properly licensed and otherwise authorized to do so under all applicable laws.
7.2 Unless otherwise authorized in writing, during the term of this Agreement, and for a period of six (6) months after the Completion Date in block 1.7, the Contractor shall not hire, and shall not permit any subcontractor or other person, firm or corporation with whom it is engaged in a combined effort to perform the Services to hire, any person who is a State employee or official, who is materially involved in the procurement, administration or performance of this Agreement. This provision shall survive termination of this Agreement.
7.3 The Contracting Officer specified in block 1.9, or his or her successor, shall be the State's representative. In the event of any dispute concerning the interpretation of this Agreement, the Contracting Officer's decision shall be final for the State.

Contractor Initials: HP
Date: 4/18/13

8. EVENT OF DEFAULT/REMEDIES.
8.1 Any one or more of the following acts or omissions of the Contractor shall constitute an event of default hereunder ("Event of Default"):
8.1.1 failure to perform the Services satisfactorily or on schedule;
8.1.2 failure to submit any report required hereunder; and/or
8.1.3 failure to perform any other covenant, term or condition of this Agreement.
8.2 Upon the occurrence of any Event of Default, the State may take any one, or more, or all, of the following actions:
8.2.1 give the Contractor a written notice specifying the Event of Default and requiring it to be remedied within, in the absence of a greater or lesser specification of time, thirty (30) days from the date of the notice; and if the Event of Default is not timely remedied, terminate this Agreement, effective two (2) days after giving the Contractor notice of termination;
8.2.2 give the Contractor a written notice specifying the Event of Default and suspending all payments to be made under this Agreement and ordering that the portion of the contract price which would otherwise accrue to the Contractor during the period from the date of such notice until such time as the State determines that the Contractor has cured the Event of Default shall never be paid to the Contractor;
8.2.3 set off against any other obligations the State may owe to the Contractor any damages the State suffers by reason of any Event of Default; and/or
8.2.4 treat the Agreement as breached and pursue any of its remedies at law or in equity, or both.

9. DATA/ACCESS/CONFIDENTIALITY/ PRESERVATION.
9.1 As used in this Agreement, the word "data" shall mean all information and things developed or obtained during the performance of, or acquired or developed by reason of, this Agreement, including, but not limited to, all studies, reports, files, formulae, surveys, maps, charts, sound recordings, video recordings, pictorial reproductions, drawings, analyses, graphic representations, computer programs, computer printouts, notes, letters, memoranda, papers, and documents, all whether finished or unfinished.
9.2 All data and any property which has been received from the State or purchased with funds provided for that purpose under this Agreement, shall be the property of the State, and shall be returned to the State upon demand or upon termination of this Agreement for any reason.
9.3 Confidentiality of data shall be governed by N.H. RSA chapter 91-A or other existing law. Disclosure of data requires prior written approval of the State.

10. TERMINATION. In the event of an early termination of this Agreement for any reason other than the completion of the Services, the Contractor shall deliver to the Contracting Officer, not later than fifteen (15) days after the date of termination, a report ("Termination Report") describing in detail all Services performed, and the contract price earned, to and including the date of termination. The form, subject matter, content, and number of copies of the Termination Report shall be identical to those of any Final Report described in the attached EXHIBIT A.

11. CONTRACTOR'S RELATION TO THE STATE. In the performance of this Agreement the Contractor is in all respects an independent contractor, and is neither an agent nor an employee of the State. Neither the Contractor nor any of its officers, employees, agents or members shall have authority to bind the State or receive any benefits, workers' compensation or other emoluments provided by the State to its employees.

12. ASSIGNMENT/DELEGATION/SUBCONTRACTS. The Contractor shall not assign, or otherwise transfer any interest in this Agreement without the prior written consent of the N.H. Department of Administrative Services. None of the Services shall be subcontracted by the Contractor without the prior written consent of the State.

13. INDEMNIFICATION. The Contractor shall defend, indemnify and hold harmless the State, its officers and employees, from and against any and all losses suffered by the State, its officers and employees, and any and all claims, liabilities or penalties asserted against the State, its officers and employees, by or on behalf of any person, on account of, based or resulting from, arising out of (or which may be claimed to arise out of) the acts or omissions of the Contractor. Notwithstanding the foregoing, nothing herein contained shall be deemed to constitute a waiver of the sovereign immunity of the State, which immunity is hereby reserved to the State. This covenant in paragraph 13 shall survive the termination of this Agreement.

14. INSURANCE.
14.1 The Contractor shall, at its sole expense, obtain and maintain in force, and shall require any subcontractor or assignee to obtain and maintain in force, the following insurance:
14.1.1 comprehensive general liability insurance against all claims of bodily injury, death or property damage, in amounts of not less than $250,000 per claim and $2,000,000 per occurrence; and
14.1.2 fire and extended coverage insurance covering all property subject to subparagraph 9.2 herein, in an amount not less than 80% of the whole replacement value of the property.
14.2 The policies described in subparagraph 14.1 herein shall be on policy forms and endorsements approved for use in the State of New Hampshire by the N.H. Department of Insurance, and issued by insurers licensed in the State of New Hampshire.
14.3 The Contractor shall furnish to the Contracting Officer identified in block 1.9, or his or her successor, a certificate(s) of insurance for all insurance required under this Agreement. Contractor shall also furnish to the Contracting Officer identified in block 1.9, or his or her successor, certificate(s) of insurance for all renewal(s) of insurance required under this Agreement no later than fifteen (15) days prior to the expiration date of each of the insurance policies. The certificate(s) of insurance and any renewals thereof shall be attached and are incorporated herein by reference. Each

Contractor Initials: [initials]
Date: 4/18/13

certificate(s) of insurance shall contain a clause requiring the insurer to endeavor to provide the Contracting Officer identified in block 1.9, or his or her successor, no less than ten (10) days prior written notice of cancellation or modification of the policy.

15. WORKERS' COMPENSATION.

15.1 By signing this agreement, the Contractor agrees, certifies and warrants that the Contractor is in compliance with or exempt from, the requirements of N.H. RSA chapter 281-A ("Workers' Compensation").

15.2 To the extent the Contractor is subject to the requirements of N.H. RSA chapter 281-A, Contractor shall maintain, and require any subcontractor or assignee to secure and maintain, payment of Workers' Compensation in connection with activities which the person proposes to undertake pursuant to this Agreement. Contractor shall furnish the Contracting Officer identified in block 1.9, or his or her successor, proof of Workers' Compensation in the manner described in N.H. RSA chapter 281-A and any applicable renewal(s) thereof, which shall be attached and are incorporated herein by reference. The State shall not be responsible for payment of any Workers' Compensation premiums or for any other claim or benefit for Contractor, or any subcontractor or employee of Contractor, which might arise under applicable State of New Hampshire Workers' Compensation laws in connection with the performance of the Services under this Agreement.

16. WAIVER OF BREACH. No failure by the State to enforce any provisions hereof after any Event of Default shall be deemed a waiver of its rights with regard to that Event of Default, or any subsequent Event of Default. No express failure to enforce any Event of Default shall be deemed a waiver of the right of the State to enforce each and all of the provisions hereof upon any further or other Event of Default on the part of the Contractor.

17. NOTICE. Any notice by a party hereto to the other party shall be deemed to have been duly delivered or given at the time of mailing by certified mail, postage prepaid, in a United States Post Office addressed to the parties at the addresses given in blocks 1.2 and 1.4, herein.

18. AMENDMENT. This Agreement may be amended, waived or discharged only by an instrument in writing signed by the parties hereto and only after approval of such amendment, waiver or discharge by the Governor and Executive Council of the State of New Hampshire.

19. CONSTRUCTION OF AGREEMENT AND TERMS. This Agreement shall be construed in accordance with the laws of the State of New Hampshire, and is binding upon and inures to the benefit of the parties and their respective successors and assigns. The wording used in this Agreement is the wording chosen by the parties to express their mutual intent, and no rule of construction shall be applied against or in favor of any party.

20. THIRD PARTIES. The parties hereto do not intend to benefit any third parties and this Agreement shall not be construed to confer any such benefit.

