



**DARTMOUTH-HITCHCOCK AND SUBSIDIARIES**

Consolidated Financial Statements

September 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

**DARTMOUTH-HITCHCOCK AND SUBSIDIARIES**

Consolidated Financial Statements

September 30, 2008 and 2007

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## Independent Auditors' Report

The Board of Trustees  
Dartmouth-Hitchcock:

We have audited the accompanying consolidated balance sheets of Dartmouth-Hitchcock and Subsidiaries as of September 30, 2008 and 2007, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of Dartmouth-Hitchcock management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on Dartmouth-Hitchcock's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dartmouth-Hitchcock and Subsidiaries as of September 30, 2008 and 2007, and the results of their operations and changes in net assets, and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As described in note 10 to the consolidated financial statements, Dartmouth-Hitchcock adopted the provisions of Financial Accounting Standards Board (FASB) Statement No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, in 2007.

**KPMG LLP**

January 23, 2009

**DARTMOUTH-HITCHCOCK AND SUBSIDIARIES**

Consolidated Balance Sheets

September 30, 2008 and 2007

(Dollars in thousands)

<b>Assets</b>	<b>2008</b>	<b>2007</b>
	<hr/>	<hr/>
Current assets:		
Cash and cash equivalents	\$ 37,769	29,336
Patient accounts receivable, net of estimated uncollectibles of \$52,971 in 2008 and \$47,355 in 2007 (note 5)	156,886	135,240
Current portion of trustee-held assets (notes 6 and 9)	2,825	3,252
Prepaid expenses and other current assets	38,885	31,298
	<hr/>	<hr/>
Total current assets	236,365	199,126
Assets limited as to use, net of current portion (notes 6, 9, and 11)	437,605	484,317
Other investments for temporarily and permanently restricted activities (notes 6 and 8)	93,676	98,362
Property, plant, and equipment, net (note 7)	346,338	347,771
Prepaid pension (note 10)	—	6,935
Other assets	40,167	37,511
	<hr/>	<hr/>
Total assets	\$ 1,154,151	1,174,022
	<hr/>	<hr/>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Current portion of long-term debt (note 9)	\$ 8,750	8,885
Current portion of liability for pension and other postretirement plan benefits (note 10)	3,936	3,438
Accounts payable and accrued expenses	55,911	34,795
Accrued compensation and related benefits	69,410	66,316
Estimated third-party settlements (note 5)	44,275	44,396
	<hr/>	<hr/>
Total current liabilities	182,282	157,830
Long-term debt, excluding current portion (note 9)	325,489	338,187
Insurance deposits and related liabilities (note 11)	78,758	72,399
Interest rate swaps (note 9)	16,960	11,136
Liability for pension and other postretirement plan benefits (note 10)	165,010	139,966
	<hr/>	<hr/>
Total liabilities	768,499	719,518
	<hr/>	<hr/>
Net assets:		
Unrestricted	295,621	362,544
Temporarily restricted (note 8)	55,107	52,152
Permanently restricted (note 8)	34,924	39,808
	<hr/>	<hr/>
Total net assets	385,652	454,504
Commitments and contingencies (notes 5, 7, 9, 11, and 12)		
	<hr/>	<hr/>
Total liabilities and net assets	\$ 1,154,151	1,174,022
	<hr/>	<hr/>

See accompanying notes to consolidated financial statements.

**DARTMOUTH-HITCHCOCK AND SUBSIDIARIES**

Consolidated Statements of Operations and Changes in Net Assets

Years ended September 30, 2008 and 2007

(Dollars in thousands)

	<u>2008</u>	<u>2007</u>
Unrestricted revenue and other support:		
Net patient service revenue (notes 4 and 5)	\$ 975,538	927,261
Contracted revenue (note 2)	46,137	35,599
Other operating revenue (note 6)	22,523	17,257
Net assets released from restrictions (note 8)	8,784	6,667
	<u>1,052,982</u>	<u>986,784</u>
Total unrestricted revenue and other support		
Operating expenses:		
Salaries	498,701	462,610
Employee benefits	162,346	156,004
Medical supplies and medications	142,825	136,625
Purchased services and other	136,221	119,899
Medical school financial support	5,500	6,000
Depreciation and amortization	41,405	40,105
Interest (note 9)	11,976	13,391
Provision for bad debts	24,182	28,464
Expenditures relating to net assets released from restrictions	8,784	6,667
	<u>1,031,940</u>	<u>969,765</u>
Total operating expenses		
Operating margin	<u>21,042</u>	<u>17,019</u>
Nonoperating (losses) gains:		
Investment (losses) income (notes 6 and 9)	(50,796)	40,709
Recognition of unrealized gains due to reclassification of investments from available-for-sale to trading (note 3)	30,722	—
Other	(3,748)	(2,545)
Loss on advance refunding (note 9)	(544)	—
	<u>(24,366)</u>	<u>38,164</u>
Total nonoperating (losses) gains, net		
(Deficiency) excess of revenue over expenses	<u>(3,324)</u>	<u>55,183</u>

**DARTMOUTH-HITCHCOCK AND SUBSIDIARIES**

Consolidated Statements of Operations and Changes in Net Assets

Years ended September 30, 2008 and 2007

(Dollars in thousands)

	<u>2008</u>	<u>2007</u>
Unrestricted net assets:		
(Deficiency) excess of revenue over expenses	\$ (3,324)	55,183
Change in net unrealized gains on investments	—	8,373
Recognition of unrealized gains due to reclassification of investments from available-for-sale to trading (note 3)	(30,722)	—
Net assets released from restrictions for property acquisitions (note 8)	665	371
Effect of adoption of provision of FASB Statement No. 158 (note 10)	—	(137,782)
Change in funded status of pension and other postretirement benefits (note 10)	(28,384)	—
Change in additional minimum pension liability (note 10)	—	41,319
Unrealized (loss) gain on interest rate swaps (note 9)	(5,158)	1,098
Interest accrued on swap agreements	(1,981)	(1,164)
Reclassification of interest to earnings	1,981	1,164
	<u>(66,923)</u>	<u>(31,438)</u>
Decrease in unrestricted net assets		
Temporarily restricted net assets:		
Gifts, bequests, and sponsored activities	11,597	13,443
Investment gains	2,544	2,906
Change in net unrealized gains on investments	(1,737)	(225)
Net assets released from restrictions (note 8)	(9,449)	(7,038)
	<u>2,955</u>	<u>9,086</u>
Increase in temporarily restricted net assets		
Permanently restricted net assets:		
Gifts and bequests	1,448	511
Investment (losses) gains	(227)	2,037
Change in net unrealized gains on investments	(6,105)	(1,514)
	<u>(4,884)</u>	<u>1,034</u>
(Decrease) increase in permanently restricted net assets		
Decrease in net assets	(68,852)	(21,318)
Net assets, beginning of year	<u>454,504</u>	<u>475,822</u>
Net assets, end of year	<u>\$ 385,652</u>	<u>454,504</u>

See accompanying notes to consolidated financial statements.

