

Dartmouth-Hitchcock Health and Subsidiaries

**Report on Federal Awards in Accordance With the
Uniform Guidance**

June 30, 2019

EIN #02-0222140

Dartmouth-Hitchcock Health and Subsidiaries

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Part I
Financial Statements and
Schedule of Expenditures of Federal Awards



Report of Independent Auditors

To the Board of Trustees of
Dartmouth-Hitchcock Health and subsidiaries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Dartmouth-Hitchcock Health and its subsidiaries (the "Health System"), which comprise the consolidated balance sheets as of June 30, 2019 and 2018, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 our 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, we consider internal control relevant to the Health System'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 Health System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dartmouth-Hitchcock Health and its subsidiaries as of June 30, 2019 and 2018, and the results of their operations, changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the Health System changed the manner in which it accounts for revenue recognition from contracts with customers and the manner in which it presents net assets and reports certain aspects of its financial statements as a not-for-profit entity in 2019. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose 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 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 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, results of its operations, changes in net assets and cash flows 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, results of operations, changes in net assets and cash flows of the individual companies.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2019 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the consolidated financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2019 on our consideration of the Health System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2019. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health System's internal control over financial reporting and compliance.

Princeton House Cooper LLP

Boston, Massachusetts
November 26, 2019

Dartmouth-Hitchcock Health and Subsidiaries
Consolidated Balance Sheets
June 30, 2019 and 2018

| <i>(in thousands of dollars)</i> | 2019 | 2018 |
|--|---------------------|---------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 143,587 | \$ 200,169 |
| Patient accounts receivable, net of estimated uncollectible of \$132,228 at June 30, 2018 (Note 4) | 221,125 | 219,228 |
| Prepaid expenses and other current assets | <u>95,495</u> | <u>97,502</u> |
| Total current assets | 460,207 | 516,899 |
| Assets limited as to use (Notes 5 and 7) | 876,249 | 706,124 |
| Other investments for restricted activities (Notes 5 and 7) | 134,119 | 130,896 |
| Property, plant, and equipment, net (Note 6) | 621,256 | 607,321 |
| Other assets | <u>124,471</u> | <u>108,785</u> |
| Total assets | <u>\$ 2,216,302</u> | <u>\$ 2,070,025</u> |
| Liabilities and Net Assets | | |
| Current liabilities | | |
| Current portion of long-term debt (Note 10) | \$ 10,914 | \$ 3,464 |
| Current portion of liability for pension and other postretirement plan benefits (Note 11) | 3,468 | 3,311 |
| Accounts payable and accrued expenses (Note 13) | 113,817 | 95,753 |
| Accrued compensation and related benefits | 128,408 | 125,576 |
| Estimated third-party settlements (Note 4) | <u>41,570</u> | <u>41,141</u> |
| Total current liabilities | 298,177 | 269,245 |
| Long-term debt, excluding current portion (Note 10) | 752,180 | 752,975 |
| Insurance deposits and related liabilities (Note 12) | 58,407 | 55,516 |
| Liability for pension and other postretirement plan benefits, excluding current portion (Note 11) | 281,009 | 242,227 |
| Other liabilities | <u>124,136</u> | <u>88,127</u> |
| Total liabilities | <u>1,513,909</u> | <u>1,408,090</u> |
| Commitments and contingencies (Notes 4, 6, 7, 10, and 13) | | |
| Net assets | | |
| Net assets without donor restrictions (Note 9) | 559,933 | 524,102 |
| Net assets with donor restrictions (Notes 8 and 9) | <u>142,460</u> | <u>137,833</u> |
| Total net assets | <u>702,393</u> | <u>661,935</u> |
| Total liabilities and net assets | <u>\$ 2,216,302</u> | <u>\$ 2,070,025</u> |

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

Dartmouth-Hitchcock Health and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets
Years Ended June 30, 2019 and 2018

| <i>(in thousands of dollars)</i> | 2019 | 2018 |
|--|-------------------|------------------|
| Operating revenue and other support | | |
| Patient service revenue | \$ 1,999,323 | \$ 1,899,095 |
| Provision for bad debts (Notes 2 and 4) | - | 47,367 |
| Net patient service revenue | 1,999,323 | 1,851,728 |
| Contracted revenue (Note 2) | 75,017 | 54,969 |
| Other operating revenue (Notes 2 and 5) | 210,698 | 148,946 |
| Net assets released from restrictions | 14,105 | 13,461 |
| Total operating revenue and other support | <u>2,299,143</u> | <u>2,069,104</u> |
| Operating expenses | | |
| Salaries | 1,062,551 | 989,263 |
| Employee benefits | 251,591 | 229,683 |
| Medical supplies and medications | 407,875 | 340,031 |
| Purchased services and other | 323,435 | 291,372 |
| Medicaid enhancement tax (Note 4) | 70,061 | 67,692 |
| Depreciation and amortization | 88,414 | 84,778 |
| Interest (Note 10) | 25,514 | 18,822 |
| Total operating expenses | <u>2,229,441</u> | <u>2,021,641</u> |
| Operating income (loss) | <u>69,702</u> | <u>47,463</u> |
| Nonoperating gains (losses) | | |
| Investment income, net (Note 5) | 40,052 | 40,387 |
| Other losses, net (Note 10) | (3,562) | (2,908) |
| Loss on early extinguishment of debt | (87) | (14,214) |
| Loss due to swap termination | - | (14,247) |
| Total nonoperating gains, net | <u>36,403</u> | <u>9,018</u> |
| Excess of revenue over expenses | <u>\$ 106,105</u> | <u>\$ 56,481</u> |

Dartmouth-Hitchcock Health and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets
Years Ended June 30, 2019 and 2018

| <i>(in thousands of dollars)</i> | 2019 | 2018 |
|--|-------------------|-------------------|
| Net assets without donor restrictions | | |
| Excess of revenue over expenses | \$ 106,105 | \$ 56,481 |
| Net assets released from restrictions | 1,769 | 16,313 |
| Change in funded status of pension and other postretirement benefits (Note 11) | (72,043) | 8,254 |
| Other changes in net assets | - | (185) |
| Change in fair value of interest rate swaps (Note 10) | - | 4,190 |
| Change in interest rate swap effectiveness | - | 14,102 |
| Increase in net assets without donor restrictions | <u>35,831</u> | <u>99,155</u> |
| Net assets with donor restrictions | | |
| Gifts, bequests, sponsored activities | 17,436 | 14,171 |
| Investment income, net | 2,682 | 4,354 |
| Net assets released from restrictions | (15,874) | (29,774) |
| Contribution of assets with donor restrictions from acquisition | 383 | - |
| Increase (decrease) in net assets with donor restrictions | <u>4,627</u> | <u>(11,249)</u> |
| Change in net assets | 40,458 | 87,906 |
| Net assets | | |
| Beginning of year | <u>661,935</u> | <u>574,029</u> |
| End of year | <u>\$ 702,393</u> | <u>\$ 661,935</u> |

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

Dartmouth-Hitchcock Health and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended June 30, 2019 and 2018

(in thousands of dollars)

| | 2019 | 2018 |
|---|-------------------|-------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 40,458 | \$ 87,906 |
| Adjustments to reconcile change in net assets to net cash provided by operating and nonoperating activities | | |
| Change in fair value of interest rate swaps | - | (4,897) |
| Provision for bad debt | - | 47,367 |
| Depreciation and amortization | 88,770 | 84,947 |
| Change in funded status of pension and other postretirement benefits | 72,043 | (8,254) |
| (Gain) on disposal of fixed assets | (1,101) | (125) |
| Net realized gains and change in net unrealized gains on investments | (31,397) | (45,701) |
| Restricted contributions and investment earnings | (2,292) | (5,460) |
| Proceeds from sales of securities | 1,167 | 1,531 |
| Loss from debt defeasance | - | 14,214 |
| Changes in assets and liabilities | | |
| Patient accounts receivable, net | (1,803) | (29,335) |
| Prepaid expenses and other current assets | 2,149 | (8,299) |
| Other assets, net | (9,052) | (11,665) |
| Accounts payable and accrued expenses | 17,898 | 19,693 |
| Accrued compensation and related benefits | 2,335 | 10,665 |
| Estimated third-party settlements | 429 | 13,708 |
| Insurance deposits and related liabilities | 2,378 | 4,556 |
| Liability for pension and other postretirement benefits | (33,104) | (32,399) |
| Other liabilities | 12,267 | (2,421) |
| Net cash provided by operating and nonoperating activities | <u>161,145</u> | <u>136,031</u> |
| Cash flows from investing activities | | |
| Purchase of property, plant, and equipment | (82,279) | (77,598) |
| Proceeds from sale of property, plant, and equipment | 2,188 | - |
| Purchases of investments | (361,407) | (279,407) |
| Proceeds from maturities and sales of investments | 219,996 | 273,409 |
| Cash received through acquisition | 4,863 | - |
| Net cash used in investing activities | <u>(216,639)</u> | <u>(83,596)</u> |
| Cash flows from financing activities | | |
| Proceeds from line of credit | 30,000 | 50,000 |
| Payments on line of credit | (30,000) | (50,000) |
| Repayment of long-term debt | (29,490) | (413,104) |
| Proceeds from issuance of debt | 26,338 | 507,791 |
| Repayment of interest rate swap | - | (16,019) |
| Payment of debt issuance costs | (228) | (4,892) |
| Restricted contributions and investment earnings | 2,292 | 5,460 |
| Net cash (used in) provided by financing activities | <u>(1,088)</u> | <u>79,236</u> |
| (Decrease) increase in cash and cash equivalents | (56,582) | 131,671 |
| Cash and cash equivalents | | |
| Beginning of year | <u>200,169</u> | <u>68,498</u> |
| End of year | <u>\$ 143,587</u> | <u>\$ 200,169</u> |
| Supplemental cash flow information | | |
| Interest paid | \$ 23,977 | \$ 18,029 |
| Net assets acquired as part of acquisition, net of cash acquired | (4,863) | - |
| Noncash proceeds from issuance of debt | - | 137,281 |
| Use of noncash proceeds to refinance debt | - | 137,281 |
| Construction in progress included in accounts payable and accrued expenses | 1,546 | 1,569 |
| Equipment acquired through issuance of capital lease obligations | - | 17,670 |
| Donated securities | 1,167 | 1,531 |

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

Dartmouth-Hitchcock Health and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

1. Organization and Community Benefit Commitments

Dartmouth-Hitchcock Health (D-HH) serves as the sole corporate member of the following entities: Dartmouth-Hitchcock Clinic and Subsidiaries (DHC), Mary Hitchcock Memorial Hospital and Subsidiaries (MHMH), (DHC and MHMH together are referred to as D-H), The New London Hospital Association and Subsidiaries (NLH), Windsor Hospital Corporation (d/b/a Mt. Ascutney Hospital and Health Center) and Subsidiaries (MAHHC), Cheshire Medical Center and Subsidiaries (Cheshire), Alice Peck Day Memorial Hospital and, effective July 1, 2018, Subsidiary (APD), and the Visiting Nurse and Hospice for Vermont and New Hampshire and Subsidiaries (VNH). The "Health System" consists of D-HH, its members and their subsidiaries.

The Health System currently operates one tertiary, one community and three acute care (critical access) hospitals in New Hampshire (NH) and Vermont (VT). One facility provides inpatient and outpatient rehabilitation medicine and long-term care. The Health System also operates multiple physician practices, a nursing home, a continuing care retirement community, and a home health and hospice service. The Health System operates a graduate level program for health professions and is the principal teaching affiliate of the Geisel School of Medicine (Geisel), a component of Dartmouth College.

D-HH, Dartmouth-Hitchcock Clinic, Mary Hitchcock Memorial Hospital, The New London Hospital Association, Cheshire Medical Center, and Alice Peck Day Memorial Hospital are NH not-for-profit corporations exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). Windsor Hospital Corporation and the Visiting Nurse and Hospice of VT and NH are VT not-for-profit corporations exempt from federal income taxes under Section 501(c)(3) of the IRC.

Community Benefits

The mission of the Health System is to advance health through clinical practice and community partnerships, research and education, providing each person the best care, in the right place, at the right time, every time.

Consistent with this mission, the Health System provides high quality, cost effective, comprehensive, and integrated healthcare to individuals, families, and the communities it serves regardless of a patient's ability to pay. The Health System actively supports community-based healthcare and promotes the coordination of services among healthcare providers and social services organizations. In addition, the Health System also seeks to work collaboratively with other area healthcare providers to improve the health status of the region. As a component of an integrated academic medical center, the Health System provides significant support for academic and research programs.

Certain member hospitals of the Health System file annual Community Benefits Reports with the State of NH which outline the community and charitable benefits each provides. VT hospitals are not required by law to file a state community benefit report. The categories used in the Community Benefit Reports to summarize these benefits are as follows:

- *Community Health Services* include activities carried out to improve community health and could include community health education (such as classes, programs, support groups, and materials that promote wellness and prevent illness), community-based clinical services (such as free clinics and health screenings), and healthcare support services (enrollment assistance in public programs, assistance in obtaining free or reduced costs medications, telephone information services, or transportation programs to enhance access to care, etc.).

Dartmouth-Hitchcock Health and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

- *Health Professions Education* includes uncompensated costs of training medical students, Residents, nurses, and other health care professionals.
- *Subsidized health services* are services provided by the Health System, resulting in financial losses that meet the needs of the community and would not otherwise be available unless the responsibility was assumed by the government.
- *Research support and other grants* represent costs in excess of awards for numerous health research and service initiatives awarded to the organizations within the Health System.
- *Financial Contributions* include financial contributions of cash, as well as in-kind contributions such as time, supplies, and expertise to local organizations to address community health needs.
- *Community-Building Activities* include expenses incurred to support the development of programs and partnerships intended to address public health challenges as well as social and economic determinants of health. Examples include physical improvements and housing, economic development, support system enhancements, environmental improvements, leadership development and training for community members, community health improvement advocacy, and workforce enhancement.
- *Community Benefit Operations* includes costs associated with staff dedicated to administering benefit programs, community health needs assessment costs, and other costs associated with community benefit planning and operations.
- *Charity Care and Costs of Government Sponsored Health Care* includes losses, at-cost, incurred by providing health care services to persons qualifying for hospital financial assistance programs, and uncompensated costs of providing health care services to patients who are Medicaid Beneficiaries.
- *The uncompensated cost of care for Medicaid patients* reported in the unaudited Community Benefits Reports for 2018 was approximately \$139,683,000. The 2019 Community Benefits Reports are expected to be filed in February 2020.

The following table summarizes the value of the community benefit initiatives outlined in the Health System's most recently filed Community Benefit Reports for the year ended June 30, 2018:

(in thousands of dollars)

| | |
|--|------------|
| Government-sponsored healthcare services | \$ 246,064 |
| Health professional education | 33,067 |
| Charity care | 13,243 |
| Subsidized health services | 11,993 |
| Community health services | 6,570 |
| Research | 5,969 |
| Community building activities | 2,540 |
| Financial contributions | 2,360 |
| Community benefit operations | 1,153 |
| Total community benefit value | \$ 322,959 |

Dartmouth-Hitchcock Health and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, and have been prepared consistent with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 954, *Healthcare Entities*, which addresses the accounting for healthcare entities. The net assets, revenue, expenses, and gains and losses of healthcare entities are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets without donor restrictions are amounts not subject to donor-imposed stipulations and are available for operations. Net assets with donor restrictions are those whose use has been limited by donors to a specific time period or purpose, or whose use has been restricted by donors to be maintained in perpetuity. All significant intercompany transactions have been eliminated upon consolidation.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. The most significant areas that are affected by the use of estimates include implicit and explicit pricing concessions, valuation of certain investments, estimated third-party settlements, insurance reserves, and pension obligations. Actual results may differ from those estimates.

Excess of Revenue Over Expenses

The consolidated statements of operations and changes in net assets include the excess of revenue over expenses. Operating revenues consist of those items attributable to the care of patients, including contributions and investment income on investments of net assets without donor restrictions, which are utilized to provide charity and other operational support. Peripheral activities, including contribution of net assets without donor restrictions from acquisitions, loss on early extinguishment of debt, loss due to swap termination, realized gains/losses on sales of investment securities and changes in unrealized gains/losses in investments are reported as nonoperating gains (losses).

Changes in net assets without donor restrictions which are excluded from the excess of revenue over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets), change in funded status of pension and other postretirement benefit plans, and the effective portion of the change in fair value of interest rate swaps.

Charity Care

The Health System provides care to patients who meet certain criteria under their financial assistance policies without charge or at amounts less than their established rates. Because the Health System does not anticipate collection of amounts determined to qualify as charity care, they are not reported as revenue.

Dartmouth-Hitchcock Health and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

The Health System grants credit without collateral to patients. Most are local residents and are insured under third-party arrangements. The amount of charges for implicit price concessions is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in federal and state governmental healthcare coverage, and other collection indicators (Notes 1 and 4).

Patient Service Revenue

The Health System applies the accounting provisions of ASC 606, *Revenue from Contracts with Customers* (ASC 606). Patient service revenue is reported at the amount of consideration to which the Health System expects to be entitled from patients, third party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and implicit pricing concessions. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as estimates change or final settlements are determined (Note 4).

Contracted Revenue

The Health System has various Professional Service Agreements (PSAs), pursuant to which certain organizations purchase services of personnel employed by the Health System and also lease space and equipment. Revenue pursuant to these PSAs and certain facility and equipment leases and other professional service contracts have been classified as contracted revenue in the accompanying consolidated statements of operations and changes in net assets.

Other Revenue

The Health System recognizes other revenue which is not related to patient medical care but is central to the day-to-day operations of the Health System. Other revenue primarily consists of revenue from retail pharmacy, which the Health System records as customer revenues in the amounts that reflect the consideration to which it expects to be entitled in exchange for the prescription. Other revenue also includes joint operating agreements, grant revenue, cafeteria sales and other support service revenue.

Cash Equivalents

Cash equivalents include investments in highly liquid investments with maturities of three months or less when purchased, excluding amounts where use is limited by internal designation or other arrangements under trust agreements or by donors.

Investments and Investment Income

Investments in equity securities with readily determinable fair values, mutual funds and pooled/commingled funds, and all investments in debt securities are considered to be trading securities reported at fair value with changes in fair value included in the excess of revenues over expenses. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (Note 7).

Investments in pooled/commingled investment funds, private equity funds and hedge funds that represent investments where the Health System owns shares or units of funds rather than the underlying securities in that fund are valued using the equity method of accounting with changes in value recorded in the excess of revenues over expenses. All investments, whether held at fair value or under the equity method of accounting, are reported at what the Health System believes to be the amount they would expect to receive if it liquidated its investments at the balance sheet dates on a nondistressed basis.

Dartmouth-Hitchcock Health and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Certain members of the Health System are partners in a NH general partnership established for the purpose of operating a master investment program of pooled investment accounts. Substantially all of the Health System's board-designated and assets with donor restrictions, such as endowment funds, were invested in these pooled funds by purchasing units based on the market value of the pooled funds at the end of the month prior to receipt of any new additions to the funds. Interest, dividends, and realized and unrealized gains and losses earned on pooled funds are allocated monthly based on the weighted average units outstanding at the prior month-end.

Investment income or losses (including change in unrealized and realized gains and losses on investments, change in value of equity method investments, interest, and dividends) are included in the excess of revenue over expenses and classified as nonoperating gains and losses, unless the income or loss is restricted by donor or law (Note 9).

Fair Value Measurement of Financial Instruments

The Health System estimates fair value based on a valuation framework that uses a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy, as defined by ASC 820, *Fair Value Measurements and Disclosures*, are described below:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for assets or liabilities.
- Level 2 Prices other than quoted prices in active markets that are either directly or indirectly observable as of the date of measurement.
- Level 3 Prices or valuation techniques that are both significant to the fair value measurement and unobservable.

The Health System applies the accounting provisions of Accounting Standards Update (ASU) 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)* (ASU 2009-12). ASU 2009-12 allows for the estimation of fair value of investments for which the investment does not have a readily determinable fair value, to use net asset value (NAV) per share or its equivalent as a practical expedient, subject to the Health System's ability to redeem its investment.

The carrying amount of patient accounts receivable, prepaid and other current assets, accounts payable and accrued expenses approximates fair value due to the short maturity of these instruments.

Property, Plant, and Equipment

Property, plant, and equipment, and other real estate are stated at cost at the time of purchase or fair value at the time of donation, less accumulated depreciation. The Health System's policy is to capitalize expenditures for major improvements and to charge expense for maintenance and repair expenditures which do not extend the lives of the related assets. The provision for depreciation has 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 10 to 40 years for buildings and improvements, 2 to 20 years for equipment, and the shorter of the lease term, or 5 to 12 years, for leasehold improvements. Certain software development costs are amortized using the straight-line method over a period of up to 10 years. Net interest cost incurred on borrowed funds during the

Dartmouth-Hitchcock Health and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

The fair value of a liability for legal obligations associated with asset retirements is recognized in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When a liability is initially recorded, the cost of the asset retirement obligation is capitalized by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period and the capitalized cost associated with the retirement is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the actual cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statements of operations and changes in net assets.