21. HEADINGS. The headings throughout the Agreement are for reference purposes only, and the words contained therein shall in no way be held to explain, modify, amplify or aid in the interpretation, construction or meaning of the provisions of this Agreement.

22. SPECIAL PROVISIONS. Additional provisions set forth in the attached EXHIBIT C are incorporated herein by reference.

23. SEVERABILITY. In the event any of the provisions of this Agreement are held by a court of competent jurisdiction to be contrary to any state or federal law, the remaining provisions of this Agreement will remain in full force and effect.

24. ENTIRE AGREEMENT. This Agreement, which may be executed in a number of counterparts, each of which shall be deemed an original, constitutes the entire Agreement and understanding between the parties, and supersedes all prior Agreements and understandings relating hereto.

Contractor Initials: JJ
Date: 4/18/13

EXHIBIT A
SCOPE OF SERVICES

DATE: April 1, 2013

CONTRACT: Laboratory Services for the John H. Sununu Youth Services Center

CONTRACT PERIOD: July 1, 2013 to June 30, 2015

CONTRACTOR NAME: Catholic Medical Center Laboratory

ADDRESS: 100 McGregor Street

Manchester, NH 03102

TELEPHONE: 603-663-5362

REPRESENTATIVE: Roberta E. Provencal
TITLE: Director of Laboratory Services

PROGRAM SPECIFICATIONS

A. Program Outcomes

The expected outcomes are as follows:

- The collection of resident specimens to be performed at the SYSC.
- The specimens collected at the SYSC to be transported to a laboratory for testing.
- Elimination of resident transports for collecting specimens.
- Increase staff efficiency.
- Quality specimen collection.
- Quality laboratory services.
- Timely reporting of laboratory results.
- Success will be measured by several important factors, including, but limited to:
  - Number of specimens that require collection outside of the SYSC.
  - Quality measures instituted to evaluate specimen collection, testing and reporting.

B. Program Operations

1. Laboratory Services. The contractor agrees that all laboratory services to be provided, including those laboratory services referenced in Exhibit B-1, meet the requirements of The Joint Commission, the Clinical Laboratory Improvement Act of 1988 (CLIA), as amended, or any other applicable accrediting bodies. The vendor

Contractor Initials: [initials]
Date: 4/18/13

agrees to notify the Division in writing within five (5) working days after notification that the abovementioned services do not meet these requirements or that the vendor as a whole did not meet The Joint Commission or any other applicable accrediting agencies requirements.

2. Quarterly Specimen Collection Quality Assurance Report. The vendor shall submit a quarterly Specimen Collection Quality Assurance Report. Copies of the report shall be sent to the Medical Coordinator and The Manager of Residential Services for the Division and shall include:

    a. The number of each test and profile performed;
    b. A list, by resident, of the tests or profiles completed;
    c. A list, by practitioner, of the tests and profiles ordered;
    d. A list, by resident, of the phlebotomy collections completed and the costs associated with each;
    e. A list, by dates and times, of the additional courier call-backs, and the associated costs;
    f. A list, by resident, of all rejected specimens; and
    g. Other reports upon request, e.g., a summary of reported issues.

3. Identified Problems. Identified problems during the contract term shall be resolved mutually between the Division and Contractor. At least quarterly during each contract year, the Division and the Contractor shall meet to discuss the quality and appropriateness of services and resolve any identified problems.

4. Objective Criteria. The contractor shall provide the Division with information regarding the objective criteria, e.g., a quality control surveillance program, established to review and monitor the services provided to the Division.

5. Laboratory Results. Laboratory results shall be reported on a standard form approved by the Division which includes the date and time a specimen as collected, received by the laboratory and completed, technologist's initials and pathologist's review, where appropriate. The contractor, at no additional costs, shall supply appropriate requisition forms to the Division.

6. Frequency of Services. Routine tests are to be performed once daily, potentially seven (7) days per week, except for chemistry profiles on Thanksgiving, Christmas, and New Year's Day.

7. Emergency/Abnormal Tests. Emergency or abnormal test results or others requested by a physician shall be performed and reported in a timely fashion consistent with clinical appropriateness, to the Division by call and/or fax, weekends excepted, followed by printed copies for the medical record.

8. Results. Results must be delivered to the Division by 4:00 that same day. Printed copies of all laboratory results shall be forwarded to the appropriate clinician for review. Turn around time shall be maintained in a manner suitable to the clinical situation in which the tests are requested.

Contractor Initials: M
Date: 4/18/13

9. Reportable Diseases. The contractor agrees to notify the Division within one (1) working day, of any laboratory findings that indicate a disease reportable to the NH Division of Public Health Services.

10. Antimicrobial Susceptibility. The contractor shall provide the antimicrobial susceptibility summary annually.

11. Change in Reference Laboratories. All laboratory services shall be performed at the contractor's facility or a reference laboratory that meets the aforementioned requirements. The contractor must be capable of performing the tests and meeting turn-around times as specified. The contractor shall notify the Division of any change in reference laboratories.

12. Data. Data provided to the Division shall be in a computerized form in sufficient detail for the Division to bill payers.

13. On-Line Results. The contractor shall provide the Division the ability to access on-line laboratory results. These services shall be provided by the contractor at no cost to the Division. The contractor and the Division shall cooperate in the development of enhancements to the computerized reporting system.

14. Protected Health Information. The contractor and Division shall strictly abide by all state and federal laws and regulations with respect to the privacy and electronic security of protected health information, including, without limitation, the regulations promulgated under the Health Insurance Portability and Accountability Act of 1996, as currently issued, as amended from time to time. The obligation to keep protected health information confidential shall survive the termination of this contract.

15. Equipment and supplies. The contractor shall provide all equipment and supplies needed for the specimen collection.

C. Staff Qualifications

1. The contractor shall require that all staff, sub-contractors, and volunteers working on this project, who come in contact with children, receive background and central registry checks.

2. The contractor will provide a qualified technician acceptable to the Division to perform the ordered tests between the hours of 6 AM and 8 AM. The technician shall visit the SYSC in accordance with a schedule as mutually agreed upon by the vendor and Division, but not less than one morning per week.

   2.1 The program shall be staffed by individual providers and/or employees of the facility that are duly licensed and registered, and in good standing under the laws of the State of New Hampshire, to engage in the practice of medicine, and that said licenses and registrations have not been suspended, revoked, or restricted in any manner.

Contractor Initials: [illegible]
Date: 4/18/13

2.2 The program shall be staffed by individual providers and/or employees who have not been suspended or exclude from participating in Medicaid, other federal and state reimbursement programs, or the payment plan of any commercial insurer, health maintenance organization, preferred provider organization, accountable health plan, or other health benefit program.

Contractor Initials: [initials]
Date: 4/18/13

EXHIBIT B

METHOD, SCHEDULE, AND CONDITIONS PRECEDENT TO PAYMENT

Contract Agency: Catholic Medical Center Laboratory

Program Period: July 1, 2013 to June 30, 2015 or date of Governor and Council approval, whichever is later

Account Information: Health Services

1. Subject to the availability of Federal funds, and in consideration for the satisfactory completion of the Services to be performed under this Agreement, the Division for Children, Youth and Families agrees to purchase from the Contractor, services in an amount not to exceed $54,000.00 for services performed during the program period specified above.

   1.1. The Contract Price shall be no more than the total program cost.

   1.2. Expenditures for each State Fiscal Year of the agreement shall be in accordance with the line items as shown in the Exhibit B-1: Rate Table.

2. Payments shall be made to the Contractor, subject to the following conditions:

   2.1. Payment shall be on a cost reimbursement basis based on actual expenditures incurred in the fulfillment of this agreement. The billing process will follow the procedure below:
   - CMC will generate a monthly invoice.
   - The invoice will include the date of service, patient name, test performed, and contract cost.
   - The invoice will be sent to Donna Bourbeau (see mailing information below) for payment approval.
   - If the patient has private insurance, the Sununu Youth Services Center nurse will provide the CMC lab technician with the private insurance information at the time of service delivery.
   - CMC will bill the private insurance, not Sununu Youth Services Center.

