



**YALE NEW HAVEN HEALTH SERVICES CORPORATION
D/B/A YALE NEW HAVEN HEALTH SYSTEM AND SUBSIDIARIES**

Independent Auditors' Reports as Required by Title 2 U.S. Code of
Federal Regulations Part 200, *Uniform Administrative Requirements, Cost
Principles, and Audit Requirements for Federal Awards and Government
Auditing Standards* and Related Information

Year Ended September 30, 2021

(With Independent Auditors' Report Thereon)

**YALE NEW HAVEN HEALTH SERVICES CORPORATION
D/B/A YALE NEW HAVEN HEALTH SYSTEM AND SUBSIDIARIES**

Independent Auditors' Reports as Required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and Government Auditing Standards* and Related Information

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KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Trustees
Yale New Haven Health Services Corporation
d/b/a Yale New Haven Health System and Subsidiaries:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Yale New Haven Health Services Corporation, d/b/a Yale New Haven Health System and subsidiaries, which comprise the consolidated balance sheets as of September 30, 2021 and 2020, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Yale New Haven Health Services Corporation as of September 30, 2021 and 2020, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2021 on our consideration of the 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. 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 the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

KPMG LLP

New York, New York
December 22, 2021

YALE NEW HAVEN HEALTH SERVICES CORPORATION
(d/b/a Yale New Haven Health System and Subsidiaries)

Consolidated Balance Sheets

September 30, 2021 and 2020

(In thousands)

Assets	2021	2020
Current assets:		
Cash and cash equivalents	\$ 439,777	841,696
Short-term investments	3,940,899	3,019,491
Patient receivables	671,681	609,951
Professional liabilities insurance recoveries receivable	79,615	80,278
Other assets	286,478	305,268
Assets limited as to use – debt service fund	6,398	6,368
Total current assets	5,424,848	4,863,052
Assets limited as to use	205,916	166,836
Long-term investments	376,465	354,989
Interest in the net assets of Greenwich Hospital Endowment Fund, Inc. (GHEF)	138,729	118,755
Professional liabilities insurance recoveries receivable	185,584	180,000
Other assets	164,526	146,919
Right of use assets	321,244	330,295
Property, plant, and equipment, net	2,051,711	2,113,552
Goodwill	185,262	185,262
Total assets	\$ 9,054,285	8,459,660

YALE NEW HAVEN HEALTH SERVICES CORPORATION

(d/b/a Yale New Haven Health System and Subsidiaries)

Consolidated Balance Sheets

September 30, 2021 and 2020

(In thousands)

Liabilities and Net Assets	2021	2020
Current liabilities:		
Accounts payable and accrued expenses	\$ 959,026	929,480
Current portion of long-term debt	23,665	22,883
Current portion of finance lease obligation	5,755	5,665
Current portion of professional insurance liabilities	79,615	79,285
Variable rate debt classified as current	198,005	209,328
Line of credit	—	225,000
Right of use liability – short term	49,258	45,599
Other liabilities	454,122	248,496
	<hr/>	<hr/>
Total current liabilities	1,769,446	1,765,736
Long-term debt, net of current portion and deferred financing costs	1,429,953	1,219,832
Long-term finance lease obligations, net of current portion	118,418	123,235
Accrued pension and postretirement benefit obligations	237,296	390,432
Professional insurance liabilities, net of current portion	281,702	280,962
Right of use liability – long term	278,275	290,329
Other liabilities	457,090	782,095
	<hr/>	<hr/>
Total liabilities	4,572,180	4,852,621
Net assets:		
Net assets without donor restrictions	3,981,298	3,190,319
Net assets with donor restrictions	500,807	416,720
	<hr/>	<hr/>
Total net assets	4,482,105	3,607,039
	<hr/>	<hr/>
Total liabilities and net assets	\$ 9,054,285	8,459,660
	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to consolidated financial statements.

YALE NEW HAVEN HEALTH SERVICES CORPORATION

(d/b/a Yale New Haven Health System and Subsidiaries)

Consolidated Statements of Operations and Changes in Net Assets

Years ended September 30, 2021 and 2020

(In thousands)

	<u>2021</u>	<u>2020</u>
Net assets without donor restrictions:		
Patient service revenue	\$ 5,171,019	4,545,579
Other revenue	707,099	757,591
Total operating revenue	<u>5,878,118</u>	<u>5,303,170</u>
Operating expenses:		
Salaries and benefits	2,931,807	2,807,711
Supplies and other	2,570,287	2,290,284
Depreciation and amortization	223,047	211,507
Insurance	79,279	82,071
Interest	30,841	32,198
Total operating expenses	<u>5,835,261</u>	<u>5,423,771</u>
Income (loss) from operations	<u>42,857</u>	<u>(120,601)</u>
Nonoperating gains (losses), net:		
Income from investments, donations, and other, net	562,723	146,571
Pension cost other than service cost, net	6,891	9,516
Change in fair value of swap, including counterparty payments	34,334	(21,053)
Total nonoperating gains, net	<u>603,948</u>	<u>135,034</u>
Excess of revenue over expenses	646,805	14,433
Other changes in net assets without donor restrictions:		
Other	218	1,162
Net assets released from restrictions for purchases of property, plant and equipment	43,819	45,972
Pension and postretirement related changes other than net periodic benefit cost	100,137	14,555
Changes in net assets without donor restrictions	<u>790,979</u>	<u>76,122</u>

YALE NEW HAVEN HEALTH SERVICES CORPORATION

(d/b/a Yale New Haven Health System and Subsidiaries)

Consolidated Statements of Operations and Changes in Net Assets

Years ended September 30, 2021 and 2020

(In thousands)

	<u>2021</u>	<u>2020</u>
Net assets with donor restrictions:		
Income from investments	\$ 4,397	5,342
Net realized and unrealized gains on investments	75,559	24,163
Bequests and contributions	68,572	89,970
Net assets released from restrictions for purchases of property, plant and equipment	(43,819)	(45,936)
Net assets released from restrictions for operations	(16,022)	(22,479)
Net assets released from restrictions for clinical programs	(7,791)	(6,564)
Net assets restricted for Greenwich Hospital Foundation	(5,000)	(4,700)
Change in beneficial interest in perpetual trusts	3,639	1,064
Other	4,552	1,901
	<u>84,087</u>	<u>42,761</u>
Changes in net assets with donor restrictions	84,087	42,761
Increase in net assets	875,066	118,883
Net assets at beginning of year	<u>3,607,039</u>	<u>3,488,156</u>
Net assets at end of year	<u>\$ 4,482,105</u>	<u>3,607,039</u>

See accompanying notes to consolidated financial statements.

YALE NEW HAVEN HEALTH SERVICES CORPORATION
(d/b/a Yale New Haven Health System and Subsidiaries)

Consolidated Statements of Cash Flows
Years ended September 30, 2021 and 2020
(In thousands)

	2021	2020
Operating activities:		
Increase in net assets	\$ 875,066	118,883
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	223,047	211,507
Net realized and change in net unrealized losses on investments	(625,353)	(126,995)
Change in fair value of interest rate swap agreements	(41,944)	15,699
Amortization of long-term debt premium and deferred financing costs	(1,703)	(2,179)
Change in beneficial interest in perpetual trusts	(3,639)	(1,064)
Bequests and contributions	(74,581)	(44,712)
Pension and postretirement related changes other than net periodic benefit cost	(100,137)	(14,555)
CARES Act medicare cash (recoupments) advances	(116,488)	444,958
Changes in operating assets and liabilities:		
Accounts receivable	(61,730)	(32,610)
Other assets	1,183	(105,663)
Accounts payable and accrued expenses	6,413	137,050
Professional insurance recoveries and liabilities	(3,851)	12,987
Reduction in carrying amount of right of use assets	63,089	59,164
Other liabilities, accrued pension and postretirement benefit obligations	(76,379)	14,048
Net cash provided by operating activities	62,993	686,518
Investing activities:		
Acquisitions of property, plant, and equipment	(138,073)	(245,437)
Purchases of investments	(1,314,259)	(1,466,169)
Sales of investments	941,313	532,831
Amounts deposited with trustee in debt service fund	(30)	185
Net cash used in investing activities	(511,049)	(1,178,590)
Financing activities:		
Payments of long-term debt	(22,755)	(24,032)
Proceeds from issuance of long-term debt	225,000	565,000
Proceeds from issuance of line of credit	—	225,000
Payments on the line of credit	(225,000)	—
Payments for debt issuance costs	(836)	(3,540)
Payments on finance lease obligations	(4,727)	(4,872)
Payments on notes payable	(126)	(780)
Bequests and contributions	74,581	44,712
Net cash provided by financing activities	46,137	801,488
Net (decrease) increase in cash and cash equivalents	(401,919)	309,416
Cash and cash equivalents at beginning of year	841,696	532,280
Cash and cash equivalents at end of year	\$ 439,777	841,696
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 52,475	37,296
Non cash acquisitions of property, plant, and equipment	37,657	14,524

See accompanying notes to consolidated financial statements.

YALE NEW HAVEN HEALTH SERVICES CORPORATION
(d/b/a Yale New Haven Health System and Subsidiaries)

Notes to Consolidated Financial Statements

September 30, 2021 and 2020

(1) Organization and Significant Accounting Policies

(a) Organization

Yale New Haven Health Services Corporation (YNHHSC), formed in 1983, was incorporated under the Not-for-Profit Corporation Law to coordinate the activities of the members of the Yale New Haven Health Services Corporation, d/b/a Yale New Haven Health System and Subsidiaries (collectively, the System), and is an integrated regional healthcare delivery system.

The System currently includes the following entities:

YNHHSC is the parent company of Yale New Haven Hospital, Inc. (YNHH), Corporate Professional Business Services, Inc. (CPBS), Bridgeport Hospital and subsidiaries (BH), Greenwich Hospital and subsidiaries (GH), Lawrence + Memorial Corporation and subsidiaries (LMC), and Northeast Medical Group, Inc. (NEMG).

YNHH is a voluntary association incorporated under the General Statutes of the State of Connecticut. The Board of Trustees of YNHH, appointed by YNHHSC, controls the operations of YNHH. YNHH is the parent of the following entities:

Yale New Haven Care Continuum Corporation (YNHCCC), a Connecticut nonstock corporation, is a wholly owned subsidiary of YNHH. YNHCCC provides long-term care for those unable to live independently and short-term rehabilitation for patients who have experienced elective surgery, an injury, or a traumatic major illness. Its services include respite care for family members and caregivers, stroke recovery for victims of strokes, orthopedic recovery services, medications, and diagnostic services (such as radiological services). YNHCCC is the sole member of Home Care Plus, Inc. (HCP). HCP provides home healthcare services to local residents.

Yale New Haven Ambulatory Services Corporation and subsidiaries (YNHASC), a Connecticut nonstock, taxable corporation, is a wholly owned subsidiary of YNHH, and is 51% owner of Shoreline Surgery Center, LLC (SSC), and 100% owner of SSC II, LLC.

Medical Center Pharmacy and Home Care, Inc. (MCP) is a Connecticut stock, for-profit company and is a wholly owned subsidiary of YNHH.

BH is a voluntary association incorporated under the General Statutes of the State of Connecticut. The Board of Trustees of BH, appointed by YNHHSC, controls the operations of BH. BH is the parent of the following entities:

Bridgeport Hospital Foundation (Foundation) solicits contributions for the benefit of BH and all other tax-exempt healthcare organizations associated with BH.

Southern Connecticut Health System Properties, Inc. is a real estate holding company, which sold primarily all of its assets to Bridgeport Hospital during 1998.

NEMG is a tax-exempt medical organization that provides physician-related services to BH, GH, YNHH, and LMC and their surrounding communities. NEMG operates autonomously with a separate

YALE NEW HAVEN HEALTH SERVICES CORPORATION
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Notes to Consolidated Financial Statements

September 30, 2021 and 2020

board, management, and medical staff. YNHHS must approve the strategic plans, operating budgets, capital budgets, and board appointments of NEMG.

GH is a voluntary association incorporated under the General Statutes of the State of Connecticut. The Board of Trustees of GH, appointed by YNHHS, controls the operations of GH.

GH is the parent corporation of a group of wholly owned subsidiaries, including The Perryridge Corporation and Greenwich Ambulatory Surgery Center, LLC. YNHHS is the sole member of GH. GH and its subsidiaries are Section 501(c)(3) not-for-profit organizations, and are exempt from federal income taxes under Section 501(a) of the Code.

The Greenwich Hospital Endowment Fund, Inc., is a Section 501(c)(3) not-for-profit organization that has a charitable purpose to solicit, receive, maintain, hold, manage, and administer funds, including, without limitations, endowment funds, for the benefit of GH. The board of GHEF is not required to comprise of all members of GH's investment oversight committee and due to this governance structure, the financial statements of GHEF are not consolidated into the financial statements of GH.

Greenwich Hospital, a nonstock Connecticut corporation, provides healthcare services to the lower Fairfield County, and Westchester County, New York communities.

CPBS, a for-profit stock corporation, manages physician practices and provides third-party administration services on certain managed care contracts. The capital stock of CPBS consists of 20,000 shares of common stock, par value of one one-hundredth of a dollar per share. The Board of Directors of CPBS is appointed by YNHHS, the sole shareholder, who controls CPBS's operations.