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

Bond Issuance Costs

Bond issuance costs, classified on the consolidated balance sheets within long-term debt, are amortized over the term of the related bonds. Amortization is recorded within interest expense in the consolidated statements of operations and changes in net assets using the straight-line method which approximates the effective interest method.

Intangible Assets and Goodwill

The Health System records within other assets on the consolidated balance sheets goodwill and intangible assets such as trade names and leases-in-place. The Health System considers trade names and goodwill to be indefinite-lived assets, assesses them at least annually for impairment or more frequently if certain events or circumstances warrant and recognizes impairment charges for amounts by which the carrying values exceed their fair values. The Health System has recorded \$10,524,000 and \$2,462,000 as intangible assets associated with its affiliations as of June 30, 2019 and 2018, respectively.

Derivative Instruments and Hedging Activities

The Health System applies the provisions of ASC 815, *Derivatives and Hedging*, to its derivative instruments, which require that all derivative instruments be recorded at their respective fair values in the consolidated balance sheets.

On the date a derivative contract is entered into, the Health System designates the derivative as a cash-flow hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability. For all hedge relationships, the Health System formally documents the hedging relationship and its risk-management objective and strategy for undertaking the hedge, the hedging instrument, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed, and a description of the method of measuring ineffectiveness. This process includes linking cash-flow hedges to specific assets and liabilities on the consolidated balance sheets, specific firm commitments or forecasted transactions. The Health System also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly

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effective in offsetting changes in variability of cash flows of hedged items. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge are recorded in net assets without donor restrictions until earnings are affected by the variability in cash flows of the designated hedged item. The ineffective portion of the change in fair value of a cash flow hedge is reported in excess of revenue over expenses in the consolidated statements of operations and changes in net assets.

The Health System discontinues hedge accounting prospectively when it is determined: (a) the derivative is no longer effective in offsetting changes in the cash flows of the hedged item; (b) the derivative expires or is sold, terminated, or exercised; (c) the derivative is undesignated as a hedging instrument because it is unlikely that a forecasted transaction will occur; (d) a hedged firm commitment no longer meets the definition of a firm commitment; and (e) management determines that designation of the derivative as a hedging instrument is no longer appropriate.

In all situations in which hedge accounting is discontinued, the Health System continues to carry the derivative at its fair value on the consolidated balance sheets and recognizes any subsequent changes in its fair value in excess of revenue over expenses.

Gifts

Gifts without donor restrictions are recorded net of related expenses as nonoperating gains. Conditional promises to give and indications of intentions to give to the Health System are reported at fair value at the date the gift is received. Gifts are reported with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09 - *Revenue from Contracts with Customers (ASC 606)* and in August 2015, the FASB amended the guidance to defer the effective date of this standard by one year. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Health System adopted ASU 2014-09 effective July 1, 2018 under the modified retrospective method, and has provided the new disclosures required post implementation. For example, patient accounts receivable are shown net of the allowance for doubtful accounts of approximately \$132,228,000 as of June 30, 2018 on the consolidated balance sheet. If an allowance for doubtful accounts had been presented as of June 30, 2019, it would have been approximately \$121,544,000. While the adoption of ASU 2014-09 has had a material effect on the presentation of revenues in the Health System's consolidated statements of operations and changes in net assets, and has had an impact on certain disclosures, it has not materially impacted the financial position, results of operations or cash flows. Refer to Note 4, Patient Service Revenue and Accounts Receivable, for further details.

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In February 2016, the FASB issued ASU 2016-02 – *Leases (Topic 842)*, which requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. The guidance also expands the required quantitative and qualitative disclosures surrounding leases. The ASU is effective for fiscal years beginning after December 15, 2018, or fiscal year 2020 for the Health System. The Health System is evaluating the impact of the new guidance on the consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01- *Recognition and Measurement of Financial Assets and Financial Liabilities*, which address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This guidance allows an entity to choose, investment-by-investment, to report an equity investment that neither has a readily determinable fair value, nor qualifies for the practical expedient for fair value estimation using NAV, at its cost minus impairment (if any), plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issue. Impairment of such investments must be assessed qualitatively at each reporting period. Entities must disclose their financial assets and liabilities by measurement category and form of asset either on the face of the balance sheet or in the accompanying notes. The ASU is effective for annual reporting periods beginning after December 15, 2018 or fiscal year 2020 for the Health System. The provision to eliminate the requirement to disclose the fair value of financial instruments measured at cost (such as the fair value of debt) was early adopted during the year ended June 30, 2017.

In August 2016, the FASB issued ASU 2016-14 - *Presentation of Financial Statements for Not-for-Profit Entities*. The new pronouncement amends certain financial reporting requirements for not-for-profit entities. It reduces the number of classes of net assets from three to two: net assets with donor restrictions includes amount previously disclosed as both temporarily and permanently restricted net assets, net assets without donor restrictions includes amounts previously disclosed as unrestricted net assets. It expands the disclosure of expenses by both natural and functional classification. It adds quantitative and qualitative disclosures about liquidity and availability of resources. The ASU is effective for the Health System for the year ending June 30, 2019. The Health System has adopted this ASU on a retrospective basis, except for the presentation of expenses based on natural and functional classification and the discussion of liquidity, as permitted in the ASU. Please refer to Note 14, Functional Expenses, and Note 15, Liquidity.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new pronouncement was intended to assist entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and whether a contribution is conditional. This ASU was effective for the Health System on July 1, 2018 on a modified prospective basis and did not have a significant impact on the consolidated financial statements of the Health System.

3. Acquisitions

Effective July 1, 2018, Alice Peck Day Memorial Hospital became the sole corporate member of APD LifeCare Center Inc. (LifeCare). LifeCare owns and operates Harvest Hill, an assisted living facility, the Woodlands, a residential living community and the Elizabeth S. Hughes Care Unit, which provides hospice care.

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In accordance with applicable accounting guidance on not-for-profit mergers and acquisitions, Alice Peck Day Memorial Hospital recorded goodwill related to the acquisition of LifeCare of approximately \$5,131,000. Restricted contribution income of \$383,000 was recorded within net assets with donor restrictions in the accompanying consolidated statement of changes in net assets. Included in the transaction was LifeCare's cash balance of \$4,863,000. No consideration was exchanged for the net assets assumed and acquisition costs were expensed as incurred. LifeCare's financial position, results of operations and changes in net assets are included in the consolidated financial statements as of and for the year ended June 30, 2019.

4. Patient Service Revenue and Accounts Receivable

The Health System reports patient service revenue at amounts that reflect the consideration to which it expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payers (including managed care payers and government programs), and others; and they include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Health System bills patients and third-party payers several days after the services were performed or shortly after discharge. Revenue is recognized as performance obligations are satisfied under contracts by providing healthcare services to patients.

The Health System determines performance obligations based on the nature of the services provided. Revenues for performance obligations satisfied over time are recognized based on actual charges incurred in relation to total expected charges as this method provides a reasonable estimate of the transfer of services over the term of performance obligations based on inputs needed to satisfy the obligations. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services. For inpatient services, performance obligations are measured from admission to the point when there are no further services required for the patient, which is generally the time of discharge. For outpatient services and physician services, performance obligations are recognized at a point in time when the services are provided and no further patient services are deemed necessary.

Generally, the Health System's patient service performance obligations relate to contracts with a duration of less than one year, therefore the Health System has elected to apply the optional exemption provided in ASC 606-10-50-14a and, therefore, we are not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. This generally refers to inpatient services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

Established charges represent gross charges. They are not the same as actual pricing, and they generally do not reflect what a hospital is ultimately entitled to for services it provides. Therefore, they are not displayed in the Health System's consolidated statements of operations and changes in net assets.

Hospitals are paid amounts negotiated with insurance companies or set by government entities, which are typically less than established or standard charges. Gross charges are used to calculate Medicare outlier payments and to determine certain elements of payment under managed care contracts. Gross charges are what hospitals charge all patients prior to the application of contractual adjustments and implicit price concessions.

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Explicit Pricing Concessions

Revenues for the Health System under the traditional fee-for service Medicare and Medicaid programs are based on prospectively determined rates per discharge or visit, reasonable (allowable) cost, or prospective rates per episodic period, depending on the type of provider.

- Inpatient acute care services provided to Medicare program beneficiaries are paid using the prospective payment system (“PPS”) to determine rates-per-discharge. These rates vary according to a patient classification system (“DRG”), based on diagnostic, clinical and other factors. In addition, inpatient capital costs (depreciation and interest) are reimbursed by Medicare on the basis of a prospectively determined rate per discharge. Medicare outpatient services are paid on a prospective payment system, based on a pre-determined amount for each outpatient procedure (APC), subject to various mandated modifications. Retrospectively determined cost-based revenues under these programs, such as indirect medical education, direct graduate medical education, disproportionate share hospital, transplant services, and bad debt reimbursement are based on the hospital’s cost reports and are estimated using historical trends and current factors. The Health System’s payments for inpatient services rendered to New Hampshire (“NH”) and Vermont (“VT”) Medicaid beneficiaries are based on PPS, while outpatient services are reimbursed on a retrospective cost basis or fee schedules for NH beneficiaries. VT outpatient beneficiaries are paid on a prospective basis per outpatient procedure.
- Inpatient acute, swing, and outpatient services furnished by critical access hospitals (“CAH”) are reimbursed by Medicare at 101% of reasonable costs, subject to 2% sequestration, excluding ambulance services and inpatient hospice care.
- Providers of home health services to patients eligible for Medicare home health benefits are paid on a prospective basis, with no retrospective settlement. The prospective payment is based on the scoring attributed to the acuity level of the patient at a rate determined by federal guidelines.
- Hospice services to patients eligible for Medicare hospice benefits are paid on a per diem basis, with no retrospective settlement, provided the aggregate annual Medicare reimbursement is below a predetermined aggregate capitated rate.
- The Health System’s cost based services to Medicare and Medicaid are reimbursed during the year based on varying interim payment methodologies. Final settlement is determined after the submission of an annual cost report and subject to audit of this report by Medicare and Medicaid auditors, as well as administrative and judicial review. Because the laws, regulations, and rule interpretations, governing Medicare and Medicaid reimbursement are complex and change frequently, the estimates recorded could change over time by material amounts.
- Revenues under Managed Care Plans (Plans) consist primarily of payment terms involving mutually agreed upon rates per diagnosis, discounted fee-for service rates, or similar contractual arrangements. These revenues are also subject to review and possible audit. The Plans are billed for patient services on an individual patient basis. An individual patient’s bill is subject to adjustments in accordance with contractual terms in place with the Plans following their review and adjudication of each bill.

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The Health System is not aware of any claims, disputes, or unsettled matters with any payer that would materially affect its revenues for which it has not adequately provided in the accompanying Health System's consolidated financial statements.

The Health System provides charity care to patients who are unable to pay for healthcare services they receive as determined by financial conditions. Patients who qualify receive partial or full adjustments to charges for services rendered. The Health System's policy is to treat amounts qualified as charity care as explicit price concessions and as such are not reported in net patient service revenue.

During fiscal year 2016, Vermont state legislation passed changes to the tax base for home health providers from 19.30% of core home health care services (primarily Medicaid services) with a cap of 6% of net patient service revenue to 3.63% of net patient revenue for fiscal year 2017 and fiscal year 2018. Home health provider tax paid, which is included in other operating expenses, was \$628,000 and \$737,000 in 2019 and 2018, respectively.

On June 30, 2014, the NH Governor signed into law a bi-partisan legislation reflecting an agreement between the State of NH and 25 NH hospitals on the Medicaid Enhancement Tax (MET) Senate Bill 369. As part of the agreement, the parties have agreed to resolve all pending litigation related to MET and Medicaid Rates, including the Catholic Medical Center Litigation, the Northeast Rehabilitation Litigation, 2014 DRA Refund Requests, and the State Rate Litigation. As part of the MET Agreement Effective July 1, 2014, a "Trust / Lock Box" dedicated funding mechanism will be established for receipt and distribution of all MET proceeds with all monies used exclusively to support Medicaid services.

On May 22, 2018, the State of New Hampshire and all New Hampshire hospitals (NH Hospitals) signed a new settlement agreement and multi-year plan for Disproportionate Share Hospital (DSH) payments, with provisions to create alternative payments should there be federal changes to the DSH program by the United States Congress. The agreement may change or limit federal matching funds for MET when used to support DSH payments to hospitals and the Medicaid program, or change the definition of Uncompensated Care (UCC) for purposes of calculating DSH or other allowable uncompensated care payments. The term of the agreement is through state fiscal year (SFY) 2024. Under the agreement, the NH Hospitals forgo approximately \$28,000,000 of DSH payment for SFY 2018 and 2019, in consideration of the State agreeing to form a pool of funds to make directed payments or otherwise increase rates to hospitals for SFY 2020 through 2024. The Federal share of payments to NH Hospitals are contingent upon the receipt of matching funds from Centers for Medicare & Medicaid Services (CMS) in the covered years. In the event that, due to changes in federal law, the State is unable to make payments in a way that ensures the federal matching funds are available, the Parties will meet and confer to negotiate in good faith an appropriate amendment to this agreement consistent with the intent of this agreement. The State is required to maintain the UCC Dedicated Fund pursuant to earlier agreements. The agreement prioritizes payments of funds to critical access hospitals at 75% of allowable UCC, the remainder thereafter is distributed to other NH Hospitals in proportion to their allowable uncompensated care amounts. During the term of this agreement, the NH Hospitals are barred from bringing a new claim in federal or state court or at Department of Revenue Administration (DRA) related to the constitutionality of MET.

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During the years ended June 30, 2019 and 2018, the Health System received DSH payments of approximately, \$69,179,000 and \$66,383,000, respectively. DSH payments are subject to audit pursuant to the agreement with the state and therefore, for the years ended June 30, 2019 and 2018, the Health System recognized as revenue DSH receipts of approximately \$64,864,000 and approximately \$54,469,000, respectively.

During the years ended June 30, 2019 and 2018, the Health System recorded State of NH Medicaid Enhancement Tax ("MET") and State of VT Provider tax of \$70,061,000 and \$67,692,000, respectively. The taxes are calculated at 5.5% for NH and 6% for VT of certain net patient service revenues in accordance with instructions received from the States. The Provider taxes are included in operating expenses in the consolidated statements of operations and changes in net assets.

Implicit Price Concessions

Generally, patients who are covered by third-party payer contracts are responsible for related co-pays, co-insurance and deductibles, which vary depending on the contractual obligations of patients. The Health System also provides services to uninsured patients and offers those patients a discount from standard charges. The Health System estimates the transaction price for patients with co-pays, co-insurance, and deductibles and for those who are uninsured based on historical collection experience and current market conditions. The discount offered to uninsured patients reduces the transaction price at the time of billing. The uninsured and patient responsible accounts, net of discounts recorded, are further reduced through implicit price concessions based on historical collection trends for similar accounts and other known factors that impact the estimation process. Subsequent changes to the estimate of transaction price are generally recorded as adjustments to net patient service revenue in the period of change.

The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Health System expects to collect based on collection history with similar patients. Although outcomes vary, the Health System's policy is to attempt to collect amounts due from patients, including co-pays, co-insurance and deductibles due from insurance at the time of service while complying with all federal and state statutes and regulations, including but not limited to, the Emergency Medical Treatment and Active Labor Act (EMTALA). Through various systems and processes the Health System estimates Medicare and Medicaid net patient service revenue and cost report settlements and accrues final expected settlements. For filed cost reports, the accrual is recorded based on those filings, subsequent activity, and on historical trends and other relevant evidence. For periods in which a cost report is yet to be filed, accruals are based on estimates of what is expected to be reported, and any trends and relevant evidence. Cost reports generally must be filed within five months of the closing period.

Settlements with third-party payers for retroactive revenue adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care using the most likely amount. These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer and historical settlement activity, including assessments to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known, or as years are settled or are no longer subject to such audits, reviews or investigations. As of June 30, 2019 and 2018, the Health System had \$52,470,000 and \$52,041,000, respectively, reserved for estimated third-party settlements.

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For the years ended June 30, 2019 and 2018, additional increases (decreases) in revenue of \$1,800,000 and (\$5,604,000), respectively, was recognized due to changes in its prior years related to estimated third-party settlements.

Net operating revenues for the hospital operations of the PPS and CAH, and other business segments consist primarily of patient service revenues, principally for patients covered by Medicare, Medicaid, managed care and other health plans as well as patients covered under the Health System's uninsured discount and charity care programs.

The table below shows the Health System's sources of net operating revenues presented at the net transaction price for the years ended June 30, 2019 and 2018.

| <i>(in thousands of dollars)</i> | 2019 | | |
|---|---------------------|-------------------|---------------------|
| | PPS | CAH | Total |
| Hospital | | | |
| Medicare | \$ 456,197 | \$ 72,193 | \$ 528,390 |
| Medicaid | 134,727 | 12,794 | 147,521 |
| Commercial | 746,647 | 64,981 | 811,628 |
| Self pay | 8,811 | 2,313 | 11,124 |
| | <u>1,346,382</u> | <u>152,281</u> | <u>1,498,663</u> |
| Professional | | | |
| Professional | 454,425 | 23,707 | 478,132 |
| VNH | | | 22,528 |
| Other revenue | | | 285,715 |
| Total operating revenue and other support | <u>\$ 1,800,807</u> | <u>\$ 175,988</u> | <u>\$ 2,285,038</u> |

| <i>(in thousands of dollars)</i> | 2018 | | |
|---|---------------------|-------------------|---------------------|
| | PPS | CAH | Total |
| Hospital | | | |
| Medicare | \$ 432,251 | \$ 76,522 | \$ 508,773 |
| Medicaid | 117,019 | 10,017 | 127,036 |
| Commercial | 677,162 | 65,916 | 743,078 |
| Self pay | 10,687 | 2,127 | 12,814 |
| | <u>1,237,119</u> | <u>154,582</u> | <u>1,391,701</u> |
| Professional | | | |
| Professional | 412,605 | 24,703 | 437,308 |
| VNH | | | 22,719 |
| Other revenue | | | 203,915 |
| Total operating revenue and other support | <u>\$ 1,649,724</u> | <u>\$ 179,285</u> | <u>\$ 2,055,643</u> |

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Accounts Receivable

The principal components of patient accounts receivable as of June 30, 2019 and 2018 are as follows:

| <i>(in thousands of dollars)</i> | 2019 | 2018 |
|---------------------------------------|-------------------|-------------------|
| Patient accounts receivable | \$ 221,125 | \$ 351,456 |
| Less: Allowance for doubtful accounts | <u>-</u> | <u>(132,228)</u> |
| Patient accounts receivable | <u>\$ 221,125</u> | <u>\$ 219,228</u> |

The following table categorizes payors into four groups based on their respective percentages of gross patient accounts receivable as of June 30, 2019 and 2018:

| | 2019 | 2018 |
|-----------------------------|--------------|--------------|
| Medicare | 34 % | 34 % |
| Medicaid | 12 | 14 |
| Commercial | 41 | 40 |
| Self pay | <u>13</u> | <u>12</u> |
| Patient accounts receivable | <u>100 %</u> | <u>100 %</u> |

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5. Investments

The composition of investments at June 30, 2019 and 2018 is set forth in the following table:

| <i>(in thousands of dollars)</i> | 2019 | 2018 |
|--|---------------------|-------------------|
| Assets limited as to use | | |
| Internally designated by board | | |
| Cash and short-term investments | \$ 21,890 | \$ 8,558 |
| U.S. government securities | 91,492 | 50,484 |
| Domestic corporate debt securities | 196,132 | 109,240 |
| Global debt securities | 83,580 | 110,944 |
| Domestic equities | 167,384 | 142,796 |
| International equities | 128,909 | 106,668 |
| Emerging markets equities | 23,086 | 23,562 |
| Real estate investment trust | 213 | 816 |
| Private equity funds | 64,563 | 50,415 |
| Hedge funds | 32,287 | 32,831 |
| | <u>809,536</u> | <u>636,314</u> |
| Investments held by captive insurance companies (Note 12) | | |
| U.S. government securities | 23,241 | 30,581 |
| Domestic corporate debt securities | 11,378 | 16,764 |
| Global debt securities | 10,080 | 4,513 |
| Domestic equities | 14,617 | 8,109 |
| International equities | 6,766 | 7,971 |
| | <u>66,082</u> | <u>67,938</u> |
| Held by trustee under indenture agreement (Note 10) | | |
| Cash and short-term investments | 631 | 1,872 |
| Total assets limited as to use | <u>876,249</u> | <u>706,124</u> |
| Other investments for restricted activities | | |
| Cash and short-term investments | 6,113 | 4,952 |
| U.S. government securities | 32,479 | 28,220 |
| Domestic corporate debt securities | 29,089 | 29,031 |
| Global debt securities | 11,263 | 14,641 |
| Domestic equities | 20,981 | 20,509 |
| International equities | 15,531 | 17,521 |
| Emerging markets equities | 2,578 | 2,155 |
| Real estate investment trust | - | 954 |
| Private equity funds | 7,638 | 4,878 |
| Hedge funds | 8,414 | 8,004 |
| Other | 33 | 31 |
| Total other investments for restricted activities | <u>134,119</u> | <u>130,896</u> |
| Total investments | <u>\$ 1,010,368</u> | <u>\$ 837,020</u> |

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Investments are accounted for using either the fair value method or equity method of accounting, as appropriate on a case by case basis. The fair value method is used for all debt securities and equity securities that are traded on active markets and are valued at prices that are readily available in those markets. The equity method is used when investments are made in pooled/commingled investment funds that represent investments where shares or units are owned of pooled funds rather than the underlying securities in that fund. These pooled/commingled funds make underlying investments in securities from the asset classes listed above. All investments, whether the fair value or equity method of accounting is used, are reported at what the Health System believes to be the amount that the Health System would expect to receive if it liquidated its investments at the balance sheets date on a nondistressed basis.