   The invoice shall be completed by the Contractor, signed, and returned to the SYSC Nurse Coordinator: Donna Bourbeau, John H. Sununu Youth Services Center, 1056 North River Road, Manchester, NH 03104, in order to initiate payment. It is the Division's preference that invoice be submitted electronically, via email.

   2.2. Requests for payment shall be signed by an authorized representative of the Contractor. Payment requests shall be submitted monthly.

   2.3. A final payment request shall be submitted no later than forty-five (45) days after the Contract ends. Failure to submit the invoice by this date could result in non-payment.

Contractor Initials: [initials]

Date: 4/18/13

2.4. Notwithstanding anything to the contrary herein, the Contractor agrees that funding under this Contract may be withheld, in whole or in part, in the event of noncompliance with any State or Federal law, rule or regulation applicable to the Services provided, or if the said Services have not been completed in accordance with the terms and conditions of this Agreement.

2.5. Payments may be withheld pending receipt of required reports as outlined in Exhibit A, B, 2.

3. The Division reserves the right to renew the Contract for up to four years, subject to continued availability of funds, satisfactory performance of services, and approval by the Governor and Executive Council.

Contractor Initials: [initials]

Date: 4/18/13

State of New Hampshire
Department of Health and Human Services

Division for Children, Youth and Families

EXHIBIT B-1
PERSONNEL DATA - Catholic Medical Center - Labortory Services
State Fiscal Year 2014

	Name	Title	Annual Salary	% of Time to Work on the Project	Project Amount Charged for SFY 2014 7/1/13 - 6/30/14)
1	Roberta Provencal	Executive Director, Laboratory	$ 135,844.80	0.1%	$ 13.58
2	Amy Schultz	Lab Technical Operations Mgr	$ 100,713.60	0.1%	$ 10.07
3	Thomas Hebert	Lab Outreach Liaison	$ 73,831.69	1%	$ 738.32
4	Penny Lajoie	Phlebotomy Supervisor	$ 81,861.10	1%	$ 818.61
5	Andrea Haddad	Phlebotomist 3	$ 36,608.00	5%	$ 1,830.40
6	Stephanie Caron	Phlebotomist 3	$ 34,320.00	4%	$ 1,372.80
7			$ -		$ -
8					
9					
		Total:			$ 4,783.78

State Fiscal Year 2015

	Name	Title	Annual Salary	% of Time to Work on the Project	Project Amount Charged for SFY 2015 (7/1/14 - 6/30/15)
1	Roberta Provencal	Executive Director, Laboratory	$ 135,844.80	0.1%	$ 13.58
2	Amy Schultz	Lab Technical Operations Mgr	$ 100,713.60	0.1%	$ 10.07
3	Thomas Hebert	Lab Outreach Liaison	$ 73,831.69	1%	$ 738.32
4	Penny Lajoie	Phlebotomy Supervisor	$ 81,861.10	1%	$ 818.61
5	Andrea Haddad	Phlebotomist 3	$ 36,608.00	5%	$ 1,830.40
6	Stephanie Caron	Phlebotomist 3	$ 34,320.00	4%	$ 1,372.80
7			$ -		$ -
8					
9					
		Total:			$ 4,783.78

Contractor Initials: [signature]
Date: 4/18/13

Exhibit B-2 – Rate Table
SYSC – Sununu Lab Services

John H. Sununu Youth Services
Laboratory Services

LABORATORY SERVICE
RATE TABLE

Test	*CPT*	*Rate*
BMP (Basic Metabolic Panel)	80048	$ 11.98
Carbamezepine Level (Tegretol)	80156	$ 20.62
CBC with Differential and Platelets	85025	$ 11.02
Cholesterol	82465	$ 6.16
Comprehensive Metabolic Panel	80053	$ 14.97
C-Reactive Protein (CRP)	**86140**	**$ 18.34**
C-Reactive Protein (CRP) high sensitivity	**86141**	**$ 18.34**
Depakote (VALP) (Valproic Acid)	80164	$ 19.19
Fasting Serum Glucose	82947	$ 5.56
FBS (Fasting Blood Sugar)	82947	$ 5.56
HDLP (HDL Cholesterol Panel)	82465/83718	$ 17.76
Hemoglobin A1C	83036	$ 13.75
Hepatic Function Panel	80076	$ 18.97
Hepatitis B Surface Antibody	86706	$ 15.21
Hepatitis C Antibody	86803	$ 18.85
Hepatitis C RNA PCR	87522	$ 95.10
HFP (Hepatic Function Panel)	80076	$ 11.57
HIV Antibody	86703	$ 14.96
LI (Lithium)	80178	$ 9.36
Lipid Panel with LDL/HDL Ratio	80061	$ 18.97
Lithium Level	80178	$ 9.36
Mononucleosis	**86308**	**$10.39**
Prolactin	84146	$ 27.45
Qualitative hCG Beta Subunit	**84703**	**$ 10.64**
Quantitative hCG Beta Subunit (Serum Pregnancy)	**84702**	**$ 21.33**
Stool Culture	87045	$ 13. 36
Tegretol (Carbamezepine)	80156	$ 20.62
Throat Culture	87070	$ 12.20
Throat Screen	87880	$ 16.22
TSH	84443	$ 23.80
Urinalysis (auto w/microscopy)	81001	$ 4.48
VALP (Valproic Acid)	80164	$ 19.19
Valproate Level (Valproic Acid)	80164	$ 19.19
Wound Culture - Superficial	87070	$ 12.20
Wound Culture - Deep	87070/87075	$ 25.60

Contractor Initials: DY

Date: 4/18/13

NH Department of Health and Human Services

STANDARD EXHIBIT C

SPECIAL PROVISIONS

1. Contractors Obligations: The Contractor covenants and agrees that all funds received by the Contractor under the Contract shall be used only as payment to the Contractor for services provided to eligible individuals and, in the furtherance of the aforesaid covenants, the Contractor hereby covenants and agrees as follows:

2. Compliance with Federal and State Laws: If the Contractor is permitted to determine the eligibility of individuals such eligibility determination shall be made in accordance with applicable federal and state laws, regulations, orders, guidelines, policies and procedures.

3. Time and Manner of Determination: Eligibility determinations shall be made on forms provided by the Department for that purpose and shall be made and remade at such times as are prescribed by the Department.

4. Documentation: In addition to the determination forms required by the Department, the Contractor shall maintain a data file on each recipient of services hereunder, which file shall include all information necessary to support an eligibility determination and such other information as the Department requests. The Contractor shall furnish the Department with all forms and documentation regarding eligibility determinations that the Department may request or require.

5. Fair Hearings: The Contractor understands that all applicants for services hereunder, as well as individuals declared ineligible have a right to a fair hearing regarding that determination. The Contractor hereby covenants and agrees that all applicants for services shall be permitted to fill out an application form and that each applicant or re-applicant shall be informed of his/her right to a fair hearing in accordance with Department regulations.

6. Gratuities or Kickbacks: The Contractor agrees that it is a breach of this Contract to accept or make a payment, gratuity or offer of employment on behalf of the Contractor, any Sub-Contractor or the State in order to influence the performance of the Scope of Work detailed in Exhibit A of this Contract. The State may terminate this Contract and any sub-contract or sub-agreement if it is determined that payments, gratuities or offers of employment of any kind were offered or received by any officials, officers, employees or agents of the Contractor or Sub-Contractor.

7. Retroactive Payments: Notwithstanding anything to the contrary contained in the Contract or in any other document, contract or understanding, it is expressly understood and agreed by the parties hereto, that no payments will be made hereunder to reimburse the Contractor for costs incurred for any purpose or for any services provided to any individual prior to the Effective Date of the Contract and no payments shall be made for expenses incurred by the Contractor for any services provided prior to the date on which the individual applies for services or (except as otherwise provided by the federal regulations) prior to a determination that the individual is eligible for such services.