**DARTMOUTH-HITCHCOCK AND SUBSIDIARIES**

Consolidated Statements of Cash Flows  
 Years ended September 30, 2008 and 2007  
 (Dollars in thousands)

	<u>2008</u>	<u>2007</u>
Cash flows from operating and nonoperating activities:		
Decrease in net assets	\$ (68,852)	(21,318)
Adjustments to reconcile decrease in net assets to net cash provided by operating and nonoperating activities:		
Unrealized loss (gain) on interest swaps	5,824	(1,705)
Unrealized loss on hedge	565	1
Depreciation and amortization	41,763	40,439
Change in funded status of pension and other postretirement benefits	28,384	—
Change in minimum pension liability	—	(41,319)
Effect of adoption of provisions of FASB Statement No. 158	—	137,782
(Gain) loss on disposal of fixed assets	(3)	890
Change in net unrealized losses (gains) on investments	74,506	(18,293)
Restricted contributions and interest income received, net	(5,913)	(11,859)
Changes in assets and liabilities:		
Patient accounts receivable, net	(21,646)	(9,880)
Prepaid expenses and other current assets	(7,586)	(4,356)
Accounts payable and accrued expenses	21,116	4,537
Accrued compensation and related benefits	3,095	8,043
Estimated third-party settlements	(121)	6,736
Liability for pension and other postretirement benefits	(2,842)	5,582
Prepaid pension costs	6,935	(2,333)
Net cash provided by operating and nonoperating activities	<u>75,225</u>	<u>92,947</u>
Cash flows from investing activities:		
Purchase of property, plant, and equipment	(40,938)	(36,717)
Change in current portion of trustee-held funds	426	(207)
Purchases of investments, net	(21,764)	(90,893)
Change in other assets, net	(2,460)	259
Net cash used by investing activities	<u>(64,736)</u>	<u>(127,558)</u>
Cash flows from financing activities:		
Repayment of long-term debt	(39,583)	(8,547)
Proceeds from issuance of debt	26,130	—
Payment of debt issuance costs	(196)	—
Change in assets limited as to use – held by trustee	5,680	(482)
Restricted contributions and interest income received, net	5,913	11,859
Net cash (used) provided by financing activities	<u>(2,056)</u>	<u>2,830</u>
Increase (decrease) in cash and cash equivalents	8,433	(31,781)
Cash and cash equivalents, beginning of year	<u>29,336</u>	<u>61,117</u>
Cash and cash equivalents, end of year	\$ <u><u>37,769</u></u>	\$ <u><u>29,336</u></u>
Supplemental cash flow information:		
Interest paid	\$ 15,455	16,392
Equipment acquired through capital lease	72	202

See accompanying notes to consolidated financial statements.

## DARTMOUTH-HITCHCOCK AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

### (1) Organization and Reporting Entity

Dartmouth-Hitchcock (D-H) is comprised of the following entities:

- Dartmouth-Hitchcock Clinic (the Clinic) and subsidiaries, a multispecialty physician practice group which operates clinics throughout New Hampshire and Vermont, provides, among other things, medical services to patients, medical education, and research. The Clinic is also the sole corporate member of The Hitchcock Foundation, a 501(c)(3) organization established to provide financial aid to research and general health programs. The accompanying consolidated financial statements include the accounts of The Hitchcock Foundation and the Clinic's wholly owned for profit subsidiaries: Pompanoosuc Investment Corporation, Atlantic Risk Management, Inc. (dissolved September 18, 2007), majority-owned Hamden Assurance Company, Limited (HAC), and majority-owned Hamden Assurance Risk Retention Group, Inc. (RRG) (note 11).

The Clinic has entered into various contractual arrangements with community hospitals located in Keene, Concord, Manchester, and Nashua, New Hampshire in which the Clinic has existing community practice sites. These arrangements attempt to integrate and/or coordinate hospital and physician operations clinically and administratively within these communities (note 2(c)).

- Mary Hitchcock Memorial Hospital (the Hospital), an acute and tertiary care teaching hospital located in Lebanon, New Hampshire. The Dartmouth-Hitchcock Alliance (the Alliance) is the sole corporate member of the Hospital (note 2(a)).

These organizations are not-for-profit organizations, as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from Federal income taxes on related income pursuant to Section 501(a) of the Code with the exception of the Clinic's wholly owned for-profit subsidiaries.

Effective November 9, 2006, the Boards of the Clinic and the Hospital continued their long-standing process of increased integration, declaring the existence of a partnership between the two organizations. This step, taken in an effort to simplify certain of the organizations' regulatory filing requirements (which often require parties to identify what type of organization they are), did not in any way change the substance of the relationship between the Hospital and the Clinic. This declaration was accompanied by certain technical amendments to the parties' existing enhanced affiliation agreement and, pursuant to discussions with applicable governmental bodies, did not require the receipt of any regulatory approvals.

## DARTMOUTH-HITCHCOCK AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

### (2) **Affiliated Entities**

Affiliated entities include the following:

#### (a) *Dartmouth-Hitchcock Alliance*

The Alliance, a nonprofit organization, was originally formed in 1983 to serve as a holding company for the Hospital. The Hospital, as a member of the Alliance system, has affiliated with a number of healthcare providers in an effort to develop and expand an integrated regional healthcare delivery system. These affiliations include:

Entity	Location
Central Vermont Medical Center, Inc. (CVMC)	Berlin, VT
Cooley Dickinson Health Care Corporation (CDHCC)	Northampton, MA
Upper Connecticut Valley Hospital Association	Colebrook, NH
Visiting Nurse Association and Hospice of Vermont and New Hampshire, Inc.	White River Junction, VT
Weeks Medical Center	Lancaster, NH
West Central Services, Inc. d/b/a West Central Behavioral Health	Lebanon, NH
Windsor Hospital Corporation d/b/a Mt. Ascutney Hospital and Health Center	Windsor, VT
Northeastern Vermont Regional Corporation	St. Johnsbury, VT
New London Hospital Association, Inc.	New London, NH
Valley Regional Healthcare	Claremont, NH

The Alliance is the sole corporate member of each of these affiliates. The operating costs of the Alliance are apportioned amongst its member organizations. The Hospital's share of expenses for support functions was approximately \$2,671,000 and \$2,482,000 for the years ended September 30, 2008 and 2007, respectively, and is included in operating expenses in the accompanying consolidated statements of operations and changes in net assets. Also, as more fully described in note 9, D-H has participated with certain members of the Alliance in the Dartmouth-Hitchcock Obligated Group (the Obligated Group) financings.

On September 25, 2008, the Board of Trustees of Dartmouth-Hitchcock Alliance voted to approve a plan of reorganization whereby the Alliance will be dissolved and will discontinue being the sole corporate member of Mary Hitchcock Memorial Hospital and the other ten Alliance Members, effective December 31, 2008. Due diligence reviews by both Mary Hitchcock Memorial Hospital and Dartmouth-Hitchcock Alliance have been completed and no potential issues have been discovered in connection with this reorganization.

A new organization, New England Alliance for Health (NEAH) will be formed, effective January 1, 2009, which will be a limited liability company owned and managed by Mary Hitchcock Memorial Hospital. This new organization will offer the former members of the Alliance many services currently provided by the Alliance.

## DARTMOUTH-HITCHCOCK AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

**(b) *Dartmouth-Hitchcock Medical Center (DHMC)***

DHMC is a nonprofit corporation organized for the exploration and coordination of matters of mutual interest among its members which consist of D-H, Dartmouth Medical School (DMS), a component of Dartmouth College (the College), and the Veterans Affairs Medical Center in White River Junction, Vermont. Administrative costs and other costs of DHMC are apportioned among the member organizations.

In addition, D-H and the College provide certain services to each other including graduate medical education, staffing of clinical departments, support services, and the provision of space. The members of DHMC have agreed to compensate one another directly based on the cost of the services provided.

**(c) *Other Regional Relationships***

- D-H's Keene community practice and The Cheshire Medical Center, Keene's community hospital, entered into a Partnership Agreement effective October 1, 1998. This agreement substantially integrates many hospital and physician operations clinically, administratively, and financially while maintaining the independent legal structure of each organization. Pursuant to this agreement, the Clinic recorded approximately \$3,219,000 and \$4,623,000, classified as other operating revenue in the accompanying consolidated statements of operations and changes in net assets, in the years ended September 30, 2008 and 2007, respectively. A New Hampshire nonprofit Joint Coordinating Company and Coordinating Board, consisting of 19 board members, has been delegated certain responsibilities to develop and recommend strategic plans, budgets and community health initiatives. The purpose of the partnership is to improve the planning, delivery, and integration of healthcare services to benefit the greater Keene community.
- D-H and a subsidiary of Concord Hospital, CRHC/DHC, Inc., entered into a Professional Services Agreement (PSA) effective May 1, 2001, pursuant to which CRHC/DHC, Inc. purchases, with certain limited exceptions, the services of all of the personnel employed by D-H at its Concord Division to enable CRHC/DHC, Inc. to provide healthcare services to the community. The agreement also incorporates certain leases whereby Concord Hospital leases facilities and equipment from D-H. The payment amount for the professional services of D-H's personnel is based on fair market value considerations and is not directly or indirectly related to the volume or value of referrals or admissions, in accordance with governing law. Through the PSA, D-H and CRHC/DHC, Inc. provide coordination of patient care in the community and facilitate the recruitment of new and needed physicians without unnecessary duplication of services, and serve as a platform for future discussions between the parties to explore additional collaborative programs. Revenue pursuant to this agreement, classified as contracted revenue in the accompanying consolidated statements of operations and changes in net assets, totaled \$26,177,000 and \$25,292,000 for the years ended September 30, 2008 and 2007, respectively.

