

**The University of Vermont
Health Network Inc.
and Subsidiaries**

**Consolidated Financial Statements and
Supplemental Consolidating Information
September 30, 2018 and 2017**

The University of Vermont Health Network Inc. and Subsidiaries

Index

September 30, 2018 and 2017

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Report of Independent Auditors

To the Board of Trustees of
The University of Vermont Health Network Inc.

We have audited the accompanying consolidated financial statements of The University of Vermont Health Network Inc. and its subsidiaries (the "Network"), which comprise the consolidated balance sheets as of September 30, 2018 and 2017, and the related consolidated statements of operations, of changes in net assets and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Network'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 Network'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 The University of Vermont Health Network Inc. and its subsidiaries as of September 30, 2018 and 2017, and the results of their operations, their changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the consolidated financial statements, the Network changed the manner in which it presents net assets and reports certain aspects of its financial statements as a not-for-profit entity in 2018. Our opinion is not modified with respect to this matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, changes in net assets, and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations, changes in net assets, and cash flows of the individual companies.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

Boston, Massachusetts
January 23, 2019

The University of Vermont Health Network Inc. and Subsidiaries
Consolidated Balance Sheets
September 30, 2018 and 2017

<i>(in thousands)</i>	2018	2017
Assets		
Current assets		
Cash and cash equivalents	\$ 246,681	\$ 264,293
Short-term investments	32,932	28,910
Current portion of assets whose use is limited or restricted	54,523	93,349
Patient and other trade accounts receivable - net of allowance for doubtful accounts of \$46,603 and \$48,557, respectively	237,633	238,902
Inventories	43,396	38,672
Receivables from third-party payers	8,993	4,134
Prepaid and other current assets	44,079	40,945
Total current assets	<u>668,237</u>	<u>709,205</u>
Assets whose use is limited or restricted		
Board-designated assets	656,229	614,890
Assets held by trustee under bond indenture agreements	3,881	4,981
Restricted assets	27,423	9,777
Donor-restricted assets for specific purposes	45,747	41,541
Donor-restricted assets for permanent endowment	44,900	36,580
Total assets whose use is limited or restricted	<u>778,180</u>	<u>707,769</u>
Property and equipment, net	867,372	765,727
Other	53,220	47,099
Total assets	<u>\$ 2,367,009</u>	<u>\$ 2,229,800</u>
Liabilities and Net Assets		
Current liabilities		
Current installments of long-term debt	\$ 29,168	\$ 39,368
Accounts payable	61,530	56,169
Accrued expenses and other liabilities	57,671	58,449
Accrued payroll and related benefits	123,216	107,593
Current portion of third-party payer settlements	15,810	11,708
Incurred but not reported claims	13,855	24,087
Total current liabilities	<u>301,250</u>	<u>297,374</u>
Long-term liabilities		
Long-term debt - net of current installments	602,684	588,448
Malpractice and workers' compensation claims, net of current portion	39,310	26,192
Pension and other postretirement benefit obligations	64,233	89,297
Third-party payer settlements, net of current portion	21,624	19,073
Other	35,381	36,685
Total long-term liabilities	<u>763,232</u>	<u>759,695</u>
Total liabilities	<u>1,064,482</u>	<u>1,057,069</u>
Net assets		
Without donor restrictions	1,195,635	1,083,350
With donor restrictions		
Time or purpose	60,750	50,938
Perpetual	46,142	38,443
Total net assets	<u>1,302,527</u>	<u>1,172,731</u>
Total liabilities and net assets	<u>\$ 2,367,009</u>	<u>\$ 2,229,800</u>

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

The University of Vermont Health Network Inc. and Subsidiaries
Consolidated Statements of Operations
Years Ended September 30, 2018 and 2017