YNHHS is the sole corporate member of LMC, a system of healthcare that provides a wide array of services throughout the region including Lawrence + Memorial Hospital (L+M), L+M Systems, Inc., VNA of Southeastern Connecticut, L+M Healthcare, VNA of Southeastern Connecticut Inc. (VNA), and LMW Healthcare Inc. (Westerly Hospital). LMC is the parent of the following entities:

L+M is a nonprofit organization incorporated under the General Statutes of the State of Connecticut.

Westerly Hospital is a nonprofit organization incorporated under the General Statutes of the State of Rhode Island.

VNA is a not-for-profit organization under the general statutes of the State of Connecticut that provides home healthcare services.

Concurrent with the issuance of the Connecticut Health and Educational Facilities Authority (CHEFA) Revenue Bonds, Yale New Haven Health Obligated Group, Series A, B, C, D, and E dated May 20, 2014, six members of the System were combined to form an Obligated Group. The Obligated Group comprises YNHHS, YNH, YNHCCC, BH, the Foundation, and NEMG. On September 18, 2018, GH joined the Obligated Group. Concurrent with Yale New Haven Health Obligated Group entering into a term loan agreement with Bank of America, N.A., dated June 28, 2018, LMC, L+M, and Westerly Hospital joined the obligated group. The members of the Obligated Group have adopted certain

YALE NEW HAVEN HEALTH SERVICES CORPORATION
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Notes to Consolidated Financial Statements

September 30, 2021 and 2020

governance provisions in their certificates of incorporation and bylaws pursuant to which YNHSC retains the authority to directly take certain actions on behalf of each Obligated Group member without the approval of the board of trustees of the applicable Obligated Group member, including the incurrence of indebtedness on behalf of each Obligated Group member, the management and control of the liquid assets of each, and the appointment of the president and chief executive officer of each Obligated Group member.

Impact of COVID-19

The effects of the COVID-19 pandemic on inpatient and outpatient activities as well as incremental expenses incurred in connection with the System's COVID-19 preparation and response efforts significantly impacted the financial results of the System.

On March 27, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), which provided for more than \$2 trillion in economic relief impacting all sectors of the economy, including the healthcare industry. Of the relief funding authorized by the CARES Act, \$175 billion was allocated to the Provider Relief Fund (PRF), with funding granted through the U.S. Department of Health and Human Services and \$150 billion allocated to the Coronavirus Relief Fund (CRF) with funding granted through the U.S. Department of the Treasury. The PRF was distributed to support hospitals and healthcare providers incurring healthcare-related expenses and/or lost revenue attributable to the COVID-19 pandemic and the CRF was distributed to states and local governments to aid in navigating the impact of the COVID-19 outbreak. To date, the System has received and recognized approximately \$149 million and \$301 million in distributions from these programs for the years ended September 30, 2021 and 2020, respectively, within other revenue in the accompanying consolidated statements of operations and changes in net assets. The grants do not require repayment provided the System complies with the terms, conditions and reporting requirements set forth by the respective granting agency. The reporting and compliance guidance as issued and updated by respective granting agencies may continue to evolve, which could impact the amounts recognized by the System through this program.

Under the CARES Act, the System received approximately \$445 million for the year ended September 30, 2020 in advanced payments from the Medicare program. The Centers for Medicare & Medicaid Services (CMS) began recouping these funds by withholding patient payments from claim submissions beginning in April 2021, and will continue until the total of the amounts withheld are equal to the total of amounts advanced as part of the program. As of September 30, 2021, CMS has recouped approximately \$117.4 million. Based on expected repayment timeline under the program, \$328 million and \$143 million is included in other current liabilities as September 30, 2021 and 2020, respectively, and \$302 million is recorded in long-term other liabilities as of September 30, 2020, in the accompanying consolidated balance sheets.

The System elected to defer the payment of the employer's portion of social security taxes incurred between March 27, 2020 and December 31, 2020, as permitted under the CARES Act. The program requires fifty percent of the deferred amounts to be paid by December 31, 2021, and the remainder by December 31, 2022. The System deferred payroll tax payments of approximately \$28.1 million from the period October 1, 2020 through December 31, 2020. Total deferred payroll taxes were approximately \$95.5 million and \$67.4 million as of September 30, 2021 and 2020, respectively, which are included in

YALE NEW HAVEN HEALTH SERVICES CORPORATION
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September 30, 2021 and 2020

other current and long-term liabilities in the accompanying consolidated balance sheet as of September 30, 2021 and other long-term liabilities in the accompanying consolidated balance sheet as of September 30, 2020.

During fiscal 2021, the System applied for and received approval for the reimbursement of qualifying expenses under the Federal Emergency Management Agency (FEMA). For the year ended September 30, 2021, the System recognized approximately \$56 million of FEMA funds within other revenue in the accompanying consolidated statement of operations and changes in net assets.

From the outset of the pandemic, the Obligated Group began bolstering its liquidity position to offset uncertain but potential impacts. In fiscal 2020, the Obligated Group borrowed \$225 million under its line of credit agreement as well as incurred additional long-term taxable indebtedness by issuing \$565 million in taxable notes (see note 8). The proceeds of the taxable notes were available for use by the Obligated Group for its general corporate purposes. During fiscal 2021, the Obligated Group issued \$225 million of taxable notes that were used to pay off the line of credit agreement in full.

(b) Principles of Consolidation

The accompanying consolidated financial statements present the accounts and transactions of the System and its subsidiaries. All significant intercompany revenue and expenses and intercompany balance sheet accounts have been eliminated in consolidation.

(c) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the amounts of revenue and expenses reported during the reporting period. Actual results could differ from those estimates.

(d) Related-Party Transaction

For each of the years ended 2021 and 2020, YNHH funded approximately \$40 million as part of its participation in the New Clinical Program Development Corporation (NCPDC), which is included in supplies and other expenses in the accompanying consolidated statements of operations and changes in net assets. The NCPDC is a separate corporation established by YNHH and Yale University (the University) for the purpose of funding and supporting clinical research and clinical programs. The NCPDC Board of Directors approves the funding of initiatives and consists of equal representatives from both YNHH and the University.

YNHH also received \$40 million during each of the years ended September 30, 2021 and 2020, respectively, from NCPDC, which were recorded as with donor restrictions and released in the same year for capital expenditures.

(e) Net Assets Without and With Donor Restrictions

The accompanying consolidated financial statements present information regarding the System's financial position and activities according to two classes of net assets: without donor restriction and

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Notes to Consolidated Financial Statements

September 30, 2021 and 2020

with donor restrictions. Resources arising from the results of operations or assets set aside by the Board of Trustees are not considered to be donor restricted. Net assets with donor restriction are those whose use by the System has been limited by donors to a specific time period or purpose. These restricted assets represent funds, including contributions and accumulated investment returns, whose use has been restricted by donors to a specific period or purpose or that have been restricted by donors to be maintained in perpetuity to provide a permanent source of income.

The System is a partial beneficiary to various perpetual trust agreements. Assets recorded under these agreements are recognized at fair value. The assets and investment income generated from the trusts is classified as net assets with donors restrictions.

Certain investments are pooled together and consist of net assets without and with donor-imposed restrictions to facilitate their management. Investment income is allocated to both categories of net assets participating in the investment pool on a pro rata basis based on their respective market value. The Board of Trustees approves spending for certain pooled funds based on the spending policy. Realized gains and losses from the sale of securities are computed using the average-cost method and first-in, first-out method.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until the conditions on which they depend are met. Contributions receivable to be received after one year are discounted at a discount rate commensurate with the risks involved. Amortization of the discount is recognized as revenue, and is classified as either net assets with or without donor restrictions in accordance with donor imposed restrictions, if any, on the contributions. Contributions are reduced by an allowance for uncollectible contributions. The amount of the allowances for uncollectible contributions is based upon management's assessment of historical and expected net collections. Contributions and pledges receivable are included in other current assets and other assets in the accompanying consolidated balance sheets.

Net assets without and with donor restrictions are available for the following purposes (in thousands):

	<u>2021</u>	<u>2020</u>
Without donor restrictions:		
Undesignated	\$ 3,981,298	3,190,319
With donor restrictions:		
Perpetual	131,439	124,506
Purpose restricted:		
Specific hospital operations, teaching, research, indigent and free care, and training	324,421	266,191
Plant improvement and expansion	<u>44,947</u>	<u>26,023</u>
Net assets	<u>\$ 4,482,105</u>	<u>3,607,039</u>

YALE NEW HAVEN HEALTH SERVICES CORPORATION
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September 30, 2021 and 2020

Net assets with perpetual donor restrictions consist of donor restricted endowment principal and beneficial interests in perpetual trusts. The income generated from these funds is expendable for purposes designated by donors, including research, free care, healthcare, and other services.

(f) Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. All gifts are reported as either net assets with or without 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, these net assets are reclassified as net assets without donor restrictions.

(g) Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid financial instruments with original maturities of three months or less when purchased, which are not classified as assets limited as to use, and which are not maintained in the short-term or long-term investment portfolios. Cash and cash equivalents held temporarily by investment managers is treated as investing activity for cash flow purposes.

Cash and cash equivalents are maintained with domestic financial institutions with deposits, which exceed federally insured limits. It is the System's policy to monitor the financial strength of these institutions.

(h) Accounts Receivable

Patient accounts receivable result from the healthcare services provided by the System. Patient accounts receivable have been adjusted to the estimated amounts expected to be collected. These estimated amounts are subject to further adjustments upon review by third party payers. Such receivables do not bear interest.

The amount of the implicit price concessions is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid healthcare coverage, and other collection indicators. After satisfaction of amounts due from insurance, the System follows established guidelines for placing certain patient balances with collection agencies, subject to certain restrictions on collection efforts as determined by the System policy. See note 2 for additional information relative to third party payer programs.

(i) Investments

The System has designated its debt securities as trading. Investment income or loss (including realized gains and losses on investments, interest, and dividends) and the change in net unrealized gains and losses are included in the excess (deficiency) of revenue over expenses unless the income or loss is restricted by donor or law.

Investments in equity securities with readily determinable fair values and investments in debt securities are measured at fair value (quoted market prices) in the accompanying consolidated balance sheets.

YALE NEW HAVEN HEALTH SERVICES CORPORATION
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Notes to Consolidated Financial Statements

September 30, 2021 and 2020

Certain alternative investments (nontraditional, not-readily marketable assets) are structured such that the System holds limited partnership interests or pooled units and are accounted for utilizing net asset value (NAV) per unit for measurement of the units' fair value. Individual investment holdings within the alternative investments may, in turn, include investments in both nonmarketable and market-traded securities. Fund of funds investments are primarily based on financial data supplied by the underlying investee funds. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. The investments may indirectly expose the System to securities lending, short sales of securities, and trading in futures and forwards contracts, options, swap contracts, and other derivative products. While these financial instruments may contain varying degrees of risk, the System's risk with respect to such transactions is limited to its capital balance in each investment. The financial statements of the investees are audited annually by independent auditors. The System maintains the Yale New Haven Health System Investment Trust (the Trust), a unitized Delaware Investment Trust created to pool assets for investment by the Health System's nonprofit entities. The Trust comprises two pools: the Long-Term Investment Pool (L-TIP) and the Intermediate-Term Investment Pool (I-TIP). Governance of the Trust is performed by the Yale New Haven Health System Investment Committee.

Under the terms of the investment management agreement with the Trust, withdrawals of investments in the L-TIP can be made annually by each hospital on July 1. Amounts withdrawn are subject to a schedule that allows larger withdrawals with longer notice periods. As of September 30, 2021, each hospital can withdraw 100% of its investment in the L-TIP on July 1, 2022. Withdrawals of investments in the I-TIP in any amount can be made quarterly with 30 days' advance notice.

The Trust has entered into an agreement (the Investment Management Agreement) with the University. The University's investment office allows the University to manage a portion of the Trust's investments as part of the University's Endowment Pool (the Pool). The Trust did not make any transfers for the years ended September 30, 2021 and 2020 to the University in exchange for units in the Pool. The Trust's interest in the Pool is reported at fair value based on the NAV per units held. The Pool invests in domestic equity, foreign equity, absolute return, private equity, real assets, fixed income, and cash.

Under the terms of the Investment Management Agreement with the University, withdrawals of the Trust's investment in the Pool can be made based upon days' notice provided to the University before their June 30 year end and the total market value of the Pool. For withdrawals of up to 2% of the Pool, 1.4% of the Pool, and 1% of the Pool, the advance notice period is set to a maximum of 360 days, 270 days, 180 days, respectively, prior to the University's fiscal year ending June 30. Withdrawals of the Trust's investment in the Pool can also be made up to 0.6% of the Pool on the last day of any calendar month provided 20 days advance notice is provided.

Short-term investments represent those securities that are available for the System's operations, and can be converted to cash within one year.

(j) Inventories

Inventories (included in other current assets) are stated at the lower of cost or net realizable value. The System values its inventories using the first-in, first-out method, with the exception of YNHH's pharmacy inventories, which are valued at average cost.

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(k) Assets Limited as to Use

Assets limited as to use represent assets held by trustees under indenture agreements, beneficial interest in perpetual trusts, and designated assets set aside by the Board for future capital improvements, and other Board-approved uses. The Board retains control of board-designated funds and, at its discretion, may use for other purposes for plant improvements and expansion. Amounts required to meet current liabilities are reported as current assets. These funds consist primarily of U.S. government securities, mutual funds, and money market funds.

(l) Interest in Net Assets of Greenwich Hospital Endowment Fund, Inc.