## DARTMOUTH-HITCHCOCK AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2008 and 2007

Arrangements set forth in a separate PSA between CRHC/DHC, Inc. and D-H, effective October 1, 2001, govern CRHC/DHC's purchase of cardiac surgery clinical services from D-H for use in the operation of its cardiac surgery program. Cardiac surgery clinical services include medical director services, cardiac surgeon professional services, allied health professionals and other personnel directly involved in the surgical procedure, cardiac surgery protocols and practices, cardiac surgery training and education, use of DHC's clinical pathways, off-shift coverage to serve emergent and hospitalized patients, inpatient coverage and call availability, and the services of blood perfusionists. The payment amount for the services of D-H's personnel is based on fair market value considerations and is not directly or indirectly related to the volume or value of any referrals or admissions, in accordance with governing law. Effective July 1, 2007, the PSA was replaced by an Employee Lease Agreement which redefined the services being purchased to include perfusionists, assistants and office coordinator services only, again based on fair market value considerations. Revenue pursuant to these agreements, classified as other revenue in 2008 and contracted revenue in 2007 in the accompanying consolidated statements of operations and changes in net assets, totaled \$307,000 and \$1,731,000 for the years ended September 30, 2008 and 2007, respectively.

- D-H and Allied Health Services (AHS), a wholly owned subsidiary of Catholic Medical Center (CMC), entered into a Professional Services Agreement (PSA) effective January 1, 2007, pursuant to which AHS purchases, with certain limited exceptions, the services of all of the personnel employed by D-H at its two Bedford, New Hampshire locations to provide healthcare services to the community. The payment amount for the professional services of D-H's personnel is based on fair market value considerations, as corroborated by an independent evaluation, and is not directly or indirectly related to the volume or value of referrals or admissions, in accordance with governing law. Through the PSA, D-H and AHS provide coordination of patient care in the community and facilitate the recruitment of new and needed physicians without unnecessary duplication of services, and serve as a platform for future discussions between the parties to explore additional collaborative programs. Revenue pursuant to this agreement, classified as contracted revenue in the accompanying consolidated statements of operations and changes in net assets, totaled \$7,614,000 and \$4,493,000 for the years ended September 30, 2008 and 2007, respectively.
- D-H and D-H Family Medicine Nashua, Inc. (DHFMN), an affiliate of St Joseph's Hospital (SJH), entered into a PSA effective May 1, 2007, pursuant to which DHFMN purchases, with certain limited exceptions, the services of all of the personnel employed by D-H at its Nashua, New Hampshire West Center location to provide healthcare services to the community. The payment amount for the professional services of D-H's personnel is based on fair market value considerations, as corroborated by an independent evaluation, and is not directly or indirectly related to the volume or value of referrals or admissions, in accordance with governing law. Through the PSA, D-H and DHFMN provide coordination of patient care in the community and facilitate the recruitment of new and needed physicians without unnecessary duplication of services, and serve as a platform for future discussions between the parties to explore additional collaborative programs. Revenue pursuant to this agreement, classified as contracted revenue in the accompanying consolidated statements of operations and changes in

## DARTMOUTH-HITCHCOCK AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2008 and 2007

net assets, totaled \$9,125,000 and \$3,506,000 for the years ended September 30, 2008 and 2007, respectively.

- D-H and Catholic Medical Center (CMC), entered into a Hospitalist Agreement effective August 1, 2007, pursuant to which CMC purchases the professional services of D-H Hospitalist physicians and Nonphysicians at CMC's acute care facility. The payment amount for the professional services of D-H's personnel is based on fair market value considerations and is not directly or indirectly related to the volume or value of referrals or admissions, in accordance with governing law. Revenue pursuant to this agreement, classified as contracted revenue in the accompanying consolidated statements of operations and changes in net assets, totaled \$3,221,000 and \$577,000 for the years ended September 30, 2008 and 2007, respectively.

The consolidated financial statements of D-H do not include the accounts of the Alliance, Alliance members, Clinic regional affiliations or DHMC.

### (3) Summary of Significant Accounting Policies

#### (a) *Basis of Statement Presentation*

The accompanying consolidated financial statements, which are presented on the accrual basis of accounting, have been prepared consistent with the American Institute of Certified Public Accountants *Audit and Accounting Guide, Health Care Organizations* (Audit Guide). In accordance with the provisions of the Audit Guide, net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, unrestricted net assets are amounts not subject to donor-imposed stipulations and are available for operations. Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity.

#### (b) *Principles of Consolidation*

All significant intercompany transactions have been eliminated in consolidation.

#### (c) *(Deficiency) Excess of Revenue over Expenses*

The consolidated statements of operations and changes in net assets include (deficiency) excess of revenue over expenses. Operating revenues consist of those items attributable to the care of patients, including contributions and investment income on unrestricted investments, which are utilized to provide charity and other operational support. Peripheral activities, including realized gains on sales of investment securities and unrealized changes in marketable trading investments and equity interests in limited partnerships, accounted for under the equity method, are reported as nonoperating (losses) gains.

## DARTMOUTH-HITCHCOCK AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2008 and 2007

Changes in unrestricted net assets which are excluded from (deficiency) excess of revenue over expenses, consistent with industry practice, include changes in unrealized gains on available-for-sale investments, 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 plans, interest rate swap adjustments, and the effects of adopting new accounting pronouncements.

**(d) *Use of Estimates***

The preparation of the consolidated financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The most significant areas which are affected by the use of estimates include the allowance for estimated uncollectible accounts, valuation of certain investments, estimated third-party payor settlements, insurance reserves and pension obligations. Actual results could differ from those estimates.

**(e) *Charity Care and Provision for Bad Debts***

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

D-H grants credit without collateral to patients, most of whom are local residents and are insured under third-party arrangements. Additions to the allowance for uncollectible accounts are made by means of the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance and subsequent recoveries are added. The amount of the provision for bad debts 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.

**(f) *Net Patient Service Revenue***

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

**(g) *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.

## DARTMOUTH-HITCHCOCK AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

**(h) *Investments and Investment Income***

Investments in equity securities with readily determinable fair values, and all investments in debt securities, are measured at fair value in the consolidated balance sheets. In the case of certain nonmarketable securities, principally limited partnerships and similar interests, for which quoted market prices are not available, the estimated fair value of these investments is based on valuations provided by the external investment managers. Such valuations may reflect discounts for liquidity and consider variables such as financial performance of investments, including comparison of comparable companies' earnings multiples, cash flow analysis, recent sales prices of investments, and other pertinent information. Because there may be inherent uncertainty of valuation for certain of these investments, the investment manager's estimate may differ from the valuation that would have been used had a ready market existed and the differences could be significant. The agreements underlying participation in nonmarketable investment funds may limit D-H's ability to liquidate its interests in such investments for a period of time. Amounts required to meet current liabilities of D-H are classified as current assets in the accompanying consolidated balance sheets.

The Hospital and CVMC have established a New Hampshire general partnership for the purpose of operating a master investment program of pooled investment accounts. The Hospital has been designated to serve as the managing general partner and, in such capacity, has the authority to bind the partners and the partnership under the agreement. Substantially all of the Hospital's board-designated and restricted assets, and certain of CVMC's board-designated assets and restricted assets, have been 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 additions to the funds. Investment income earned on pooled funds is allocated monthly based on the weighted average units outstanding at month-end. Realized gains and losses on sales of securities are allocated based on the number of units outstanding at the previous month-end.