The following tables summarize the investments by the accounting method utilized, as of June 30, 2019 and 2018. Accounting standards require disclosure of additional information for those securities accounted for using the fair value method, as shown in Note 7.

| <i>(in thousands of dollars)</i> | 2019 | | |
|------------------------------------|-------------------|-------------------|---------------------|
| | Fair Value | Equity | Total |
| Cash and short-term investments | \$ 28,634 | \$ - | \$ 28,634 |
| U.S. government securities | 147,212 | - | 147,212 |
| Domestic corporate debt securities | 164,996 | 71,603 | 236,599 |
| Global debt securities | 55,520 | 49,403 | 104,923 |
| Domestic equities | 178,720 | 24,262 | 202,982 |
| International equities | 76,328 | 74,878 | 151,206 |
| Emerging markets equities | 1,295 | 24,369 | 25,664 |
| Real estate investment trust | 213 | - | 213 |
| Private equity funds | - | 72,201 | 72,201 |
| Hedge funds | - | 40,701 | 40,701 |
| Other | 33 | - | 33 |
| | \$ 652,951 | \$ 357,417 | \$ 1,010,368 |

| <i>(in thousands of dollars)</i> | 2018 | | |
|------------------------------------|-------------------|-------------------|-------------------|
| | Fair Value | Equity | Total |
| Cash and short-term investments | \$ 15,382 | \$ - | \$ 15,382 |
| U.S. government securities | 109,285 | - | 109,285 |
| Domestic corporate debt securities | 95,481 | 59,554 | 155,035 |
| Global debt securities | 49,104 | 80,994 | 130,098 |
| Domestic equities | 157,011 | 14,403 | 171,414 |
| International equities | 60,002 | 72,158 | 132,160 |
| Emerging markets equities | 1,296 | 24,421 | 25,717 |
| Real estate investment trust | 222 | 1,548 | 1,770 |
| Private equity funds | - | 55,293 | 55,293 |
| Hedge funds | - | 40,835 | 40,835 |
| Other | 31 | - | 31 |
| | \$ 487,814 | \$ 349,206 | \$ 837,020 |

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Investment income is comprised of the following for the years ended June 30, 2019 and 2018:

| <i>(in thousands of dollars)</i> | 2019 | 2018 |
|---|------------------|------------------|
| Net assets without donor restrictions | | |
| Interest and dividend income, net | \$ 11,333 | \$ 12,324 |
| Net realized gains on sales of securities | 17,419 | 24,411 |
| Change in net unrealized gains on investments | 12,283 | 4,612 |
| | <u>41,035</u> | <u>41,347</u> |
| Net assets with donor restrictions | | |
| Interest and dividend income, net | 987 | 1,526 |
| Net realized gains on sales of securities | 2,603 | 1,438 |
| Change in net unrealized gains on investments | (908) | 1,390 |
| | <u>2,682</u> | <u>4,354</u> |
| | <u>\$ 43,717</u> | <u>\$ 45,701</u> |

For the years ended June 30, 2019 and 2018 investment income is reflected in the accompanying consolidated statements of operations and changes in net assets as operating revenue of approximately \$983,000 and \$960,000 and as nonoperating gains of approximately \$40,052,000 and \$40,387,000, respectively.

Private equity limited partnership shares are not eligible for redemption from the fund or general partner, but can be sold to third party buyers in private transactions that typically can be completed in approximately 90 days. It is the intent of the Health System to hold these investments until the fund has fully distributed all proceeds to the limited partners and the term of the partnership agreement expires. Under the terms of these agreements, the Health System has committed to contribute a specified level of capital over a defined period of time. Through June 30, 2019 and 2018, the Health System has committed to contribute approximately \$164,319,000 and \$137,219,000 to such funds, of which the Health System has contributed approximately \$109,584,000 and \$91,942,000 and has outstanding commitments of \$54,735,000 and \$45,277,000, respectively.

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6. Property, Plant, and Equipment

Property, plant, and equipment are summarized as follows at June 30, 2019 and 2018:

| <i>(in thousands of dollars)</i> | 2019 | 2018 |
|---|-------------------|-------------------|
| Land | \$ 38,232 | \$ 38,058 |
| Land improvements | 42,607 | 42,295 |
| Buildings and improvements | 898,050 | 876,537 |
| Equipment | 888,138 | 818,902 |
| Equipment under capital leases | 15,809 | 20,966 |
| | <u>1,882,836</u> | <u>1,796,758</u> |
| Less: Accumulated depreciation and amortization | <u>1,276,746</u> | <u>1,200,549</u> |
| Total depreciable assets, net | 606,090 | 596,209 |
| Construction in progress | 15,166 | 11,112 |
| | <u>\$ 621,256</u> | <u>\$ 607,321</u> |

As of June 30, 2019, construction in progress primarily consists of an addition to the ambulatory surgical center located in Manchester, NH as well as renovations taking place at the various pharmacy locations to bring their facilities compliant with Regulation USP800. The estimated cost to complete the ambulatory surgical center at June 30, 2019 is approximately \$59,000,000 over the next two fiscal years while the pharmacy renovation is estimated to cost approximately \$6,300,000 over the next fiscal year.

The construction in progress reported as of June 30, 2018 for the building renovations taking place at the birthing pavilion in Lebanon, NH was completed during the first quarter of fiscal year 2019 and the information systems PeopleSoft project for Alice Peck Day Memorial Hospital and Cheshire was completed in the fourth quarter of fiscal year 2019.

Depreciation and amortization expense included in operating and nonoperating activities was approximately \$88,496,000 and \$84,729,000 for 2019 and 2018, respectively.

7. Fair Value Measurements

The following is a description of the valuation methodologies for assets and liabilities measured at fair value on a recurring basis:

Cash and Short-Term Investments

Consists of money market funds and are valued at net asset value (NAV) reported by the financial institution.

Domestic, Emerging Markets and International Equities

Consists of actively traded equity securities and mutual funds which are valued at the closing price reported on an active market on which the individual securities are traded (Level 1 measurements).

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U.S. Government Securities, Domestic Corporate and Global Debt Securities

Consists of U.S. government securities, domestic corporate and global debt securities, mutual funds and pooled/commingled funds that invest in U.S. government securities, domestic corporate and global debt securities. Securities are valued based on quoted market prices or dealer quotes where available (Level 1 measurement). If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments or, if necessary, matrix pricing from a third party pricing vendor to determine fair value (Level 2 measurements). Matrix prices are based on quoted prices for securities with similar coupons, ratings and maturities, rather than on specific bids and offers for a designated security. Investments in mutual funds are measured based on the quoted NAV as of the close of business in the respective active market (Level 1 measurements).

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Health System believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following tables set forth the consolidated financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2019 and 2018:

| (in thousands of dollars) | 2019 | | | | Redemption or Liquidation | Days' Notice |
|--|-------------------|-------------------|-----------------|-------------------|------------------------------|-----------------|
| | Level 1 | Level 2 | Level 3 | Total | | |
| Assets | | | | | | |
| Investments | | | | | | |
| Cash and short term investments | \$ 28,634 | \$ - | \$ - | \$ 28,634 | Daily | 1 |
| U.S. government securities | 147,212 | - | - | 147,212 | Daily | 1 |
| Domestic corporate debt securities | 34,723 | 130,273 | - | 164,996 | Daily-Monthly | 1-15 |
| Global debt securities | 28,412 | 27,108 | - | 55,520 | Daily-Monthly | 1-15 |
| Domestic equities | 171,318 | 7,402 | - | 178,720 | Daily-Monthly | 1-10 |
| International equities | 76,295 | 33 | - | 76,328 | Daily-Monthly | 1-11 |
| Emerging market equities | 1,295 | - | - | 1,295 | Daily-Monthly | 1-7 |
| Real estate investment trust | 213 | - | - | 213 | Daily-Monthly | 1-7 |
| Other | - | 33 | - | 33 | Not applicable | Not applicable |
| Total investments | <u>488,102</u> | <u>164,849</u> | <u>-</u> | <u>652,951</u> | | |
| Deferred compensation plan assets | | | | | | |
| Cash and short-term investments | 2,952 | - | - | 2,952 | | |
| U.S. government securities | 45 | - | - | 45 | | |
| Domestic corporate debt securities | 4,932 | - | - | 4,932 | | |
| Global debt securities | 1,300 | - | - | 1,300 | | |
| Domestic equities | 22,403 | - | - | 22,403 | | |
| International equities | 3,576 | - | - | 3,576 | | |
| Emerging market equities | 27 | - | - | 27 | | |
| Real estate | 11 | - | - | 11 | | |
| Multi strategy fund | 48,941 | - | - | 48,941 | | |
| Guaranteed contract | - | - | 89 | 89 | | |
| Total deferred compensation plan assets | <u>84,187</u> | <u>-</u> | <u>89</u> | <u>84,276</u> | Not applicable | Not applicable |
| Beneficial interest in trusts | - | - | 9,301 | 9,301 | Not applicable | Not applicable |
| Total assets | <u>\$ 572,289</u> | <u>\$ 164,849</u> | <u>\$ 9,390</u> | <u>\$ 746,528</u> | | |

Dartmouth-Hitchcock Health and Subsidiaries
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| <i>(in thousands of dollars)</i> | 2018 | | | | Redemption or Liquidation | Days' Notice |
|--|-------------------|------------------|-----------------|-------------------|------------------------------|-----------------|
| | Level 1 | Level 2 | Level 3 | Total | | |
| Assets | | | | | | |
| Investments | | | | | | |
| Cash and short term investments | \$ 15,382 | \$ - | \$ - | \$ 15,382 | Daily | 1 |
| U.S. government securities | 109,285 | - | - | 109,285 | Daily | 1 |
| Domestic corporate debt securities | 41,488 | 53,993 | - | 95,481 | Daily-Monthly | 1-15 |
| Global debt securities | 32,874 | 16,230 | - | 49,104 | Daily-Monthly | 1-15 |
| Domestic equities | 157,011 | - | - | 157,011 | Daily-Monthly | 1-10 |
| International equities | 59,924 | 78 | - | 60,002 | Daily-Monthly | 1-11 |
| Emerging market equities | 1,296 | - | - | 1,296 | Daily-Monthly | 1-7 |
| Real estate investment trust | 222 | - | - | 222 | Daily-Monthly | 1-7 |
| Other | - | 31 | - | 31 | Not applicable | Not applicable |
| Total investments | <u>417,482</u> | <u>70,332</u> | <u>-</u> | <u>487,814</u> | | |
| Deferred compensation plan assets | | | | | | |
| Cash and short-term investments | 2,637 | - | - | 2,637 | | |
| U.S. government securities | 38 | - | - | 38 | | |
| Domestic corporate debt securities | 3,749 | - | - | 3,749 | | |
| Global debt securities | 1,089 | - | - | 1,089 | | |
| Domestic equities | 18,470 | - | - | 18,470 | | |
| International equities | 3,584 | - | - | 3,584 | | |
| Emerging market equities | 28 | - | - | 28 | | |
| Real estate | 9 | - | - | 9 | | |
| Multi strategy fund | 46,680 | - | - | 46,680 | | |
| Guaranteed contract | - | - | 86 | 86 | | |
| Total deferred compensation plan assets | <u>76,284</u> | <u>-</u> | <u>86</u> | <u>76,370</u> | Not applicable | Not applicable |
| Beneficial interest in trusts | - | - | 9,374 | 9,374 | Not applicable | Not applicable |
| Total assets | <u>\$ 493,766</u> | <u>\$ 70,332</u> | <u>\$ 9,460</u> | <u>\$ 573,558</u> | | |

The following table is a rollforward of financial instruments classified by the Health System within Level 3 of the fair value hierarchy defined above.

| <i>(in thousands of dollars)</i> | 2019 | | |
|--------------------------------------|---|------------------------|-----------------|
| | Beneficial Interest in Perpetual Trust | Guaranteed Contract | Total |
| Balances at beginning of year | \$ 9,374 | \$ 86 | \$ 9,460 |
| Net unrealized gains (losses) | <u>(73)</u> | <u>3</u> | <u>(70)</u> |
| Balances at end of year | <u>\$ 9,301</u> | <u>\$ 89</u> | <u>\$ 9,390</u> |

| <i>(in thousands of dollars)</i> | 2018 | | |
|--------------------------------------|---|------------------------|-----------------|
| | Beneficial Interest in Perpetual Trust | Guaranteed Contract | Total |
| Balances at beginning of year | \$ 9,244 | \$ 83 | \$ 9,327 |
| Net unrealized gains | <u>130</u> | <u>3</u> | <u>133</u> |
| Balances at end of year | <u>\$ 9,374</u> | <u>\$ 86</u> | <u>\$ 9,460</u> |

There were no transfers into and out of Level 1 and 2 measurements due to changes in valuation methodologies during the years ended June 30, 2019 and 2018.

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8. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes at June 30, 2019 and 2018:

| <i>(in thousands of dollars)</i> | 2019 | 2018 |
|----------------------------------|-------------------|-------------------|
| Healthcare services | \$ 20,140 | \$ 19,570 |
| Research | 26,496 | 24,732 |
| Purchase of equipment | 3,273 | 3,068 |
| Charity care | 12,494 | 13,667 |
| Health education | 19,833 | 18,429 |
| Other | 3,841 | 2,973 |
| Investments held in perpetuity | 56,383 | 55,394 |
| | <u>\$ 142,460</u> | <u>\$ 137,833</u> |

Income earned on donor restricted net assets held in perpetuity is available for these purposes.

9. Board Designated and Endowment Funds

Net assets include numerous funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees has interpreted the NH and VT Uniform Prudent Management of Institutional Funds Acts (UPMIFA or Act) for donor-restricted endowment funds as requiring the preservation of the original value of gifts, as of the gift date, to donor-restricted endowment funds, absent explicit donor stipulations to the contrary. The Health System's net assets with donor restrictions which are to be held in perpetuity consist of (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to be held in perpetuity, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, if any. Collectively these amounts are referred to as the historic dollar value of the fund.

Net assets without donor restrictions include funds designated by the Board of Trustees to function as endowments and the income from certain donor-restricted endowment funds, and any accumulated investment return thereon, which pursuant to donor intent may be expended based on trustee or management designation. Net assets with donor restrictions that are temporary in nature, either restricted by time or purpose, include funds appropriated for expenditure pursuant to endowment and investment spending policies, certain expendable endowment gifts from donors, and any retained income and appreciation on donor-restricted endowment funds, which are restricted by the donor to a specific purpose or by law. When the restrictions on these funds have been met, the funds are reclassified to net assets without donor restrictions.

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In accordance with the Act, the Health System considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund; the purposes of the donor-restricted endowment fund; general economic conditions; the possible effect of inflation and deflation; the expected total return from income and the appreciation of investments; other resources available; and investment policies.

The Health System has endowment investment and spending policies that attempt to provide a predictable stream of funding for programs supported by its endowment while ensuring that the purchasing power does not decline over time. The Health System targets a diversified asset allocation that places emphasis on investments in domestic and international equities, fixed income, private equity, and hedge fund strategies to achieve its long-term return objectives within prudent risk constraints. The Health System's Investment Committee reviews the policy portfolio asset allocations, exposures, and risk profile on an ongoing basis.

The Health System, as a policy, may appropriate for expenditure or accumulate so much of an endowment fund as the institution determines is prudent for the uses, benefits, purposes, and duration for which the endowment is established, subject to donor intent expressed in the gift instrument and the standard of prudence prescribed by the Act.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below their original contributed value. Such market losses were not material as of June 30, 2019 and 2018.

Endowment net asset composition by type of fund consists of the following at June 30, 2019 and 2018:

| | 2019 | | |
|----------------------------------|---|--|-------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| <i>(in thousands of dollars)</i> | | | |
| Donor-restricted endowment funds | \$ - | \$ 78,268 | \$ 78,268 |
| Board-designated endowment funds | 31,421 | - | 31,421 |
| Total endowed net assets | <u>\$ 31,421</u> | <u>\$ 78,268</u> | <u>\$ 109,689</u> |

| | 2018 | | |
|----------------------------------|---|--|-------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| <i>(in thousands of dollars)</i> | | | |
| Donor-restricted endowment funds | \$ - | \$ 78,197 | \$ 78,197 |
| Board-designated endowment funds | 29,506 | - | 29,506 |
| Total endowed net assets | <u>\$ 29,506</u> | <u>\$ 78,197</u> | <u>\$ 107,703</u> |

Dartmouth-Hitchcock Health and Subsidiaries
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Changes in endowment net assets for the years ended June 30, 2019 and 2018 are as follows:

| | 2019 | | |
|--------------------------------------|---|--|-------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| <i>(in thousands of dollars)</i> | | | |
| Balances at beginning of year | \$ 29,506 | \$ 78,197 | \$ 107,703 |
| Net investment return | 1,184 | 2,491 | 3,675 |
| Contributions | 804 | 1,222 | 2,026 |
| Transfers | (73) | (1,287) | (1,360) |
| Release of appropriated funds | - | (2,355) | (2,355) |
| Balances at end of year | \$ 31,421 | \$ 78,268 | \$ 109,689 |
| | | | |
| | 2018 | | |
| | Without Donor Restrictions | With Donor Restrictions | Total |
| <i>(in thousands of dollars)</i> | | | |
| Balances at beginning of year | \$ 26,389 | \$ 75,457 | \$ 101,846 |
| Net investment return | 3,112 | 4,246 | 7,358 |
| Contributions | - | 1,121 | 1,121 |
| Transfers | 5 | (35) | (30) |
| Release of appropriated funds | - | (2,592) | (2,592) |
| Balances at end of year | \$ 29,506 | \$ 78,197 | \$ 107,703 |

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10. Long-Term Debt

A summary of long-term debt at June 30, 2019 and 2018 is as follows:

| <i>(in thousands of dollars)</i> | 2019 | 2018 |
|---|-------------------|-------------------|
| Variable rate issues | | |
| New Hampshire Health and Education facilities | | |
| Authority (NHHEFA) revenue bonds | | |
| Series 2018A, principal maturing in varying annual amounts, through August 2037 (1) | \$ 83,355 | \$ 83,355 |
| Fixed rate issues | | |
| New Hampshire Health and Education facilities | | |
| Authority revenue bonds | | |
| Series 2018B, principal maturing in varying annual amounts, through August 2048 (1) | 303,102 | 303,102 |
| Series 2017A, principal maturing in varying annual amounts, through August 2040 (2) | 122,435 | 122,435 |
| Series 2017B, principal maturing in varying annual amounts, through August 2031 (2) | 109,800 | 109,800 |
| Series 2014A, principal maturing in varying annual amounts, through August 2022 (3) | 26,960 | 26,960 |
| Series 2018C, principal maturing in varying annual amounts, through August 2030 (4) | 25,865 | - |
| Series 2012, principal maturing in varying annual amounts, through July 2039 (5) | 25,145 | 25,955 |
| Series 2014B, principal maturing in varying annual amounts, through August 2033 (3) | 14,530 | 14,530 |
| Series 2016B, principal maturing in varying annual amounts, through August 2045 (6) | 10,970 | 10,970 |
| | <u>10,970</u> | <u>10,970</u> |
| Total variable and fixed rate debt | <u>\$ 722,162</u> | <u>\$ 697,107</u> |

Dartmouth-Hitchcock Health and Subsidiaries
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A summary of long-term debt at June 30, 2019 and 2018 is as follows:

| <i>(in thousands of dollars)</i> | 2019 | 2018 |
|---|-------------------|-------------------|
| Other | | |
| Series 2010, principal maturing in varying annual amounts, through August 2040 (7)* | \$ - | \$ 15,498 |
| Note payable to a financial institution payable in interest free monthly installments through July 2015; collateralized by associated equipment* | 445 | 646 |
| Note payable to a financial institution with entire principal due June 2029 that is collateralized by land and building. The note payable is interest free* | 323 | 380 |
| Mortgage note payable to the US Dept of Agriculture; monthly payments of \$10,892 include interest of 2.375% through November 2046* | 2,629 | 2,697 |
| Obligations under capital leases | <u>17,526</u> | <u>18,965</u> |
| Total other debt | 20,923 | 38,186 |
| Total variable and fixed rate debt | <u>722,162</u> | <u>697,107</u> |
| Total long-term debt | 743,085 | 735,293 |
| Less: Original issue discounts and premiums, net | (25,542) | (26,862) |
| Bond issuance costs, net | 5,533 | 5,716 |
| Current portion | <u>10,914</u> | <u>3,464</u> |
| | <u>\$ 752,180</u> | <u>\$ 752,975</u> |

* Represents nonobligated group bonds

Aggregate annual principal payments required under revenue bond agreements and capital lease obligations for the next five years ending June 30 and thereafter are as follows:

| <i>(in thousands of dollars)</i> | |
|----------------------------------|-------------------|
| 2020 | \$ 10,914 |
| 2021 | 10,693 |
| 2022 | 10,843 |
| 2023 | 7,980 |
| 2024 | 3,016 |
| Thereafter | <u>699,639</u> |
| | <u>\$ 743,085</u> |

Dartmouth-Hitchcock Obligated Group (DHOG) Bonds

MHMH established the DHOG in 1993 for the original purpose of issuing bonds financed through NHHEFA or the "Authority". The members of the obligated group consist of D-HH, MHMH, DHC, Cheshire, NLH, MAHHC, and, effective August 15, 2018, APD. D-HH is designated as the obligated group agent.