8. Conditions of Purchase: Notwithstanding anything to the contrary contained in the Contract, nothing herein contained shall be deemed to obligate or require the Department to purchase services hereunder at a rate which reimburses the Contractor in excess of the Contractor's costs, at a rate which exceeds the amounts reasonable and necessary to assure the quality of such service, or at a rate which exceeds the rate charged by the Contractor to ineligible individuals or other third party funders for such service. If at any time during the term of this Contract or after receipt of the Final Expenditure Report hereunder, the Department shall determine that the Contractor has used payments hereunder to reimburse items of expense other than such costs, or has received payment in excess of such costs or in excess of such rates charged by the Contractor to ineligible individuals or other third party funders, the Department may elect to:

8.1 Renegotiate the rates for payment hereunder, in which event new rates shall be established;

8.2 Deduct from any future payment to the Contractor the amount of any prior reimbursement in excess of costs;

Contractor Initials: ____
Date: 4/18/13

8.3 Demand repayment of the excess payment by the Contractor in which event failure to make such repayment shall constitute an Event of Default hereunder. When the Contractor is permitted to determine the eligibility of individuals for services, the Contractor agrees to reimburse the Department for all funds paid by the Department to the Contractor for services provided to any individual who is found by the Department to be ineligible for such services at any time during the period of retention of records established herein.

RECORDS: MAINTENANCE, RETENTION, AUDIT, DISCLOSURE AND CONFIDENTIALITY:

9. Maintenance of Records: In addition to the eligibility records specified above, the Contractor covenants and agrees to maintain the following records during the Contract Period:

9.1 Fiscal Records: books, records, documents and other data evidencing and reflecting all costs and other expenses incurred by the Contractor in the performance of the Contract, and all income received or collected by the Contractor during the Contract Period, said records to be maintained in accordance with accounting procedures and practices which sufficiently and properly reflect all such costs and expenses, and which are acceptable to the Department, and to include, without limitation, all ledgers, books, records, and original evidence of costs such as purchase requisitions and orders, vouchers, requisitions for materials, inventories, valuations of in-kind contributions, labor time cards, payrolls, and other records requested or required by the Department.

9.2 Statistical Records: Statistical, enrollment, attendance or visit records for each recipient of services during the Contract Period, which records shall include all records of application and eligibility (including all forms required to determine eligibility for each such recipient), records regarding the provision of services and all invoices submitted to the Department to obtain payment for such services.

9.3 Medical Records: Where appropriate and as prescribed by the Department regulations, the Contractor shall retain medical records on each patient/recipient of services.

10. Audit: Contractor shall submit an annual audit to the Department within 60 days after the close of the Contractor fiscal year. It is recommended that the report be prepared in accordance with the provision of Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non Profit Organizations" and the provisions of Standards for Audit of Governmental Organizations, Programs, Activities and Functions, issued by the US General Accounting Office (GAO standards) as they pertain to financial compliance audits.

10.1 Audit and Review: During the term of this Contract and the period for retention hereunder, the Department, the United States Department of Health and Human Services, and any of their designated representatives shall have access to all reports and records maintained pursuant to the Contract for purposes of audit, examination, excerpts and transcripts.

10.2 Audit Liabilities: In addition to and not in any way in limitation of obligations of the Contract, it is understood and agreed by the Contractor that the Contractor shall be held liable for any state or federal audit exceptions and shall return to the Department, all payments made under the Contract to which exception has been taken or which have been disallowed because of such an exception.

11. Confidentiality of Records: All information, reports, and records maintained hereunder or collected in connection with the performance of the services and the Contract shall be confidential and shall not be disclosed by the Contractor, provided however, that pursuant to state laws and the regulations of the Department regarding the use and disclosure of such information, disclosure may be made to public officials requiring such information in connection with their official duties and for purposes directly connected to the administration of the services and the Contract; and provided further, that the use or disclosure by any party of any information concerning a recipient for any purpose not directly connected with the administration of the Department or the Contractor's responsibilities with respect to purchased services hereunder is prohibited except on written consent of the recipient, his attorney or guardian.

Notwithstanding anything to the contrary contained herein the covenants and conditions contained in the Paragraph shall survive the termination of the Contract for any reason whatsoever.

12. Reports: Fiscal and Statistical: The Contractor agrees to submit the following reports at the following times if requested by the Department.

Contractor Initials: JH

Date: 4/18/13

12.1 Interim Financial Reports: Written interim financial reports containing a detailed description of all costs and non-allowable expenses incurred by the Contractor to the date of the report and containing such other information as shall be deemed satisfactory by the Department to justify the rate of payment hereunder. Such Financial Reports shall be submitted on the form designated by the Department or deemed satisfactory by the Department.

12.2 Final Report: A final report shall be submitted within thirty (30) days after the end of the term of this Contract. The Final Report shall be in a form satisfactory to the Department and shall contain a summary statement of progress toward goals and objectives stated in the Proposal and other information required by the Department.

13. Completion of Services: Disallowance of Costs: Upon the purchase by the Department of the maximum number of units provided for in the Contract and upon payment of the price limitation hereunder, the Contract and all the obligations of the parties hereunder (except such obligations as, by the terms of the Contract are to be performed after the end of the term of this Contract and/or survive the termination of the Contract) shall terminate, provided however, that if, upon review of the Final Expenditure Report the Department shall disallow any expenses claimed by the Contractor as costs hereunder the Department shall retain the right, at its discretion, to deduct the amount of such expenses as are disallowed or to recover such sums from the Contractor.

14. Credits: All documents, notices, press releases, research reports and other materials prepared during or resulting from the performance of the services of the Contract shall include the following statement:

14.1 The preparation of this (report, document etc.) was financed under a Contract with the State of New Hampshire, Department of Health and Human Services, with funds provided in part by the State of New Hampshire and/or such other funding sources as were available or required, e.g., the United States Department of Health and Human Services.

15. Prior Approval and Copyright Ownership:
All materials (written, video, audio) produced or purchased under the contract shall have prior approval from DHHS before printing, production, distribution or use. The DHHS will retain copyright ownership for any and all original materials produced, including, but not limited to, brochures, resource directories, protocols or guidelines, posters, or reports. Contractor shall not reproduce any materials produced under the contract without prior written approval from DHHS.

16. Operation of Facilities: Compliance with Laws and Regulations: In the operation of any facilities for providing services, the Contractor shall comply with all laws, orders and regulations of federal, state, county and municipal authorities and with any direction of any Public Officer or officers pursuant to laws which shall impose an order or duty upon the contractor with respect to the operation of the facility or the provision of the services at such facility. If any governmental license or permit shall be required for the operation of the said facility or the performance of the said services, the Contractor will procure said license or permit, and will at all times comply with the terms and conditions of each such license or permit. In connection with the foregoing requirements, the Contractor hereby covenants and agrees that, during the term of this Contract the facilities shall comply with all rules, orders, regulations, and requirements of the State Office of the Fire Marshal and the local fire protection agency, and shall be in conformance with local building and zoning codes, by-laws and regulations.

17. Subcontractors: DHHS recognizes that the Contractor may choose to use subcontractors with greater expertise to perform certain health care services or functions for efficiency or convenience, but the Contractor shall retain the responsibility and accountability for the function(s). Prior to subcontracting, the Contractor shall evaluate the subcontractor's ability to perform the delegated function(s). This is accomplished through a written agreement that specifies activities and reporting responsibilities of the subcontractor and provides for revoking the delegation or imposing sanctions if the subcontractor's performance is not adequate. Subcontractors are subject to the same contractual conditions as the Contractor and the Contractor is responsible to ensure subcontractor compliance with those conditions.

When the Contractor delegates a function to a subcontractor, the Contractor shall do the following:

- Evaluate the prospective subcontractor's ability to perform the activities, before delegating the function
- Have a written agreement with the subcontractor that specifies activities and reporting responsibilities and how sanctions/revocation will be managed if the subcontractor's performance is not adequate

Contractor Initials: JB

Date: 4/18/13

- Monitor the subcontractor's performance on an ongoing basis
- Provide to DHHS an annual schedule identifying all subcontractors, delegated functions and responsibilities, and when the subcontractor's performance will be reviewed
- DHHS shall review and approve all subcontracts.