Investment income or loss (including unrealized and realized gains and losses on investments, interest, and dividends) and changes in equity interests in limited partnerships are included in (deficiency) excess of revenue over expenses classified as nonoperating gains and losses, unless the income or loss is restricted by donor or law. In accordance with state laws, the Board of Trustees of D-H has established policies requiring the preservation of the purchasing power (real value) of permanently restricted assets unless explicit donor stipulations specify how net appreciation must be used. State laws allow the boards to appropriate a portion of net appreciation provided; however, the appropriation in any year may not exceed a certain percentage of the fair market value of the assets of an institution's permanently restricted assets (calculated on the basis of the market values determined at least quarterly and averaged over a period of three or more years).

D-H reclassified its investment portfolio from other than trading to trading as of October 1, 2007. Prior to October 1, 2007, unrealized gains and losses on investments were reflected as a component of total changes in net assets consistent with the purpose of the investment and any donor-imposed restriction. As a result of the reclassification, unrealized gains and losses on unrestricted investments are included in (deficiency) excess of revenue over expenses, as a component of nonoperating gains and losses.

## DARTMOUTH-HITCHCOCK AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2008 and 2007

Prior to the change to a trading portfolio in 2008, D-H evaluated its investments on an ongoing basis to determine whether other than temporary impairment existed. A decline in the market value of an investment security below its cost that was designated to be other than temporary was recognized through an impairment charge. The impairment charge was included in the excess of revenue over expenses in the consolidated statements of operations and changes in net assets and a new cost basis was established. No impairment charge was recorded by D-H for the year ended September 30, 2007.

**(i) *Property, Plant, and Equipment***

Property, plant, and equipment, and other real estate are stated at cost at the time of purchase or fair market value at the time of donation, less accumulated depreciation based upon historical cost. D-H'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 are 5-40 years for buildings and improvements, and 3-20 years for equipment. D-H funds depreciation to provide for capital expenditures. Certain software development costs are amortized using the straight-line method over a period of five years. Net interest cost incurred on borrowed funds during the 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 in accordance with SFAS No. 143, *Accounting for Asset Retirement Obligations*, and Financial Accounting Standards Board Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47), 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.

Gifts of capital assets such as land, buildings, or equipment are reported as unrestricted support, and excluded from 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.

**(j) *Bond Issuance Costs***

Bond issuance costs, classified on the consolidated balance sheets as other assets, are amortized over the term of the related bonds.

## DARTMOUTH-HITCHCOCK AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2008 and 2007

**(k) Fair Value of Financial Instruments**

The carrying amount of cash and cash equivalents, patient accounts receivable, investments, accounts payable and accrued expenses approximate fair value because of the short maturity of these instruments.

Long-term debt instruments are carried at cost which approximates fair value. Fair values are estimated based on quoted market prices for the same or similar issues. The estimated fair value of D-H's long-term debt as of September 30, 2008 is approximately \$325,000,000.

The estimated fair values of derivative instruments are calculated based on market rates. These values represent the estimated amounts D-H would receive or pay to terminate agreements, taking into consideration current market rates and the current creditworthiness of the counterparty.

**(l) Derivative Instruments and Hedging Activities**

D-H accounts for derivatives and hedging activities in accordance with FASB Statement No. 133, *Accounting for Derivative Instruments and Certain Hedging Activities*, as amended, which requires that all derivative instruments be recorded on the consolidated balance sheet at their respective fair values.

On the date a derivative contract is entered into, D-H designates the derivative as either a:

- *fair-value hedge* – hedge of the fair value of a recognized asset or liability, or
- *cash-flow hedge* – a 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 hedging relationships D-H formally documents the hedging relationship and its risk-management objective and strategy for undertaking the hedge, the hedging instrument, the item, 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 all derivatives that are designated as fair-value or cash-flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. D-H 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 effective in offsetting changes in fair values or 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 fair-value hedge, along with the loss or gain on the hedged asset or liability or unrecognized firm commitment of the hedged item that is attributable to the hedged risk, are recorded in the consolidated statements of operations and changes in net assets. 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 unrestricted net assets to the extent that the derivative is effective as a hedge, 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 derivative instrument that qualifies as either a fair-value hedge or a cash-flow hedge is reported in the consolidated statements of operations and changes in net assets.

## DARTMOUTH-HITCHCOCK AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2008 and 2007

D-H discontinues hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised, the derivative is undesignated as a hedging instrument, because it is unlikely that a forecasted transaction will occur, a hedged firm commitment no longer meets the definition of a firm commitment, or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair-value hedge, D-H continues to carry the derivative on the consolidated balance sheet at its fair value and no longer adjusts the hedged asset or liability for changes in fair value. The adjustment of the carrying amount of the hedged asset or liability is accounted for in the same manner as other components of the carrying amount of that asset or liability. When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, D-H continues to carry the derivative on the consolidated balance sheet at its fair value, removes any asset or liability that was recorded pursuant to recognition of the firm commitment from the consolidated balance sheet, and recognizes any gain or loss in the consolidated statement of operations and changes in net assets. When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, D-H continues to carry the derivative on the consolidated balance sheet at its fair value with subsequent changes in fair value included in the consolidated statement of operations and changes in net assets, and gains and losses that were accumulated in unrestricted net assets are recognized immediately in earnings. In all other situations in which hedge accounting is discontinued, D-H continues to carry the derivative at its fair value on the balance sheet and recognizes any subsequent changes in its fair value in earnings.

When specific hedge accounting criteria are not met, SFAS No. 133 requires that all changes in a derivative's fair value be recognized in earnings.

**(m) *Gifts and Bequests***

Unrestricted gifts and bequests are recorded net of related expenses as nonoperating gains. Unconditional and conditional promises to give cash and other assets to D-H are reported at fair value at the date the gifts are received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

**(n) *Reclassifications***

Certain amounts in the 2007 consolidated financial statements have been reclassified to conform to the 2008 presentation.

## DARTMOUTH-HITCHCOCK AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2008 and 2007

**(o) Newly Adopted Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (SFAS No. 158). SFAS No. 158 was effective for D-H for the year ended September 30, 2007. SFAS No. 158 requires that an organization recognize the overfunded or underfunded status, the difference between the fair value of the plan assets and the projected benefit obligation of its defined benefit and retiree medical and life insurance plans as an asset or liability in its consolidated balance sheets. Changes in funded status are recognized through unrestricted net assets in the year in which they occur. As more fully described in note 10, D-H implemented SFAS No. 158 in 2007. The adjustment to unrestricted net assets upon adoption of SFAS No. 158 represents the net unrecognized actuarial losses and prior service costs, both of which were previously netted against the funded status on the consolidated balance sheet pursuant to the provisions of SFAS No. 87 in prior years. These amounts will be recognized in future periods as net periodic pension cost as required by SFAS No. 87. SFAS No. 158 also requires organizations to measure the funded status of its defined benefit and retiree medical plans, currently done as of June 30, annually, as of the year end balance sheet date for fiscal years ending after December 15, 2008. The impact of the change in measurement date is not expected to have a material impact on the September 30, 2009 consolidated financial statements.

Effective October 1, 2007, D-H adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income tax recognized in an entity's financial statements. FIN 48 requires entities to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. It also provides guidance on the recognition, measurement, and classification of income tax uncertainties, along with any related interest or penalties. A tax position is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. The adoption of FIN 48 had no impact on D-H's consolidated financial statements.

**(p) Recently Issued Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurement* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measures. SFAS No. 157 is effective for fair value measures already required or permitted by other standards for fiscal years beginning after November 15, 2007. D-H is required to adopt SFAS No. 157 beginning on October 1, 2008. SFAS No. 157 is required to be applied prospectively, except for certain financial instruments. Any transition adjustment will be recognized as an adjustment to opening retained earnings in the year of adoption. In November 2007, the FASB proposed a one-year deferral of SFAS No. 157's fair-value measurement requirements for nonfinancial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis. D-H is currently evaluating the impact of adopting SFAS No. 157 on its results of operations and financial position.