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Revenue Bonds issued by members of the DHOG are administered through notes registered in the name of the Bond Trustee and in accordance with the terms of a Master Trust Indenture. The Master Trust Indenture contains provisions permitting the addition, withdrawal, or consolidation of members of the DHOG under certain conditions. The notes constitute a joint and several obligation of the members of the DHOG (and any other future members of the DHOG) and are equally and ratably collateralized by a pledge of the members' gross receipts. The DHOG is also subject to certain annual covenants under the Master Trust Indenture, the most restrictive is the Annual Debt Service Coverage Ratio (1.10x).

(1) Series 2018A and Series 2018B Revenue Bonds

The DHOG issued NHHEFA Revenue Bonds, Series 2018A and Series 2018B in February 2018. The Series 2018A Revenue Bonds were primarily used to refund a portion of Series 2015A and Series 2016A. The Series 2018B were primarily used to refund a portion of Series 2015A and Series 2016A, Revolving Line of Credit, Series 2012 Bank Loan and the Series 2015A and Series 2016A Swap terminations. A loss on the extinguishment of debt of approximately \$578,000 was recognized in nonoperating gains (losses) on the statement of operations and changes in net assets, as a result of the refinancing. The interest on the Series 2018A Revenue Bonds is variable with a current interest rate of 5.00% and matures in variable amounts through 2037. The interest on the Series 2018B Revenue Bonds is fixed with an interest rate of 4.18% and matures in variable amounts through 2048.

(2) Series 2017A and Series 2017B Revenue Bonds

The DHOG issued NHHEFA Revenue Bonds, Series 2017A and Series 2017B in December, 2017. The Series 2017A Revenue Bonds were primarily used to refund Series 2009 and Series 2010 and the Series 2017B Revenue Bonds were used to refund Series 2012A and Series 2012B. The interest on the Series 2017A Revenue Bonds is fixed with an interest rate of 5.00% and matures in variable amounts through 2040. The interest on the Series 2017B Revenue Bonds is fixed with an interest rate of 2.54% and matures in variable amounts through 2031.

(3) Series 2014A and Series 2014B Revenue Bonds

The DHOG issued NHHEFA Revenue Bonds, Series 2014A and Series 2014B in August 2014. The proceeds from the Series 2014A and 2014B Revenue Bonds were used to partially refund the Series 2009 Revenue Bonds and to cover cost of issuance. Interest on the 2014A Revenue Bonds is fixed with an interest rate of 2.63% and matures at various dates through 2022. Interest on the Series 2014B Revenue Bonds is fixed with an interest rate of 4.00% and matures at various dates through 2033.

(4) Series 2018C Revenue Bonds

The DHOG issued NHHEFA Revenue Bonds, Series 2018C in August, 2018. The Series 2018C Revenue Bonds were used primarily to refinance the Series 2010 Revenue Bonds. The interest on the series 2018C Revenue Bonds is fixed with an interest rate of 3.22% and matures in variable amounts through 2030.

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(5) Series 2012 Revenue Bonds

The NHHEFA issued \$29,650,000 of tax-exempt Revenue Bonds, Series 2012. The proceeds of these bonds were used to refund 1998 and 2009 Series Bonds, to finance the settlement cost of the interest rate swap, and to finance the purchase of certain equipment and renovations. The bonds have fixed interest coupon rates ranging from 2.0% to 5.0% (a net interest cost of 3.96%), and matures in variable amounts through 2039.

(6) Series 2016B Revenue Bonds

The DHOG issued NHHEFA Revenue Bonds, Series 2016B in July 2016 through a private placement with a financial institution. The Series 2016B Revenue Bonds were used to finance 2016 projects. The Series 2016B is fixed with an interest rate of 1.78% and matures at various dates through 2045.

Outstanding joint and several indebtedness of the DHOG at June 30, 2019 and 2018 approximates \$722,162,000 and \$697,107,000, respectively.

Non Obligated Group Bonds

(1) Series 2010 Revenue Bonds

The Business Finance Authority (BFA) of the State of NH issued Revenue Bonds, Series 2010. Interest is based on an annual percentage rate equal to the sum of (a) 69% of the 1-Month LIBOR rate plus (b) 1.8975/5. The Health System redeemed these bonds in August 2018.

The Health System Indenture agreements require establishment and maintenance of debt service reserves and other trustee held funds. Trustee held funds of approximately \$631,000 and \$1,872,000 at June 30, 2019 and 2018, respectively, are classified as assets limited as to use in the accompanying consolidated balance sheets (Note 5). The debt service reserves are mainly comprised of escrowed funds held for future principal and interest payments.

For the years ended June 30, 2019 and 2018 interest expense on the Health System's long term debt is reflected in the accompanying consolidated statements of operations and changes in net assets as operating expense of approximately \$25,514,000 and \$18,822,000 and other nonoperating losses of \$3,784,000 and \$2,793,000, respectively.

Swap Agreements

The Health System is subject to market risks such as changes in interest rates that arise from normal business operation. The Health System regularly assesses these risks and has established business strategies to provide natural offsets, supplemented by the use of derivative financial instruments to protect against the adverse effect of these and other market risks. The Health System has established clear policies, procedures, and internal controls governing the use of derivatives and does not use them for trading, investment, or other speculative purposes.

As of June 30, 2019 and 2018, there was no liability for interest rate swaps as all remaining swaps were terminated in February 2018. For the year ended June 30, 2018, the Health System recognized a nonoperating loss due to swap termination of \$14,247,000 relating to the swap termination. The change in fair value during the year ended June 30, 2018 was a decrease of \$4,897,000. For the year ended June 30, 2018 the Health System recognized a nonoperating gain of \$145,000 resulting from hedge ineffectiveness and amortization of frozen swaps.

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11. Employee Benefits

All eligible employees of the Health System are covered under various defined benefit and/or defined contribution plans. In addition, certain members provide postretirement medical and life benefit plans to certain of its active and former employees who meet eligibility requirements. The postretirement medical and life plans are not funded.

All of the defined benefit plans within the Health System have been frozen and therefore there are no remaining participants earning benefits in any of the Health System's defined benefit plans.

The Health System continued to execute the settlement of obligations due to retirees in the defined benefit plans through bulk lump sum offerings or purchases of annuity contracts. The annuity purchases follow guidelines established by the Department of Labor (DOL). The Health System anticipates continued consideration and/or implementation of additional settlements over the next several years.

Defined Benefit Plans

Net periodic pension expense included in employee benefits in the consolidated statements of operations and changes in net assets is comprised of the components listed below for the years ended June 30, 2019 and 2018:

| <i>(in thousands of dollars)</i> | 2019 | 2018 |
|--|-------------------|-------------------|
| Service cost for benefits earned during the year | \$ 150 | \$ 150 |
| Interest cost on projected benefit obligation | 47,814 | 47,190 |
| Expected return on plan assets | (65,270) | (64,561) |
| Net loss amortization | 10,357 | 10,593 |
| Total net periodic pension expense | <u>\$ (6,949)</u> | <u>\$ (6,628)</u> |

The following assumptions were used to determine net periodic pension expense as of June 30, 2019 and 2018:

| | 2019 | 2018 |
|--|----------------|-----------------|
| Discount rate | 3.90 % – 4.60% | 4.00 % – 4.30 % |
| Rate of increase in compensation | N/A | N/A |
| Expected long-term rate of return on plan assets | 7.50% | 7.50 % – 7.75 % |

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The following table sets forth the funded status and amounts recognized in the Health System's consolidated financial statements for the defined benefit pension plans at June 30, 2019 and 2018:

| <i>(in thousands of dollars)</i> | 2019 | 2018 |
|--|---------------------|---------------------|
| Change in benefit obligation | | |
| Benefit obligation at beginning of year | \$ 1,087,940 | \$ 1,122,615 |
| Service cost | 150 | 150 |
| Interest cost | 47,814 | 47,190 |
| Benefits paid | (51,263) | (47,550) |
| Expenses paid | (170) | (172) |
| Actuarial (gain) loss | 93,358 | (34,293) |
| Settlements | (42,306) | - |
| Benefit obligation at end of year | <u>1,135,523</u> | <u>1,087,940</u> |
| Change in plan assets | | |
| Fair value of plan assets at beginning of year | 884,983 | 878,701 |
| Actual return on plan assets | 85,842 | 33,291 |
| Benefits paid | (51,263) | (47,550) |
| Expenses paid | (170) | (172) |
| Employer contributions | 20,631 | 20,713 |
| Settlements | (42,306) | - |
| Fair value of plan assets at end of year | <u>897,717</u> | <u>884,983</u> |
| Funded status of the plans | (237,806) | (202,957) |
| Less: Current portion of liability for pension | <u>(46)</u> | <u>(45)</u> |
| Long term portion of liability for pension | <u>(237,760)</u> | <u>(202,912)</u> |
| Liability for pension | <u>\$ (237,760)</u> | <u>\$ (202,912)</u> |

As of June 30, 2019 and 2018 the liability, for pension is included in the liability for pension and other postretirement plan benefits in the accompanying consolidated balance sheets.

Amounts not yet reflected in net periodic pension expense and included in the change in net assets without donor restrictions include approximately \$478,394,000 and \$418,971,000 of net actuarial loss as of June 30, 2019 and 2018, respectively.

The estimated amounts to be amortized from net assets without donor restrictions into net periodic pension expense in fiscal year 2020 for net actuarial losses is \$12,032,000.

The accumulated benefit obligation for the defined benefit pension plans was approximately \$1,135,770,000 and \$1,087,991,000 at June 30, 2019 and 2018, respectively.

The following table sets forth the assumptions used to determine the benefit obligation at June 30, 2019 and 2018:

| | 2019 | 2018 |
|----------------------------------|---------------|-----------------|
| Discount rate | 4.20% - 4.50% | 4.20 % – 4.50 % |
| Rate of increase in compensation | N/A | N/A |

Dartmouth-Hitchcock Health and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

The primary investment objective for the Plan’s assets is to support the Pension liabilities of the Pension Plans for Employees of the Health System, by providing long-term capital appreciation and by also using a Liability Driven Investing (“LDI”) strategy to partially hedge the impact fluctuating interest rates have on the value of the Plan’s liabilities. As of both June 30, 2019 and 2018, it is expected that the LDI strategy will hedge approximately 60% of the interest rate risk associated with pension liabilities. To achieve the appreciation and hedging objectives, the Plans utilize a diversified structure of asset classes designed to achieve stated performance objectives measured on a total return basis, which includes income plus realized and unrealized gains and losses.

The range of target allocation percentages and the target allocations for the various investments are as follows:

| | Range of Target Allocations | Target Allocations |
|------------------------------------|--|-------------------------------|
| Cash and short-term investments | 0–5% | 3 % |
| U.S. government securities | 0–10 | 5 |
| Domestic debt securities | 20–58 | 38 |
| Global debt securities | 6–26 | 8 |
| Domestic equities | 5–35 | 19 |
| International equities | 5–15 | 11 |
| Emerging market equities | 3–13 | 5 |
| Real estate investment trust funds | 0–5 | 0 |
| Private equity funds | 0–5 | 0 |
| Hedge funds | 5–18 | 11 |

To the extent an asset class falls outside of its target range on a quarterly basis, the Health System shall determine appropriate steps, as it deems necessary, to rebalance the asset class.

The Boards of Trustees of the Health System, as Plan Sponsors, oversee the design, structure, and prudent professional management of the Health System’s Plans’ assets, in accordance with Board approved investment policies, roles, responsibilities and authorities and more specifically the following:

- Establishing and modifying asset class targets with Board approved policy ranges,
- Approving the asset class rebalancing procedures,
- Hiring and terminating investment managers, and
- Monitoring performance of the investment managers, custodians and investment consultants.

The hierarchy and inputs to valuation techniques to measure fair value of the Plans’ assets are the same as outlined in Note 7. In addition, the estimation of fair value of investments in private equity and hedge funds for which the underlying securities do not have a readily determinable value is made using the NAV per share or its equivalent as a practical expedient. The Health System’s Plans own interests in these funds rather than in securities underlying each fund and, therefore, are generally required to consider such investments as Level 2 or 3, even though the underlying securities may not be difficult to value or may be readily marketable.

Dartmouth-Hitchcock Health and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

The following table sets forth the Health System's Plans' investments and deferred compensation plan assets that were accounted for at fair value as of June 30, 2019 and 2018:

| 2019 | | | | | | |
|----------------------------------|-------------------|-------------------|------------------|-------------------|------------------------------|-----------------|
| <i>(in thousands of dollars)</i> | Level 1 | Level 2 | Level 3 | Total | Redemption or Liquidation | Days' Notice |
| Investments | | | | | | |
| Cash and short-term investments | \$ 166 | \$ 18,232 | \$ - | \$ 18,398 | Daily | 1 |
| U.S. government securities | 48,580 | - | - | 48,580 | Daily-Monthly | 1-15 |
| Domestic debt securities | 122,178 | 273,424 | - | 395,602 | Daily-Monthly | 1-15 |
| Global debt securities | 428 | 75,146 | - | 75,574 | Daily-Monthly | 1-15 |
| Domestic equities | 159,259 | 18,316 | - | 177,575 | Daily-Monthly | 1-10 |
| International equities | 17,232 | 77,146 | - | 94,378 | Daily-Monthly | 1-11 |
| Emerging market equities | 321 | 39,902 | - | 40,223 | Daily-Monthly | 1-17 |
| REIT funds | 357 | 2,883 | - | 3,240 | Daily-Monthly | 1-17 |
| Private equity funds | - | - | 21 | 21 | See Note 7 | See Note 7 |
| Hedge funds | - | - | 44,126 | 44,126 | Quarterly-Annual | 60-96 |
| Total investments | <u>\$ 348,521</u> | <u>\$ 505,049</u> | <u>\$ 44,147</u> | <u>\$ 897,717</u> | | |

| 2018 | | | | | | |
|----------------------------------|-------------------|-------------------|------------------|-------------------|------------------------------|-----------------|
| <i>(in thousands of dollars)</i> | Level 1 | Level 2 | Level 3 | Total | Redemption or Liquidation | Days' Notice |
| Investments | | | | | | |
| Cash and short-term investments | \$ 142 | \$ 35,817 | \$ - | \$ 35,959 | Daily | 1 |
| U.S. government securities | 46,265 | - | - | 46,265 | Daily-Monthly | 1-15 |
| Domestic debt securities | 144,131 | 220,202 | - | 364,333 | Daily-Monthly | 1-15 |
| Global debt securities | 470 | 74,676 | - | 75,146 | Daily-Monthly | 1-15 |
| Domestic equities | 158,634 | 17,594 | - | 176,228 | Daily-Monthly | 1-10 |
| International equities | 18,656 | 80,803 | - | 99,459 | Daily-Monthly | 1-11 |
| Emerging market equities | 382 | 39,881 | - | 40,263 | Daily-Monthly | 1-17 |
| REIT funds | 371 | 2,686 | - | 3,057 | Daily-Monthly | 1-17 |
| Private equity funds | - | - | 23 | 23 | See Note 7 | See Note 7 |
| Hedge funds | - | - | 44,250 | 44,250 | Quarterly-Annual | 60-96 |
| Total investments | <u>\$ 369,051</u> | <u>\$ 471,659</u> | <u>\$ 44,273</u> | <u>\$ 884,983</u> | | |

The following table presents additional information about the changes in Level 3 assets measured at fair value for the years ended June 30, 2019 and 2018:

| 2019 | | | |
|--------------------------------------|------------------|-------------------------|------------------|
| <i>(in thousands of dollars)</i> | Hedge Funds | Private Equity Funds | Total |
| Balances at beginning of year | \$ 44,250 | \$ 23 | \$ 44,273 |
| Net unrealized losses | (124) | (2) | (126) |
| Balances at end of year | <u>\$ 44,126</u> | <u>\$ 21</u> | <u>\$ 44,147</u> |

| 2018 | | | |
|--------------------------------------|------------------|-------------------------|------------------|
| <i>(in thousands of dollars)</i> | Hedge Funds | Private Equity Funds | Total |
| Balances at beginning of year | \$ 40,507 | \$ 96 | \$ 40,603 |
| Sales | - | (51) | (51) |
| Net realized losses | - | (51) | (51) |
| Net unrealized gains | 3,743 | 29 | 3,772 |
| Balances at end of year | <u>\$ 44,250</u> | <u>\$ 23</u> | <u>\$ 44,273</u> |

Dartmouth-Hitchcock Health and Subsidiaries
Notes to Consolidated Financial Statements
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The total aggregate net unrealized gains (losses) included in the fair value of the Level 3 investments as of June 30, 2019 and 2018 were approximately \$14,617,000 and \$14,743,000, respectively. There were no transfers into and out of Level 3 measurements during the years ended June 30, 2019 and 2018.

There were no transfers into and out of Level 1 and 2 measurements due to changes in valuation methodologies during the years ended June 30, 2019 and 2018.

The weighted average asset allocation for the Health System's Plans at June 30, 2019 and 2018 by asset category is as follows:

| | 2019 | 2018 |
|---------------------------------|--------------|--------------|
| Cash and short-term investments | 2 % | 4 % |
| U.S. government securities | 5 | 5 |
| Domestic debt securities | 44 | 41 |
| Global debt securities | 9 | 9 |
| Domestic equities | 20 | 20 |
| International equities | 11 | 11 |
| Emerging market equities | 4 | 5 |
| Hedge funds | 5 | 5 |
| | <u>100 %</u> | <u>100 %</u> |

The expected long-term rate of return on plan assets is reviewed annually, taking into consideration the asset allocation, historical returns on the types of assets held, and the current economic environment. Based on these factors, it is expected that the pension assets will earn an average of 7.50% per annum.

The Health System is expected to contribute approximately \$20,426,000 to the Plans in 2020 however actual contributions may vary from expected amounts.

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

(in thousands of dollars)

| | |
|-------------|-----------|
| 2020 | \$ 50,743 |
| 2021 | 52,938 |
| 2022 | 55,199 |
| 2023 | 57,562 |
| 2024 | 59,843 |
| 2025 – 2028 | 326,737 |

Dartmouth-Hitchcock Health and Subsidiaries
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June 30, 2019 and 2018

Defined Contribution Plans

The Health System has an employer-sponsored 401(a) plan for certain of its members, under which the employer makes base, transition and discretionary match contributions based on specified percentages of compensation and employee deferral amounts. Total employer contributions to the plan of approximately \$40,537,000 and \$38,563,000 in 2019 and 2018, respectively, are included in employee benefits in the accompanying consolidated statements of operations and changes in net assets.

Various 403(b) and tax- sheltered annuity plans are available to employees of the Health System. Plan specifications vary by member and plan. No employer contributions were made to any of these plans in 2019 and 2018, respectively.

Postretirement Medical and Life Benefits

The Health System has postretirement medical and life benefit plans covering certain of its active and former employees. The plans generally provide medical or medical and life insurance benefits to certain retired employees who meet eligibility requirements. The plans are not funded.