If the Contractor identifies deficiencies or areas for improvement are identified, the Contractor shall take corrective action.

SPECIAL PROVISIONS – DEFINITIONS
As used in the Contract, the following terms shall have the following meanings:

COSTS: Shall mean those direct and indirect items of expense determined by the Department to be allowable and reimbursable in accordance with cost and accounting principles established in accordance with state and federal laws, regulations, rules and orders.

DEPARTMENT: NH Department of Health and Human Services.

PROPOSAL: If applicable, shall mean the document submitted by the Contractor on a form or forms required by the Department and containing a description of the Services to be provided to eligible individuals by the Contractor in accordance with the terms and conditions of the Contract and setting forth the total cost and sources of revenue for each service to be provided under the Contract.

UNIT: For each service that the Contractor is to provide to eligible individuals hereunder, shall mean that period of time or that specified activity determined by the Department and specified in Exhibit B of the Contract.

FEDERAL/STATE LAW: Wherever federal or state laws, regulations, rules, orders, and policies, etc. are referred to in the Contract, the said reference shall be deemed to mean all such laws, regulations, etc. as they may be amended or revised from the time to time.

SUPPLANTING OTHER FEDERAL FUNDS: The Contractor guarantees that funds provided under this Contract will not supplant any existing federal funds available for these services.

Contractor Initials: JJ
Date: 4/18/13

NH Department of Health and Human Services

STANDARD EXHIBIT C-I

ADDITIONAL SPECIAL PROVISIONS

1. The Department reserves the right to renew this contract for up to four additional years subject to continued availability of funds, satisfactory performance of services, and approval of contract renewal by the Governor and Executive Council.

Contractor Initials: JJ

Date: 4/18/13

NH Department of Health and Human Services

STANDARD EXHIBIT D

CERTIFICATION REGARDING DRUG-FREE WORKPLACE REQUIREMENTS

The Contractor identified in Section 1.3 of the General Provisions agrees to comply with the provisions of Sections 5151-5160 of the Drug-Free Workplace Act of 1988 (Pub. L. 100-690, Title V, Subtitle D; 41 U.S.C. 701 et seq.), and further agrees to have the Contractor's representative, as identified in Sections 1.11 and 1.12 of the General Provisions execute the following Certification:

ALTERNATIVE I - FOR GRANTEES OTHER THAN INDIVIDUALS

US DEPARTMENT OF HEALTH AND HUMAN SERVICES - CONTRACTORS
US DEPARTMENT OF EDUCATION - CONTRACTORS
US DEPARTMENT OF AGRICULTURE - CONTRACTORS

This certification is required by the regulations implementing Sections 5151-5160 of the Drug-Free Workplace Act of 1988 (Pub. L. 100-690, Title V, Subtitle D; 41 U.S.C. 701 et seq.). The January 31, 1989 regulations were amended and published as Part II of the May 25, 1990 Federal Register (pages 21681-21691), and require certification by grantees (and by inference, sub-grantees and sub-contractors), prior to award, that they will maintain a drug-free workplace. Section 3017.630(c) of the regulation provides that a grantee (and by inference, sub-grantees and sub-contractors) that is a State may elect to make one certification to the Department in each federal fiscal year in lieu of certificates for each grant during the federal fiscal year covered by the certification. The certificate set out below is a material representation of fact upon which reliance is placed when the agency awards the grant. False certification or violation of the certification shall be grounds for suspension of payments, suspension or termination of grants, or government wide suspension or debarment. Contractors using this form should send it to:

Commissioner
NH Department of Health and Human Services
129 Pleasant Street,
Concord, NH 03301-6505

(A) The grantee certifies that it will or will continue to provide a drug-free workplace by:

(a) Publishing a statement notifying employees that the unlawful manufacture, distribution, dispensing, possession or use of a controlled substance is prohibited in the grantee's workplace and specifying the actions that will be taken against employees for violation of such prohibition;

(b) Establishing an ongoing drug-free awareness program to inform employees about

(1) The dangers of drug abuse in the workplace;
(2) The grantee's policy of maintaining a drug-free workplace;
(3) Any available drug counseling, rehabilitation, and employee assistance programs; and
(4) The penalties that may be imposed upon employees for drug abuse violations occurring in the workplace;

Contractor Initials: JJ

Date: 4/18/13

(c) Making it a requirement that each employee to be engaged in the performance of the grant be given a copy of the statement required by paragraph (a);

(d) Notifying the employee in the statement required by paragraph (a) that, as a condition of employment under the grant, the employee will

(1) Abide by the terms of the statement; and
(2) Notify the employer in writing of his or her conviction for a violation of a criminal drug statute occurring in the workplace no later than five calendar days after such conviction;

(e) Notifying the agency in writing, within ten calendar days after receiving notice under subparagraph (d)(2) from an employee or otherwise receiving actual notice of such conviction. Employers of convicted employees must provide notice, including position title, to every grant officer on whose grant activity the convicted employee was working, unless the Federal agency has designated a central point for the receipt of such notices. Notice shall include the identification number(s) of each affected grant;

(f) Taking one of the following actions, within 30 calendar days of receiving notice under subparagraph (d)(2), with respect to any employee who is so convicted

(1) Taking appropriate personnel action against such an employee, up to and including termination, consistent with the requirements of the Rehabilitation Act of 1973, as amended; or

(2) Requiring such employee to participate satisfactorily in a drug abuse assistance or rehabilitation program approved for such purposes by a Federal, State, or local health, law enforcement, or other appropriate agency;

(g) Making a good faith effort to continue to maintain a drug-free workplace through implementation of paragraphs (a), (b), (c), (d), (e), and (f).

(B) The grantee may insert in the space provided below the site(s) for the performance of work done in connection with the specific grant.

Place of Performance (street address, city, county, state, zip code) (list each location)

Check ☐ if there are workplaces on file that are not identified here.

Catholic Medical Center From: 7/1/13 To: 6/30/15
(Contractor Name) (Period Covered by this Certification)

Joseph Pepe, MD President + CEO
(Name & Title of Authorized Contractor Representative)

(Contractor Representative Signature) 4/18/13
(Date)

Contractor Initials: ____
Date: 4/18/13

NH Department of Health and Human Services

STANDARD EXHIBIT E

CERTIFICATION REGARDING LOBBYING

The Contractor identified in Section 1.3 of the General Provisions agrees to comply with the provisions of Section 319 of Public Law 101-121, Government wide Guidance for New Restrictions on Lobbying, and 31 U.S.C. 1352, and further agrees to have the Contractor's representative, as identified in Sections 1.11 and 1.12 of the General Provisions execute the following Certification:

US DEPARTMENT OF HEALTH AND HUMAN SERVICES - CONTRACTORS
US DEPARTMENT OF EDUCATION - CONTRACTORS
US DEPARTMENT OF AGRICULTURE - CONTRACTORS

Programs (indicate applicable program covered):
*Temporary Assistance to Needy Families under Title IV-A
*Child Support Enforcement Program under Title IV-D
*Social Services Block Grant Program under Title XX
*Medicaid Program under Title XIX
*Community Services Block Grant under Title VI
*Child Care Development Block Grant under Title IV

Contract Period: through

The undersigned certifies, to the best of his or her knowledge and belief, that:

(1) No Federal appropriated funds have been paid or will be paid by or on behalf of the undersigned, to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in connection with the awarding of any Federal contract, continuation, renewal, amendment, or modification of any Federal contract, grant, loan, or cooperative agreement (and by specific mention sub-grantee or sub-contractor).

(2) If any funds other than Federal appropriated funds have been paid or will be paid to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in connection with this Federal contract, grant, loan, or cooperative agreement (and by specific mention sub-grantee or sub-contractor), the undersigned shall complete and submit Standard Form LLL, (Disclosure Form to Report Lobbying, in accordance with its instructions, attached and identified as Standard Exhibit E-I.)

(3) The undersigned shall require that the language of this certification be included in the award document for sub-awards at all tiers (including subcontracts, sub-grants, and contracts under grants, loans, and cooperative agreements) and that all sub-recipients shall certify and disclose accordingly.