## DARTMOUTH-HITCHCOCK AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2008 and 2007

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115* (SFAS No. 159). SFAS No. 159 gives D-H the irrevocable option to carry most financial assets and liabilities at fair value that are not currently required to be measured at fair value. If the fair value option is elected, changes in fair value would be recorded in earnings at each subsequent reporting date. SFAS No. 159 is effective for D-H's 2009 fiscal year. D-H is currently evaluating the impact the adoption of this statement could have on its consolidated financial condition and results of operations.

In September 2006, the FASB's Emerging Issues Task Force reached a consensus on Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements* (EITF 06-4). EITF 06-4 provides guidance on the accounting for arrangements in which an employer owns and controls the insurance policy and has agreed to share a portion of the cash surrender value and/or death benefit with the employee. This guidance requires an employer to record a postretirement benefit, in accordance with FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, or APB Opinion No. 12, *Omnibus Opinion – 1967*, if there is an agreement by the employer to share a portion of the proceeds of a life insurance policy with the employee during the postretirement period. This guidance is effective for reporting periods beginning after December 15, 2007. D-H is in the process of assessing the impact of adopting EITF 06-4 on its consolidated results of operations and financial position.

In August 2008, the Financial Accounting Standards Board issue FASB Staff Position (FSP) FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. This FSP provides guidance on the net asset classification of *donor-restricted endowment funds* for not-for-profit organizations that is subject to an enacted version of the Uniform Prudent Management Institutional Funds Act of 2006 (UPMIFA). This FSP also improves disclosures about an organization's *endowment funds* (both donor-restricted and board designated endowment funds), whether or not the organization is subject to UPMIFA. The provisions of the FSP are effective for fiscal years ending after December 15, 2008. D-H is currently evaluating the impact the adoption of this FSP could have on its consolidated financial position.

#### **(4) Charity Care and Community Benefits**

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

Consistent with this mission, D-H 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. D-H actively supports community-based healthcare and promotes the coordination of services among healthcare providers and social services organizations. In addition, D-H 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, D-H provides significant support for academic and research programs.

## DARTMOUTH-HITCHCOCK AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2008 and 2007

D-H files an annual Community Benefit Report with the State of New Hampshire which outlines the community and charitable benefits it provides. The broad categories used in the Community Benefit Report to summarize these benefits are as follows:

*Financial assistance*, formerly called charity care represents services provided to patients who cannot afford healthcare services due to inadequate financial resources which result from being uninsured or underinsured. For the years ended September 30, 2008 and 2007, D-H provided financial assistance to patients in the amount of \$39,567,000 and \$42,689,000, respectively, as measured by gross charges. The estimated cost of providing this care for the years ended September 30, 2008 and 2007 was \$18,459,000 and \$20,236,000, respectively.

D-H also routinely provides services to Medicaid patients at reimbursement levels that are below the cost of the care provided. In its most recent filing, the *uncompensated cost of care for Medicaid* patients for the year ended September 30, 2007 was \$42,785,000.

D-H provides *financial support for medical and other professional education* to Dartmouth Medical School to support the costs of operations. Physicians' unpaid teaching time consists of the time physicians spend providing clinical supervision and education for residents and medical students.

D-H provides *in-kind support for research and other grants* representing costs in excess of awards for numerous grant-funded health research and service initiatives awarded to D-H.

*Community health activities* includes the cost or value of several different types of programs including the cost of community based education, health fairs, health screenings, support groups, and programs and materials that promote wellness and prevent illness. Examples of these types of efforts include Granite State FitKids health program for elementary schools, the Women's Health Resource Centers in Manchester and Lebanon, NH, and smoking prevention and cessation. This category also includes financial contributions and the contribution of time and services to community programs, hospitals and agencies. Other community benefit initiatives include the costs of providing medical and clinical education to professionals across New Hampshire, Vermont and beyond and the uncompensated costs of research.

The following is a summary of the value of the community benefit initiatives outlined in D-H's most recently filed Community Benefit Report for the year ended September 30, 2007 (unaudited, dollars in thousands):

Financial assistance to patients, at cost	\$	20,236
Uncompensated Medicaid		42,785
Support for medical and other professional education		13,464
In-kind for research and other grants		2,890
All other community health activities		<u>8,021</u>
Total community benefit initiatives	\$	<u><u>87,396</u></u>

## DARTMOUTH-HITCHCOCK AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2008 and 2007

D-H also provides a significant amount of uncompensated care to its patients that are reported as provision for bad debts, which is not included in the amounts reported above. During the years ended September 30, 2008 and 2007, D-H reported a provision for bad debts of approximately \$24,182,000 and \$28,464,000, respectively. D-H also routinely provides services to Medicare and Medicaid patients at reimbursement levels that are below the costs of the care provided.

#### (5) Patient Service Revenue

Patient service revenue is reported net of contractual allowances as follows for the years ended September 30 (dollars in thousands):

	<b>2008</b>	<b>2007</b>
Gross patient service revenue	\$ 2,140,331	1,989,259
Less contractual allowances	1,164,793	1,061,998
Net patient service revenue	\$ 975,538	927,261

The following table categorizes payors into five groups and their respective percentages of D-H's gross patient service revenue for the years ended September 30:

	<b>2008</b>	<b>2007</b>
Medicare	35%	34%
Anthem/Blue Cross	24	24
Commercial insurance	26	26
Medicaid	11	11
Other	4	5
	100%	100%

D-H has agreements with third-party payors that provide for payments at amounts different from their established rates. A summary of the acute care payment arrangements in effect during the years ended September 30, 2008 and 2007 with major third-party payors follows:

- Inpatient acute care services provided to Medicare program beneficiaries are paid at prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is 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. Under the system, outpatient services are reimbursed based on a pre-determined amount for each outpatient procedure, subject to various mandated modifications. D-H is reimbursed during the year for services to Medicare beneficiaries based on varying interim payment methodologies. Final settlement is determined after the submission of an annual cost report and subsequent audit of this report by the Medicare fiscal intermediary.

## **DARTMOUTH-HITCHCOCK AND SUBSIDIARIES**

### Notes to Consolidated Financial Statements

September 30, 2008 and 2007

- Payment for inpatient services rendered to state Medicaid beneficiaries are based on a prospective payment system. Outpatient services are reimbursed on a retrospective cost basis or fee schedules. Direct medical education costs are reimbursed as a pass-through based on the prior year cost report.
- Inpatient services rendered to Anthem/Blue Cross subscribers and certain commercial insurers are paid at prospectively determined rates-per-discharge or a percentage of established charges. Outpatient services are reimbursed on a fee schedule or at a discount from established charges.

Other nonacute services are paid at various rates under different arrangements with third-party payors, commercial insurance carriers and health maintenance organizations. The basis for payments under these arrangements includes prospectively determined per visit rates, discounts from established charges, fee schedules, and reasonable cost subject to limitations.

D-H has provided for its estimated final settlements with all payors based upon applicable contracts and reimbursement legislation and timing in effect for all open years. The differences between the amounts provided and the actual settlements, if any, are recorded as an adjustment to net patient service revenue in the year the final settlement is determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with laws and regulations can be subject to future government review and interpretation as well as significant regulatory action; failure to comply with such laws and regulations can result in fines, penalties and exclusion from the Medicare and Medicaid programs.