Net periodic postretirement medical and life benefit (income) cost is comprised of the components listed below for the years ended June 30, 2019 and 2018:

| <i>(in thousands of dollars)</i> | 2019 | 2018 |
|----------------------------------|-------------------|-------------------|
| Service cost | \$ 384 | \$ 533 |
| Interest cost | 1,842 | 1,712 |
| Net prior service income | (5,974) | (5,974) |
| Net loss amortization | 10 | 10 |
| | <u>\$ (3,738)</u> | <u>\$ (3,719)</u> |

The following table sets forth the accumulated postretirement medical and life benefit obligation and amounts recognized in the Health System's consolidated financial statements at June 30, 2019 and 2018:

| <i>(in thousands of dollars)</i> | 2019 | 2018 |
|---|--------------------|--------------------|
| Change in benefit obligation | | |
| Benefit obligation at beginning of year | \$ 42,581 | \$ 42,277 |
| Service cost | 384 | 533 |
| Interest cost | 1,842 | 1,712 |
| Benefits paid | (3,149) | (3,174) |
| Actuarial loss | 5,013 | 1,233 |
| Employer contributions | - | - |
| Benefit obligation at end of year | <u>46,671</u> | <u>42,581</u> |
| Funded status of the plans | <u>\$ (46,671)</u> | <u>\$ (42,581)</u> |
| Current portion of liability for postretirement medical and life benefits | \$ (3,422) | \$ (3,266) |
| Long term portion of liability for postretirement medical and life benefits | <u>(43,249)</u> | <u>(39,315)</u> |
| Liability for postretirement medical and life benefits | <u>\$ (46,671)</u> | <u>\$ (42,581)</u> |

Dartmouth-Hitchcock Health and Subsidiaries
Notes to Consolidated Financial Statements
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As of June 30, 2019 and 2018, the liability for postretirement medical and life benefits is included in the liability for pension and other postretirement plan benefits in the accompanying consolidated balance sheets.

Amounts not yet reflected in net periodic postretirement medical and life benefit income and included in the change in net assets without donor restrictions are as follows:

| <i>(in thousands of dollars)</i> | 2019 | 2018 |
|----------------------------------|-------------------|--------------------|
| Net prior service income | \$ (9,556) | \$ (15,530) |
| Net actuarial loss | 8,386 | 3,336 |
| | <u>\$ (1,170)</u> | <u>\$ (12,194)</u> |

The estimated amounts that will be amortized from net assets without donor restrictions into net periodic postretirement income in fiscal year 2020 for net prior service cost is \$5,974,000.

The following future benefit payments, which reflect expected future service, as appropriate, are expected to be paid for the year ending June 30, 2020 and thereafter:

| <i>(in thousands of dollars)</i> | |
|----------------------------------|----------|
| 2020 | \$ 3,468 |
| 2021 | 3,436 |
| 2022 | 3,394 |
| 2023 | 3,802 |
| 2024 | 3,811 |
| 2025-2028 | 17,253 |

In determining the accumulated postretirement medical and life benefit obligation, the Health System used a discount rate of 3.70% in 2019 and an assumed healthcare cost trend rate of 6.50%, trending down to 5.00% in 2024 and thereafter. Increasing the assumed healthcare cost trend rates by one percentage point in each year would increase the accumulated postretirement medical benefit obligation as of June 30, 2019 and 2018 by \$1,601,000 and \$1,088,000 and the net periodic postretirement medical benefit cost for the years then ended by \$77,000 and \$81,000, respectively. Decreasing the assumed healthcare cost trend rates by one percentage point in each year would decrease the accumulated postretirement medical benefit obligation as of June 30, 2019 and 2018 by \$1,452,000 and \$996,000 and the net periodic postretirement medical benefit cost for the years then ended by \$71,000 and \$72,000, respectively.

Dartmouth-Hitchcock Health and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

12. Professional and General Liability Insurance Coverage

Mary Hitchcock Memorial Hospital and Dartmouth-Hitchcock Clinic, along with Dartmouth College, Cheshire Medical Center, The New London Hospital Association, Mt. Ascutney Hospital and Health Center, and the Visiting Nurse and Hospice for VT and NH are provided professional and general liability insurance on a claims-made basis through Hamden Assurance Risk Retention Group, Inc. (RRG), a VT captive insurance company. Effective November 1, 2018 Alice Peck Day Memorial Hospital is provided professional and general liability insurance coverage through RRG. RRG reinsures the majority of this risk to Hamden Assurance Company Limited (HAC), a captive insurance company domiciled in Bermuda and to a variety of commercial reinsurers. Mary Hitchcock Memorial Hospital, Dartmouth-Hitchcock Clinic, and Dartmouth College have ownership interests in both HAC and RRG. The insurance program provides coverage to the covered institutions and named insureds on a modified claims-made basis which means coverage is triggered when claims are made. Premiums and related insurance deposits are actuarially determined based on asserted liability claims adjusted for future development. The reserves for outstanding losses are recorded on an undiscounted basis.

Selected financial data of HAC and RRG, taken from the latest available financial statements at June 30, 2019 and 2018, are summarized as follows:

| <i>(in thousands of dollars)</i> | 2019 | | |
|----------------------------------|-----------|----------|-----------|
| | HAC | RRG | Total |
| Assets | \$ 75,867 | \$ 2,201 | \$ 78,068 |
| Shareholders' equity | 13,620 | 50 | 13,670 |

| <i>(in thousands of dollars)</i> | 2018 | | |
|----------------------------------|-----------|----------|-----------|
| | HAC | RRG | Total |
| Assets | \$ 72,753 | \$ 2,068 | \$ 74,821 |
| Shareholders' equity | 13,620 | 50 | 13,670 |

13. Commitments and Contingencies

Litigation

The Health System is involved in various malpractice claims and legal proceedings of a nature considered normal to its business. The claims are in various stages and some may ultimately be brought to trial. While it is not feasible to predict or determine the outcome of any of these claims, it is the opinion of management that the final outcome of these claims will not have a material effect on the consolidated financial position of the Health System.

Operating Leases and Other Commitments

The Health System leases certain facilities and equipment under operating leases with varying expiration dates. The Health System's rental expense totaled approximately \$12,707,000 and \$14,096,000 for the years ended June 30, 2019 and 2018, respectively.

Dartmouth-Hitchcock Health and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Minimum future lease payments under noncancelable operating leases at June 30, 2019 were as follows:

(in thousands of dollars)

| | | |
|------------|-----------|---------------|
| 2020 | \$ | 11,342 |
| 2021 | | 10,469 |
| 2022 | | 7,488 |
| 2023 | | 6,303 |
| 2024 | | 4,127 |
| Thereafter | | 5,752 |
| | <u>\$</u> | <u>45,481</u> |

Lines of Credit

The Health System has entered into Loan Agreements with financial institutions establishing access to revolving loans ranging from \$2,000,000 up to \$30,000,000. Interest is variable and determined using LIBOR or the Wall Street Journal Prime Rate. The Loan Agreements are due to expire March 27, 2020. There was no outstanding balance under the lines of credit as of June 30, 2019 and 2018. Interest expense was approximately \$95,000 and \$232,000, respectively, and is included in the consolidated statements of operations and changes in net assets.

14. Functional Expenses

Operating expenses are presented by functional classification in accordance with the overall service missions of the Health System. Each functional classification displays all expenses related to the underlying operations by natural classification. Salaries, employee benefits, medical supplies and medications, and purchased services and other expenses are generally considered variable and are allocated to the mission that best aligns to the type of service provided. Medicaid enhancement tax is allocated to program services. Interest expense is allocated based on usage of debt-financed space. Depreciation and amortization is allocated based on square footage and specific identification of equipment used by department.

Operating expenses of the Health System by functional and natural basis are as follows for the year ended June 30, 2019:

| <i>(in thousands of dollars)</i> | 2019 | | | |
|----------------------------------|-------------------------|-------------------------------|--------------------|---------------------|
| | Program Services | Management and General | Fundraising | Total |
| Operating expenses | | | | |
| Salaries | \$ 922,902 | \$ 138,123 | \$ 1,526 | \$ 1,062,551 |
| Employee benefits | 178,983 | 72,289 | 319 | 251,591 |
| Medical supplies and medications | 406,782 | 1,093 | - | 407,875 |
| Purchased services and other | 212,209 | 108,783 | 2,443 | 323,435 |
| Medicaid enhancement tax | 70,061 | - | - | 70,061 |
| Depreciation and amortization | 37,528 | 50,785 | 101 | 88,414 |
| Interest | 3,360 | 22,135 | 19 | 25,514 |
| Total operating expenses | <u>\$ 1,831,825</u> | <u>\$ 393,208</u> | <u>\$ 4,408</u> | <u>\$ 2,229,441</u> |

Operating expenses of the Health System by functional classification are as follows for the year ended June 30, 2018:

Dartmouth-Hitchcock Health and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

(in thousands of dollars)

| | |
|------------------------|---------------------|
| Program services | \$ 1,715,760 |
| Management and general | 303,527 |
| Fundraising | <u>2,354</u> |
| | <u>\$ 2,021,641</u> |

15. Liquidity

The Health System is substantially supported by cash generated from operations. In addition, the Health System holds financial assets for specific purposes which are limited as to use. Thus, certain financial assets reported on the accompanying consolidated balance sheet may not be available for general expenditure within one year of the balance sheet date.

The Health System's financial assets available at June 30, 2019 to meet cash needs for general expenditures within one year of June 30, 2019 are as follows:

(in thousands of dollars)

| | |
|--|---------------------|
| Cash and cash equivalents | \$ 143,587 |
| Patient accounts receivable | 221,125 |
| Assets limited as to use | 876,249 |
| Other investments for restricted activities | <u>134,119</u> |
| Total financial assets | 1,375,080 |
| Less: Those unavailable for general expenditure within one year: | |
| Investments held by captive insurance companies | 66,082 |
| Investments for restricted activities | 134,119 |
| Other investments with liquidity horizons greater than one year | <u>97,063</u> |
| Total financial assets available within one year | <u>\$ 1,077,816</u> |

For the years ending June 30, 2019 and June 30, 2018, the Health System generated positive cash flow from operations of approximately \$161,853,000 and \$136,031,000, respectively. In addition, the Health System's liquidity management plan includes investing excess daily cash in intermediate or long term investments based on anticipated liquidity needs. The Health System has an available line of credit of up to \$30,000,000 which it can draw upon as needed to meet its liquidity needs. See Note 13 for further details on the line of credit.

16. Subsequent Events

The Health System has assessed the impact of subsequent events through November 26, 2019, the date the audited consolidated financial statements were issued, and has concluded that there were no such events that require adjustment to the audited consolidated financial statements or disclosure in the notes to the audited consolidated financial statements other than as noted below.

Effective September 30, 2019, the Boards of Trustees of D-HH, GraniteOne Health, Catholic Medical Center Health Services, and their respective member organizations approved a Combination Agreement to combine their healthcare systems. If regulatory approval of the

Dartmouth-Hitchcock Health and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

transaction is obtained, the name of the new system will be Dartmouth-Hitchcock Health GraniteOne.

The GraniteOne Health system is comprised of Catholic Medical Center (CMC), a community hospital located in Manchester NH, Huggins Hospital located in Wolfeboro NH, and Monadnock Community Hospital located in Peterborough NH. Both Huggins Hospital and Monadnock Community Hospital are designated as Critical Access Hospitals. GraniteOne is a non-profit, community based health care system.

On September 13, 2019, the Board of Trustees of D-HH approved the issuance of up to \$100,000,000 par of new debt. On October 17, 2019, D-HH closed on the direct placement tax-exempt borrowing of \$99,165,000 on behalf of the DHOG acting through the New Hampshire Health and Education Facilities Authority and issued its DHOG Issue, Series 2019A Bonds.

On January 29, 2020, D-HH closed on a tax-exempt borrowing of \$125,000,000 on behalf of the DHOG acting through the New Hampshire Health and Education Facilities Authority and issued its DHOG Issue, Series 2020A Bonds.

17. Subsequent Events - Unaudited

Subsequent to the issuance of the audited financial statements on November 26, 2019, the novel strain of coronavirus emerged and in January 2020 the World Health Organization has declared the novel coronavirus a Public Health Emergency of International Concern. Beginning in March 2020, the State of New Hampshire and Vermont have adopted various measures to address the spread of this pandemic, including supporting social distancing, requests to stay home unless necessary (i.e., groceries or medications) and work from home recommendations. Such restrictions and the perception that such orders or restrictions could occur, have resulted in business closures, work stoppages, slowdowns and delays, work-from-home policies, travel restrictions and cancellation of events, including the rescheduling of elective or non-critical procedures (which management believes is temporary and such procedures will be performed at a later date) and redeployment of resources to address the novel coronavirus needs, among other effects. The outbreak has also negatively impacted the financial markets and has and may continue to materially affect the returns on and value of our investments. While we expect that the novel coronavirus may negatively impact our 2020 results, we believe we have sufficient liquidity to meet our operating and financing needs; however, given the difficulty in predicting the ultimate duration and severity of the impact of the novel coronavirus on our organization, the economy and the financial markets, the ultimate impact may be material.

Consolidating Supplemental Information – Unaudited

Dartmouth-Hitchcock Health and Subsidiaries

Consolidating Balance Sheets

June 30, 2019

(in thousands of dollars)

| | Dartmouth- Hitchcock Health | Dartmouth- Hitchcock | Cheshire Medical Center | Alice Peck Day Memorial | New London Hospital Association | Mt. Ascutney Hospital and Health Center | Eliminations | DH Obligated Group Subtotal | All Other Non- Oblig Group Affiliates | Eliminations | Health System Consolidated |
|---|-----------------------------------|-------------------------|-------------------------------|-------------------------------|---------------------------------------|---|--------------|-----------------------------------|---|--------------|----------------------------------|
| Assets | | | | | | | | | | | |
| Current assets | | | | | | | | | | | |
| Cash and cash equivalents | \$ 42,456 | \$ 47,465 | \$ 9,411 | \$ 7,066 | \$ 10,462 | \$ 8,372 | \$ - | \$ 125,232 | \$ 18,355 | \$ - | \$ 143,587 |
| Patient accounts receivable, net | - | 180,938 | 15,880 | 7,279 | 8,960 | 5,010 | - | 218,067 | 3,058 | - | 221,125 |
| Prepaid expenses and other current assets | 14,178 | 139,034 | 8,563 | 2,401 | 5,567 | 1,423 | (74,083) | 97,083 | 1,421 | (3,009) | 95,495 |
| Total current assets | 56,634 | 367,437 | 33,854 | 16,746 | 24,989 | 14,805 | (74,083) | 440,382 | 22,834 | (3,009) | 460,207 |
| Assets limited as to use | | | | | | | | | | | |
| Notes receivable, related party | 92,602 | 688,485 | 18,759 | 12,684 | 12,427 | 11,619 | - | 836,576 | 39,673 | - | 876,249 |
| Other investments for restricted activities | 553,484 | 752 | - | 1,406 | - | - | (554,236) | 1,406 | (1,406) | - | - |
| Property, plant, and equipment, net | - | 91,882 | 6,970 | 31 | 2,973 | 6,323 | - | 108,179 | 25,940 | - | 134,119 |
| Other assets | 22 | 432,277 | 67,147 | 30,945 | 41,946 | 17,797 | - | 590,134 | 31,122 | - | 621,256 |
| Total assets | 24,864 | 108,208 | 1,279 | 15,019 | 6,042 | 4,388 | (10,970) | 148,830 | (3,013) | (21,346) | 124,471 |
| Total assets | \$ 727,606 | \$ 1,689,041 | \$ 128,009 | \$ 76,831 | \$ 88,377 | \$ 54,932 | \$ (639,289) | \$ 2,125,507 | \$ 115,150 | \$ (24,355) | \$ 2,216,302 |
| Liabilities and Net Assets | | | | | | | | | | | |
| Current liabilities | | | | | | | | | | | |
| Current portion of long-term debt | \$ - | \$ 8,226 | \$ 830 | \$ 954 | \$ 547 | \$ 262 | \$ - | \$ 10,819 | \$ 95 | \$ - | \$ 10,914 |
| Current portion of liability for pension and other postretirement plan benefits | - | 3,468 | - | - | - | - | - | 3,468 | - | - | 3,468 |
| Accounts payable and accrued expenses | 55,499 | 99,884 | 15,620 | 6,299 | 3,878 | 2,776 | (74,083) | 109,873 | 6,953 | (3,009) | 113,817 |
| Accrued compensation and related benefits | - | 110,639 | 5,851 | 3,694 | 2,313 | 4,270 | - | 126,767 | 1,641 | - | 128,408 |
| Estimated third-party settlements | - | 26,405 | 103 | 1,290 | 10,851 | 2,921 | - | 41,570 | - | - | 41,570 |
| Total current liabilities | 55,499 | 248,622 | 22,404 | 12,237 | 17,589 | 10,229 | (74,083) | 292,497 | 8,689 | (3,009) | 298,177 |
| Notes payable, related party | - | 526,202 | - | - | 28,034 | - | (554,236) | - | - | - | - |
| Long-term debt, excluding current portion | 643,257 | 44,820 | 24,503 | 35,604 | 643 | 11,465 | (10,970) | 749,322 | 2,858 | - | 752,180 |
| Insurance deposits and related liabilities | - | 56,786 | 440 | 513 | 388 | 240 | - | 58,367 | 40 | - | 58,407 |
| Liability for pension and other postretirement plan benefits, excluding current portion | - | 266,427 | 10,262 | - | - | 4,320 | - | 281,009 | - | - | 281,009 |
| Other liabilities | - | 98,201 | 1,104 | 28 | 1,585 | - | - | 100,918 | 23,218 | - | 124,136 |
| Total liabilities | 698,756 | 1,241,058 | 58,713 | 48,382 | 48,239 | 26,254 | (639,289) | 1,482,113 | 34,805 | (3,009) | 1,513,909 |
| Commitments and contingencies | | | | | | | | | | | |
| Net assets | | | | | | | | | | | |
| Net assets without donor restrictions | 28,832 | 356,880 | 63,051 | 27,653 | 35,518 | 21,242 | - | 533,176 | 48,063 | (21,306) | 559,933 |
| Net assets with donor restrictions | 18 | 91,103 | 6,245 | 796 | 4,620 | 7,436 | - | 110,218 | 32,282 | (40) | 142,460 |
| Total net assets | 28,850 | 447,983 | 69,296 | 28,449 | 40,138 | 28,678 | - | 643,394 | 80,345 | (21,346) | 702,393 |
| Total liabilities and net assets | \$ 727,606 | \$ 1,689,041 | \$ 128,009 | \$ 76,831 | \$ 88,377 | \$ 54,932 | \$ (639,289) | \$ 2,125,507 | \$ 115,150 | \$ (24,355) | \$ 2,216,302 |

Dartmouth-Hitchcock Health and Subsidiaries
Consolidating Balance Sheets
June 30, 2019

| <i>(in thousands of dollars)</i> | D-HH and Other Subsidiaries | D-H and Subsidiaries | Cheshire and Subsidiaries | NLH and Subsidiaries | MAHHC and Subsidiaries | APD and Subsidiaries | VNH and Subsidiaries | Eliminations | Health System Consolidated |
|---|--|---------------------------------|--------------------------------------|---------------------------------|-----------------------------------|---------------------------------|---------------------------------|---------------------|---|
| Assets | | | | | | | | | |
| Current assets | | | | | | | | | |
| Cash and cash equivalents | \$ 42,456 | \$ 48,052 | \$ 11,952 | \$ 11,120 | \$ 8,549 | \$ 15,772 | \$ 5,686 | \$ - | \$ 143,587 |
| Patient accounts receivable, net | - | 180,938 | 15,880 | 8,960 | 5,060 | 7,280 | 3,007 | - | 221,125 |
| Prepaid expenses and other current assets | 14,178 | 139,832 | 9,460 | 5,567 | 1,401 | 1,678 | 471 | (77,092) | 95,495 |
| Total current assets | 56,634 | 368,822 | 37,292 | 25,647 | 15,010 | 24,730 | 9,164 | (77,092) | 460,207 |
| Assets limited as to use | 92,602 | 707,597 | 17,383 | 12,427 | 12,738 | 12,685 | 20,817 | - | 876,249 |
| Notes receivable, related party | 553,484 | 752 | - | - | - | - | - | (554,236) | - |
| Other investments for restricted activities | - | 99,807 | 24,985 | 2,973 | 6,323 | 31 | - | - | 134,119 |
| Property, plant, and equipment, net | 22 | 434,953 | 70,846 | 42,423 | 19,435 | 50,338 | 3,239 | - | 621,256 |
| Other assets | 24,864 | 108,366 | 7,388 | 5,476 | 1,931 | 8,688 | 74 | (32,316) | 124,471 |
| Total assets | \$ 727,606 | \$ 1,720,297 | \$ 157,894 | \$ 88,946 | \$ 55,437 | \$ 96,472 | \$ 33,294 | \$ (663,644) | \$ 2,216,302 |
| Liabilities and Net Assets | | | | | | | | | |
| Current liabilities | | | | | | | | | |
| Current portion of long-term debt | \$ - | \$ 8,226 | \$ 830 | \$ 547 | \$ 288 | \$ 954 | \$ 69 | \$ - | \$ 10,914 |
| Current portion of liability for pension and other postretirement plan benefits | - | 3,468 | - | - | - | - | - | - | 3,468 |
| Accounts payable and accrued expenses | 55,499 | 100,441 | 19,356 | 3,879 | 2,856 | 6,704 | 2,174 | (77,092) | 113,817 |
| Accrued compensation and related benefits | - | 110,639 | 5,851 | 2,313 | 4,314 | 4,192 | 1,099 | - | 128,408 |
| Estimated third-party settlements | - | 26,405 | 103 | 10,851 | 2,921 | 1,290 | - | - | 41,570 |
| Total current liabilities | 55,499 | 249,179 | 26,140 | 17,590 | 10,379 | 13,140 | 3,342 | (77,092) | 298,177 |
| Notes payable, related party | - | 526,202 | - | 28,034 | - | - | - | (554,236) | - |
| Long-term debt, excluding current portion | 643,257 | 44,820 | 24,503 | 643 | 11,763 | 35,604 | 2,560 | (10,970) | 752,180 |
| Insurance deposits and related liabilities | - | 56,786 | 440 | 388 | 240 | 513 | 40 | - | 58,407 |
| Liability for pension and other postretirement plan benefits, excluding current portion | - | 266,427 | 10,262 | - | 4,320 | - | - | - | 281,009 |
| Other liabilities | - | 98,201 | 1,115 | 1,585 | - | 23,235 | - | - | 124,136 |
| Total liabilities | 698,756 | 1,241,615 | 62,460 | 48,240 | 26,702 | 72,492 | 5,942 | (642,298) | 1,513,909 |
| Commitments and contingencies | | | | | | | | | |
| Net assets | | | | | | | | | |
| Net assets without donor restrictions | 28,832 | 379,498 | 65,873 | 36,087 | 21,300 | 22,327 | 27,322 | (21,306) | 559,933 |
| Net assets with donor restrictions | 18 | 99,184 | 29,561 | 4,619 | 7,435 | 1,653 | 30 | (40) | 142,460 |
| Total net assets | 28,850 | 478,682 | 95,434 | 40,706 | 28,735 | 23,980 | 27,352 | (21,346) | 702,393 |
| Total liabilities and net assets | \$ 727,606 | \$ 1,720,297 | \$ 157,894 | \$ 88,946 | \$ 55,437 | \$ 96,472 | \$ 33,294 | \$ (663,644) | \$ 2,216,302 |