The purpose of GHEF is to solicit, receive, maintain, hold, manage and administer funds, including, without limitation, endowment funds of GH, and to use, apply and distribute the whole or any part of the income therefrom and principal thereof exclusively to, or for the benefit of, GH and/or any entities of which GH is, directly or indirectly, the sole member and which are exempt from federal income tax under Section 501(c)(3) of the Code, so long as GH and/or any or all of such entities provide or arrange for the delivery of health care to the Greenwich, Connecticut community and its service area, and to engage in such other activities to promote the purposes of GHEF, all as more fully set forth in the Certificate of Incorporation of GHEF.

The interest in the net assets of GHEF represent the System's beneficial interest in the net assets held by GHEF for the benefit of GH. This asset is accounted for in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-20, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that raises or Holds Contributions for Others*.

(m) Perpetual Trusts

The System is the beneficiary of certain perpetual trusts held and administered by others. The estimated future cash receipts, which are measured based on the fair value of the assets held by the trust, are recognized as assets and contribution revenue at the dates the trusts are established. Beneficial interest in perpetual trusts is recorded as net assets with donor restrictions and are adjusted for any changes in the fair value of the trusts. Income distributions received from the trusts are recorded as without donor restricted contributions when received.

(n) Interest Rate Swap Agreements

The System utilizes interest rate swap agreements to reduce risks associated with changes in interest rates. Interest rate swap agreements are reported at fair value with changes in fair value during the year recorded as nonoperating gains (losses), net. The System is exposed to credit risk in the event of nonperformance by the counterparties to its interest rate swap agreements. The System is also exposed to the risk that the swap receipts may not offset its variable rate debt service. To the extent these variable rate swap receipts do not equal variable interest payments on the bonds, there will be a net loss or net benefit to the System.

(o) Benefits and Insurance

The System is self-insured for medical, dental, hospitalization, and prescription drug benefits provided to employees and has a stop-loss arrangement to limit exposure for these self-insured benefits. These are included in salaries and benefits expense.

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The System's paid time off policy was modified to eliminate the cash-in option effective December 31, 2021. This resulted in a reduction to the liability of approximately \$63 million at September 30, 2021.

(p) Workers' Compensation and Professional Liability Insurance

The System is self-insured for workers' compensation claims. The System has a stop-loss arrangement to limit exposure for workers' compensation claims. Estimated amounts are accrued for claims, including claims incurred but not reported (IBNR). At September 30, 2021 and 2020, the estimated discounted liabilities for self-insured workers' compensation claims and IBNR aggregated approximately \$45.1 million and \$41.9 million, respectively, discounted at approximately 1.5%, for the hospitals and are included in other long-term liabilities in the accompanying consolidated balance sheets.

The System records the actuarially determined liabilities for IBNR professional insurance liabilities (note 11).

(q) Property, Plant, and Equipment

Property, plant, and equipment purchased are carried at cost, and those acquired by gifts and bequests are carried at fair value established at the date of contribution. The carrying amounts of assets and the related accumulated depreciation are removed from the accounts when such assets are disposed of, and any resulting gain or loss is included in income from operations. Depreciation of property, plant, and equipment is computed by the straight-line method in amounts sufficient to depreciate the cost of the assets over their estimated useful lives, ranging from 3 to 50 years. The cost of additions and improvements are capitalized, and expenditures for repairs and maintenance, including the cost of replacing minor items not considered substantial enhancements, are expensed as incurred.

(r) Leases

The System determines if an arrangement is a lease at inception. Leases are included in right-of-use (ROU) assets and operating lease liabilities in the consolidated balance sheet. ROU assets and liabilities are recognized based on the present value of the future minimum lease payments over the lease term using the System's incremental borrowing rate.

Lease expense for operating minimum lease payments is recognized on a straight-line basis over the full lease term for certain larger leases.

Finance leases are included in property, plant, and equipment, current portion of finance lease obligation and long-term finance lease obligation, net of current portion in the consolidated balance sheet. Finance lease assets and liabilities are recognized based on the present value of the future minimum lease payments over the lease term using the explicit interest rate when available. If an explicit interest rate is not available, the System applies its incremental borrowing rate. Finance lease assets are amortized on a straight-line basis over the full lease term and presented in depreciation and amortization in the consolidated statement of operations. Interest on lease payments is calculated using the effective interest method and presented in interest expense in the consolidated statement of operations.

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(s) Goodwill

Goodwill is evaluated at least annually for impairment or more frequently when events or changes in circumstances indicate that the assets might be impaired. This impairment test is performed at the reporting unit level. The System evaluates goodwill at the entity level as management has determined that the System's operations comprise a single reporting entity. Goodwill is considered to be impaired if the carrying value of the reporting unit, including goodwill, exceeds the reporting unit's fair value. The System has determined that no goodwill impairment exists at September 30, 2021 or 2020.

(t) Commodity Contracts

The System procures fuel and has entered into forward delivery agreements and commodity contracts. Substantially all of the System's contracts to procure fuel are designated as, and qualify as, normal purchases; accordingly, such contracts are not accounted for as derivative contracts.

(u) Excess (Deficiency) of Revenue over Expenses

In the accompanying consolidated statements of operations and changes in net assets, excess (deficiency) of revenue over expenses is the performance indicator. Those gains and losses deemed by management to be closely related to ongoing operations are included in other revenue. Other gains and losses from peripheral or incidental transaction, as well as pension costs other than service cost, and interest expense attributable to long-term debt related to general corporate purposes are classified as nonoperating gains (losses), net.

Contributions of, or restricted to, property, plant, and equipment, pension and other postretirement-related changes other than net periodic benefit cost, and other are excluded from the performance indicator, but are included in change in net assets without donor restrictions.

(v) Income Taxes

Most entities within the System are not-for-profit corporations as described in Section 501(c)(3) of the Code, and are generally exempt from federal income taxes pursuant to Section 501(a) of the Code. Provisions for income taxes and deferred taxes, where applicable, have been made for the taxable entities listed above under the description of the System.

U.S. GAAP requires the System to evaluate tax positions taken or expected to be taken in the course of preparing the System's tax returns to determine whether the tax positions are "more-likely than-not" of being sustained by the applicable tax authority based upon the technical merits of the position. The System recognizes the effect of tax positions only if they are more likely than not of being sustained. This evaluation had no impact on the operations of the System as of and for the years ended September 30, 2021 and 2020.

(w) Impairment of Assets

The System reviews property, plant, and equipment, and goodwill for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If such impairment indicators are present, the System recognizes a loss on the basis of whether these amounts are fully recoverable. There was no impairment charge recognized in 2021 or 2020.

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(x) Reclassifications

Certain reclassifications made to the balances previously reported in the consolidated financial statements for the year ended September 30, 2020, in order to conform to the year ended September 30, 2021 presentation.

(y) Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2018-13, *Fair Value Measurement (Topic 820), Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which adds, modifies, and removes certain disclosure requirements for fair value measurement. The accounting standard is effective for fiscal years beginning after December 15, 2019. The System adopted the standard on October 1, 2020, which included the removal of the disclosures pertaining to the System's policy on recognizing transfers among fair value levels. The adoption had no impact on the operations of the System as of and for the year ended September 30, 2021.

The System early adopted ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*. ASU 2018-14 makes minor changes to the disclosure requirements for employers that sponsor defined benefit and other postretirement benefits. This guidance is effective for fiscal years beginning after December 15, 2021. This guidance is to be applied retrospectively, and early adoption is permitted. The System adopted ASU 2018-14 as of September 30, 2021, the effect of which was to eliminate certain disclosures, including the effect of a one-percentage-point increase and the effect of a one percentage-point decrease in the assumed health care cost trend rates, as well as the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the fiscal year that follows the most recent annual statement of financial position presented.

(2) Patient Service Revenue and Accounts Receivable for Services to Patients

The System's patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third party payers (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the System bills patients and third-party payers several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied (that is, patient care is provided).

Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The System believes that this method provides a reasonable representation of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the hospital receiving inpatient acute care services or patients receiving services in outpatient centers. The Hospital measures the performance obligation from admission into the hospital, or the commencement of

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an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services.

Because all of its performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the optional exemption provided in FASB ASC 606-10-50-14a and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at year end which primarily relates to acute care patients (in-house). The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of year end.

The System has arrangements with third-party payers that provide for payments to the System at the amounts different from its established rates. The difference is accounted for as contractual allowances. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, fee-for-service, discounted charges, and per diem payments.

The System determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third party payers, discounts provided to uninsured patients in accordance with the System's policy, and implicit price concessions on uninsured patients. The System determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience.

Generally, patients who are covered by third party payers are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The System estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions and applies the portfolio approach. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. There was no bad debt expense for the years ended September 30, 2021 or 2020.

Consistent with the System's mission, care is provided to patients regardless of their ability to pay. Therefore, the System has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the System expects to collect based on its collection history with this class of patients.

The System has elected the financing component practical expedient and does not adjust the promised amount of consideration from patients and third-party payers for the effects of a significant financing component due to the System's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payer pays for that service will be one year or less. However, the System does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant

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to the contract. The System has determined that the nature, amount, timing and uncertainty of patient service revenue and cash flows are affected by payers and service lines.

The composition of patient service revenue based on service line and primary payer for the years ended September 30 are as follows (in thousands):

	2021			2020		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
Nongovernmental	\$ 1,110,146	1,601,695	2,711,841	1,076,502	1,317,396	2,393,898
Medicare	1,001,112	720,152	1,721,264	916,288	590,000	1,506,288
Medicaid	412,562	325,352	737,914	382,460	262,933	645,393
Total all payers	\$ <u>2,523,820</u>	<u>2,647,199</u>	<u>5,171,019</u>	<u>2,375,250</u>	<u>2,170,329</u>	<u>4,545,579</u>

The significant concentrations of accounts receivable for services to patients include 31% and 34% from Medicare, 14% and 15% from Medicaid, and 55% and 51% from nongovernmental payers at September 30, 2021 and September 30, 2020, respectively.

Third-party payer receivables included in other current assets were \$4.3 million and \$7.0 million at September 30, 2021 and 2020, respectively. Third-party payer receivables included in other assets were \$0.2 million and \$2.1 million at September 30, 2021 and 2020, respectively. Third-party payer liabilities included in other current liabilities were \$419.0 million and \$229.2 million at September 30, 2021 and 2020, respectively. Third-party payer liabilities included in other long-term liabilities were \$74.9 million and \$369.7 million at September 30, 2021 and 2020, respectively. The balances noted above include Medicare advance payments as discussed in footnote 1(a).

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term. The System has established estimates, based on information presently available, of amounts due to or from Medicare, Medicaid, and third party payers for adjustments to current and prior year payment rates, based on System specific data. Such amounts are included in the accompanying consolidated balance sheets. Additionally, certain payers' payment rates for various years have been appealed by the System.

Settlements with third-party payers for retroactive 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. These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of the 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 (that is new information becomes available), or as years are settled or are no longer subject to audits, reviews, and investigations.

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During the years ended September 30, 2021 and 2020, the System recorded a favorable change in estimate of approximately \$16.1 million and \$2.2 million, respectively, which increased patient service revenue. Included in the change in estimate are amounts related to third party payer settlements.

The System believes that it is in compliance with all applicable laws and regulations, and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing, except as disclosed in note 11. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the System. Cost reports for the System's Hospitals, which serve as the basis for final settlement with Medicare have been final settled through FY 2015 for YNHH, through FY 2016 for L+M and LMW, through FY 2018 for GH and BH, and through FY 2019 for BH's Milford Campus. Other years remain open for settlement with Medicare. The Medicaid cost reporting settlement process terminated in 2015 with all cost reports final settled.

(3) Uncompensated Care and Community Benefit Expense

The System's commitment to community service is evidenced by services provided to the poor and benefits provided to the broader community. Services provided to the poor include services provided to persons who cannot afford healthcare because of inadequate resources, and/or who are uninsured or underinsured.

The System provides free care programs for qualifying patients. In accordance with the established policies of the System, during the registration, billing, and collection process, a patient's eligibility for free care funds is determined. For patients who were determined by the System to have the ability to pay but did not, the uncollected amounts are considered implicit price concessions. For patients who do not avail themselves of any free care program, and whose ability to pay cannot be determined by the System, care given but not paid for is classified as charity care.

Together, charity care and free care represent uncompensated care. The estimated cost of total uncompensated care is approximately \$87.7 million and \$102.0 million for the years ended September 30, 2021 and 2020, respectively. The estimated cost of uncompensated care is based on the ratio of cost to charges, as determined by claims activity.

The allocation between implicit price concession and charity care is determined based on management's analysis on the previous 12 months of hospital data. This analysis calculates the actual percentage of accounts written off or designated as implicit price concessions versus charity care while taking into account the total costs incurred by the System for each account analyzed.

The Connecticut Disproportionate Share Hospital Program (CDSHP) was established to provide funds to hospitals for the provision of uncompensated care and is funded, in part, by an assessment on hospital patient service revenue. The System made payments into the CDSHP of \$326.6 million and \$330.7 million for the years ended September 30, 2021 and 2020, respectively, for the assessment.

During the years ended September 30, 2021 and 2020, the System received \$187.8 million and \$184.4 million, respectively, in CDSHP distributions, of which approximately \$108.2 million and \$108.0 million was related to charity care. These are recorded in patient service revenue.