## DARTMOUTH-HITCHCOCK AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2008 and 2007

#### (6) Investments

The composition of investments at September 30 is set forth in the following table. Investments are stated at fair value (dollars in thousands):

	2008	2007
Assets limited as to use:		
Internally designated by board:		
Cash and short-term investments	\$ 4,315	18,500
U.S. government securities	5,074	13,968
Domestic corporate debt securities	85,844	81,740
International debt securities	26,711	30,709
Domestic equities	90,838	110,475
Limited partnerships	131,739	136,473
Loans to affiliated entities	3,227	3,613
	347,748	395,478
Investments held by captive insurance companies (note 11):		
Cash and short-term investments	1,426	1,988
U.S. government securities	20,371	14,927
Domestic corporate debt securities	44,000	44,560
Domestic equities	7,740	10,043
Other	10,746	6,357
	84,283	77,875
Held by trustee under indenture agreement (note 9):		
Cash and short-term investments	10	1,733
Commercial paper	8,389	8,362
U.S. government securities	—	4,121
	8,399	14,216
Less current portion of trustee-held assets	2,825	3,252
	5,574	10,964
Assets limited as to use	\$ 437,605	484,317

## DARTMOUTH-HITCHCOCK AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2008 and 2007

	<b>2008</b>	<b>2007</b>
Other investments for temporarily and permanently restricted activities:		
Cash and short-term investments	\$ 10,268	8,530
U.S. government securities	18,047	15,770
Domestic corporate debt securities	18,685	22,028
International debt securities	5,740	3,919
Domestic equities	26,880	29,879
International equities	2,958	3,630
Limited partnerships	11,098	14,606
Total other investments for temporarily and permanently restricted activities	\$ 93,676	98,362

Investment income for cash and cash equivalents, assets limited as to use and other investments is comprised of the following for the years ended September 30 (dollars in thousands):

	<b>2008</b>	<b>2007</b>
Interest, dividend income, and other	\$ 11,830	7,780
Net realized gains on sales of securities	9,387	25,919
Unrealized (losses) gains on investments	(66,663)	11,659
Interest expense (note 9)	(3,185)	(3,027)
	\$ (48,631)	42,331

For the years ended September 30, 2008 and 2007, investment income is reflected in the accompanying consolidated statements of operations and changes in net assets as operating revenue of \$2,165,000 and \$1,622,000 and as nonoperating (losses) gains of \$(50,796,000) and \$40,709,000, respectively.

#### (7) **Property, Plant, and Equipment**

Property, plant, and equipment is summarized as follows at September 30 (dollars in thousands):

	<b>2008</b>	<b>2007</b>
Land and improvements	\$ 39,538	35,849
Buildings and improvements	441,248	434,611
Equipment	271,055	252,988
	751,841	723,448
Less accumulated depreciation and amortization	415,934	384,418
Total depreciable assets, net	335,907	339,030
Construction in progress	10,431	8,741
	\$ 346,338	347,771

## DARTMOUTH-HITCHCOCK AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2008 and 2007

#### (8) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30 (dollars in thousands):

	<u>2008</u>	<u>2007</u>
Healthcare services	\$ 15,942	17,104
Research	15,314	13,390
Corporate sponsored research	5,978	5,209
Hitchcock Foundation Advised Funds	6,931	6,418
Purchase of equipment	2,954	2,674
Charity care	1,662	1,439
Health education	4,470	3,606
Other	1,856	2,312
	<u>\$ 55,107</u>	<u>52,152</u>

Permanently restricted net assets at September 30, 2008 and 2007 are restricted to investments that are to be maintained in perpetuity, amounting to \$34,924,000 and \$39,808,000, respectively.

In 2008 and 2007, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of operating expenses of \$8,784,000 and \$6,667,000, respectively, and purchases of equipment of \$665,000 and \$371,000, respectively.

**DARTMOUTH-HITCHCOCK AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

**(9) Indebtedness**

**(a) Long-Term Debt**

A summary of long-term debt at September 30 follows (dollars in thousands):

	<u>2008</u>	<u>2007</u>
Variable rate issues:		
New Hampshire Health and Education Facilities Authority Revenue Bonds, Series 1985, principal maturing in varying annual amounts, through July 2021, advance refunded by series 2008A	\$ —	31,150
Series 2001A, principal maturing in varying annual amounts, through August 2031	113,535	116,220
Series 2008A, principal maturing in varying amounts from 2032 to 2037	26,130	—
VHA of New England, Inc. (VHANE) promissory notes payable, principal maturing in varying annual amounts, through September 2011	3,742	4,814
Fixed rate issues:		
New Hampshire Health and Education Facilities Authority Revenue Bonds:		
Series 1993, principal maturing in varying annual amounts, through August 2021	73,338	76,558
Series 2002, principal maturing in varying annual amounts, through August 2031	117,010	117,430
Other:		
Obligations under equipment leases	<u>1,011</u>	<u>1,481</u>
	334,766	347,653
Less:		
Original issue discounts, net	527	581
Current portion	<u>8,750</u>	<u>8,885</u>
	<u>\$ 325,489</u>	<u>338,187</u>

Interest payments on variable rate issues range from 1.15% to 9.97% for the year ended September 30, 2008. Interest payments on fixed rate issues range from 3.45% to 5.69%.

During 2008, Mary Hitchcock Memorial Hospital, through the Obligated Group, issued the Series 2008A Revenue Bonds to advance refund the Series 1985 D & H Revenue Bonds, resulting in a \$544,000 loss on advance refunding. The Series 2008A Bonds are variable rate bonds maturing at various times from 2032 through 2037.

## DARTMOUTH-HITCHCOCK AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2008 and 2007

Aggregate annual principal payments required under the revenue bond agreements, VHANE notes payable and capital lease obligations for the next five years range from approximately \$8,750,000 in 2009 to \$8,545,000 in 2013.

The Hospital established Obligated Group in 1993 for the original purpose of issuing bonds financed through the New Hampshire Higher Educational and Health Facilities Authority. In subsequent years, Central Vermont Medical Center, Inc., Cooley Dickinson Hospital, Inc., and the Clinic joined the Hospital as members of the Obligated Group in connection with the issuance of facility-specific revenue bonds. Outstanding indebtedness of the Obligated Group at September 30, 2008 approximates \$428,700,000.

The Revenue Bonds issued by members of the Obligated Group are administered through notes registered in the name of the Bond Trustee and in accordance with the terms of a Master Trust Indenture. Payment of principal and interest due on the Bonds is secured with a commercial bond insurer. The Master Trust Indenture contains provisions permitting the addition, withdrawal or consolidation of members of the Obligated Group under certain conditions. The notes constitute a joint and several obligation of the members of the Obligated Group (and any other future members of the Obligated Group) and are equally and ratably secured by a pledge of the members' gross receipts. Also, the indenture requires that certain debt service funds are maintained with a trustee.

Members of the Obligated Group established certain funds with the proceeds of the bonds, including the maintenance of debt service reserve funds. Included in the accompanying consolidated financial statements, classified as assets limited as to use, are debt service funds of \$8,399,000 and \$14,216,000 at September 30, 2008 and 2007, respectively.

For the years ended September 30, 2008 and 2007, interest expense is reflected in the accompanying consolidated financial statements as operating expense of approximately \$11,976,000 and \$13,391,000, and as a reduction of investment income of \$3,185,000 and \$3,027,000, respectively.

#### **(b) Swap Agreements**

D-H is subject to market risks such as changes in interest rates that arise from normal business operation. D-H 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. D-H 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.

- In connection with the issuance of the Series 2001A Bonds, D-H entered into an interest rate swap agreement, a "fixed payor swap", with a notional amount of \$118,780,000, as a hedge against the variability of cash flows associated with its variable rate Series 2001A Bonds. The interest rate swap agreement matures August 31, 2031. The interest rate swap agreement effectively "fixed" the interest rate on the Series 2001A Bonds at 4.56% through August 1, 2011. After that date the variable rate that D-H receives changes from the rate equal to the interest on the Series 2001A Bonds to a rate based on the London Interbank Offered Rate (LIBOR) index. At September 30, 2008 and 2007, D-H recorded a liability for the fair value of the interest rate swap agreement of approximately \$16,356,000 and \$11,198,000, respectively.

## DARTMOUTH-HITCHCOCK AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2008 and 2007

The change in market value of the interest rate swap agreement is reflected as an adjustment to unrestricted net assets in the consolidated statement of operations and changes in net assets. This hedge is considered 100% effective, and accordingly there is no material impact on operations due to hedge ineffectiveness at September 30, 2008 and 2007, respectively, (note 14).