Dartmouth-Hitchcock Health and Subsidiaries

Consolidating Balance Sheets

June 30, 2018

(in thousands of dollars)

| | Dartmouth-Hitchcock Health | Dartmouth-Hitchcock | Cheshire Medical Center | New London Hospital Association | Mt. Ascutney Hospital and Health Center | Eliminations | DH Obligated Group Subtotal | All Other Non-Oblig Group Affiliates | Eliminations | Health System Consolidated |
|---|----------------------------|---------------------|-------------------------|---------------------------------|---|--------------|-----------------------------|--------------------------------------|--------------|----------------------------|
| Assets | | | | | | | | | | |
| Current assets | | | | | | | | | | |
| Cash and cash equivalents | \$ 134,634 | \$ 22,544 | \$ 6,688 | \$ 9,419 | \$ 6,604 | \$ - | \$ 179,889 | \$ 20,280 | \$ - | \$ 200,169 |
| Patient accounts receivable, net | - | 176,981 | 17,183 | 8,302 | 5,055 | - | 207,521 | 11,707 | - | 219,228 |
| Prepaid expenses and other current assets | 11,964 | 143,893 | 6,551 | 5,253 | 2,313 | (72,361) | 97,613 | 4,766 | (4,877) | 97,502 |
| Total current assets | 146,598 | 343,418 | 30,422 | 22,974 | 13,972 | (72,361) | 485,023 | 36,753 | (4,877) | 516,899 |
| Assets limited as to use | 8 | 616,929 | 17,438 | 12,821 | 10,829 | - | 658,025 | 48,099 | - | 706,124 |
| Notes receivable, related party | 554,771 | - | - | - | - | (554,771) | - | - | - | - |
| Other investments for restricted activities | - | 87,613 | 8,591 | 2,981 | 6,238 | - | 105,423 | 25,473 | - | 130,896 |
| Property, plant, and equipment, net | 36 | 443,154 | 66,759 | 42,438 | 17,356 | - | 569,743 | 37,578 | - | 607,321 |
| Other assets | 24,863 | 101,078 | 1,370 | 5,906 | 4,280 | (10,970) | 126,527 | 3,604 | (21,346) | 108,785 |
| Total assets | \$ 726,276 | \$ 1,592,192 | \$ 124,580 | \$ 87,120 | \$ 52,675 | \$ (638,102) | \$ 1,944,741 | \$ 151,507 | \$ (26,223) | \$ 2,070,025 |
| Liabilities and Net Assets | | | | | | | | | | |
| Current liabilities | | | | | | | | | | |
| Current portion of long-term debt | \$ - | \$ 1,031 | \$ 810 | \$ 572 | \$ 187 | \$ - | \$ 2,600 | \$ 864 | \$ - | \$ 3,464 |
| Current portion of liability for pension and other postretirement plan benefits | - | 3,311 | - | - | - | - | 3,311 | - | - | 3,311 |
| Accounts payable and accrued expenses | 54,995 | 82,061 | 20,107 | 6,705 | 3,029 | (72,361) | 94,536 | 6,094 | (4,877) | 95,753 |
| Accrued compensation and related benefits | - | 106,485 | 5,730 | 2,487 | 3,796 | - | 118,498 | 7,078 | - | 125,576 |
| Estimated third-party settlements | 3,002 | 24,411 | - | 9,655 | 1,625 | - | 38,693 | 2,448 | - | 41,141 |
| Total current liabilities | 57,997 | 217,299 | 26,647 | 19,419 | 8,637 | (72,361) | 257,638 | 16,484 | (4,877) | 269,245 |
| Notes payable, related party | - | 527,346 | - | 27,425 | - | (554,771) | - | - | - | - |
| Long-term debt, excluding current portion | 644,520 | 52,878 | 25,354 | 1,179 | 11,270 | (10,970) | 724,231 | 28,744 | - | 752,975 |
| Insurance deposits and related liabilities | - | 54,616 | 465 | 155 | 240 | - | 55,476 | 40 | - | 55,516 |
| Liability for pension and other postretirement plan benefits, excluding current portion | - | 232,696 | 4,215 | - | 5,316 | - | 242,227 | - | - | 242,227 |
| Other liabilities | - | 85,577 | 1,107 | 1,405 | - | - | 88,089 | 38 | - | 88,127 |
| Total liabilities | 702,517 | 1,170,412 | 57,788 | 49,583 | 25,463 | (638,102) | 1,367,661 | 45,306 | (4,877) | 1,408,090 |
| Commitments and contingencies | | | | | | | | | | |
| Net assets | | | | | | | | | | |
| Net assets without donor restrictions | 23,759 | 334,882 | 61,828 | 32,897 | 19,812 | - | 473,178 | 72,230 | (21,306) | 524,102 |
| Net assets with donor restrictions | - | 86,898 | 4,964 | 4,640 | 7,400 | - | 103,902 | 33,971 | (40) | 137,833 |
| Total net assets | 23,759 | 421,780 | 66,792 | 37,537 | 27,212 | - | 577,080 | 106,201 | (21,346) | 661,935 |
| Total liabilities and net assets | \$ 726,276 | \$ 1,592,192 | \$ 124,580 | \$ 87,120 | \$ 52,675 | \$ (638,102) | \$ 1,944,741 | \$ 151,507 | \$ (26,223) | \$ 2,070,025 |

Dartmouth-Hitchcock Health and Subsidiaries
Consolidating Balance Sheets
June 30, 2018

| <i>(in thousands of dollars)</i> | D-HH and Other Subsidiaries | D-H and Subsidiaries | Cheshire and Subsidiaries | NLH and Subsidiaries | MAHHC and Subsidiaries | APD | VNH and Subsidiaries | Eliminations | Health System Consolidated |
|---|--|---------------------------------|--------------------------------------|---------------------------------|-----------------------------------|------------|---------------------------------|---------------------|---|
| Assets | | | | | | | | | |
| Current assets | | | | | | | | | |
| Cash and cash equivalents | \$ 134,634 | \$ 23,094 | \$ 8,621 | \$ 9,982 | \$ 6,654 | \$ 12,144 | \$ 5,040 | \$ - | \$ 200,169 |
| Patient accounts receivable, net | - | 176,981 | 17,183 | 8,302 | 5,109 | 7,996 | 3,657 | - | 219,228 |
| Prepaid expenses and other current assets | 11,964 | 144,755 | 5,520 | 5,276 | 2,294 | 4,443 | 488 | (77,238) | 97,502 |
| Total current assets | 146,598 | 344,830 | 31,324 | 23,560 | 14,057 | 24,583 | 9,185 | (77,238) | 516,899 |
| Assets limited as to use | 8 | 635,028 | 17,438 | 12,821 | 11,862 | 9,612 | 19,355 | - | 706,124 |
| Notes receivable, related party | 554,771 | - | - | - | - | - | - | (554,771) | - |
| Other investments for restricted activities | - | 95,772 | 25,873 | 2,981 | 6,238 | 32 | - | - | 130,896 |
| Property, plant, and equipment, net | 36 | 445,829 | 70,607 | 42,920 | 19,065 | 25,725 | 3,139 | - | 607,321 |
| Other assets | 24,863 | 101,235 | 7,526 | 5,333 | 1,886 | 130 | 128 | (32,316) | 108,785 |
| Total assets | \$ 726,276 | \$ 1,622,694 | \$ 152,768 | \$ 87,615 | \$ 53,108 | \$ 60,082 | \$ 31,807 | \$ (664,325) | \$ 2,070,025 |
| Liabilities and Net Assets | | | | | | | | | |
| Current liabilities | | | | | | | | | |
| Current portion of long-term debt | \$ - | \$ 1,031 | \$ 810 | \$ 572 | \$ 245 | \$ 739 | \$ 67 | \$ - | \$ 3,464 |
| Current portion of liability for pension and other postretirement plan benefits | - | 3,311 | - | - | - | - | - | - | 3,311 |
| Accounts payable and accrued expenses | 54,995 | 82,613 | 20,052 | 6,714 | 3,092 | 3,596 | 1,929 | (77,238) | 95,753 |
| Accrued compensation and related benefits | - | 106,485 | 5,730 | 2,487 | 3,831 | 5,814 | 1,229 | - | 125,576 |
| Estimated third-party settlements | 3,002 | 24,411 | - | 9,655 | 1,625 | 2,448 | - | - | 41,141 |
| Total current liabilities | 57,997 | 217,851 | 26,592 | 19,428 | 8,793 | 12,597 | 3,225 | (77,238) | 269,245 |
| Notes payable, related party | - | 527,346 | - | 27,425 | - | - | - | (554,771) | - |
| Long-term debt, excluding current portion | 644,520 | 52,878 | 25,354 | 1,179 | 11,593 | 25,792 | 2,629 | (10,970) | 752,975 |
| Insurance deposits and related liabilities | - | 54,616 | 465 | 155 | 241 | - | 39 | - | 55,516 |
| Liability for pension and other postretirement plan benefits, excluding current portion | - | 232,696 | 4,215 | - | 5,316 | - | - | - | 242,227 |
| Other liabilities | - | 85,577 | 1,117 | 1,405 | - | 28 | - | - | 88,127 |
| Total liabilities | 702,517 | 1,170,964 | 57,743 | 49,592 | 25,943 | 38,417 | 5,893 | (642,979) | 1,408,090 |
| Commitments and contingencies | | | | | | | | | |
| Net assets | | | | | | | | | |
| Net assets without donor restrictions | 23,759 | 356,518 | 65,069 | 33,383 | 19,764 | 21,031 | 25,884 | (21,306) | 524,102 |
| Net assets with donor restrictions | - | 95,212 | 29,956 | 4,640 | 7,401 | 634 | 30 | (40) | 137,833 |
| Total net assets | 23,759 | 451,730 | 95,025 | 38,023 | 27,165 | 21,665 | 25,914 | (21,346) | 661,935 |
| Total liabilities and net assets | \$ 726,276 | \$ 1,622,694 | \$ 152,768 | \$ 87,615 | \$ 53,108 | \$ 60,082 | \$ 31,807 | \$ (664,325) | \$ 2,070,025 |

Dartmouth-Hitchcock Health and Subsidiaries

Consolidating Statements of Operations and Changes in Net Assets without Donor Restrictions

Year Ended June 30, 2019

| <i>(in thousands of dollars)</i> | Dartmouth- Hitchcock Health | Dartmouth- Hitchcock | Cheshire Medical Center | Alice Peck Day Memorial | New London Hospital Association | Mt. Ascutney Hospital and Health Center | Eliminations | DH Obligated Group Subtotal | All Other Non- Oblig Group Affiliates | Eliminations | Health System Consolidated |
|--|-----------------------------------|-------------------------|-------------------------------|-------------------------------|---------------------------------------|---|-----------------|-----------------------------------|---|--------------|----------------------------------|
| Operating revenue and other support | | | | | | | | | | | |
| Patient service revenue | \$ - | \$ 1,580,552 | \$ 220,255 | \$ 69,794 | \$ 60,166 | \$ 46,029 | \$ - | \$ 1,976,796 | \$ 22,527 | \$ - | \$ 1,999,323 |
| Contracted revenue | 5,011 | 109,051 | 355 | - | - | 5,902 | (46,100) | 74,219 | 790 | 8 | 75,017 |
| Other operating revenue | 21,128 | 186,852 | 3,407 | 1,748 | 4,261 | 2,289 | (22,076) | 197,609 | 13,386 | (297) | 210,698 |
| Net assets released from restrictions | 369 | 11,556 | 732 | 137 | 177 | 24 | - | 12,995 | 1,110 | - | 14,105 |
| Total operating revenue and other support | <u>26,508</u> | <u>1,888,011</u> | <u>224,749</u> | <u>71,679</u> | <u>64,604</u> | <u>54,244</u> | <u>(68,176)</u> | <u>2,261,619</u> | <u>37,813</u> | <u>(289)</u> | <u>2,299,143</u> |
| Operating expenses | | | | | | | | | | | |
| Salaries | - | 868,311 | 107,671 | 37,297 | 30,549 | 26,514 | (24,682) | 1,045,660 | 15,785 | 1,106 | 1,062,551 |
| Employee benefits | - | 208,346 | 24,225 | 6,454 | 5,434 | 6,966 | (3,763) | 247,662 | 3,642 | 287 | 251,591 |
| Medical supplies and medications | - | 354,201 | 34,331 | 8,634 | 6,298 | 3,032 | - | 406,496 | 1,379 | - | 407,875 |
| Purchased services and other | 11,366 | 242,106 | 35,088 | 15,308 | 13,528 | 13,950 | (21,176) | 310,170 | 14,887 | (1,622) | 323,435 |
| Medicaid enhancement tax | - | 54,954 | 8,005 | 3,062 | 2,264 | 1,776 | - | 70,061 | - | - | 70,061 |
| Depreciation and amortization | 14 | 69,343 | 7,977 | 2,305 | 3,915 | 2,360 | - | 85,914 | 2,500 | - | 88,414 |
| Interest | 20,677 | 21,585 | 1,053 | 1,169 | 1,119 | 228 | (20,850) | 24,981 | 533 | - | 25,514 |
| Total operating expenses | <u>32,057</u> | <u>1,818,846</u> | <u>218,350</u> | <u>74,229</u> | <u>63,107</u> | <u>54,826</u> | <u>(70,471)</u> | <u>2,190,944</u> | <u>38,726</u> | <u>(229)</u> | <u>2,229,441</u> |
| Operating (loss) margin | <u>(5,549)</u> | <u>69,165</u> | <u>6,399</u> | <u>(2,550)</u> | <u>1,497</u> | <u>(582)</u> | <u>2,295</u> | <u>70,675</u> | <u>(913)</u> | <u>(60)</u> | <u>69,702</u> |
| Nonoperating gains (losses) | | | | | | | | | | | |
| Investment income (losses), net | 3,929 | 32,193 | 227 | 469 | 834 | 623 | (198) | 38,077 | 1,975 | - | 40,052 |
| Other (losses) income, net | (3,784) | 1,586 | (187) | 30 | (240) | 279 | (2,097) | (4,413) | 791 | 60 | (3,562) |
| Loss on early extinguishment of debt | - | - | - | (87) | - | - | - | (87) | - | - | (87) |
| Loss on swap termination | - | - | - | - | - | - | - | - | - | - | - |
| Total non-operating gains (losses), net | <u>145</u> | <u>33,779</u> | <u>40</u> | <u>412</u> | <u>594</u> | <u>902</u> | <u>(2,295)</u> | <u>33,577</u> | <u>2,766</u> | <u>60</u> | <u>36,403</u> |
| (Deficiency) excess of revenue over expenses | <u>(5,404)</u> | <u>102,944</u> | <u>6,439</u> | <u>(2,138)</u> | <u>2,091</u> | <u>320</u> | <u>-</u> | <u>104,252</u> | <u>1,853</u> | <u>-</u> | <u>106,105</u> |
| Net assets without donor restrictions | | | | | | | | | | | |
| Net assets released from restrictions | - | 419 | 565 | - | 402 | 318 | - | 1,704 | 65 | - | 1,769 |
| Change in funded status of pension and other postretirement benefits | - | (65,005) | (7,720) | - | - | 682 | - | (72,043) | - | - | (72,043) |
| Net assets transferred to (from) affiliates | 10,477 | (16,360) | 1,939 | 8,760 | 128 | 110 | - | 5,054 | (5,054) | - | - |
| Additional paid in capital | - | - | - | - | - | - | - | - | - | - | - |
| Other changes in net assets | - | - | - | - | - | - | - | - | - | - | - |
| Change in fair value on interest rate swaps | - | - | - | - | - | - | - | - | - | - | - |
| Change in funded status of interest rate swaps | - | - | - | - | - | - | - | - | - | - | - |
| Increase in net assets without donor restrictions | <u>\$ 5,073</u> | <u>\$ 21,998</u> | <u>\$ 1,223</u> | <u>\$ 6,622</u> | <u>\$ 2,621</u> | <u>\$ 1,430</u> | <u>\$ -</u> | <u>\$ 38,967</u> | <u>\$ (3,136)</u> | <u>\$ -</u> | <u>\$ 35,831</u> |

Dartmouth-Hitchcock Health and Subsidiaries
Consolidating Statements of Operations and Changes in Net Assets without Donor Restrictions
Year Ended June 30, 2019

| <i>(in thousands of dollars)</i> | D-HH and Other Subsidiaries | D-H and Subsidiaries | Cheshire and Subsidiaries | NLH and Subsidiaries | MAHHC and Subsidiaries | APD and Subsidiaries | VNH and Subsidiaries | Eliminations | Health System Consolidated |
|--|-----------------------------------|-------------------------|------------------------------|-------------------------|---------------------------|-------------------------|-------------------------|-----------------|----------------------------------|
| Operating revenue and other support | | | | | | | | | |
| Patient service revenue | \$ - | \$ 1,580,552 | \$ 220,254 | \$ 60,166 | \$ 46,029 | \$ 69,794 | \$ 22,528 | \$ - | \$ 1,999,323 |
| Contracted revenue | 5,010 | 109,842 | 355 | - | 5,902 | - | - | (46,092) | 75,017 |
| Other operating revenue | 21,128 | 188,775 | 3,549 | 4,260 | 3,868 | 10,951 | 540 | (22,373) | 210,698 |
| Net assets released from restrictions | 371 | 12,637 | 732 | 177 | 26 | 162 | - | - | 14,105 |
| Total operating revenue and other support | <u>26,509</u> | <u>1,891,806</u> | <u>224,890</u> | <u>64,603</u> | <u>55,825</u> | <u>80,907</u> | <u>23,068</u> | <u>(68,465)</u> | <u>2,299,143</u> |
| Operating expenses | | | | | | | | | |
| Salaries | - | 868,311 | 107,706 | 30,549 | 27,319 | 40,731 | 11,511 | (23,576) | 1,062,551 |
| Employee benefits | - | 208,346 | 24,235 | 5,434 | 7,133 | 7,218 | 2,701 | (3,476) | 251,591 |
| Medical supplies and medications | - | 354,201 | 34,331 | 6,298 | 3,035 | 8,639 | 1,371 | - | 407,875 |
| Purchased services and other | 11,366 | 246,101 | 35,396 | 13,390 | 14,371 | 18,172 | 7,437 | (22,798) | 323,435 |
| Medicaid enhancement tax | - | 54,954 | 8,005 | 2,264 | 1,776 | 3,062 | - | - | 70,061 |
| Depreciation and amortization | 14 | 69,343 | 8,125 | 3,920 | 2,478 | 4,194 | 340 | - | 88,414 |
| Interest | 20,678 | 21,585 | 1,054 | 1,119 | 228 | 1,637 | 63 | (20,850) | 25,514 |
| Total operating expenses | <u>32,058</u> | <u>1,822,841</u> | <u>218,852</u> | <u>62,974</u> | <u>56,340</u> | <u>83,653</u> | <u>23,423</u> | <u>(70,700)</u> | <u>2,229,441</u> |
| Operating (loss) margin | <u>(5,549)</u> | <u>68,965</u> | <u>6,038</u> | <u>1,629</u> | <u>(515)</u> | <u>(2,746)</u> | <u>(355)</u> | <u>2,235</u> | <u>69,702</u> |
| Non-operating gains (losses) | | | | | | | | | |
| Investment income (losses), net | 3,929 | 33,310 | 129 | 785 | 645 | 469 | 983 | (198) | 40,052 |
| Other (losses) income, net | (3,784) | 1,586 | (171) | (240) | 288 | 31 | 765 | (2,037) | (3,562) |
| Loss on early extinguishment of debt | - | - | - | - | - | (87) | - | - | (87) |
| Loss on swap termination | - | - | - | - | - | - | - | - | - |
| Total nonoperating gains (losses), net | <u>145</u> | <u>34,896</u> | <u>(42)</u> | <u>545</u> | <u>933</u> | <u>413</u> | <u>1,748</u> | <u>(2,235)</u> | <u>36,403</u> |
| (Deficiency) excess of revenue over expenses | <u>(5,404)</u> | <u>103,861</u> | <u>5,996</u> | <u>2,174</u> | <u>418</u> | <u>(2,333)</u> | <u>1,393</u> | <u>-</u> | <u>106,105</u> |
| Net assets without donor restrictions | | | | | | | | | |
| Net assets released from restrictions | - | 484 | 565 | 402 | 318 | - | - | - | 1,769 |
| Change in funded status of pension and other postretirement benefits | - | (65,005) | (7,720) | - | 682 | - | - | - | (72,043) |
| Net assets transferred to (from) affiliates | 10,477 | (16,360) | 1,963 | 128 | 118 | 3,629 | 45 | - | - |
| Additional paid in capital | - | - | - | - | - | - | - | - | - |
| Other changes in net assets | - | - | - | - | - | - | - | - | - |
| Change in fair value on interest rate swaps | - | - | - | - | - | - | - | - | - |
| Change in funded status of interest rate swaps | - | - | - | - | - | - | - | - | - |
| Increase in net assets without donor restrictions | <u>\$ 5,073</u> | <u>\$ 22,980</u> | <u>\$ 804</u> | <u>\$ 2,704</u> | <u>\$ 1,536</u> | <u>\$ 1,296</u> | <u>\$ 1,438</u> | <u>\$ -</u> | <u>\$ 35,831</u> |