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Additionally, the System provides benefits for the broader community, which includes services provided to other needy populations that may not qualify as poor but need special services and support. Benefits include the cost of health promotion and education of the general community, interns and residents, health screenings, and medical research. The benefits are provided through the community health centers, some of which service non English speaking residents, disabled children, and various community support groups. The System voluntarily assists with the direct funding of several City of New Haven programs, including an economic development program and a youth initiative program.

In addition to the quantifiable services defined above, the System provides benefits to the community through its advocacy of community service by employees. The System's employees serve numerous organizations through board representation, membership in associations and other related activities. The System also solicits the assistance of other healthcare professionals to provide their services at no charge through participation in various community seminars and training programs.

(4) Investments and Assets Limited as to Use

The composition of investments, including investments held by the Trust, amounts on deposit with trustee in debt service fund, and assets limited as to use is set forth in the following table (in thousands):

	<u>2021</u>	<u>2020</u>
Money market funds	\$ 101,425	46,483
U.S. equity securities	410,086	278,630
International equity funds ^(a)	545,935	499,617
Fixed income:		
U.S. government	1,624,361	1,394,762
Corporate bonds	1,534	942
Commodities ^(b)	2,755	2,031
Hedge funds:		
Absolute return ^(c)	161,525	146,888
Long/short equity ^(d)	118,352	92,027
Long/-only equity ^(d)	222,213	—
Private equity	24,386	12,212
Real estate ^(e)	24,334	12,007
Interest in Yale University endowment pool ^(f)	1,154,118	936,200
Interest in MCIC ^(g)	80,059	76,380
Perpetual trusts ^(h)	58,595	49,505
Total	<u>\$ 4,529,678</u>	<u>3,547,684</u>

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- (a) Investments with external international equity and bond managers that are domiciled in the United States. Investment managers may invest in American or Global Depository Receipts (ADR, GDR) or in direct foreign securities.
- (b) Investments with external commodities futures manager.
- (c) Investment with external multistrategy fund of funds manager investing in publicly traded equity and credit holdings, which may be long or short positions.
- (d) Investment with an external long-short equity fund of funds manager with underlying portfolio investments consisting of publicly traded equity positions.
- (e) Investments with external direct real estate managers and fund of funds managers. Investment vehicles include both closed end Real Estate Investment Trusts (REITs) and limited partnerships.
- (f) Yale University Endowment Pool maintains a diversified investment portfolio, through the use of external investment managers operating in a variety of investment vehicles, including separate accounts, limited partnerships, and commingled funds. The pool combines an orientation to equity investments with an allocation to nontraditional asset classes such as an absolute return, private equity, and real assets.
- (g) YNHH controls less than 20% of the Class A stock of MCIC (note 11); however, for accounting purposes, the investment in the insurance companies is recorded on the equity method because of contractual agreements.
- (h) Investments consist of several domestic and international equity and fixed-income mutual funds, REITs, commodities, and money market funds. There is also an investment in a hedge fund of funds.

(5) Liquidity

Financial assets available for general expenditure within one year of the consolidated balance sheet consist of the following (in thousands):

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash and cash equivalents	\$ 439,777	841,696
Patient receivables	671,681	609,951
Assets limited to use	6,398	6,368
Investments, net of assets with donor restrictions	3,380,347	2,577,051
Liquidity resources:		
Syndicated line of credit (see note 8)	<u>150,000</u>	<u>—</u>
Total financial assets and liquidity resources available to meet cash needs for general expenditures within one year	<u>\$ 4,648,203</u>	<u>4,035,066</u>

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The System has certain donor-restricted assets limited to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the amounts above. The System has other assets limited to use for donor-restricted purposes which are not available for general expenditure within the next year and are not included in the amounts above.

(6) Property, Plant, and Equipment

Property, plant, and equipment are as follows (in thousands):

	2021	2020
Land	\$ 165,954	160,690
Buildings and improvements	2,400,835	2,335,203
Equipment	1,630,709	1,566,673
Assets recorded under finance leases	158,444	158,444
	4,355,942	4,221,010
Less accumulated depreciation and amortization, including amortization of finance leases of \$56,333 and \$49,260, respectively	2,471,290	2,299,013
Property, plant, and equipment, net	1,884,652	1,921,997
Construction in progress	167,059	191,555
	\$ 2,051,711	2,113,552

Construction in progress primarily consists of approximately \$61 million related to the construction of a neuroscience center, approximately \$38 million related to upgrades to infrastructure, approximately \$31 million related to new clinical growth initiatives, and approximately \$15 million related to a central ambulatory center. The remaining construction in progress relates to new electronic technology, replacement of moveable medical equipment, and various smaller construction projects. Total commitments at September 30, 2021 for all projects are approximately \$35.9 million.

(7) Endowment

The System's endowment includes donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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The System has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act (CUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the System classifies as net assets with donor restrictions: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment related to the System's beneficial interest in perpetual trusts made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is classified in net assets with donor restrictions until those amounts are appropriated for expenditure by the System in a manner consistent with the standard of prudence prescribed by CUPMIFA. In accordance with CUPMIFA, the System considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the System and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the System; and (7) the investment and spending policies of the System.

Changes in endowment net assets for the year ended September 30, 2021 are as follows (in thousands):

	Without donor restrictions	With donor restrictions		Total
		Original gift	Accumulated gains	
Endowment net assets at beginning of year	\$ 21,127	100,280	114,157	235,564
Investment returns, net	6,385	—	48,377	54,762
Appropriation of endowment assets for expenditure	—	—	(8,176)	(8,176)
Transfers between donor classification	—	(7,815)	(270)	(8,085)
Other changes:				
Contributions	—	162	90	252
Change in value of beneficial interest trusts	—	5,425	—	5,425
Endowment net assets at end of year	\$ <u>27,512</u>	<u>98,052</u>	<u>154,178</u>	<u>279,742</u>

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Changes in endowment net assets for the year ended September 30, 2020 are as follows (in thousands):

	Without donor restrictions	With donor restrictions		Total
		Original gift	Accumulated gains	
Endowment net assets at beginning of year	\$ 19,255	98,665	109,445	227,365
Investment returns, net	1,872	—	12,960	14,832
Appropriation of endowment assets for expenditure	—	(10)	(8,085)	(8,095)
Transfers between donor classification	—	—	(252)	(252)
Other changes:				
Contributions	—	34	89	123
Change in value of beneficial interest trusts	—	1,591	—	1,591
Endowment net assets at end of year	\$ <u>21,127</u>	<u>100,280</u>	<u>114,157</u>	<u>235,564</u>

(a) Underwater Endowments

Fair market value of assets associated with donor-restricted endowment funds may fall below the level that the donor originally contributed or intended to be of perpetual duration. In accordance with GAAP, deficiencies of this nature are to be reported in net assets without donor restrictions as of year-end. These deficiencies can result from unfavorable market conditions that occur shortly after the investment of new donor restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. At September 30, 2021 and 2020, there were no underwater endowments.

(b) Return Objectives and Risk Parameters

The System has adopted investment and spending policies for endowed assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under these policies, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that over time provide a rate of return that meets the spending policy objectives adjusted for inflation. Actual returns in any given year may vary from this amount.

(c) Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the System relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The System targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term rate of return objectives within prudent risk constraints.

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(d) Spending Policy and How the Investment Objectives Relate to Spending Policy

The System has a policy of appropriating for distribution each year based on a combination of the weighted average of the prior year spending adjusted for inflation and the amount that would have been spent using a predetermined percentage (5.25% for YNHH, LMC, and BH in 2021; 5.25% for YNHH and LMC and 5.0% for BH in 2020) of the current market value of the endowment fund.

GH has a policy of appropriating funds for distribution each year based on the greater of \$800,000 or 5% of the average market value of its investments for the prior 12 quarters. As of October 1, 2020, the GH policy was amended to appropriate funds for distribution each year based on a combination of the weighted average of the prior year spending adjusted for inflation and the amount that would have been spent using a predetermined percentage (5.25%).

In establishing the above policies, the System considered the long-term expected return on its endowment.

(8) Debt

A summary of long-term debt is as follows (in thousands):

	2021	2020
Revenue bonds financed with the State of Connecticut Health and Educational Facilities Authority (CHEFA):		
Tax-exempt:		
Series C (GH) maturing July 1, 2026 (variable interest rates with an effective rate of approximately 3.22% for fiscal 2021)(a, i)	\$ 17,570	20,735
Series D (BH), maturing July 1, 2025, fixed interest ranging from 2.00% to 5.00%(b)	13,640	16,665
Series E (BH), 3.47% effective interest rate(c)	27,910	29,232
Series E (YNHH), 3.47% effective interest rate(c)	34,885	36,538
Series N (YNHH), 4.27% effective interest rate(d)	41,230	42,470
Series O (YNHH), 2.84% effective interest rate(d, i)	50,000	50,000
Series A (YNHH), 3.77% effective interest rate(e)	102,300	102,300
Series B (YNHH), 1.80% effective interest rate (e, i)	168,275	168,275
Series C (YNHH), 3.11% effective interest rate(f, i)	34,030	41,850
Series D (YNHH), 3.68% effective interest rate(f, i)	108,275	108,275
Taxable:		
Series G (LMC), maturing 2023, 3.20% effective interest rate (j)	22,735	23,785

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	2021	2020
Loans payable:		
Series 2013 taxable bonds (YNHH), 4.37% effective rate(g)	\$ 132,000	132,000
Series 2014 taxable bonds (YNHH), 4.375% effective rate(h)	50,725	50,725
Series 2020 senior notes (HSC), 3.07% fixed interest rate (k)	165,000	165,000
Series 2020 taxable bonds (HSC), 2.50% fixed interest rate (l)	400,000	400,000
Term loan (LMC), maturing June 28, 2028, 3.68% fixed interest rate (m)	52,400	55,880
Term loan – (BH) maturing 2020, 3.22% fixed interest rate	—	126
Taxable notes (HSC), maturing 2060, 3.26% fixed interest rate (n)	225,000	—
Line of Credit (o)	—	225,000
	1,645,975	1,668,856
Add premium	17,025	19,298
Less:		
Current portion	(221,670)	(457,211)
Deferred costs of issuance, net of accumulated amortization	(11,376)	(11,111)
	\$ 1,429,954	1,219,832

- a) In May 2008, GH issued Series C revenue bonds totaling approximately \$53.6 million. The Series C revenue bonds were issued as Variable Rate Demand Bonds (VRDBs) with an average rate of 3.22% at September 30, 2021. The proceeds were utilized for the refunding of outstanding revenue bonds. Principal amounts related to the Series C revenue bonds mature annually each July 1 through fiscal 2026. On September 18, 2018, GH joined the Obligated Group. As a result, GH was replaced by the Obligated Group for all purposes and the Series C Note became secured by an obligation issued under the Master Indenture by YNHHS for itself and on behalf of the other members of the Obligated Group. Additionally, the Obligated Group has granted a collateral interest to CHEFA on its gross receipts.
- b) In May 2012, BH issued Series D revenue bonds totaling approximately \$36.4 million, with coupons ranging from 2.0% to 5.0% and a final maturity of July 2025. The proceeds, including a premium of approximately \$4.1 million, were held in an escrow account and used for the retirement of the outstanding tax-exempt revenue bonds and to pay for certain bond issuance costs of approximately \$0.8 million. The bond premium is being amortized using the effective-interest method and is included in interest expense in the accompanying consolidated statement of operations and changes in net assets. Additionally, the Obligated Group has granted a collateral interest to CHEFA on its gross receipts.

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- c) In June 2014, the Obligated Group issued Series E revenue bonds totaling approximately \$80.9 million. The Series E revenue bonds were issued as fixed rate bonds with an effective-interest rate of 3.47%. The proceeds included a premium of approximately \$10.1 million. The proceeds were used to finance costs for the installation of machinery and equipment and various renovations and improvements to the infrastructures at BH and YNHH. The bond premium is being amortized as interest expense in the consolidated statement of operations and changes in net assets. The Series E revenue bonds maturing on July 1, 2037 are payable in installments from 2017 to 2034 and July 1, 2037. Additionally, the Obligated Group has granted a collateral interest to CHEFA on its gross receipts.
- d) In January 2013, YNHH issued Series N and Series O revenue bonds totaling approximately \$100.0 million. The Series N revenue bonds were issued as fixed rate bonds with an effective interest rate of 4.27%. The Series O revenue bonds were issued as VRDBs with an effective interest rate of 2.84% at September 30, 2021. The proceeds, including a premium of approximately \$5.2 million for the Series N revenue bonds, were used to refinance a line of credit. The bond premium is being amortized as interest expense in the accompanying consolidated statement of operations and changes in net assets. The Series N revenue bonds maturing on July 1, 2036 are payable in installments from 2019 to 2036 and the Series N revenue bonds maturing on July 1, 2048 are payable in installments from 2044 to 2048. The Series O revenue bonds maturing on July 1, 2053 are payable in installments from 2049 to 2053. Additionally, the Obligated Group has granted a collateral interest to CHEFA on its gross receipts.
- e) In June 2014, the Obligated Group issued Series A revenue bonds totaling approximately \$102.3 million and Series B revenue bonds totaling approximately \$168.3 million. The Series A revenue bonds were issued as fixed rate bonds with an effective interest rate of 3.77% at September 30, 2021. The Series B revenue bonds were issued as fixed rate bonds with an effective interest rate of 1.80% at September 30, 2021. The proceeds from the Series A revenue bonds, including a premium of approximately \$14.8 million, and the proceeds from the Series B revenue bonds, were used to defease certain YNHH revenue bonds. The bond premium is being amortized as interest expense using the effective interest method in the consolidated statement of operations and changes in net assets. The Series A revenue bonds maturing on July 1, 2034 are payable in installments from 2026 to 2034. The Series B revenue bonds maturing on July 1, 2049 are payable in installments from 2037 to 2040 and from 2044 to 2049. Additionally, the Obligated Group has granted a collateral interest to CHEFA on its gross receipts.
- f) In June 2014, the Obligated Group issued Series C revenue bonds totaling approximately \$83.6 million and Series D revenue bonds totaling approximately \$108.3 million. The Series C revenue bonds were issued as VRDBs with an effective interest rate of 3.11% as of September 30, 2021. The proceeds from the Series C issuance were used to refund certain YNHH revenue bonds. The Series D revenue bonds were issued as VRDBs with an effective interest rate of 3.68% as of September 30, 2021. The proceeds from the Series D issuance were used to refund certain YNHH revenue bonds. The Series C revenue bonds maturing on July 1, 2025 are payable in installments from 2017 to 2025. The Series D revenue bonds maturing on July 1, 2048 are payable in installments from 2032 to 2036 and 2044 to 2048. Additionally, the Obligated Group has granted a collateral interest to CHEFA on its gross receipts.