This certification is a material representation of fact upon which reliance was placed when this transaction was made or entered into. Submission of this certification is a prerequisite for making or entering into this transaction imposed by Section 1352, Title 31, U.S. Code. Any person who fails to file the required certification shall be subject to a civil penalty of not less than $10,000 and not more than $100,000 for each such failure.

[signature]	Joseph Pepe, MD President & CEO
(Contractor Representative Signature)	(Authorized Contractor Representative Name & Title)
Catholic Medical Center	4/18/13
(Contractor Name)	(Date)

NH Department of Health and Human Services

STANDARD EXHIBIT F

CERTIFICATION REGARDING DEBARMENT, SUSPENSION AND OTHER RESPONSIBILITY MATTERS

The Contractor identified in Section 1.3 of the General Provisions agrees to comply with the provisions of Executive Office of the President, Executive Order 12549 and 45 CFR Part 76 regarding Debarment, Suspension, and Other Responsibility Matters, and further agrees to have the Contractor's representative, as identified in Sections 1.11 and 1.12 of the General Provisions execute the following Certification:

INSTRUCTIONS FOR CERTIFICATION

1. By signing and submitting this proposal (contract), the prospective primary participant is providing the certification set out below.

2. The inability of a person to provide the certification required below will not necessarily result in denial of participation in this covered transaction. If necessary, the prospective participant shall submit an explanation of why it cannot provide the certification. The certification or explanation will be considered in connection with the NH Department of Health and Human Services' (DHHS) determination whether to enter into this transaction. However, failure of the prospective primary participant to furnish a certification or an explanation shall disqualify such person from participation in this transaction.

3. The certification in this clause is a material representation of fact upon which reliance was placed when DHHS determined to enter into this transaction. If it is later determined that the prospective primary participant knowingly rendered an erroneous certification, in addition to other remedies available to the Federal Government, DHHS may terminate this transaction for cause or default.

4. The prospective primary participant shall provide immediate written notice to the DHHS agency to whom this proposal (contract) is submitted if at any time the prospective primary participant learns that its certification was erroneous when submitted or has become erroneous by reason of changed circumstances.

5. The terms "covered transaction," "debarred," "suspended," "ineligible," "lower tier covered transaction," "participant," "person," "primary covered transaction," "principal," "proposal," and "voluntarily excluded," as used in this clause, have the meanings set out in the Definitions and Coverage sections of the rules implementing Executive Order 12549: 45 CFR Part 76. See the attached definitions.

6. The prospective primary participant agrees by submitting this proposal (contract) that, should the proposed covered transaction be entered into, it shall not knowingly enter into any lower tier covered transaction with a person who is debarred, suspended, declared ineligible, or voluntarily excluded from participation in this covered transaction, unless authorized by DHHS.

Contractor Initials: [illegible]

Date: 4/18/13

7. The prospective primary participant further agrees by submitting this proposal that it will include the clause titled "Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion - Lower Tier Covered Transactions," provided by DHHS, without modification, in all lower tier covered transactions and in all solicitations for lower tier covered transactions.

8. A participant in a covered transaction may rely upon a certification of a prospective participant in a lower tier covered transaction that it is not debarred, suspended, ineligible, or involuntarily excluded from the covered transaction, unless it knows that the certification is erroneous. A participant may decide the method and frequency by which it determines the eligibility of its principals. Each participant may, but is not required to, check the Nonprocurement List (of excluded parties).

9. Nothing contained in the foregoing shall be construed to require establishment of a system of records in order to render in good faith the certification required by this clause. The knowledge and information of a participant is not required to exceed that which is normally possessed by a prudent person in the ordinary course of business dealings.

10. Except for transactions authorized under paragraph 6 of these instructions, if a participant in a covered transaction knowingly enters into a lower tier covered transaction with a person who is suspended, debarred, ineligible, or voluntarily excluded from participation in this transaction, in addition to other remedies available to the Federal government, DHHS may terminate this transaction for cause or default.

PRIMARY COVERED TRANSACTIONS

(1) The prospective primary participant certifies to the best of its knowledge and belief, that it and its principals:

(a) are not presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from covered transactions by any Federal department or agency;

(b) have not within a three-year period preceding this proposal (contract) been convicted of or had a civil judgment rendered against them for commission of fraud or a criminal offense in connection with obtaining, attempting to obtain, or performing a public (Federal, State or local) transaction or a contract under a public transaction; violation of Federal or State antitrust statutes or commission of embezzlement, theft, forgery, bribery, falsification or destruction of records, making false statements, or receiving stolen property;

(c) are not presently indicted for otherwise criminally or civilly charged by a governmental entity (Federal, State or local) with commission of any of the offenses enumerated in paragraph (l)(b) of this certification; and

(d) have not within a three-year period preceding this application/proposal had one or more public transactions (Federal, State or local) terminated for cause or default.

(2) Where the prospective primary participant is unable to certify to any of the statements in this certification, such prospective participant shall attach an explanation to this proposal (contract).

Contractor Initials: JW

Date: 4/18/13

LOWER TIER COVERED TRANSACTIONS

By signing and submitting this lower tier proposal (contract), the prospective lower tier participant, as defined in 45 CFR Part 76, certifies to the best of its knowledge and belief that it and its principals:

(a) are not presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation in this transaction by any federal department or agency.

(b) where the prospective lower tier participant is unable to certify to any of the above, such prospective participant shall attach an explanation to this proposal (contract).

The prospective lower tier participant further agrees by submitting this proposal (contract) that it will include this clause entitled "Certification Regarding Debarment, Suspension, Ineligibility, and Voluntary Exclusion - Lower Tier Covered Transactions," without modification in all lower tier covered transactions and in all solicitations for lower tier covered transactions.

(Contractor Representative Signature)	Joseph Pepe, MD President & CEO (Authorized Contractor Representative Name & Title)
Catholic Medical Center (Contractor Name)	4/18/13 (Date)

NH Department of Health and Human Services

STANDARD EXHIBIT G

CERTIFICATION REGARDING THE AMERICANS WITH DISABILITIES ACT COMPLIANCE

The Contractor identified in Section 1.3 of the General Provisions agrees by signature of the Contractor's representative as identified in Sections 1.11 and 1.12 of the General Provisions, to execute the following certification:

1. By signing and submitting this proposal (contract) the Contractor agrees to make reasonable efforts to comply with all applicable provisions of the Americans with Disabilities Act of 1990.

(Contractor Representative Signature)	Joseph Pepe, MD President & CEO (Authorized Contractor Representative Name & Title)
Catholic Medical Center (Contractor Name)	4/18/13 (Date)

NH Department of Health and Human Services

STANDARD EXHIBIT H

CERTIFICATION REGARDING ENVIRONMENTAL TOBACCO SMOKE

Public Law 103-227, Part C - Environmental Tobacco Smoke, also known as the Pro-Children Act of 1994 (Act), requires that smoking not be permitted in any portion of any indoor facility owned or leased or contracted for by an entity and used routinely or regularly for the provision of health, day care, education, or library services to children under the age of 18, if the services are funded by Federal programs either directly or through State or local governments, by Federal grant, contract, loan, or loan guarantee. The law does not apply to children's services provided in private residences, facilities funded solely by Medicare or Medicaid funds, and portions of facilities used for inpatient drug or alcohol treatment. Failure to comply with the provisions of the law may result in the imposition of a civil monetary penalty of up to $1000 per day and/or the imposition of an administrative compliance order on the responsible entity.

The Contractor identified in Section 1.3 of the General Provisions agrees, by signature of the Contractor's representative as identified in Section 1.11 and 1.12 of the General Provisions, to execute the following certification:

1. By signing and submitting this contract, the Contractor agrees to make reasonable efforts to comply with all applicable provisions of Public Law 103-227, Part C, known as the Pro-Children Act of 1994.