D-H also entered into a forward starting interest rate swap agreement, “increased tenor overlay swap,” during fiscal year 2006, with a notional amount of \$118,780,000, as a hedge against interest exposure of its variable rate Series 2001A Bonds, effective July 1, 2007. The interest rate swap agreement is a constant maturity floating-to-floating swap with amortizing notional principal. The interest rate swap agreement requires D-H to make semi-annual payments at an interest rate equal to the average of the weekly Securities Industry and Financial Markets Association (SIFMA) rate index. The counterparty makes semi-annual payments at an interest rate equal to 86.19% of the ten-year SIFMA rate index. At September 30, 2008 and 2007, D-H recorded a liability for the fair value of the interest rate swap agreement of approximately \$554,000 and \$140,000, respectively, in the consolidated balance sheets. The constant maturity interest rate swap agreement does not qualify for hedge accounting, and therefore, the change in market value at the consolidated balance sheet date is included in the consolidated statement of operations and changes in net assets as other nonoperating gains (losses).

Effectively, the combination of the two Series 2001A swaps result in D-H paying the fixed rate of 4.56% and receiving 86.19% of 10-year SIFMA.

- In connection with the September 2003 restructuring of the Series 1993 Bonds, D-H amended the Trust Indentures for the Series 1993 Bonds to allow a call for purchase in lieu of redemption. The terms and conditions of the Series 1993 Bonds were not altered in any way except for the amendment to call provision. The Series 1993 Bonds remain outstanding at the original coupons and may be called by D-H for purchase or redemption. The amendment does not alter the rights of existing bondholders and has no material impact on the value of the Series 1993 Bonds or the holders of the Series 1993 Bonds. In October 2003, D-H called the Series 1993 Bonds for redemption and simultaneously entered into an agreement with Morgan Stanley whereby Morgan Stanley purchased the Series 1993 Bonds at market price.

Concurrent with the restructuring of the Series 1993 Bonds, D-H entered into an interest swap agreement, a “total return swap,” for \$89,825,000 that covers the period from October 2003 through August 2021. Under the interest rate swap agreement, D-H will pay interest at a fixed rate and receive an amount representing the difference between the fixed rate and a variable rate equal to the rate of interest based on the SIFMA rate index plus 42 basis points. The interest rate swap agreement can be terminated by D-H on three days notice and by the counterparty on forty-five days notice. Payments to the swap counterparty are a general obligation of D-H and have been secured by the issuance of a note under the Master Indenture (note 14).

## DARTMOUTH-HITCHCOCK AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2008 and 2007

At September 30, 2008, and 2007, respectively, D-H had an interest swap with a fair value of approximately \$50,000 and \$(202,000), recorded as a liability (contra-liability) in the consolidated balance sheets, designated as a fair value hedge, effectively converting certain fixed rate debt into variable rate debt. Receipts from Morgan Stanley during the years ended September 30, 2008 and 2007, respectively, were approximately \$1,754,000 and \$1,138,000 and are recorded as a reduction of interest expense in the accompanying consolidated statements of operations and changes in net assets.

The obligation of D-H to make payments on its bonds with respect to interest is in no way conditional upon D-H's receipt of payments from the interest rate swap agreement counterparty.

#### (10) Employee Benefits

##### (a) *Defined Benefit Plan*

Most employees of D-H who meet certain age and service requirements are covered by one of two defined benefit pension plans. The benefits are based on years of service and the employee's average compensation. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

In addition to providing pension benefits, D-H sponsors defined contribution plans, postretirement healthcare plans for retired employees, and the Clinic provides postretirement life insurance benefits for retired employees.

The Dartmouth-Hitchcock Pension Group Trust (the Group Trust) was established for the purpose of operating a master investment program of defined benefit pension investments. Substantially all of the Hospital's and Clinic's defined benefit pension assets have been invested in the Group Trust funds by purchasing units based on the market value of the Group Trust funds at the end of the month prior to receipt of any additions to the funds. Investment income earned on the Group Trust funds is allocated monthly based on the weighted average units outstanding at month-end. Realized gains and losses on sales of securities are allocated based on the number of units outstanding at the previous month-end.

The Dartmouth-Hitchcock Retirement Program consists of three components, all defined contribution in nature: an employer-sponsored 403(b) pre-tax program, an employer-sponsored 401(a) plan, and a nonqualified supplemental retirement program. Under the Dartmouth-Hitchcock Retirement Program, D-H has allowed certain employees of the Clinic and Hospital to continue to earn benefit service in the defined benefit pension plans, provided that they met certain criteria. Other employees, comprised of employees (1) who received an offer of employment on or after February 9, 2006, (2) who have not been eligible to participate in or accrue benefits under the defined benefit pension plans, and (3) who have made the choice to irrevocably elect to participate in the new retirement program, will not be eligible to earn benefit service in the defined benefit pension plans after December 31, 2006.

## DARTMOUTH-HITCHCOCK AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2008 and 2007

Net periodic pension expense included in the consolidated statements of operations and changes in net assets is comprised of the components listed below (dollars in thousands):

	<b>Year ended September 30</b>	
	<b>2008</b>	<b>2007</b>
Service cost for benefits earned during the year	\$ 15,887	17,378
Interest cost on projected benefit obligation	38,078	35,323
Expected return on plan assets	(46,785)	(42,143)
Net amortization	7,850	8,888
	<u>\$ 15,030</u>	<u>19,446</u>

The following assumptions were used to determine net periodic pension expense:

	<b>2008</b>	<b>2007</b>
Weighted average discount rate	6.375%	6.415%
Rate of increase in future compensation	4.000	4.000
Expected long-term rate of return on plan assets	9.000	9.000

The measurement date used to determine pension assets and obligations is June 30.

## DARTMOUTH-HITCHCOCK AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2008 and 2007

The following table sets forth the funded status and amounts recognized in D-H's consolidated financial statements for the above referenced defined benefit pension plans at September 30 (dollars in thousands):

	<b>2008</b>	<b>2007</b>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 606,341	570,067
Service cost	15,887	17,378
Interest cost	38,078	35,323
Benefits paid	(17,163)	(16,288)
Actuarial gain	(16,981)	(139)
Benefit obligation at end of year	626,162	606,341
Change in plan assets:		
Fair value of plan assets at beginning of year	549,235	469,506
Actual return on plan assets	(11,085)	75,869
Benefits paid	(17,163)	(16,288)
Employer contributions	15,691	20,148
Fair value of plan assets at end of year	536,678	549,235
Funded status in balance sheet:		
Funded status of the plans	89,484	57,106
Liability for pension	\$ 89,484	57,106

For the year ended September 30, 2008, the liability for pension is included in the liability for pension and other postretirement plan benefits in the accompanying consolidated balance sheet.

For the year ended September 30, 2007, accrued pension cost is reflected in the accompanying consolidated balance sheet as prepaid pension of \$6,935,000 and as a liability for pension of \$64,041,000.

Amounts not yet reflected in net periodic pension expense and included in the change in unrestricted net assets are as follows (dollars in thousands):

	<b>2008</b>	<b>2007</b>
Net actuarial loss	\$ 144,268	110,480
Prior service cost	3,538	4,286
	\$ 147,806	114,766

## DARTMOUTH-HITCHCOCK AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2008 and 2007

The estimated amounts that will be amortized from unrestricted net assets into net periodic pension expense in 2009 are as follows (dollars in thousands):

Unrecognized prior service cost	\$	748
Net actuarial loss		1,109
		1,857
	\$	1,857

The accumulated benefit obligation for the defined benefit pension plans was approximately \$536,565,000 and \$515,709,000 at September 30, 2008 and 2007, respectively.

The following table sets forth the assumptions used by the actuaries in determining the above:

	<b>2008</b>	<b>2007</b>
Weighted average discount rate	6.800%	6.375%
Rate of increase in future compensation	4.000	4.000
Expected long-term rate of return on plan assets	9.000	9.000

The primary investment policy objective for the Dartmouth-Hitchcock Pension Group Trust is to provide long-term capital appreciation by utilizing 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:

	<b>Range of target allocations</b>	<b>Target allocations</b>
Equity securities	34 – 70%	55%
Debt securities	16 – 56	34
Alternative investments, including private equities, hedge funds, and real estate	0 – 24	11

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

The Boards of Trustees of the Hospital and Clinic, as Plan Sponsors, oversee the design, structure, and prudent professional management of the D-H 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,

## DARTMOUTH-HITCHCOCK AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2008 and 2007

- Hiring and terminating investment managers, and
- Monitoring performance of the investment managers, custodians and investment consultants.