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- g) In January 2013, YNHH issued Series 2013 taxable bonds totaling approximately \$132.0 million. The Series 2013 taxable bonds were issued as fixed rate bonds with an effective interest rate of 4.37%. The proceeds were used to finance and refinance the costs of certain projects and activities in furtherance of YNHH's tax-exempt purpose, including the refinancing of certain existing indebtedness. The Series 2013 taxable bonds maturing on July 1, 2043 are payable in installments from 2037 to 2043.
- h) In June 2014, the Obligated Group issued Series 2014 taxable bonds totaling approximately \$50.7 million. The Series 2014 taxable bonds were issued as fixed rate bonds with an effective interest rate of 4.375%. The proceeds were used to finance the costs of certain projects and activities in furtherance of the System's tax-exempt purpose. The Series 2014 taxable bonds maturing on July 1, 2044 are payable in installments from 2038 to 2044.
- i) On June 19, 2019, the Series C, Series D, Series O and GH Series C bonds were remarketed by the Obligated Group at a weekly rate, without any third-party credit or liquidity support to support the Obligated Group's obligation to pay the purchase price of any of the remarketed bonds. The credit facilities that were previously in place with respect to these bonds were terminated on June 19, 2019 and not replaced. Additionally, on July 1, 2019, the Series B bonds were converted to a term mode and remarketed by the Obligated Group.
- j) On October 10, 2013, Series G was issued on behalf of the L+M Obligated Group in a private placement offering with Bank of America-Merrill Lynch and CHEFA in the amount of \$29.2 million with an interest rate of 3.20% until October 1, 2023 with an option to extend at a negotiated rate with a maturity date of July 1, 2038. On June 28, 2018, L+M joined the Obligated Group. As a result, L+M was replaced by the Obligated Group for all purposes and the Obligated Group has granted a collateral interest to CHEFA on its gross receipts.
- k) On June 11, 2020, the Obligated Group issued \$165 million aggregate principal amount of 3.07% fixed rate taxable notes in a private placement offering. The proceeds were used to finance the costs of certain projects and activities in furtherance of the System's tax-exempt purpose. The taxable notes mature on June 11, 2060. The Notes are secured obligations under the Master Indenture.
- l) On August 18, 2020, the Obligated Group issued \$400 million aggregate principal amount of 2.50% fixed rate taxable bonds. The proceeds were used to finance the costs of certain projects and activities in furtherance of the System's tax-exempt purpose. These Series 2020 taxable bonds mature on July 1, 2050. Additionally, the Obligated Group has granted a collateral interest on its gross receipts.
- m) On June 28, 2018, concurrent with L+M joining the Obligated Group (note 1), YNHHSC for itself and on behalf of the other members of the Obligated Group entered into a \$64 million term loan agreement with Bank of America, N.A., secured by an obligation issued under the Master Indenture. The loan is to be paid in annual installments over ten years at a fixed rate of 3.68% with a \$33.0 million balloon payment due on June 28, 2028.
- n) In December 2020, in a private placement offering, the Obligated Group issued \$225 million aggregate principal amount of 3.26% fixed rate taxable notes that mature in 2060. These funds were used to pay off YNHHS's syndicated line of credit which had an outstanding balance of \$225 million. The Notes are secured obligations under the Master Indenture.

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- o) In May 2016, YNHHS entered into a syndicated line of credit with a consortium of banks in the amount of \$100.0 million. In May 2020, YNHHS amended the line of credit to increase the amount available to \$225 million and to extend the expiration date to May 4, 2021. In July 2021, the Revolving Credit Agreement was amended and restated to reduce the amount available to \$150 million and to extend the expiration date to July 23, 2024

The line of credit allows repayment at any time during the term and requires that any remaining unpaid balance be repaid at the expiration date. This obligation bears interest at LIBOR + 0.55% when available and converts to the prime rate plus 0.50% if and when LIBOR is unavailable.

The System drew \$225 million in full in May 2020 and had an outstanding balance as of September 30, 2020 of \$225 million. The outstanding balance was paid in full in January 2021 and on September 30, 2021, YNHHS had no outstanding balance on the line of credit.

Required monthly payments on the revenue bonds by the System to a trustee are in amounts sufficient to provide for the payments of principal, interest, and sinking fund installments, as well as required payments to certain reserve funds held by the trustee, in accordance with the terms of the agreements, and certain other annual costs of CHEFA.

Arbitrage rules apply to tax-exempt debt issued after August 31, 1986. The rules require that, in specified circumstances, earnings from the investment of tax-exempt bond proceeds, which exceed the yield on the bonds, be remitted to the federal government. There were no arbitrage liabilities at September 30, 2021 or 2020.

The terms of the various financing arrangements between CHEFA, the System, and its lenders require the System to maintain certain financial covenants. Additionally, the Obligated Group has granted a collateral interest to CHEFA on their gross receipts.

Capitalized interest at September 30, 2021 and 2020 totaled approximately \$30.3 million.

Scheduled principal payments based on debt maturities are as follows (in thousands):

	Debt
Year ending September 30:	
2022	\$ 221,670
2023	23,775
2024	44,120
2025	24,450
2026	23,600
Thereafter	1,308,360
	\$ 1,645,975

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The following table summarizes the System's interest rate swap agreements, including the current notional amounts (in thousands):

Swap type	Expiration date	System receives	System pays	September 30	
				2021	2020
Yale New Haven Hospital:					
Series C – fixed to floating	July 1, 2025	LIBOR	4.65	\$ 22,733	27,957
Series D – fixed to floating	July 1, 2036	LIBOR	5.50	44,505	44,505
Greenwich Hospital:					
Series C – fixed to floating	July 1, 2026	LIBOR	4.70	12,010	14,171
Health Services Corporation:					
Series B – fixed to floating	July 1, 2049	67% of LIBOR	2.31	100,965	100,965
Series B – fixed to floating	July 1, 2049	67% of LIBOR	2.29	67,310	67,310
Series 2021A – fixed to floating	July 1, 2060	67% of LIBOR	0.56	2,824	1,212
Series 2021B – fixed to floating	July 1, 2060	67% of LIBOR	0.61	2,824	1,212
				\$ 253,171	257,332

The swap agreements set the interest rate at a level viewed as desirable by the System. Such agreements expose the System to credit risk in the event of nonperformance by the counterparties; some of the risk is collateralized. At September 30, 2021 and 2020, the fair value of the swap agreements based on current interest rates was approximately \$40.9 million and \$82.8 million, respectively, representing a payable to the counterparties (recorded in other long-term liabilities).

In April and July 2020, YNHSC, on behalf of the Obligated Group, entered into LIBOR swap rate locks with two counter parties (the Series 2021A and 2021B swaps). For the Series 2020 swaps, there was a favorable change in fair value of approximately \$18.3 million and \$3.8 million for the years ended September 30, 2021 and 2020, respectively, which was recorded in nonoperating gains (losses). No collateral was required under the Series 2020 swap agreements for the year ended September 30, 2021 and 2020.

For the YNHSC Series B swaps, there was a favorable change in fair value of approximately \$16.0 million and an unfavorable change in fair value of approximately \$14.9 million for the years ended September 30, 2021 and 2020, respectively, which was recorded in nonoperating gains (losses). No collateral was required under the Series B swap agreements for the years ended September 30, 2021 and 2020.

For the YNH Series C swap, there was a favorable change in fair value of approximately \$1.4 million and an unfavorable change in fair value of approximately \$0.1 million, respectively, for the years ended September 30, 2021 and 2020, which was recorded in nonoperating gains (losses). No collateral was required under the Series C swap agreement for the years ended September 30, 2021 and 2020.

For the YNH Series D swap, there was a favorable change in fair value of approximately \$5.5 million and unfavorable change in fair value of approximately \$4.4 million for the years ended September 30, 2021 and 2020, respectively, which was recorded in nonoperating gains (losses). No collateral was required under the Series D swap agreement for the years ended September 30, 2021 and 2020.

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In connection with its Series C revenue bonds, GH entered into an interest rate swap agreement (the GH swap) with a financial institution. For the GH swap, there was a favorable change in fair value of approximately \$0.7 million and an unfavorable change in fair value of approximately \$0.1 million for the years ended September 30, 2021 and 2020, respectively, which was recorded in nonoperating gains (losses). No collateral was required under the GH Series C swap agreement for the years ended September 30, 2021 and 2020.

(9) Leases

The System leases certain property and equipment under finance and operating leases, the classification of which is based on the underlying terms of the agreement and certain criteria, such as lease term relative to useful life and total lease payments compared to fair value, among others. Finance leases result in an accounting treatment similar to the acquisition of the asset.

For operating leases entered into prior to October 1, 2019, the System has elected to utilize the operating leases' remaining lease term as of the date of adoption to determine the discount rate used to initially measure the liability.

For operating leases, the System has made an accounting policy election not to separate lease components and non-lease components in contracts when determining right-of-use assets and operating lease liabilities for real estate leases and to separate lease components and non-lease components for equipment leases. The System has also made an election not to record leases with an initial term of less than one year as right-of-use assets and operating lease liabilities.

For operating leases with initial terms greater than one year, the System records the related right-of-use assets and operating lease liabilities at the present value of the lease payment to be paid over the life of the related lease. The System includes those variable payments that are in substance fixed payments in the right-of-use assets and operating lease liabilities. The remaining variable payments are recorded through the variable lease expenses, which is included in the supply and other expenses in the consolidated statement of operations. Lease payments related to periods subject to renewal are excluded from amounts used to determine the right-of-use assets and operating lease liabilities unless the System is reasonably certain to exercise the option to extend the lease. The present value of lease payments is calculated by utilizing the discount rate stated in the lease, when specifically stated. For leases in which the rate is not readily available, the System has elected to use its internal borrowing rate.

The System's operating leases are primarily for real estate, including office space and parking, typically with initial terms between 1 and 25 years. The System's finance leases are primarily for real estate, including a building and parking garage, as well as computer equipment, typically with initial terms between 5 and 30 years.

The System has elected the practice expedient that allows lessees to choose to not separate lease and non-lease components by class of underlying asset and is applying this expedient to all real estate asset classes. The System elected the practical expedient package to not reassess at adoption (i) whether expired or existing contracts contain leases under the new definition of a lease, (ii) lease classification for expired or existing leases, or (iii) whether previously capitalized initial direct costs would qualify for capitalization under Topic 842.

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The following table presents the components of the lease assets and liabilities related to leases and their classification in the consolidated balance sheets at September 30, 2021 and 2020 (in thousands):

<u>Components of lease balances</u>	<u>Classification in consolidated balance sheet</u>	<u>September 30</u>	
		<u>2021</u>	<u>2020</u>
Assets:			
Operating lease assets	Right of use asset	\$ 321,244	330,295
Finance lease assets	Property plant and equipment, net	102,111	109,183
Total leased assets		<u>\$ 423,355</u>	<u>439,478</u>
Liabilities:			
Operating lease liabilities:			
Current	Operating lease liability – short term	\$ 49,258	45,599
Long term	Operating lease liability – long term	278,275	290,329
Total operating lease liabilities		<u>327,533</u>	<u>335,928</u>
Finance lease liabilities:			
Current	Current portion of finance lease obligation	5,755	5,665
Long term	Long-term finance lease obligations, net of current portion	118,418	123,235
Total finance lease liabilities		<u>124,173</u>	<u>128,900</u>
Total lease liabilities		<u>\$ 451,706</u>	<u>464,828</u>

The following table presents the components of lease expense and their classification in the consolidated statement of operations for the year ended September 30, 2021 and 2020 (in thousands):

<u>Components of lease expense</u>	<u>Classification in consolidated statement of operations</u>	<u>September 30</u>	
		<u>2021</u>	<u>2020</u>
Operating lease expense	Supplies and other operating expense	\$ 63,089	59,164
Variable lease expense	Supplies and other operating expense	8,500	2,611
Short-term lease expense	Supplies and other operating expense	8,055	6,543
Finance lease expense:			
Amortization of leased assets	Depreciation and amortization	7,072	7,061
Interest on lease liabilities	Interest	7,868	8,187
Total finance lease expense		<u>14,940</u>	<u>15,248</u>
Total lease expense		<u>\$ 94,584</u>	<u>83,566</u>

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The following table summarizes the operating cash flows from leases as well as the weighted average remaining lease terms and weighted average discount rates used to determine the lease obligations as of September 30, 2021 and 2020 (in thousands):

	September 30	
	2021	2020
Financing cash flows from finance leases	\$ 4,727	4,872
Operating cash flows from finance leases	7,868	8,187
Operating cash flows from operating leases	78,758	56,776
Weighted average remaining lease term – finance leases	17.03 years	17.89 years
Weighted average remaining lease term – operating leases	10.29 years	11.06 years
Weighted average discount rate – finance leases	6.39 %	6.42 %
Weighted average discount rate – operating leases	3.28	3.36
ROU assets obtained in exchange for operating lease liabilities	42,891	378,445

Future maturities of lease liabilities at September 30, 2021 are presented in the following table (in thousands):

	Finance leases	Operating leases
2022	\$ 13,295	59,050
2023	13,263	52,564
2024	13,228	44,951
2025	13,388	36,479
2026	13,444	28,926
Thereafter	<u>132,456</u>	<u>165,169</u>
Total lease payments	199,074	387,139
Less imputed interest	<u>(74,901)</u>	<u>(59,606)</u>
Total lease obligation	124,173	327,533
Less current portion	<u>(5,755)</u>	<u>(49,258)</u>
Long-term lease obligation	<u>\$ 118,418</u>	<u>278,275</u>

(10) Pensions and Postretirement Benefits

The System has qualified and nonqualified defined benefit and pension plans covering substantially all employees and executives. The benefits provided are based on age, years of service, and compensation. The System's policy is to fund the pension benefits with at least the minimum amounts required by the Employee Retirement Income Security Act of 1974.