Dartmouth-Hitchcock Health and Subsidiaries

Consolidating Statements of Operations and Changes in Net Assets Without Donor Restrictions

Year Ended June 30, 2018

| <i>(in thousands of dollars)</i> | Dartmouth- Hitchcock Health | Dartmouth- Hitchcock | Cheshire Medical Center | New London Hospital Association | Mt. Ascutney Hospital and Health Center | Eliminations | DH Obligated Group Subtotal | All Other Non Oblig Group Affiliates | Eliminations | Health System Consolidated |
|--|-----------------------------------|-------------------------|-------------------------------|---------------------------------------|---|-----------------|-----------------------------------|--|----------------|----------------------------------|
| Operating revenue and other support | | | | | | | | | | |
| Patient service revenue | \$ - | \$ 1,475,314 | \$ 216,736 | \$ 60,486 | \$ 52,014 | \$ - | \$ 1,804,550 | \$ 94,545 | \$ - | \$ 1,899,095 |
| Provision for bad debts | - | 31,358 | 10,967 | 1,554 | 1,440 | - | 45,319 | 2,048 | - | 47,367 |
| Net patient service revenue | - | 1,443,956 | 205,769 | 58,932 | 50,574 | - | 1,759,231 | 92,497 | - | 1,851,728 |
| Contracted revenue | (2,305) | 97,291 | - | - | 2,169 | (42,870) | 54,285 | 716 | (32) | 54,969 |
| Other operating revenue | 9,799 | 134,461 | 3,365 | 4,169 | 1,814 | (10,554) | 143,054 | 6,978 | (1,086) | 148,946 |
| Net assets released from restrictions | 658 | 11,605 | 620 | 52 | 44 | - | 12,979 | 482 | - | 13,461 |
| Total operating revenue and other support | <u>8,152</u> | <u>1,687,313</u> | <u>209,754</u> | <u>63,153</u> | <u>54,601</u> | <u>(53,424)</u> | <u>1,969,549</u> | <u>100,673</u> | <u>(1,118)</u> | <u>2,069,104</u> |
| Operating expenses | | | | | | | | | | |
| Salaries | - | 806,344 | 105,607 | 30,360 | 24,854 | (21,542) | 945,623 | 42,035 | 1,605 | 989,263 |
| Employee benefits | - | 181,833 | 28,343 | 7,252 | 7,000 | (5,385) | 219,043 | 10,221 | 419 | 229,683 |
| Medical supplies and medications | - | 289,327 | 31,293 | 6,161 | 3,055 | - | 329,836 | 10,195 | - | 340,031 |
| Purchased services and other | 8,509 | 215,073 | 33,065 | 13,587 | 13,960 | (19,394) | 264,800 | 29,390 | (2,818) | 291,372 |
| Medicaid enhancement tax | - | 53,044 | 8,070 | 2,659 | 1,744 | - | 65,517 | 2,175 | - | 67,692 |
| Depreciation and amortization | 23 | 66,073 | 10,217 | 3,934 | 2,030 | - | 82,277 | 2,501 | - | 84,778 |
| Interest | 8,684 | 15,772 | 1,004 | 981 | 224 | (8,882) | 17,783 | 1,039 | - | 18,822 |
| Total operating expenses | <u>17,216</u> | <u>1,627,466</u> | <u>217,599</u> | <u>64,934</u> | <u>52,867</u> | <u>(55,203)</u> | <u>1,924,879</u> | <u>97,556</u> | <u>(794)</u> | <u>2,021,641</u> |
| Operating margin (loss) | <u>(9,064)</u> | <u>59,847</u> | <u>(7,845)</u> | <u>(1,781)</u> | <u>1,734</u> | <u>1,779</u> | <u>44,670</u> | <u>3,117</u> | <u>(324)</u> | <u>47,463</u> |
| Non-operating gains (losses) | | | | | | | | | | |
| Investment income (losses), net | (26) | 33,628 | 1,408 | 1,151 | 858 | (198) | 36,821 | 3,566 | - | 40,387 |
| Other (losses) income, net | (1,364) | (2,599) | - | 1,276 | 266 | (1,581) | (4,002) | 733 | 361 | (2,908) |
| Loss on early extinguishment of debt | - | (13,909) | - | (305) | - | - | (14,214) | - | - | (14,214) |
| Loss on swap termination | - | (14,247) | - | - | - | - | (14,247) | - | - | (14,247) |
| Total non-operating gains (losses), net | <u>(1,390)</u> | <u>2,873</u> | <u>1,408</u> | <u>2,122</u> | <u>1,124</u> | <u>(1,779)</u> | <u>4,358</u> | <u>4,299</u> | <u>361</u> | <u>9,018</u> |
| (Deficiency) excess of revenue over expenses | <u>(10,454)</u> | <u>62,720</u> | <u>(6,437)</u> | <u>341</u> | <u>2,858</u> | <u>-</u> | <u>49,028</u> | <u>7,416</u> | <u>37</u> | <u>56,481</u> |
| Net assets without donor restrictions | | | | | | | | | | |
| Net assets released from restrictions | - | 16,038 | - | 4 | 252 | - | 16,294 | 19 | - | 16,313 |
| Change in funded status of pension and other postretirement benefits | - | 4,300 | 2,827 | - | 1,127 | - | 8,254 | - | - | 8,254 |
| Net assets transferred to (from) affiliates | 17,791 | (25,355) | 7,188 | 48 | 328 | - | - | - | - | - |
| Additional paid in capital | - | - | - | - | - | - | - | 58 | (58) | - |
| Other changes in net assets | - | - | - | - | - | - | - | (185) | - | (185) |
| Change in fair value on interest rate swaps | - | 4,190 | - | - | - | - | 4,190 | - | - | 4,190 |
| Change in funded status of interest rate swaps | - | 14,102 | - | - | - | - | 14,102 | - | - | 14,102 |
| Increase in net assets without donor restrictions | <u>\$ 7,337</u> | <u>\$ 75,995</u> | <u>\$ 3,578</u> | <u>\$ 393</u> | <u>\$ 4,565</u> | <u>\$ -</u> | <u>\$ 91,868</u> | <u>\$ 7,308</u> | <u>\$ (21)</u> | <u>\$ 99,155</u> |

Dartmouth-Hitchcock Health and Subsidiaries
Consolidating Statements of Operations and Changes in Net Assets Without Donor Restrictions
Year Ended June 30, 2018

| <i>(in thousands of dollars)</i> | D-HH and Other Subsidiaries | D-H and Subsidiaries | Cheshire and Subsidiaries | NLH and Subsidiaries | MAHHC and Subsidiaries | APD | VNH and Subsidiaries | Eliminations | Health System Consolidated |
|--|-----------------------------------|-------------------------|------------------------------|-------------------------|---------------------------|-----------|-------------------------|--------------|----------------------------------|
| Operating revenue and other support | | | | | | | | | |
| Patient service revenue | \$ - | \$ 1,475,314 | \$ 216,736 | \$ 60,486 | \$ 52,014 | \$ 71,458 | \$ 23,087 | \$ - | \$ 1,899,095 |
| Provision for bad debts | - | 31,358 | 10,967 | 1,554 | 1,440 | 1,680 | 368 | - | 47,367 |
| Net patient service revenue | - | 1,443,956 | 205,769 | 58,932 | 50,574 | 69,778 | 22,719 | - | 1,851,728 |
| Contracted revenue | (2,305) | 98,007 | - | - | 2,169 | - | - | (42,902) | 54,969 |
| Other operating revenue | 9,799 | 137,242 | 4,061 | 4,166 | 3,168 | 1,697 | 453 | (11,640) | 148,946 |
| Net assets released from restrictions | 658 | 11,984 | 620 | 52 | 44 | 103 | - | - | 13,461 |
| Total operating revenue and other support | 8,152 | 1,691,189 | 210,450 | 63,150 | 55,955 | 71,578 | 23,172 | (54,542) | 2,069,104 |
| Operating expenses | | | | | | | | | |
| Salaries | - | 806,344 | 105,607 | 30,360 | 25,592 | 29,215 | 12,082 | (19,937) | 989,263 |
| Employee benefits | - | 181,833 | 28,343 | 7,252 | 7,162 | 7,406 | 2,653 | (4,966) | 229,683 |
| Medical supplies and medications | - | 289,327 | 31,293 | 6,161 | 3,057 | 8,484 | 1,709 | - | 340,031 |
| Purchased services and other | 8,512 | 218,690 | 33,431 | 13,432 | 14,354 | 19,220 | 5,945 | (22,212) | 291,372 |
| Medicaid enhancement tax | - | 53,044 | 8,070 | 2,659 | 1,743 | 2,176 | - | - | 67,692 |
| Depreciation and amortization | 23 | 66,073 | 10,357 | 3,939 | 2,145 | 1,831 | 410 | - | 84,778 |
| Interest | 8,684 | 15,772 | 1,004 | 981 | 223 | 975 | 65 | (8,882) | 18,822 |
| Total operating expenses | 17,219 | 1,631,083 | 218,105 | 64,784 | 54,276 | 69,307 | 22,864 | (55,997) | 2,021,641 |
| Operating (loss) margin | (9,067) | 60,106 | (7,655) | (1,634) | 1,679 | 2,271 | 308 | 1,455 | 47,463 |
| Nonoperating gains (losses) | | | | | | | | | |
| Investment income (losses), net | (26) | 35,177 | 1,954 | 1,097 | 787 | 203 | 1,393 | (198) | 40,387 |
| Other (losses) income, net | (1,364) | (2,599) | (3) | 1,276 | 273 | (223) | 952 | (1,220) | (2,908) |
| Loss on early extinguishment of debt | - | (13,909) | - | (305) | - | - | - | - | (14,214) |
| Loss on swap termination | - | (14,247) | - | - | - | - | - | - | (14,247) |
| Total non-operating gains (losses), net | (1,390) | 4,422 | 1,951 | 2,068 | 1,060 | (20) | 2,345 | (1,418) | 9,018 |
| (Deficiency) excess of revenue over expenses | (10,457) | 64,528 | (5,704) | 434 | 2,739 | 2,251 | 2,653 | 37 | 56,481 |
| Net assets without donor restrictions | | | | | | | | | |
| Net assets released from restrictions | - | 16,058 | - | 4 | 251 | - | - | - | 16,313 |
| Change in funded status of pension and other postretirement benefits | - | 4,300 | 2,827 | - | 1,127 | - | - | - | 8,254 |
| Net assets transferred to (from) affiliates | 17,791 | (25,355) | 7,188 | 48 | 328 | - | - | - | - |
| Additional paid in capital | 58 | - | - | - | - | - | - | (58) | - |
| Other changes in net assets | - | - | - | - | - | (185) | - | - | (185) |
| Change in fair value on interest rate swaps | - | 4,190 | - | - | - | - | - | - | 4,190 |
| Change in funded status of interest rate swaps | - | 14,102 | - | - | - | - | - | - | 14,102 |
| Increase (decrease) in net assets without donor restrictions | \$ 7,392 | \$ 77,823 | \$ 4,311 | \$ 486 | \$ 4,445 | \$ 2,066 | \$ 2,653 | \$ (21) | \$ 99,155 |

Dartmouth-Hitchcock Health and Subsidiaries
Notes to Supplemental Consolidating Information
June 30, 2019 and 2018

1. Basis of Presentation

The accompanying supplemental consolidating information includes the consolidating balance sheet and the consolidating statement of operations and changes in net assets without donor restrictions of D-HH and its subsidiaries. All intercompany accounts and transactions between D-HH and its subsidiaries have been eliminated. The consolidating information presented is prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America consistent with the consolidated financial statements. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements and is not required as part of the basic financial statements.

Schedule of Expenditures of Federal Awards

Dartmouth-Hitchcock Health and Subsidiaries

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

| | CFDA | Award Number/pass-through Identification Number | Funding Source | Pass-Through Entity | Total Expenditures | Amount Passed Through to Subrecipients |
|---|--------|---|----------------|--|--------------------|--|
| Federal Program | | | | | | |
| Research and Development Cluster | | | | | | |
| Department of Defense | | | | | | |
| National Guard Military Operations and Maintenance (O&M) Projects | 12.401 | W81XWH1820076 | Direct | | \$ 234,630 | \$ - |
| Military Medical Research and Development | 12.420 | W81XWH1810712 | Direct | | 131,525 | - |
| Military Medical Research and Development | 12.420 | R1143 | Pass-Through | Trustees of Dartmouth College | 2,055 | - |
| | | | | | 133,580 | - |
| Department of Defense | 12.RD | 80232 | Pass-Through | Creare, Inc. | 46,275 | - |
| | | | | | 414,485 | - |
| Environmental Protection Agency | | | | | | |
| Science To Achieve Results (STAR) Research Program | 66.509 | 31220SUB52965 | Pass-Through | University of Vermont | 1,031 | - |
| | | | | | 1,031 | - |
| Department of Health and Human Services | | | | | | |
| Innovations in Applied Public Health Research | 93.061 | 1 R01 TS000288 | Direct | | 84,957 | 8,367 |
| Environmental Health | 93.113 | 6K23ES025781-06 | Direct | | 111,125 | - |
| Environmental Health | 93.113 | R1118 | Pass-Through | Trustees of Dartmouth College | 5,087 | - |
| | | | | | 116,212 | - |
| NIEHS Superfund Hazardous Substances | 93.143 | R1099 | Pass-Through | Trustees of Dartmouth College | 6,457 | - |
| Health Program for Toxic Substances and Disease Registry | 93.161 | AWD00010523 | Direct | | 61,180 | - |
| Research Related to Deafness and Communication Disorders | 93.173 | 6R21DC015133-03 | Direct | | 119,896 | 61,908 |
| National Research Service Award in Primary Care Medicine | 93.186 | T32HP32520 | Direct | | 309,112 | - |
| Research and Training in Complementary and Integrative Health | 93.213 | R1112 | Pass-Through | Trustees of Dartmouth College | 21,197 | - |
| Research and Training in Complementary and Integrative Health | 93.213 | R1187 | Pass-Through | Trustees of Dartmouth College | 446 | - |
| Research and Training in Complementary and Integrative Health | 93.213 | 12272 | Pass-Through | Palmer College of Chiropractic | 30,748 | - |
| Research and Training in Complementary and Integrative Health | 93.213 | Not Provided | Pass-Through | Southern California University of Health | 12,030 | - |
| | | | | | 64,421 | - |
| Research on Healthcare Costs, Quality and Outcomes | 93.226 | 5P30HS024403 | Direct | | 641,114 | - |
| Research on Healthcare Costs, Quality and Outcomes | 93.226 | R1128 | Pass-Through | Trustees of Dartmouth College | 6,003 | - |
| Research on Healthcare Costs, Quality and Outcomes | 93.226 | R1146 | Pass-Through | Trustees of Dartmouth College | 4,696 | - |
| | | | | | 651,813 | - |
| Mental Health Research Grants | 93.242 | 1K08MH117347-01A1 | Direct | | 54,211 | - |
| Mental Health Research Grants | 93.242 | 6K23MH116367-02 | Direct | | 109,228 | - |
| Mental Health Research Grants | 93.242 | 6R01MH110965 | Direct | | 220,076 | 84,823 |
| Mental Health Research Grants | 93.242 | 6T32MH073553-15 | Direct | | 130,340 | - |
| Mental Health Research Grants | 93.242 | 6R25MH068502-17 | Direct | | 157,599 | - |
| Mental Health Research Grants | 93.242 | 6R01MH107625-05 | Direct | | 200,805 | 27,964 |
| Mental Health Research Grants | 93.242 | R1082 | Pass-Through | Trustees of Dartmouth College | 11,740 | - |
| Mental Health Research Grants | 93.242 | R1144 | Pass-Through | Trustees of Dartmouth College | 5,897 | - |
| Mental Health Research Grants | 93.242 | R1156 | Pass-Through | Trustees of Dartmouth College | 4,721 | - |
| | | | | | 894,617 | 112,787 |

Dartmouth-Hitchcock Health and Subsidiaries

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

| | CFDA | Award Number/pass-through Identification Number | Funding Source | Pass-Through Entity | Total Expenditures | Amount Passed Through to Subrecipients |
|--|--------|---|----------------|-----------------------------------|--------------------|--|
| Drug Abuse and Addiction Research Programs | 93.279 | 6R01DA034699-05 | Direct | | 390,647 | 90,985 |
| Drug Abuse and Addiction Research Programs | 93.279 | 6R21DA044501-03 | Direct | | 118,741 | - |
| Drug Abuse and Addiction Research Programs | 93.279 | 6R01DA041416-04 | Direct | | 135,687 | 62,277 |
| Drug Abuse and Addiction Research Programs | 93.279 | R1105 | Pass-Through | Trustees of Dartmouth College | 11,957 | - |
| Drug Abuse and Addiction Research Programs | 93.279 | R1104 | Pass-Through | Trustees of Dartmouth College | 4,109 | - |
| Drug Abuse and Addiction Research Programs | 93.279 | R1192 | Pass-Through | Trustees of Dartmouth College | 5,059 | - |
| | | | | | <u>666,200</u> | <u>153,262</u> |
| Discovery and Applied Research for Technological Innovations to Improve Human Health | 93.286 | 6K23EB026507-02 | Direct | | 98,499 | 9,582 |
| Discovery and Applied Research for Technological Innovations to Improve Human Health | 93.286 | 6R21EB021456-03 | Direct | | 23,293 | - |
| Discovery and Applied Research for Technological Innovations to Improve Human Health | 93.286 | R1103 | Pass-Through | Trustees of Dartmouth College | 16,635 | - |
| Discovery and Applied Research for Technological Innovations to Improve Human Health | 93.286 | 5R21EB024771-02 | Pass-Through | Trustees of Dartmouth College | 5,938 | - |
| | | | | | <u>144,365</u> | <u>9,582</u> |
| National Center for Advancing Translational Sciences | 93.350 | R1113 | Pass-Through | Trustees of Dartmouth College | 342,790 | - |
| 21st Century Cures Act - Beau Biden Cancer Moonshot | 93.353 | 1204501 | Pass-Through | Dana Farber Cancer Institute | 166,421 | - |
| Cancer Cause and Prevention Research | 93.393 | 1R01CA225792 | Direct | | 54,351 | - |
| Cancer Cause and Prevention Research | 93.393 | R21CA227776A | Direct | | 28,640 | - |
| Cancer Cause and Prevention Research | 93.393 | R01CA229197 | Direct | | 65,701 | - |
| Cancer Cause and Prevention Research | 93.393 | R1127 | Pass-Through | Trustees of Dartmouth College | 6,035 | - |
| Cancer Cause and Prevention Research | 93.393 | R1097 | Pass-Through | Trustees of Dartmouth College | 5,870 | - |
| Cancer Cause and Prevention Research | 93.393 | R1109 | Pass-Through | Trustees of Dartmouth College | 1,984 | - |
| Cancer Cause and Prevention Research | 93.393 | DHMCCA222648 | Pass-Through | The Pennsylvania State University | 3,173 | - |
| Cancer Cause and Prevention Research | 93.393 | R44CA210810 | Pass-Through | Cairn Surgical, LLC | 38,241 | - |
| | | | | | <u>203,995</u> | <u>-</u> |
| Cancer Detection and Diagnosis Research | 93.394 | 4R00CA190890-03 | Direct | | 1,717 | - |
| Cancer Detection and Diagnosis Research | 93.394 | 6R37CA212187-03 | Direct | | 106,110 | 2,907 |
| Cancer Detection and Diagnosis Research | 93.394 | 6R03CA219445-03 | Direct | | 18,880 | - |
| Cancer Detection and Diagnosis Research | 93.394 | R1079 | Pass-Through | Trustees of Dartmouth College | 23,031 | - |
| Cancer Detection and Diagnosis Research | 93.394 | R1080 | Pass-Through | Trustees of Dartmouth College | 23,031 | - |
| Cancer Detection and Diagnosis Research | 93.394 | R1086 | Pass-Through | Trustees of Dartmouth College | 6,772 | - |
| Cancer Detection and Diagnosis Research | 93.394 | R1096 | Pass-Through | Trustees of Dartmouth College | 1,174 | - |
| Cancer Detection and Diagnosis Research | 93.394 | R1124 | Pass-Through | Trustees of Dartmouth College | 83,174 | - |
| | | | | | <u>263,889</u> | <u>2,907</u> |
| Cancer Treatment Research | 93.395 | 1UG1CA23323-01 | Direct | | 14,675 | - |
| Cancer Treatment Research | 93.395 | 6U10CA180854-06 | Direct | | 27,790 | - |
| Cancer Treatment Research | 93.395 | DAC-194321 | Pass-Through | Mayo Clinic | 36,708 | - |