[signature] Joseph Pepe, MD President & CEO

(Contractor Representative Signature) (Authorized Contractor Representative Name & Title)

Catholic Medical Center 4/18/13

(Contractor Name) (Date)

NH Department of Health and Human Services

STANDARD EXHIBIT I
HEALTH INSURANCE PORTABILITY AND ACCOUNTABILTY ACT
BUSINESS ASSOCIATE AGREEMENT

The Contractor identified in Section 1.3 of the General Provisions of the Agreement agrees to comply with the Health Insurance Portability and Accountability Act, Public Law 104-191 and with the Standards for Privacy and Security of Individually Identifiable Health Information, 45 CFR Parts 160 and 164 and those parts of the HITECH Act applicable to business associates. As defined herein, "Business Associate" shall mean the Contractor and subcontractors and agents of the Contractor that receive, use or have access to protected health information under this Agreement and "Covered Entity" shall mean the State of New Hampshire, Department of Health and Human Services.

BUSINESS ASSOCIATE AGREEMENT

(1) Definitions.

a. "Breach" shall have the same meaning as the term "Breach" in Title XXX, Subtitle D. Sec. 13400.

b. "Business Associate" has the meaning given such term in section 160.103 of Tile 45, Code of Federal Regulations.

c. "Covered Entity" has the meaning given such term in section 160.103 of Title 45, Code of Federal Regulations.

d. "Designated Record Set" shall have the same meaning as the term "designated record set" in 45 CFR Section 164.501.

e. "Data Aggregation" shall have the same meaning as the term "data aggregation" in 45 CFR Section 164.501.

f. "Health Care Operations" shall have the same meaning as the term "health care operations" in 45 CFR Section 164.501.

g. "HITECH Act" means the Health Information Technology for Economic and Clinical Health Act, TitleXIII, Subtitle D, Part 1 & 2 of the American Recovery and Reinvestment Act of 2009.

h. "HIPAA" means the Health Insurance Portability and Accountability Act of 1996, Public Law 104-191 and the Standards for Privacy and Security of Individually Identifiable Health Information, 45 CFR Parts 160, 162 and 164.

i. "Individual" shall have the same meaning as the term "individual" in 45 CFR Section 164.501 and shall include a person who qualifies as a personal representative in accordance with 45 CFR Section 164.501(g).

j. "Privacy Rule" shall mean the Standards for Privacy of Individually Identifiable Health Information at 45 CFR Parts 160 and 164, promulgated under HIPAA by the United States Department of Health and Human Services.

Contractor Initials: JJ

Date: 4/18/13

k. "Protected Health Information" shall have the same meaning as the term "protected health information" in 45 CFR Section 164.501, limited to the information created or received by Business Associate from or on behalf of Covered Entity.

l. "Required by Law" shall have the same meaning as the term "required by law" in 45 CFR Section 164.501.

m. "Secretary" shall mean the Secretary of the Department of Health and Human Services or his/her designee.

n. "Security Rule" shall mean the Security Standards for the Protection of Electronic Protected Health Information at 45 CFR Part 164, Subpart C, and amendments thereto.

o. "Unsecured Protected Health Information" means protected health information that is not secured by a technology standard that renders protected health information unusable, unreasonable, or indecipherable to unauthorized individuals and is developed or endorsed by a standards developing organization that is accredited by the American National Standards Institute.

p. Other Definitions - All terms not otherwise defined herein shall have the meaning established under 45 C.F.R. Parts 160, 162 and 164, as amended from time to time, and the HITECH Act.

(2) Use and Disclosure of Protected Health Information.

a. Business Associate shall not use, disclose, maintain or transmit Protected Health Information (PHI) except as reasonably necessary to provide the services outlined under Exhibit A of the Agreement. Further, the Business Associate shall not, and shall ensure that its directors, officers, employees and agents, do not use, disclose, maintain or transmit PHI in any manner that would constitute a violation of the Privacy and Security Rule.

b. Business Associate may use or disclose PHI:

I. For the proper management and administration of the Business Associate;
II. As required by law, pursuant to the terms set forth in paragraph d. below; or
III. For data aggregation purposes for the health care operations of Covered Entity.

c. To the extent Business Associate is permitted under the Agreement to disclose PHI to a third party, Business Associate must obtain, prior to making any such disclosure, (i) reasonable assurances from the third party that such PHI will be held confidentially and used or further disclosed only as required by law or for the purpose for which it was disclosed to the third party; and (ii) an agreement from such third party to notify Business Associate, in accordance with the HITECH Act, Subtitle D, Part 1, Sec. 13402 of any breaches of the confidentiality of the PHI, to the extent it has obtained knowledge of such breach.

d. The Business Associate shall not, unless such disclosure is reasonably necessary to provide services under Exhibit A of the Agreement, disclose any PHI in response to a request for disclosure on the basis that it is required by law, without first notifying Covered Entity so that Covered Entity has an opportunity to object to the disclosure and to seek appropriate relief. If Covered Entity objects to such disclosure, the Business Associate shall refrain from disclosing the PHI until Covered Entity has exhausted all remedies.

Contractor Initials: JH
Date: 4/18/13

e. If the Covered Entity notifies the Business Associate that Covered Entity has agreed to be bound by additional restrictions over and above those uses or disclosures or security safeguards of PHI pursuant to the Privacy and Security Rule, the Business Associate shall be bound by such additional restrictions and shall not disclose PHI in violation of such additional restrictions and shall abide by any additional security safeguards.

(3) **Obligations and Activities of Business Associate.**

a. Business Associate shall report to the designated Privacy Officer of Covered Entity, in writing, any use or disclosure of PHI in violation of the Agreement, including any security incident involving Covered Entity data, in accordance with the HITECH Act, Subtitle D, Part 1, Sec. 13402.

b. The Business Associate shall comply with all sections of the Privacy and Security Rule as set forth in, the HITECH Act, Subtitle D, Part 1, Sec. 13401 and Sec.13404.

c. Business Associate shall make available all of its internal policies and procedures, books and records relating to the use and disclosure of PHI received from, or created or received by the Business Associate on behalf of Covered Entity to the Secretary for purposes of determining Covered Entity's compliance with HIPAA and the Privacy and Security Rule.

d. Business Associate shall require all of its business associates that receive, use or have access to PHI under the Agreement, to agree in writing to adhere to the same restrictions and conditions on the use and disclosure of PHI contained herein, including the duty to return or destroy the PHI as provided under Section (3)b and (3)k herein. The Covered Entity shall be considered a direct third party beneficiary of the Contractor's business associate agreements with Contractor's intended business associates, who will be receiving PHI pursuant to this Agreement, with rights of enforcement and indemnification from such business associates who shall be governed by standard provision #13 of this Agreement for the purpose of use and disclosure of protected health information.

e. Within five (5) business days of receipt of a written request from Covered Entity, Business Associate shall make available during normal business hours at its offices all records, books, agreements, policies and procedures relating to the use and disclosure of PHI to the Covered Entity, for purposes of enabling Covered Entity to determine Business Associate's compliance with the terms of the Agreement.

f. Within ten (10) business days of receiving a written request from Covered Entity, Business Associate shall provide access to PHI in a Designated Record Set to the Covered Entity, or as directed by Covered Entity, to an individual in order to meet the requirements under 45 CFR Section 164.524.

g. Within ten (10) business days of receiving a written request from Covered Entity for an amendment of PHI or a record about an individual contained in a Designated Record Set, the Business Associate shall make such PHI available to Covered Entity for amendment and incorporate any such amendment to enable Covered Entity to fulfill its obligations under 45 CFR Section 164.526.