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The System also sponsors contributory 403(b) plans and 401(k) plans covering substantially all employees. Employer contributions for certain 403(b), made to a matching 401(a) plan, and 401(k) plans are determined based on employee contributions and years of service. The System contributed approximately \$88.3 million and \$76.7 million for the years ended September 30, 2021 and 2020, respectively. Contributions to the defined contribution plans amounted to \$37.8 million and \$34.0 million at September 30, 2021 and 2020, respectively, and are included in accrued expenses to be paid before the plans' year-end in the accompanying consolidated balance sheets.

YNHH maintains a Section 457 Nonqualified deferred compensation plan. Contributions are made on a pretax basis. The balances recorded at September 30, 2021 and 2020 in other assets and other long-term liabilities were approximately \$76.4 million and \$63.9 million, respectively.

On June 30, 2006, BH froze its defined benefit plan. On October 1, 2006, BH instituted a defined contribution plan.

Effective as of December 31, 2006, GH amended its defined benefit pension plan to freeze benefits for employees who were under age 50 with less than five years of service. Effective January 1, 2007, GH began providing a matching contribution and a length of service contribution, in addition to its incentive contribution, for its defined contribution plan for all employees no longer accruing benefits under the defined-benefit plan. Employees who were age 50 or older with five years of service continue to accumulate benefits under the defined benefit plan, and do not participate in the defined contribution plan. On March 29, 2018, GH amended its defined benefit pension plan to cease benefit accruals under the plan with respect to all formerly grandfathered members as of September 30, 2020, so that all members' pensions, to the extent not previously frozen, will be fixed on that date and those members are now eligible to participate in the GH defined contribution plan.

On June 30, 1999, L+M froze its defined benefit plan. The benefits are based on years of service and the employee's compensation during the last five years of employment. L+M provides healthcare and life insurance benefits to its retired employees who meet certain eligibility requirements. L+M's policy is to fund the cost of postretirement benefits other than pensions as incurred. This plan was frozen to include only those employees who retired prior to May 1, 1994. On August 27, 2018, L+M amended its defined benefit pension plan to cease benefit accruals under the plan with respect to all formerly grandfathered members as of December 31, 2018, so that all members' pensions, to the extent not previously frozen, will be fixed on that date. In addition, those members are now eligible to participate in the L+M defined contribution plan.

As part of the acquisition, BH assumed the MHM defined benefit plan that covers all eligible employees of MHM. The benefits are based on years of service and the employee's compensation. Effective December 31, 2005, the Plan closed it to new participants hired subsequent to January 1, 2006. Effective January 1, 2010, the Plan was frozen for all nonunion participants. Effective January 31, 2012 the Plan was frozen for union nurses and all other hospital personnel. Effective April 30, 2013, the Plan was frozen for union maintenance personnel.

Effective March 26, 2020, the BH, MHM, L+M and YNHH plans were amended to permit the cash out of accounts of terminated vested participants with a balance of less than \$5,000 consistent with IRS regulations.

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YNHH also provides certain healthcare and life insurance benefits upon retirement to substantially all their employees. YNHH's policy is to fund these annual costs as they are incurred from the general assets of YNHH. The estimated cost of these postretirement benefits is actuarially determined and accrued over the employees' service periods.

The following table sets forth the change in benefit obligations, change in the plans' assets, and the reconciliation of underfunded status of the System's defined benefit plans and postretirement benefits plan as of September 30, 2021 and 2020 (in thousands):

	Defined-benefit pension plans		Postretirement benefits plan	
	2021	2020	2021	2020
Change in benefit obligation:				
Benefit obligation at prior measurement date	\$ 1,444,072	1,413,016	81,842	85,794
Service cost	32,736	30,396	2,203	2,928
Interest cost	39,350	44,162	2,329	2,784
Actuarial loss (gain)	187	26,285	(4,757)	(7,202)
Benefits paid	<u>(83,236)</u>	<u>(69,787)</u>	<u>(2,754)</u>	<u>(2,462)</u>
Benefit obligation at current measurement date	<u>1,433,109</u>	<u>1,444,072</u>	<u>78,863</u>	<u>81,842</u>
Change in plans' assets:				
Fair value of assets at prior measurement date	1,135,482	1,081,428	—	—
Actual return on plans' assets	144,137	90,104	—	—
Employer contributions	78,293	33,737	2,754	2,462
Benefits paid	<u>(83,236)</u>	<u>(69,787)</u>	<u>(2,754)</u>	<u>(2,462)</u>
Fair value of plans' assets at current measurement date	<u>1,274,676</u>	<u>1,135,482</u>	<u>—</u>	<u>—</u>
Accrued benefit cost	\$ <u><u>(158,433)</u></u>	<u><u>(308,590)</u></u>	<u><u>(78,863)</u></u>	<u><u>(81,842)</u></u>

YALE NEW HAVEN HEALTH SERVICES CORPORATION
(d/b/a Yale New Haven Health System and Subsidiaries)

Notes to Consolidated Financial Statements

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The accrued benefit cost included in the consolidated balance sheets includes the following (in thousands):

	Accrued pension obligations		Postretirement obligations	
	2021	2020	2021	2020
YNHH	\$ 126,356	174,401	78,546	81,490
BH	13,970	85,476	—	—
GH	11,329	32,062	—	—
LMC	6,778	16,651	317	352
	<u>\$ 158,433</u>	<u>308,590</u>	<u>78,863</u>	<u>81,842</u>

Benefit Obligation and Assumptions

The projected pension benefit obligation, accumulated benefit obligation and fair value of the plans' assets were as follows (in thousands):

	2021	2020
Projected benefit obligation	\$ (1,433,109)	(1,444,072)
Accumulated benefit obligation	(1,352,361)	(1,363,704)
Fair value of plans' assets	1,274,676	1,135,482

As of September 30, 2021 and 2020, the underfunded status of the qualified defined benefit pension plans was approximately \$93.8 million and \$245.4 million, respectively, and that of the nonqualified defined benefit pension plan was approximately \$64.7 million and \$63.2 million, respectively. As of September 30, 2021 and 2020, the underfunded status of the postretirement plans was approximately \$78.9 million and \$81.8 million, respectively. Additionally, there are assets limited as to use which are available to fully satisfy the obligations of the nonqualified defined benefit pension plan at September 30, 2021 and 2020.

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The net periodic benefit cost for the years ended September 30, 2021 and 2020 is as follows (in thousands):

	<u>Defined-benefit pension plans</u>		<u>Postretirement benefits plan</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Service cost	\$ 32,736	30,396	2,203	2,928
Other components of net periodic benefit cost:				
Interest cost	39,350	44,161	2,329	2,784
Expected return on plan assets	(70,979)	(75,531)	—	—
Amortization of prior service cost	(1,566)	(1,566)	(2,726)	(2,726)
Recognized net actuarial loss	26,829	23,406	(128)	(44)
Total, other components of net periodic benefit cost	(6,366)	(9,530)	(525)	14
Total net periodic benefit cost	\$ 26,370	20,866	1,678	2,942

Other changes in net assets without donor restrictions (OCNA) (income) loss for the years ended September 30, 2021 and 2020 is as follows (in thousands):

	<u>Defined-benefit pension plans</u>		<u>Postretirement benefit plan</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
OCNA at prior fiscal year-end	\$ 506,288	516,417	(15,947)	(11,515)
Amounts amortized during the year:				
Net prior service credit	1,566	1,566	2,726	2,726
Net (loss) gain	(26,829)	(23,406)	126	44
Occurring during the year:				
Net loss (gain)	(72,970)	11,711	(4,756)	(7,202)
OCNA at current fiscal year-end	\$ 408,055	506,288	(17,851)	(15,947)

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Weighted average assumptions used to determine benefit obligations at September 30, 2021 and 2020 are as follows:

	<u>Defined-benefit pension plans</u>		<u>Postretirement benefits plan</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Discount rate, qualified plans	2.8%–2.9%	2.7%–2.9%	1.9%–3.0%	1.7%–2.9%
Discount rate, nonqualified plan	3.0	2.9	—	—
Rate of compensation increase, qualified plans	4.0	4.0	—	—
Rate of compensation increase, nonqualified plan	5.0	5.0	—	—

Weighted average assumptions used to determine net periodic benefit cost for the years ended September 30, 2021 and 2020 are as follows:

	<u>Defined-benefit pension plans</u>		<u>Postretirement benefits plan</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Discount rate for determining net periodic benefit cost at year-end, qualified plan	2.7%–2.9%	2.7%–3.3%	1.7%–2.9%	2.7%–3.3%
Discount rate for determining net periodic benefit cost at year-end, nonqualified plan	2.9	3.3	—	—
Expected rate of return on plan assets	5.5–6.75	5.5–6.75	—	—
Rate of compensation increase qualified plan	4.0	4.0	—	—
Rate of compensation increase nonqualified plan	5.0	5.0	—	—

The weighted average interest crediting rate for cash balance plan was 3.8% for the years ended September 30, 2021 and 2020, respectively.

For measurement purposes relating to the postretirement benefits plans, 4.0% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for fiscal 2021 and 2020, respectively. Rates are assumed to increase annually at 4.0%.

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The asset allocation of the System's pension plans at September 30, 2021 and 2020, on a combined basis, was as follows:

<u>Asset category</u>	Target allocation	Percentage of assets	
	2022	2021	2020
Equity securities	33 %	29 %	42 %
Debt securities	43	42	27
Alternative investments	24	29	31
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

Financial assets, as of September 30, 2021, are classified in the following table (see note 15 for description) (in thousands):

	Investments measured at NAV*	Investments classified in the fair value hierarchy (Level 1)	Total
Money market funds	\$ —	43,129	43,129
U.S. equity securities	—	89,252	89,252
International equity funds	188,143	3	188,146
Fixed-income funds:			
U.S. government	—	338,926	338,926
Corporate debt	—	175,280	175,280
Commodities	6,293	—	6,293
Private equity	40,069	—	40,069
Hedge funds:			
Absolute return	189,796	—	189,796
Long/short equity	86,222	—	86,222
Long-only equity	64,181	19,322	83,503
Real estate	33,973	—	33,973
Unallocated insurance contract	—	87	87
Total investments	<u>\$ 608,677</u>	<u>665,999</u>	<u>1,274,676</u>

* Certain investments that are measured at fair value using the NAV per share (or its equivalent practical expedient) have not been classified in the fair value hierarchy.

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September 30, 2021 and 2020

Financial assets, as of September 30, 2020, are classified in the following table (see note 15 for description) (in thousands):

	Investments measured at NAV*	Investments classified in the fair value hierarchy (Level 1)	Total
Money market funds	\$ —	10,916	10,916
U.S. equity securities	—	176,123	176,123
International equity funds	267,063	32,412	299,475
Fixed-income funds:			
U.S. government	—	298,762	298,762
Commodities	4,431	—	4,431
Private equity	27,521	—	27,521
Hedge funds:			
Absolute return	188,300	—	188,300
Long/short equity	104,622	—	104,622
Real estate	25,245	—	25,245
Unallocated insurance contract	—	87	87
Total investments	<u>\$ 617,182</u>	<u>518,300</u>	<u>1,135,482</u>

* Certain investments that are measured at fair value using the NAV per share (or its equivalent practical expedient) have not been classified in the fair value hierarchy.

There are no pension investments that are measured at fair value based on Level 2 and Level 3 inputs at September 30, 2021 or 2020.