Dartmouth-Hitchcock Health and Subsidiaries

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

| | CFDA | Award Number/pass-through Identification Number | Funding Source | Pass-Through Entity | Total Expenditures | Amount Passed Through to Subrecipients |
|--|--------|---|----------------|---------------------------------------|--------------------|--|
| Cancer Treatment Research | 93.395 | R1087 | Pass-Through | Trustees of Dartmouth College | 2,630 | - |
| Cancer Treatment Research | 93.395 | 110408 | Pass-Through | Brigham and Women's Hospital | 20,430 | - |
| | | | | | <u>102,233</u> | <u>-</u> |
| Cancer Centers Support Grants | 93.397 | R1126 | Pass-Through | Trustees of Dartmouth College | 95,624 | - |
| Cardiovascular Diseases Research | 93.837 | 1UM1HL147371-01 | Direct | | 11,774 | - |
| Cardiovascular Diseases Research | 93.837 | 7K23HL142835-02 | Direct | | 65,544 | - |
| | | | | | <u>77,318</u> | <u>-</u> |
| Lung Diseases Research | 93.838 | 6R01HL122372-05 | Direct | | 205,920 | 8,664 |
| Arthritis, Musculoskeletal and Skin Diseases Research | 93.846 | 6T32AR049710-16 | Direct | | 73,049 | - |
| Diabetes, Digestive, and Kidney Diseases Extramural Research | 93.847 | R1098 | Pass-Through | Trustees of Dartmouth College | 70,736 | 704 |
| Extramural Research Programs in the Neurosciences and Neurological Disorders | 93.853 | 6R01NS052274-11 | Direct | | 50,412 | - |
| Extramural Research Programs in the Neurosciences and Neurological Disorders | 93.853 | 16-210950-04 | Direct | | 18,016 | - |
| | | | | | <u>68,428</u> | <u>-</u> |
| Allergy and Infectious Diseases Research | 93.855 | R1081 | Pass-Through | Trustees of Dartmouth College | 3,787 | - |
| Allergy and Infectious Diseases Research | 93.855 | RES513934 | Pass-Through | Case Western Reserve University | 4,170 | - |
| Allergy and Infectious Diseases Research | 93.855 | R1155 | Pass-Through | Trustees of Dartmouth College | 14,582 | - |
| | | | | | <u>22,539</u> | <u>-</u> |
| Biomedical Research and Research Training | 93.859 | R1100 | Pass-Through | Trustees of Dartmouth College | 14,901 | - |
| Biomedical Research and Research Training | 93.859 | R1141 | Pass-Through | Trustees of Dartmouth College | 587 | - |
| Biomedical Research and Research Training | 93.859 | R1145 | Pass-Through | Trustees of Dartmouth College | 241 | - |
| | | | | | <u>15,729</u> | <u>-</u> |
| Child Health and Human Development Extramural Research | 93.865 | 5P2CHD086841-04 | Direct | | 127,400 | 10,132 |
| Child Health and Human Development Extramural Research | 93.865 | 6UG1OD024946-03 | Direct | | 260,914 | - |
| Child Health and Human Development Extramural Research | 93.865 | 6R01HD067270 | Direct | | 314,058 | 223,885 |
| Child Health and Human Development Extramural Research | 93.865 | R1119 | Pass-Through | Trustees of Dartmouth College | 13,264 | - |
| Child Health and Human Development Extramural Research | 93.865 | 51460 | Pass-Through | Univ of Arkansas for Medical Sciences | 4,696 | - |
| | | | | | <u>720,332</u> | <u>234,017</u> |
| Aging Research | 93.866 | 6K23AG051681-04 | Direct | | 76,377 | 2,883 |
| Aging Research | 93.866 | R1102 | Pass-Through | Trustees of Dartmouth College | 8,285 | - |
| | | | | | <u>84,662</u> | <u>2,883</u> |
| Vision Research | 93.867 | 6R21EY028677-02 | Direct | | 28,751 | 3,149 |
| Medical Library Assistance | 93.879 | R1107 | Pass-Through | Trustees of Dartmouth College | 4,273 | - |
| Medical Library Assistance | 93.879 | R1190 | Pass-Through | Trustees of Dartmouth College | 1,244 | - |
| | | | | | <u>5,517</u> | <u>-</u> |
| International Research and Research Training | 93.989 | R1123 | Pass-Through | Trustees of Dartmouth College | 5,936 | - |
| International Research and Research Training | 93.989 | 6R25TW007693-09 | Pass-Through | Fogarty International Center | 96,327 | 65,097 |
| | | | | | <u>102,263</u> | <u>65,097</u> |

Dartmouth-Hitchcock Health and Subsidiaries

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

| | CFDA | Award Number/pass-through Identification Number | Funding Source | Pass-Through Entity | Total Expenditures | Amount Passed Through to Subrecipients |
|--|--------|---|----------------|---|--------------------|--|
| Department of Health and Human Services | 93.RD | | Pass-Through | Leidos Biomedical Research, Inc. | 201,551 | - |
| Total Department of Health and Human Services | | | | | 5,970,977 | 663,327 |
| Total Research and Development Cluster | | | | | 6,386,493 | 663,327 |
| Medicaid Cluster | | | | | | |
| Medical Assistance Program | 93.778 | SNHH 2-18-19 | Pass-Through | Southern New Hampshire Health | 131,775 | - |
| Medical Assistance Program | 93.778 | Not Provided | Pass-Through | NH Dept of Health and Human Services | 1,453,796 | - |
| Medical Assistance Program | 93.778 | RFP-2017-OCOM-01-PHYSI-01 | Pass-Through | NH Dept of Health and Human Services | 3,106,149 | - |
| Medical Assistance Program | 93.778 | 03420-7235S | Pass-Through | Vermont Department of Health | 59,391 | - |
| Medical Assistance Program | 93.778 | 03410-2020-19 | Pass-Through | Vermont Department of Health | 118,786 | - |
| Total Medicaid Cluster | | | | | 4,869,897 | - |
| Highway Safety Cluster | | | | | | |
| State and Community Highway Safety | 20.600 | 19-266 Youth Operator | Pass-Through | NH Highway Safety Agency | 66,660 | - |
| State and Community Highway Safety | 20.600 | 19-266 BUNH | Pass-Through | NH Highway Safety Agency | 76,915 | - |
| State and Community Highway Safety | 20.600 | 19-266 Statewide CPS | Pass-Through | NH Highway Safety Agency | 82,202 | - |
| Total Highway Safety Cluster | | | | | 225,777 | - |
| Other Sponsored Programs | | | | | | |
| Department of Justice | | | | | | |
| Crime Victim Assistance | 16.575 | 2015-VA-GX0007 | Pass-Through | New Hampshire Department of Justice | 237,692 | - |
| Improving the Investigation and Prosecution of Child Abuse and the Regional and Local Children's Advocacy Centers | 16.758 | 1-CLAR-NH-SA17 | Pass-Through | National Children's Alliance | 1,448 | - |
| | | | | | 239,140 | - |
| Department of Education | | | | | | |
| Race to the Top | 84.412 | 03440-34119-18-ELCG24 | Pass-Through | Vermont Dept for Children and Families | 115,094 | - |
| | | | | | 115,094 | - |
| Department of Health and Human Services | | | | | | |
| Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements | 93.074 | Not Provided | Pass-Through | NH Dept of Health and Human Services | 69,945 | - |
| Blood Disorder Program: Prevention, Surveillance, and Research | 93.080 | GENFD0001568485 | Pass-Through | Boston Children's Hospital | 18,283 | - |
| Maternal and Child Health Federal Consolidated Programs | 93.110 | 6 T73MC323930101 | Direct | | 652,997 | 591,411 |
| Maternal and Child Health Federal Consolidated Programs | 93.110 | 0253-6545-4609 | Pass-Through | Icahn School of Medicine at Mount Sinai | 19,548 | - |
| | | | | | 672,545 | 591,411 |
| Emergency Medical Services for Children | 93.127 | 7 H33MC323950100 | Direct | | 137,067 | - |
| Centers for Research and Demonstration for Health Promotion and Disease Prevention | 93.135 | R1140 | Pass-Through | Trustees of Dartmouth College | 449,757 | - |
| HIV-Related Training and Technical Assistance | 93.145 | Not Provided | Pass-Through | University of Massachusetts Med School | 3,242 | - |
| Coordinated Services and Access to Research for Women, Infants, Children | 93.153 | H12HA31112 | Direct | | 391,829 | - |
| Substance Abuse and Mental Health Services Projects of Regional and National Significance | 93.243 | 7H79SM063584-01 | Direct | | 24,313 | - |
| Substance Abuse and Mental Health Services Projects of Regional and National Significance | 93.243 | RFP-2018-DPHS-01-REGION-1 | Pass-Through | NH Dept of Health and Human Services | 55,361 | - |
| Substance Abuse and Mental Health Services Projects of Regional and National Significance | 93.243 | Not Provided | Pass-Through | Vermont Department of Health | 227,437 | - |
| Substance Abuse and Mental Health Services Projects of Regional and National Significance | 93.243 | 03420-A19006S | Pass-Through | Vermont Department of Health | 126,764 | - |
| | | | | | 433,875 | - |
| Drug Free Communities Support Program Grants | 93.276 | 5H79SP020382 | Direct | | 126,464 | - |
| Department of Health and Human Services | 93.628 | RFP-2018-DPHS-01-REGION-1 | Pass-Through | NH Dept of Health and Human Services | 29,838 | - |

Dartmouth-Hitchcock Health and Subsidiaries

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

| | CFDA | Award Number/pass-through Identification Number | Funding Source | Pass-Through Entity | Total Expenditures | Amount Passed Through to Subrecipients |
|--|--------|---|----------------|--------------------------------------|----------------------|--|
| University Centers for Excellence in Developmental Disabilities Education, Research, and Service | 93.632 | 19-029 | Pass-Through | University of New Hampshire | 2,811 | - |
| Adoption Opportunities | 93.652 | AWD00009303 | Direct | | 32,384 | - |
| Adoption Opportunities | 93.652 | RFP-2018-DPHS-01-REGION-1 | Pass-Through | NH Dept of Health and Human Services | 110,524 | - |
| | | | | | <u>142,908</u> | <u>-</u> |
| Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF) | 93.758 | RFP-2018-DPHS-01-REGION-1 | Pass-Through | NH Dept of Health and Human Services | 343,297 | - |
| University Centers for Excellence in Developmental Disabilities Education, Research, and Service | 93.761 | 90FPSG0019 | Direct | | 134,524 | - |
| Opioid STR | 93.788 | RFP-2018-BDAS-05-INTEG | Pass-Through | NH Dept of Health and Human Services | 954,356 | 61,208 |
| Opioid STR | 93.788 | 2019-BDAS-05-ACCES-04 | Pass-Through | NH Dept of Health and Human Services | 161,164 | - |
| Opioid STR | 93.788 | SS-2019-BDAS-05-ACCES-02 | Pass-Through | NH Dept of Health and Human Services | 243,747 | - |
| | | | | | <u>1,359,267</u> | <u>61,208</u> |
| Organized Approaches to Increase Colorectal Cancer Screening Hospital Preparedness Program (HPP) Ebola Preparedness | 93.800 | 5 NU58DP006086 | Direct | | 912,937 | - |
| | 93.817 | 03420-6755S | Pass-Through | Vermont Department of Health | 2,347 | - |
| Maternal, Infant and Early Childhood Home Visiting Grant | 93.870 | 03420-6951S | Pass-Through | Vermont Department of Health | 99,841 | - |
| Maternal, Infant and Early Childhood Home Visiting Grant | 93.870 | 03420-07623 | Pass-Through | Vermont Department of Health | 178,907 | - |
| | | | | | <u>278,748</u> | <u>-</u> |
| National Bioterrorism Hospital Preparedness Program | 93.889 | 03420-7272S | Pass-Through | Vermont Department of Health | 2,786 | - |
| Rural Health Care Services Outreach, Rural Health Network Develop and Small Health Care Provider Quality Improvement | 93.912 | 6 D06RH31057-02-03 | Direct | | 138,959 | - |
| Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease | 93.918 | 1 H76HA31654-01-00 | Direct | | 273,666 | - |
| Block Grants for Community Mental Health Services | 93.958 | 9224120 | Pass-Through | NH Dept of Health and Human Services | 2,498 | - |
| Block Grants for Community Mental Health Services | 93.958 | RFP-2017-DBH-05-FIRSTE | Pass-Through | NH Dept of Health and Human Services | 32,625 | - |
| | | | | | <u>35,123</u> | <u>-</u> |
| Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | 05-95-49-491510-2990 | Pass-Through | NH Dept of Health and Human Services | 69,276 | - |
| Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | Not Provided | Pass-Through | Foundation for Healthy Communities | 54,356 | - |
| Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | 05-95-49-491510-2990 | Pass-Through | Foundation for Healthy Communities | 1,695 | - |
| Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | 03420-A18033S | Pass-Through | Vermont Department of Health | 59,204 | - |
| | | | | | <u>184,531</u> | <u>-</u> |
| PPHF Geriatric Education Centers | 93.969 | U1QHP32519 | Direct | | 728,055 | - |
| Department of Health and Human Services | 93.U01 | RFP-2018-DPHS-05-INJUR | Pass-Through | NH Highway Safety Agency | 80,107 | - |
| Department of Health and Human Services | 93.U02 | Not Provided | Pass-Through | NH Dept of Health and Human Services | 48,489 | - |
| Department of Health and Human Services | 93.U03 | Not Provided | Pass-Through | NH Dept of Health and Human Services | 56,419 | - |
| Department of Health and Human Services | 93.U04 | Not Provided | Pass-Through | NH Dept of Health and Human Services | 37,009 | - |
| Department of Health and Human Services | 93.U05 | Not Provided | Pass-Through | NH Dept of Health and Human Services | 39,653 | - |
| Department of Health and Human Services | 93.U06 | Not Provided | Pass-Through | County of Cheshire | 213,301 | - |
| | | | | | <u>474,978</u> | <u>-</u> |
| Corporation for National and Community Service | | | | | | |
| AmeriCorps | 94.006 | 17ACHNH0010001 | Pass-Through | Volunteer NH | 72,297 | - |
| | | | | | <u>72,297</u> | <u>-</u> |
| Total Other Programs | | | | | <u>7,774,313</u> | <u>652,619</u> |
| Total Federal Awards and Expenditures | | | | | <u>\$ 19,256,480</u> | <u>\$ 1,315,946</u> |

Dartmouth-Hitchcock Health and Subsidiaries

Notes to Schedule of Expenditures of Federal Awards

June 30, 2019

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") presents the activity of federal award programs administered by Dartmouth-Hitchcock Health and Subsidiaries (the "Health System") as defined in the notes to the consolidated financial statements and is presented on an accrual basis. The purpose of this Schedule is to present a summary of those activities of the Health System for the year ended June 30, 2019 which have been financed by the United States government ("federal awards"). For purposes of this Schedule, federal awards include all federal assistance entered into directly between the Health System and the federal government and subawards from nonfederal organizations made under federally sponsored agreements. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Pass-through entity identification numbers and CFDA numbers have been provided where available.

Visiting Nurse and Hospice of NH and VT ("VNH") received a Community Facilities Loan, CFDA #10.766, of which the proceeds were expended in the prior fiscal year. The VNH had an outstanding balance of \$2,696,512 as of June 30, 2019. As this loan was related to a project that was completed in the prior audit period and the terms and conditions do not impose continued compliance requirements other than to repay the loan, we have properly excluded the outstanding loan balance from the Schedule.

2. Indirect Expenses

Indirect costs are charged to certain federal grants and contracts at a federally approved predetermined indirect rate, negotiated with the Division of Cost Allocation and therefore we do not use the de minimus 10% rate. The predetermined rate provided for the year ended June 30, 2019 was 29.3%. Indirect costs are included in the reported federal expenditures.

3. Related Party Transactions

The Health System has an affiliation agreement with Dartmouth College dated June 4, 1996 in which the Health System and the Geisel School of Medicine at Dartmouth College affirm their mutual commitment to providing high quality medical care, medical education and medical research at both organizations. Pursuant to this affiliation agreement, certain clinical faculty of the Health System participate in federal research programs administered by Dartmouth College. During the fiscal year ended June 30, 2019, Health System expenditures, which Dartmouth College reimbursed, totaled \$3,979,033. Based on the nature of these transactions, the Health System and Dartmouth College do not view these arrangements to be subrecipient transactions but rather view them as Dartmouth College activity. Accordingly, this activity does not appear in the Health System's schedule of expenditures of federal awards for the year ended June 30, 2019.

Part II
Reports on Internal Control and Compliance



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

To the Board of Trustees of
Dartmouth-Hitchcock Health and subsidiaries

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Dartmouth-Hitchcock Health and its subsidiaries (the "Health System"), which comprise the consolidated balance sheet as of June 30, 2019, and the related consolidated statements of operations and changes in net assets and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 26, 2019, which included an emphasis of a matter paragraph related to the Health System changing the manner in which it accounts for revenue recognition from contracts with customers and the manner in which it presents net assets and reports certain aspects of its financial statements as a not-for-profit entity in 2019 as discussed in note 2 of the consolidated financial statements.

Internal Control Over Financial Reporting

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

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

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



Compliance and Other Matters

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

Purpose of this Report

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

Principals/Account Cooper LLP

Boston, Massachusetts
November 26, 2019



**Report of Independent Auditors on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program and on Internal
Control Over Compliance in Accordance with the Uniform Guidance**

To the Board of Trustees of
Dartmouth-Hitchcock Health and subsidiaries

Report on Compliance for Each Major Federal Program

We have audited Dartmouth-Hitchcock Health and its subsidiaries' (the "Health System") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Health System's major federal programs for the year ended June 30, 2019. The Health System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Dartmouth-Hitchcock Health and its subsidiaries compliance.



Opinion on Each Major Federal Program

In our opinion, Dartmouth-Hitchcock Health and its subsidiaries complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

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

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

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

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

Principals/Accountants LLP

Boston, Massachusetts
March 31, 2020

Part III
Findings and Questioned Costs

Dartmouth-Hitchcock and Subsidiaries
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

I. Summary of Auditor's Results

Financial Statements

| | |
|---|--------------------|
| Type of auditor's report issued | Unmodified opinion |
| Internal control over financial reporting | |
| Material weakness (es) identified? | No |
| Significant deficiency (ies) identified that are not considered to be material weakness (es)? | None reported |
| Noncompliance material to financial statements | No |

Federal Awards

| | |
|--|--------------------|
| Internal control over major programs | |
| Material weakness (es) identified? | No |
| Significant deficiency (ies) identified that are not considered to be material weakness (es)? | None reported |
| Type of auditor's report issued on compliance for major programs | Unmodified opinion |
| Audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No |

Identification of major programs

| CFDA Number | Name of Federal Program or Cluster |
|---|--|
| Various CFDA Numbers | Research and Development |
| 93.800 | Organized Approaches to Increase Colorectal Cancer Screening |
| 93.788 | Opiod STR |
| 93.110 | Maternal and Child Health Federal Consolidated Programs |
| Dollar threshold used to distinguish between Type A and Type B programs | \$750,000 |
| Auditee qualified as low-risk auditee? | Yes |

**Dartmouth-Hitchcock and Subsidiaries
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019**

II. Financial Statement Findings

None Noted

III. Federal Award Findings and Questioned Costs

None Noted

Dartmouth-Hitchcock and Subsidiaries
Summary Schedule of Prior Audit Findings and Status
Year Ended June 30, 2019

There are no findings from prior years that require an update in this report.