Contractor Initials: AP

Date: 4/18/13

h. Business Associate shall document such disclosures of PHI and information related to such disclosures as would be required for Covered Entity to respond to a request by an individual for an accounting of disclosures of PHI in accordance with 45 CFR Section 164.528.

i. Within ten (10) business days of receiving a written request from Covered Entity for a request for an accounting of disclosures of PHI, Business Associate shall make available to Covered Entity such information as Covered Entity may require to fulfill its obligations to provide an accounting of disclosures with respect to PHI in accordance with 45 CFR Section 164.528.

j. In the event any individual requests access to, amendment of, or accounting of PHI directly from the Business Associate, the Business Associate shall within two (2) business days forward such request to Covered Entity. Covered Entity shall have the responsibility of responding to forwarded requests. However, if forwarding the individual's request to Covered Entity would cause Covered Entity or the Business Associate to violate HIPAA and the Privacy and Security Rule, the Business Associate shall instead respond to the individual's request as required by such law and notify Covered Entity of such response as soon as practicable.

k. Within ten (10) business days of termination of the Agreement, for any reason, the Business Associate shall return or destroy, as specified by Covered Entity, all PHI received from, or created or received by the Business Associate in connection with the Agreement, and shall not retain any copies or back-up tapes of such PHI. If return or destruction is not feasible, or the disposition of the PHI has been otherwise agreed to in the Agreement, Business Associate shall continue to extend the protections of the Agreement, to such PHI and limit further uses and disclosures of such PHI to those purposes that make the return or destruction infeasible, for so long as Business Associate maintains such PHI. If Covered Entity, in its sole discretion, requires that the Business Associate destroy any or all PHI, the Business Associate shall certify to Covered Entity that the PHI has been destroyed.

(4) <u>Obligations of Covered Entity</u>

a. Covered Entity shall notify Business Associate of any changes or limitation(s) in its Notice of Privacy Practices provided to individuals in accordance with 45 CFR Section 164.520, to the extent that such change or limitation may affect Business Associate's use or disclosure of PHI.

b. Covered Entity shall promptly notify Business Associate of any changes in, or revocation of permission provided to Covered Entity by individuals whose PHI may be used or disclosed by Business Associate under this Agreement, pursuant to 45 CFR Section 164.506 or 45 CFR Section 164.508.

c. Covered entity shall promptly notify Business Associate of any restrictions on the use or disclosure of PHI that Covered Entity has agreed to in accordance with 45 CFR 164.522, to the extent that such restriction may affect Business Associate's use or disclosure of PHI.

Contractor Initials: AF

Date: 4/18/13

(5) Termination for Cause

In addition to standard provision #10 of this Agreement the Covered Entity may immediately terminate the Agreement upon Covered Entity's knowledge of a breach by Business Associate of the Business Associate Agreement set forth herein as Exhibit I. The Covered Entity may either immediately terminate the Agreement or provide an opportunity for Business Associate to cure the alleged breach within a timeframe specified by Covered Entity. If Covered Entity determines that neither termination nor cure is feasible, Covered Entity shall report the violation to the Secretary.

(6) Miscellaneous

a. Definitions and Regulatory References. All terms used, but not otherwise defined herein, shall have the same meaning as those terms in the Privacy and Security Rule, and the HITECH Act as amended from time to time. A reference in the Agreement, as amended to include this Exhibit I, to a Section in the Privacy and Security Rule means the Section as in effect or as amended.

b. Amendment. Covered Entity and Business Associate agree to take such action as is necessary to amend the Agreement, from time to time as is necessary for Covered Entity to comply with the changes in the requirements of HIPAA, the Privacy and Security Rule, and applicable federal and state law.

c. Data Ownership. The Business Associate acknowledges that it has no ownership rights with respect to the PHI provided by or created on behalf of Covered Entity.

d. Interpretation. The parties agree that any ambiguity in the Agreement shall be resolved to permit Covered Entity to comply with HIPAA, the Privacy and Security Rule and the HITECH Act.

e. Segregation. If any term or condition of this Exhibit I or the application thereof to any person(s) or circumstance is held invalid, such invalidity shall not affect other terms or conditions which can be given effect without the invalid term or condition; to this end the terms and conditions of this Exhibit I are declared severable.

f. Survival. Provisions in this Exhibit I regarding the use and disclosure of PHI, return or destruction of PHI, extensions of the protections of the Agreement in section 3 k, the defense and indemnification provisions of section 3 d and standard contract provision #13, shall survive the termination of the Agreement.

Contractor Initials: ______
Date: 4/18/13

IN WITNESS WHEREOF, the parties hereto have duly executed this Exhibit I.

NH Dept of Health and Human Services Division for Children, Youth and Families	Catholic Medical Center
The State Agency Name	Name of the Contractor
Maggie Bishop (KES)	
Signature of Authorized Representative	Signature of Authorized Representative
Maggie Bishop	Joseph Pepe, MD
Name of Authorized Representative	Name of Authorized Representative
Director	President & CEO
Title of Authorized Representative	Title of Authorized Representative
04/19/2013	4/18/13
Date	Date

Contractor Initials: _____

Date: 4/18/13

NH Department of Health and Human Services

STANDARD EXHIBIT J

CERTIFICATION REGARDING THE FEDERAL FUNDING ACCOUNTABILITY AND TRANSPARENCY ACT (FFATA) COMPLIANCE

The Federal Funding Accountability and Transparency Act (FFATA) requires prime awardees of individual Federal grants equal to or greater than $25,000 and awarded on or after October 1, 2010, to report on data related to executive compensation and associated first-tier sub-grants of $25,000 or more. If the initial award is below $25,000 but subsequent grant modifications result in a total award equal to or over $25,000, the award is subject to the FFATA reporting requirements, as of the date of the award.

In accordance with 2 CFR Part 170 (*Reporting Subaward and Executive Compensation Information*), the Department of Health and Human Services (DHHS) must report the following information for any subaward or contract award subject to the FFATA reporting requirements:

1) Name of entity
2) Amount of award
3) Funding agency
4) NAICS code for contracts / CFDA program number for grants
5) Program source
6) Award title descriptive of the purpose of the funding action
7) Location of the entity
8) Principle place of performance
9) Unique identifier of the entity (DUNS #)
10) Total compensation and names of the top five executives if:
    a. More than 80% of annual gross revenues are from the Federal government, and those revenues are greater than $25M annually and
    b. Compensation information is not already available through reporting to the SEC.

Prime grant recipients must submit FFATA required data by the end of the month, plus 30 days, in which the award or award amendment is made.

The Contractor identified in Section 1.3 of the General Provisions agrees to comply with the provisions of The Federal Funding Accountability and Transparency Act, Public Law 109-282 and Public Law 110-252, and 2 CFR Part 170 (*Reporting Subaward and Executive Compensation Information*), and further agrees to have the Contractor's representative, as identified in Sections 1.11 and 1.12 of the General Provisions execute the following Certification:

The below named Contractor agrees to provide needed information as outlined above to the NH Department of Health and Human Services and to comply with all applicable provisions of the Federal Financial Accountability and Transparency Act.

[signature] Joseph Pepe, MD President & CEO

(Contractor Representative Signature) (Authorized Contractor Representative Name & Title)

Catholic Medical Center 4/18/13

(Contractor Name) (Date)

Contractor initials: [initials]
Date: 4/18/13
Page # ______ of Page #______

NH Department of Health and Human Services

STANDARD EXHIBIT J

FORM A

As the Contractor identified in Section 1.3 of the General Provisions, I certify that the responses to the below listed questions are true and accurate.

1. The DUNS number for your entity is: 82-702-1382

2. In your business or organization's preceding completed fiscal year, did your business or organization receive (1) 80 percent or more of your annual gross revenue in U.S. federal contracts, subcontracts, loans, grants, sub-grants, and/or cooperative agreements; and (2) $25,000,000 or more in annual gross revenues from U.S. federal contracts, subcontracts, loans, grants, subgrants, and/or cooperative agreements?

X NO ____ YES

If the answer to #2 above is NO, stop here

If the answer to #2 above is YES, please answer the following:

3. Does the public have access to information about the compensation of the executives in your business or organization through periodic reports filed under section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C.78m(a), 78o(d)) or section 6104 of the Internal Revenue Code of 1986?

____ NO ____ YES

If the answer to #3 above is YES, stop here

If the answer to #3 above is NO, please answer the following:

4. The names and compensation of the five most highly compensated officers in your business or organization are as follows:

Name: ____ Amount: ____

Name: ____ Amount: ____

Name: ____ Amount: ____

Name: ____ Amount: ____

Name: ____ Amount: ____

Contractor initials: [initials]
Date: 4/18/23
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