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The following table is a summary of total investments as of September 30, 2021 and 2020, respectively, with restrictions to redeem the investments at the measurement date and any unfunded capital commitments (in thousands):

<u>Description of investment</u>	<u>Carrying value</u>	<u>Unfunded commitment</u>	<u>Redemption frequency</u>	<u>Notice period</u>
International equity funds	\$ 188,143	—	Daily/monthly	1–30 days
Commodities	6,293	3,458	None-quarterly	None and 45–90 days
Private equity	40,069	19,145	N/A	N/A
Hedge funds:				
Absolute return	189,796	—	Quarterly/annual	30–95 days
Long/short equity	86,222	—	Quarterly	45–90 days
Long only equity	64,181	—	Quarterly	30–45 days
Real estate	33,973	27,680	None	None
	<u>\$ 608,677</u>			

<u>Description of investment</u>	<u>Carrying value</u>	<u>Unfunded commitment</u>	<u>Redemption frequency</u>	<u>Notice period</u>
International equity funds	\$ 267,063	—	Daily/monthly	1–30 days
Commodities	4,431	3,676	None-quarterly	None and 45–90 days
Private equity	27,521	11,624	N/A	N/A
Hedge funds:				
Absolute return	188,300	—	Quarterly/annual	30–95 days
Long/short equity	104,622	—	Quarterly	45–90 days
Long only equity			Quarterly	30–45 days
Real estate	25,245	22,724	None	None
	<u>\$ 617,182</u>			

The System's investment strategy for its pension assets balances the liquidity needs of the pension plans with the long-term return goals necessary to satisfy future pension obligations. The target asset allocation seeks to capture the equity premium granted by the capital markets over the long-term while ensuring security of principal to meet near term expenses and obligations through the fixed-income allocation. The allocation of the investment pool to various sectors of the markets is designed to reduce volatility in the portfolio.

The System's pension portfolios return assumption is based on the targeted weighted average return of comparative market indices for the asset classes represented in the portfolio and adjusted for pension-related expenses.

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The future cash flows of the System relative to retirement benefits are expected to be as follows (in thousands):

	<u>Defined-benefit pension plans</u>	<u>Postretirement benefit plan</u>
Estimated benefit payments related to year(s) ending		
September 30:		
2022	\$ 82,261	2,847
2023	79,761	3,114
2024	82,178	3,375
2025	81,594	3,630
2026	81,772	3,866
2027 to 2031	400,846	22,368

The System expects to make contributions of approximately \$30.7 million for pension benefits and approximately \$2.8 million for postretirement benefits in fiscal 2022.

(11) Professional Liability Insurance

In 1978, YNHH and a number of other unrelated academic medical centers formed The Medical Centre Insurance Company Ltd. (the Captive) to insure for professional and comprehensive general liability risks. In 1997, the Captive formed MCIC Vermont, Inc. (MCIC) to write direct insurance for the professional and general liability risks of the shareholders. Since 1997, the Captive has acted as a reinsurer for varying levels of per claim limit exposure. MCIC has reinsurance coverage from outside reinsurers for amounts above the per claim limits. In addition, the insurance structure includes a layer where the hospitals are self-insured for claims. Premiums are based on claims made coverage, and are actuarially determined based on actual experience of the System, the Captive, and MCIC.

YNHH controls less than 20% of the Class A stock of MCIC; however, for accounting purposes, the investment in the insurance companies is recorded on the equity method because of contractual agreements. This investment is recorded in long-term investments and is approximately \$80.1 million and \$76.4 million for the years ended September 30, 2021 and 2020, respectively.

The System's entities of GH, BH, and NEMG participate in the YNHH insurance program as additional insureds. These entities initially pay premiums to YNHHSC. YNHHSC generally assumes the responsibility for ensuring that all the System members pay all premiums owed by them to MCIC. YNHHSC manages MCIC's operations for all other System members.

Effective January 1, 2017, LMC participates in the YNHH insurance program as an additional insured and pays premiums to YNHHSC. Prior to January 1, 2017, LMC purchased claims made professional and general liability insurance to cover medical malpractice claims from L&M Indemnity Ltd. Exposure for LMC claims incurred prior to January 1, 2017 and reported after January 1, 2017 is retained by the System will be paid under a deposit program with the Captive.

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MCIC's policy is to establish retrospective-related premiums for its shareholders equivalent to estimated losses and general and administrative expenses, less estimated investment income, so that its results of operations are breakeven each year. The System accrues premiums as incurred.

The estimate for claims-made professional liabilities and the estimate for incidents that have been incurred but not reported aggregated approximately \$361.3 million and \$360.2 million at September 30, 2021 and 2020, respectively, for the System.

The undiscounted estimate for incidents that have been incurred but not reported aggregated approximately \$102.8 million and \$106.2 million for the System at September 30, 2021 and 2020, respectively, and is included in professional insurance liabilities in the accompanying consolidated balance sheets at the actuarially determined present value of approximately \$96.1 million and \$99.9 million, respectively, based on a discount rate of 1.5% for the years ended September 30, 2021 and 2020.

The System has recorded related insurance recoveries receivable of approximately \$265.2 million and \$260.3 million at September 30, 2021 and 2020, respectively, in consideration of the expected insurance recoveries for the total discounted claims-made insurance. The current portion of professional insurance liabilities and the related insurance receivable represents an estimate of expected settlements and insurance recoveries over the next 12 months.

The System's estimates for professional insurance liabilities are based upon complex actuarial calculations, which utilize factors such as historical claims experience for the System and related industry factors, trending models, estimates for the payment patterns of future claims, and present value discount factors. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Revisions to estimated amounts resulting from actual experience differing from projected expectations are recorded in the period the information becomes known or when changes are anticipated.

(12) Commitments and Contingencies

Litigation

Various lawsuits and claims arising in the normal course of operations are pending, or are in progress, against the System. Such lawsuits and claims are either specifically covered by insurance as explained in note 11, or are deemed not material. While the outcomes of the lawsuits and claims cannot be determined at this time, management believes that any loss, which may arise from these actions, will not have a material adverse effect on the consolidated financial position or changes in net assets of the System.

The System has received requests for information from certain governmental agencies relating to, among other things, patient billings. These requests cover several prior years relating to compliance with certain laws and regulations. Management is cooperating with those governmental agencies in their information requests and ongoing investigations. The ultimate results of those investigations, including the impact on the System, cannot be determined at this time.

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Notes to Consolidated Financial Statements

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(13) Functional Expenses

The System provides general acute healthcare services to residents within its geographic areas. Net expenses related to providing these services are as follows (in thousands):

	<u>Healthcare services</u>	<u>General and administrative</u>	<u>Total</u>
For the year ended September 30, 2021:			
Salaries and benefits	\$ 2,559,019	372,788	2,931,807
Supplies and other expenses	2,350,800	219,487	2,570,287
Depreciation and amortization	193,777	29,270	223,047
Insurance	55,049	24,230	79,279
Interest	<u>27,457</u>	<u>3,384</u>	<u>30,841</u>
	<u>\$ 5,186,102</u>	<u>649,159</u>	<u>5,835,261</u>
For the year ended September 30, 2020:			
Salaries and benefits	\$ 2,397,223	410,488	2,807,711
Supplies and other expenses	2,044,602	245,682	2,290,284
Depreciation and amortization	180,511	30,996	211,507
Insurance	58,475	23,596	82,071
Interest	<u>27,801</u>	<u>4,397</u>	<u>32,198</u>
	<u>\$ 4,708,612</u>	<u>715,159</u>	<u>5,423,771</u>

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Notes to Consolidated Financial Statements

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(14) Other Revenue

Other revenue consisted of the following (in thousands):

	Year ended September 30	
	2021	2020
Cafeteria and vending	\$ 6,337	6,974
Contributions	838	1,273
Parking income	8,816	8,360
Net assets released from restrictions for operations	16,022	22,479
Net assets released from restrictions for clinical programs	4,189	3,506
Net assets released from restrictions for free care	3,602	3,058
Grants	35,627	32,642
Rental income	5,125	4,592
Greenwich Hospital Foundation distributed income	5,000	4,700
Pharmacy sales	382,842	301,222
FEMA grants	56,342	—
Grants related to Federal CARES Act	151,229	325,120
Other	31,130	43,665
	\$ 707,099	757,591

For pharmacy sales, each prescription claim is its own arrangement with the customer and is a performance obligation. Revenue is recognized at a point in time.

(15) Fair Values of Financial Instruments

In determining fair value, the System utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The System also considers nonperformance risk in the overall assessment of fair value.

ASC 820-10, *Fair Value Measurements – Overall*, establishes a three-tier valuation hierarchy for fair value disclosure purposes. This hierarchy is based on the transparency of the inputs utilized for the valuation. The three levels are defined as follows:

Level 1: Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. This established hierarchy assigns the highest priority to Level 1 assets.

Level 2: Observable inputs that are based on data not quoted in active markets, but corroborated by market data.

Level 3: Unobservable inputs that are used when little or no market data is available. The inputs are assigned the lowest priority.

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Financial assets carried at fair value as of September 30, 2021 are classified in the following table by level within the fair value hierarchy as described above (in thousands):

	September 30, 2021			
	Investments measured at NAV*	Investments classified in the fair value hierarchy		Total
		Level 1	Level 2	
Cash and cash equivalents	\$ —	439,777	—	439,777
Money market funds	—	101,425	—	101,425
U.S. equity securities	—	410,086	—	410,086
International equity funds	524,951	20,984	—	545,935
Fixed-income funds:				
U.S. government	—	1,624,361	—	1,624,361
International government	—	1,534	—	1,534
Commodities	2,755	—	—	2,755
Hedge funds:				
Absolute return	161,525	—	—	161,525
Long/short equity	118,352	—	—	118,352
Long-only equity	—	222,213	—	222,213
Private equity	24,386	—	—	24,386
Real estate	23,584	—	—	23,584
Interest in Yale University				
endowment pool	1,154,118	—	—	1,154,118
Perpetual trusts	58,595	—	—	58,595
Beneficial interest in remainder				
trust	2,100	—	—	2,100
Total investments	\$ 2,070,366	2,820,380	—	4,890,746
Liabilities:				
Interest rate swaps	\$ —	—	(40,905)	(40,905)

* Certain investments that are measured at fair value using the NAV per share (or its equivalent practical expedient) have not been classified in the fair value hierarchy.

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Financial assets carried at fair value as of September 30, 2020 are classified in the following table by level within the fair value hierarchy as described above (in thousands):

	September 30, 2020			
	Investments measured at NAV*	Investments classified in the fair value hierarchy		Total
		Level 1	Level 2	
Cash and cash equivalents	\$ —	841,696	—	841,696
Money market funds	—	46,483	—	46,483
U.S. equity securities	—	278,630	—	278,630
International equity funds	421,476	78,141	—	499,617
Fixed-income funds:				
U.S. government	—	1,394,762	—	1,394,762
International government	—	942	—	942
Commodities	2,031	—	—	2,031
Hedge funds:				
Absolute return	146,888	—	—	146,888
Long/short equity	92,027	—	—	92,027
Private equity	12,212	—	—	12,212
Real estate	11,257	—	—	11,257
Interest in Yale University endowment pool	936,200	—	—	936,200
Perpetual trusts	49,505	—	—	49,505
Beneficial interest in remainder trust	2,100	—	—	2,100
Total investments	<u>\$ 1,673,696</u>	<u>2,640,654</u>	<u>—</u>	<u>4,314,350</u>
Liabilities:				
Interest rate swaps	\$ —	—	(82,849)	(82,849)

* Certain investments that are measured at fair value using the NAV per share (or its equivalent practical expedient) have not been classified in the fair value hierarchy.

The amounts reported in the tables as detailed above do not include assets invested in the System's defined benefit pension plans. The beneficial interest in remainder trust listed in the above tables are included in other assets. The interest rate swaps listed above are classified in the accompanying consolidated balance sheets as other long-term liabilities at September 30, 2021 and 2020. There are no assets or liabilities that are measured at fair value based on Level 3 inputs at September 30, 2021 or 2020.

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The following is a summary of total investments as of September 30, 2021 and 2020, with restrictions to redeem the investments at the measurement date and any unfunded capital commitments (in thousands):

<u>Description of investment</u>	<u>Carrying value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Notice period</u>	<u>Funds availability</u>
International equity funds	\$ 524,951	—	Daily/monthly/quarterly	1–30 days	1–30 days
Commodities	2,755	4,150	None/quarterly	None–90 days	None–90 days
Hedge funds:					
Absolute return	161,525	—	Quarterly/annual	30–90 days	30–90 days
Long/short equity	118,352	—	Quarterly	45–90 days	45–90 days
Private equity	24,386	34,037	N/A	N/A	N/A
Real estate	23,584	40,162	None	None	None
Interest in Yale University endowment pool	1,154,118	—	*	*	*
Perpetual trusts	58,595	—	*	*	*
Beneficial interest in remainder trust	2,100	—	*	*	*
	<u>\$ 2,070,366</u>				

* See note 1 for descriptions.

<u>Description of investment</u>	<u>Carrying value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Notice period</u>	<u>Funds availability</u>
International equity funds	\$ 421,476	None	Daily/monthly/quarterly	1–30 days	1–30 days
Commodities	2,031	4,412	None/quarterly	None–90 days	None–90 days
Hedge funds:					
Absolute return	146,888	None	Quarterly/annual	30–90 days	30–90 days
Long/short equity	92,027	None	Quarterly	45–90 days	45–90 days
Private equity	12,212	1,418	N/A	N/A	N/A
Real estate	11,257	19,266	None	None	None
Interest in Yale University endowment pool	936,200	None	*	*	*
Perpetual trusts	49,505	None	*	*	*
Beneficial interest in remainder trust	2,100	None	*	*	*
	<u>\$ 1,673,696</u>				

* See note 1 for descriptions.