The weighted average asset allocation for the D-H Plans at September 30, 2008 and 2007, by asset category is as follows:

	<u>2008</u>	<u>2007</u>
Asset category:		
Equity securities	53%	55%
Debt securities	36	34
Alternative investments, including private equities, hedge funds and other	11	11
Total	<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 9.00% per annum.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid for the years ending September 30 (dollars in thousands):

	<u>Pension plans</u>
2009	\$ 22,808
2010	24,764
2011	27,125
2012	30,208
2013	33,329
2014 – 2018	215,936

**(b) Defined Contribution Plan**

D-H has a defined contribution plan, the Dartmouth-Hitchcock Retirement Plan, an employer-sponsored 401(a) plan, under which it makes annual contributions based on specified percentages of annual compensation and employee contributions. D-H contributed \$33,377,000 and \$25,945,000 to the plan in 2008 and, 2007, respectively, included in employee benefits in the consolidated statements of operations and changes in net assets.

**(c) Postretirement Medical and Life Benefits**

D-H has postretirement medical and life benefit plans covering certain of its former employees. The plans generally provide medical and life insurance benefits to certain retired employees of D-H who meet age and years of service requirements. The plans are not funded.

## DARTMOUTH-HITCHCOCK AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2008 and 2007

Net periodic postretirement medical and life benefit cost is comprised of the components listed below (dollars in thousands):

	<b>Year ended September 30</b>	
	<b>2008</b>	<b>2007</b>
Service cost	\$ 2,150	2,427
Interest cost	4,951	4,713
Amortization of net transition asset	25	25
Amortization of prior service cost	189	189
Amortization of net loss	1,249	1,313
	\$ 8,564	8,667

The following table sets forth the accumulated postretirement medical and life benefit obligation and amounts recognized in D-H's consolidated financial statements at September 30 (dollars in thousands):

	<b>2008</b>	<b>2007</b>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 79,364	72,328
Service cost	2,150	2,427
Interest cost	4,951	4,713
Benefits paid	(3,390)	(3,064)
Actuarial (loss) gain	(3,613)	2,959
Benefit obligation at end of year	79,462	79,363
Funded status of the plans	79,462	79,363
Liability for postretirement medical and life benefits	\$ 79,462	79,363

For the years ended September 30, 2008 and 2007, 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 pension expense and included in the change in unrestricted net assets are as follows (dollars in thousands):

	<b>2008</b>	<b>2007</b>
Net transition asset	\$ 132	157
Net actuarial loss	17,934	22,275
Prior service cost	395	584
	\$ 18,461	23,016

## DARTMOUTH-HITCHCOCK AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2008 and 2007

The estimated amounts that will be amortized from unrestricted net assets into net periodic postretirement expense in 2009 are as follows (dollars in thousands):

Unrecognized prior service cost	\$	189
Net transition obligation		25
Net actuarial loss		890
		1,104
	\$	1,104

In determining the accumulated postretirement medical and life benefit obligation, D-H used a discount rate of 6.8% in 2008 and 6.4% in 2007, and an assumed healthcare cost trend rate of 8.5%, trending down to 5.0% in 2011 and thereafter. Increasing the assumed healthcare cost trend rates by one percentage point in each year would increase the accumulated postretirement medical and life benefit obligation as of September 30, 2008 by \$7,488,000 and the net periodic postretirement medical and life benefit cost for the year ended by \$757,000.

The effect of applying SFAS No. 158 to D-H's consolidated financial position as of September 30, 2007, including the effect of recognizing the reduction in D-H's minimum pension liability under SFAS No. 87, is presented in the following table (dollars in thousands):

	Prior to SFAS No. 158	Adjustments	After SFAS No. 158
Prepaid pension costs	\$ 56,324	(49,389)	6,935
Other assets	39,160	(1,649)	37,511
Total assets	1,125,060	(51,038)	1,074,022
Postretirement medical benefits	56,347	23,016	79,363
Other supplemental postretirement benefit	313	94	407
Accrued pension	41,319	22,315	63,634
Total liabilities	674,093	45,425	719,518
Total unrestricted net assets	459,007	(96,463)	362,544

D-H provided other supplemental benefits to certain employees for the years ended September 30, 2008 and 2007, which amounted to approximately \$1,128,000 and \$1,617,000, respectively.

#### (11) Liability Insurance Coverage

Professional and general liability insurance for D-H, along with selected DHMC affiliates and Alliance entities, is provided through Hamden Assurance Company, Limited (HAC), a captive insurance company located in Bermuda, and Hamden Risk Retention Group (RRG), a Vermont captive insurance company that commenced operation October 1, 2007, in which D-H and other DHMC affiliates have ownership interests. HAC and RRG together reinsures the insurer of the covered institutions and named insureds with coverage on a modified claims-made basis that provides specific coverage of claims submitted during the policy term. Premiums and related insurance deposits are actuarially determined based on asserted, and reported but unasserted liability claims.

## DARTMOUTH-HITCHCOCK AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2008 and 2007

Professional actuaries have been retained to assist HAC and RRG with determining amounts to be deposited for liability coverage. Management believes the deposit liability account at September 30, 2008 is adequate to provide for future liability claims.

Selected financial data of HAC and RRG, taken from the latest available audited and unaudited financial statements (September 30, 2008 and 2007) are summarized as follows (dollars in thousands):

	2008			2007		
	HAC	RRG	Total	HAC	RRG	Total
	(Audited)	(Unaudited)		(Audited)		
Assets	\$ 83,267	1,016	84,283	77,875	—	77,875
Shareholders' equity	10,120	50	10,170	10,120	—	10,120
Net income	—	6	6	—	—	—

#### (12) Commitments and Contingencies

##### (a) *Litigation*

D-H 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 D-H.

##### (b) *Operating Leases and Other Commitments*

D-H leases certain facilities and equipment under operating leases with varying expiration dates. D-H's rental expense totaled approximately \$5,006,000 and \$4,952,000 in 2008 and 2007, respectively. Aggregate future lease payments for the next five years range from approximately \$3,582,000 in 2009 to \$0 in 2013.

#### (13) Functional Expenses

D-H provides a broad range of healthcare services. Expenses related to providing these services for the years ended September 30, 2008 and 2007 were approximately \$905,695,000 and \$854,581,000, respectively.

#### (14) Subsequent Events

Recent financial market conditions have resulted in an unusually high degree of volatility and, as such, could impact the value of investments after the date of the accompanying consolidated financial statements.

Due to the high degree of volatility in the market, the ultimate impact of the funded status of D-H's defined benefit pension plans will be determined based on market conditions in effect when the annual valuation as of and for the year ended September 30, 2009 is performed in accordance with SFAS No. 158 (note 10).

## **DARTMOUTH-HITCHCOCK AND SUBSIDIARIES**

### Notes to Consolidated Financial Statements

September 30, 2008 and 2007

Subsequent to September 30, 2008, MHMH through the Obligated Group, issued Series 2008B Revenue Bonds to advance refund the Series 1993 Revenue Bonds. The Series 2008B Bonds are variable rate bonds maturing at various dates through 2021. Along with the advance refunding, the Total Return Swap associated with the Series 1993 Bonds was unwound releasing all parties from their respective rights and obligations (note 9(b)).

Subsequent to September 30, 2008, MHMH through the Obligated Group, issued Series 2008C Revenue Bonds, in the amount of \$39,065,000 to construct an Outpatient Surgery Center (OSC) and acquire related equipment. The Series 2008C Bonds are variable rate bonds maturing at various dates from 2022 through 2038. In November of 2008 a Letter Agreement for construction services was signed. The estimated completion date of the OSC is March of 2010.

As a result of the credit market disruptions subsequent to September 30, 2008, the counterparty to the 2001A Swap Contract exercised its option to apply the SIFMA rate index for purposes of calculating the interest to be received under 2001A the Swap Contract. The SIFMA rate index replaces the previous method of using the rate of interest on the Series 2001A Bonds through August 1, 2011 and at a variable rate based on the LIBOR index thereafter (note 9(b)).