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Notes to Consolidated Financial Statements

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(16) Subsequent Events

Management has evaluated subsequent events through December 22, 2021, which is the date the consolidated financial statements were issued, for potential recognition or disclosure in the accompanying consolidated financial statements for the year ended September 30, 2021. During this period, the System received additional funding from various federal agencies, including HHS and FEMA, totaling approximately \$22 million in connection with the CARES Act and which have not been recorded as recoveries during the year ended September 30, 2021. Management continues to pursue ongoing recoveries from the HHS Provider Relief Fund, FEMA Public Assistance and other available federal and state COVID relief programs established under the CARES Act and other Federal programs. No other events occurred that require disclosure or adjustment to the consolidated financial statements.

YALE-NEW HAVEN HEALTH SERVICES CORPORATION
d/b/a YALE NEW HAVEN HEALTH SYSTEM AND SUBSIDIARIES
Supplementary Schedule of Expenditures of Federal Awards
Year ended September 30, 2021

Federal grantor, program title, and pass-through grantor	Assistance listing number	Pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
U.S. Department of Health and Human Services:				
Public Health Emergency Preparedness, passed through from State of Connecticut Department of Public Health	93.069	DPH2019-0227PSA	\$ —	96,519
Establishment of the National Evaluations System for Health Technology Coordinating Center passed through from the Food and Drug Administration	93.103	U01FD006292	—	626,389
Emergency Medical Services for Children	93.127	Direct	—	139,583
Ryan White HIV/AIDS Program Part D Women, Infants, Children, and Youth Program, passed through from Children's Medical Center	93.153	19-185023-01	—	56,069
Substance Abuse and Mental Health Services, passed through from South County Health	93.243	SM080329-01	—	31,668
Substance Abuse and Mental Health Services	93.243	Direct	321,651	913,534
Total 93.243			321,651	945,202
Centers for Disease Control and Prevention – Investigations				
and Technical Assistance, passed through from State of Connecticut Department of Public Health	93.283	2019-0117	—	224,727
Centers for Disease Control and Prevention – Epidemiology and Laboratory Capacity for Infectious Diseases, passed through from City of Bridgeport	93.323	#2021-0139	—	17,958
CDC Partner Crisis Response, passed through from South County Health	93.391	1NH75OT000037-01-00	—	3,095
Well-Integrated Screening and Evaluation for Women Across the Nation and Technical Assistance, passed through from State of Connecticut Department of Children and Families	93.436	2019-0117	—	45,875
COVID-19 Testing for the Uninsured	93.461	Direct	—	4,859,848
COVID-19 Provider Relief Fund	93.498	Direct	—	208,265,189
Ending the HIV Epidemic: A Plan for America, passed through from Yale University	93.686	RFP2019-12-1249	—	265,020
Accountable Health Communities	93.650	Direct	—	477,108
PPHF: Racial and Ethnic Approaches to Community Health Program Financed Solely by Public Prevention and Health Funds, passed through from Southern Connecticut State University	93.738	HHS-076-3006	—	47,744
Hospital Preparedness Program Ebola Preparedness and Response – Partners Healthcare Research Management passed through from Massachusetts General Hospital	93.817	233381-992714	—	7,055
National Bioterrorism Hospital Preparedness Program				
passed through from State of Connecticut Department of Public Health	93.889	DPH2019-0236/0227	—	1,242,050
COVID-19 National Bioterrorism Hospital Preparedness Program passed through from Hospital Association of Rhode Island	93.889	U3REP200657	—	179,503
Total 93.889			—	1,421,553
Healthy Start Initiative, passed through from the Community Foundation for Greater New Haven				
HIV Prevention Activities – Health Department Based, passed through from State of Connecticut Department of Public Health	93.926	H49MC0095	—	198,503
Block Grants for Community Mental Health Services, passed through from State of Connecticut Department of Mental Health and Addiction Services	93.940	2019-0901	—	20,078
	93.958	12MHA2103AA	—	107,231
TANF Cluster:				
Temporary Assistance for Needy Families (TANF), passed through from State of Connecticut Department of Children and Families	93.558	11000-DCF91110-16092	—	993,508
Total TANF Cluster			—	993,508
Maternal, Infant, and Early Childhood Home Visiting Center Cluster:				
Maternal, Infant, and Early Childhood:		21OECHSV01TVC		
Home Visiting Program, passed through from State of Connecticut Office of Early Childhood	93.870	20OECMHV01BHF, 21OECHSV01BHF 20OECMHV01VNS, 21OECMHV01VNS	—	942,162
Total Maternal, Infant, and Early Childhood Home Visiting Center Cluster			—	942,162
Aging Cluster:				
Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers, passed through from Senior Resources on Aging	93.044	C-21-5, F-20-8	—	19,231
Total Aging Cluster			—	19,231
Total U.S. Department of Health and Human Services			321,651	219,779,647

YALE-NEW HAVEN HEALTH SERVICES CORPORATION
d/b/a YALE NEW HAVEN HEALTH SYSTEM AND SUBSIDIARIES
Supplementary Schedule of Expenditures of Federal Awards
Year ended September 30, 2021

Federal grantor, program title, and pass-through grantor	Assistance listing number	Pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
U.S. Department of Agriculture (note 2): Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) passed through from State of Connecticut Department of Public Health and Hospital of St. Raphael	10.557	2017-0052-0	\$ 455,504	5,217,785
Total U.S. Department of Agriculture			<u>455,504</u>	<u>5,217,785</u>
U.S. Department of Housing and Urban Development: Lead Hazard Reduction Demonstration Grant Program, passed through from Connecticut Children's Medical Center	14.905	LP-20-179660-01	—	61,299
Total U.S. Department of Housing and Urban Development			<u>—</u>	<u>61,299</u>
U.S. Department of Labor: Apprenticeship USA Grants, passed through from State of Connecticut Department of Labor	17.285	AAI 40460 0033 20 3194 SAE113000112193105, SAE404600039213199	—	438,000
Total U.S. Department of Labor			<u>—</u>	<u>438,000</u>
U.S. Department of Transportation: Highway Safety Cluster: State and Community Highway Safety, passed through from Connecticut Department of Transportation	20.600	0201-0709-AD, 0201-0709-AE	—	172,481
Total Highway Safety Cluster			<u>—</u>	<u>172,481</u>
Total U.S. Department of Transportation			<u>—</u>	<u>172,481</u>
U.S. Department of the Treasury: COVID-19 Coronavirus Relief Fund, passed through from State of Connecticut Department of Public Health	21.019	2020-0137	—	1,841,080
COVID-19 Coronavirus Relief Fund, passed through from State of Connecticut Department of Social Services	21.019	20PSX0094	—	8,814,041
COVID-19 Coronavirus Relief Fund, passed through from State of Connecticut Office of Early Childhood	21.019	12060-22975-OEC64806-83026	—	95,141
COVID-19 Coronavirus Relief Fund, passed through from Hospital Association of Rhode Island	21.019	N/A	—	15,579,454
COVID-19 Coronavirus Relief Fund, passed through South County Health	21.019	N/A	—	12,000
Total 21.019			<u>—</u>	<u>26,341,716</u>
COVID-19 Coronavirus State and Local Fiscal Recovery Funds, passed through from the State of Connecticut Office of Early Childhood	21.027	21OECHVSO1YNNH-A1	23,867	200,876
Total U.S. Department of Treasury			<u>23,867</u>	<u>26,542,592</u>
U.S. Department of Homeland Security Federal Emergency Management Agency COVID-19 Disaster Grants – Public Assistance, passed through the State of Connecticut Department of Emergency Services and Public Protection	97.036	12060-DPA32990-27580-21891	—	66,210,186
COVID-19 Disaster Grants – Public Assistance, passed through the State of Rhode Island Emergency Management Agency	97.036	PA-01-RI-4505-PW	—	960,704
Total U.S. Department of Homeland Security			<u>—</u>	<u>67,170,890</u>
Total expenditures of federal awards			<u>\$ 801,022</u>	<u>319,382,694</u>

See accompanying notes to supplementary schedule of expenditures of federal awards.

**YALE NEW HAVEN HEALTH SERVICES CORPORATION
D/B/A YALE NEW HAVEN HEALTH SYSTEM AND SUBSIDIARIES**

Notes to Supplementary Schedule of Expenditures of Federal Awards

Year ended September 30, 2021

(1) Summary of Significant Accounting Policies

The following is a summary of significant accounting policies relating to Yale New Haven Health Services Corporation, d/b/a Yale New Haven Health System and Subsidiaries' (the System) federal grant programs.

(a) Basis of Presentation

The accompanying supplementary schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the System under programs of the federal government and is presented on the accrual basis of accounting, except for the following grants:

- COVID-19 Testing for the Uninsured (ALN 93.461) is based on the date of service performed on or prior to September 30, 2021 and for eligible patients that the System received payments from the U.S. Department of Health and Human Services.
- COVID-19 Provider Relief Funds (ALN 93.498) represents the total expenditures and/or lost revenues from the Period 1 report submission to the PRF Reporting Portal. Period 1 is based on payments received from April 10, 2020 through June 30, 2020 with a period of availability of expenses and/or lost revenues from January 1, 2020 through June 30, 2021.
- COVID-19 Coronavirus Relief Fund (ALN 21.019) includes certain grants whereby the period availability for expenditures and/or lost revenues is for the period March 1, 2020 through September 30, 2020. Such grants were received by the System in fiscal 2021.

The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the System's consolidated financial statements. Because the Schedule presents only a selected portion of the operations of the System, is it not intended to, and does not, present the consolidated financial position, changes in net assets, or cash flows of the System.

(b) Indirect Costs

The System has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

(c) Consolidated Reporting

Federal expenditures of the following entities are included in the accompanying Schedule for the year ended September 30, 2021:

Entity	Federal award expenditures
Yale-New Haven Health Services Corporation	\$ 4,566,916
Yale-New Haven Hospital	112,059,664
Bridgeport Hospital	63,159,672
Greenwich Hospital	42,713,747
Lawrence & Memorial Corporation	96,086,738
Northeast Medical Group	795,957
	\$ 319,382,694

(2) Food and Nutrition Awards (Assistance Listing Number 10.557)

During the year ended September 30, 2021, the System provided nutritional counseling and distribution of food vouchers through the State of Connecticut Department of Public Health Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). The U.S. Department of Agriculture, the federal agency that sponsors the WIC program, has determined that such WIC food instruments are considered "property in lieu of money" and, therefore, should be reported as federal awards expended by the System. The total amount reported as federal awards on the accompanying Schedule is \$5,217,785, representing the value of food vouchers redeemed of \$3,459,745 plus administrative costs of \$1,758,040.



KPMG LLP
345 Park Avenue
New York, NY 10154-0102

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

The Board of Trustees
Yale New Haven Health Services Corporation
d/b/a Yale New Haven Health System and Subsidiaries:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Yale New Haven Health System d/b/a Yale New Haven Health System and Subsidiaries (the System) , which comprise the consolidated balance sheet as of September 30, 2021 and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated December 22, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 System's consolidated 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 financial statements. 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 System'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 System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

New York, New York
December 22, 2021



KPMG LLP
345 Park Avenue
New York, NY 10154-0102

**Independent Auditors' Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on Supplementary Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance**

The Board of Trustees
Yale New Haven Health Services Corporation
d/b/a Yale New Haven Health System and Subsidiaries:

Report on Compliance for Each Major Federal Program

We have audited Yale New Haven Health Services Corporation d/b/a Yale New Haven Health System and subsidiaries' (the 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 System's major federal programs for the year ended September 30, 2021. The System's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with 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 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 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 the System's compliance.

Opinion on Each Major Federal Program

In our opinion, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2021.

Report on Internal Control Over Compliance

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the 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 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

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

We have audited the consolidated financial statements of Yale New Haven Health Services Corporation, d/b/a Yale New Haven Health System and subsidiaries, as of and for the year ended September 30, 2021, and have issued our report thereon dated December 22, 2021, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The 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 supplementary schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

June 30, 2022

**YALE NEW HAVEN HEALTH SERVICES CORPORATION
D/B/A YALE NEW HAVEN HEALTH SYSTEM AND SUBSIDIARIES**

Schedule of Findings and Questioned Costs

Year ended September 30, 2021

(1) Summary of Auditors' Results

- (a) Type of report issued on whether the consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles: **Unmodified**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the consolidated financial statements:
 - Material weaknesses: **No**
 - Significant deficiencies: **None reported**
- (c) Noncompliance material to the consolidated financial statements: **No**
- (d) Internal control deficiencies over major programs disclosed by the audit:
 - Material weaknesses: **No**
 - Significant deficiencies: **None reported**
- (e) Type of report issued on compliance for major programs: **Unmodified**
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **None**
- (g) Major Programs:
 - COVID-19 Provider Relief Funds (ALN 93.498)
 - COVID-19 Testing for the Uninsured (ALN 93.461)
 - COVID-19 Disaster Grants – Public Assistance (ALN 97.036)
 - COVID-19 Coronavirus Relief Fund (ALN 21.019)
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- (i) Auditee qualified as a low-risk auditee: **Yes**

(2) Findings Relating to the Consolidated Financial Statements Reported in Accordance with *Government Auditing Standards*

None

(3) Findings and Questioned Costs Relating to Federal Awards

None