<i>(in thousands)</i>	2018	2017
Revenue and other support without donor restrictions		
Net patient service revenue	\$ 1,861,197	\$ 1,858,288
Less: Provision for bad debts	<u>(50,293)</u>	<u>(45,277)</u>
Net patient service revenue after provision for bad debts	1,810,904	1,813,011
Enhanced Medicaid Graduate Medical Education revenues-Hospital	10,389	10,312
Enhanced Medicaid Graduate Medical Education revenues-Professional	<u>19,611</u>	<u>19,133</u>
Net patient service revenue after provision for bad debts and Enhanced Medicaid Graduate Medical Education revenues	1,840,904	1,842,456
Fixed prospective payment revenue	159,172	28,340
Premium revenue	6,487	9,040
Outpatient and specialty pharmacy revenue	103,849	84,532
Net assets released from restrictions	3,342	2,773
Other revenue	<u>56,149</u>	<u>46,844</u>
Total revenue and other support without donor restrictions	<u>2,169,903</u>	<u>2,013,985</u>
Expenses		
Salaries, payroll taxes and fringe benefits	1,305,410	1,197,511
Supplies and other	522,953	469,841
Purchased services	116,368	93,995
Provider taxes	88,944	82,939
Depreciation and amortization	85,531	82,786
Interest expense	<u>18,490</u>	<u>18,968</u>
Total expenses	<u>2,137,696</u>	<u>1,946,040</u>
Income from operations	<u>32,207</u>	<u>67,945</u>
Nonoperating gains (losses)		
Investment income	26,435	58,244
Change in fair value of interest rate swap agreements	6,562	9,443
Contribution revenue from acquisitions	20,268	26,935
Other	<u>(343)</u>	<u>(1,041)</u>
Total nonoperating gains, net	<u>52,922</u>	<u>93,581</u>
Excess of revenue over expenses	85,129	161,526
Net change in unrealized gains (losses) on investments	2,898	(10,332)
Net assets released from restrictions for capital purchases	4,607	1,118
Pension related adjustments	19,542	52,816
Transfers and other adjustments	<u>109</u>	<u>-</u>
Increase in net assets without donor restrictions	<u>\$ 112,285</u>	<u>\$ 205,128</u>

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

The University of Vermont Health Network Inc. and Subsidiaries
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2018 and 2017

<i>(in thousands)</i>	2018	2017
Changes in net assets without donor restrictions:		
Excess of revenue over expenses	\$ 85,129	\$ 161,526
Net change in unrealized gains (losses) on investments	2,898	(10,332)
Net assets released from restrictions for capital purchases	4,607	1,118
Pension related adjustments	19,542	52,816
Transfers and other adjustments	109	-
Increase in net assets without donor restrictions	<u>112,285</u>	<u>205,128</u>
Changes in net assets with donor restrictions:		
Gifts, grants and bequests	10,750	6,253
Investment income	1,028	602
Net change in unrealized (losses) gains on investments	(408)	792
Net realized gains on investments	2,453	3,342
Net assets released from restrictions used in operations	(3,567)	(2,773)
Net assets released from restrictions used for nonoperating purposes	(493)	(229)
Net assets released from restrictions used for capital purchases	(4,607)	(1,118)
Change in beneficial interest in perpetual trusts	546	594
Acquisition of net assets with donor restrictions	11,198	3,963
Transfer of net assets	611	-
Increase in net assets with donor restrictions	<u>17,511</u>	<u>11,426</u>
Increase in net assets	129,796	216,554
Net assets		
Beginning of year	<u>1,172,731</u>	<u>956,177</u>
End of year	<u>\$ 1,302,527</u>	<u>\$ 1,172,731</u>

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

The University of Vermont Health Network Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended September 30, 2018 and 2017

<i>(in thousands)</i>	2018	2017
Cash flows from operating activities		
Increase in net assets	\$ 129,796	\$ 216,554
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	85,531	82,786
Provision for bad debts	50,293	45,277
Contribution revenue from acquisition	(31,466)	(30,898)
Pension related adjustments	(19,542)	(52,816)
Contributions restricted for long-term use	(2,333)	(904)
Loss (gain) on disposal of property and equipment	(273)	288
Loss on interest rate swap agreements	(6,562)	(9,443)
Realized and changes in unrealized gains on investments	(27,439)	(42,261)
Undistributed gains of affiliated companies	(3,369)	(68)
Change in beneficial interest in perpetual trusts	(546)	(594)
Increase (decrease) in cash resulting from a change in		
Patient and other accounts receivable	(45,317)	(51,771)
Other current and noncurrent assets	(14,576)	(9,984)
Accounts payable and accrued expenses	(2,571)	(11,512)
Accrued payroll and related expenses	12,897	(2,348)
Other current and noncurrent liabilities	7,547	(3,505)
Estimated settlements with third-party payer settlements	(156)	9,447
Pension and other postretirement benefit obligations	(4,146)	13,378
Net cash provided by operating activities	<u>127,768</u>	<u>151,626</u>
Cash flows from investing activities		
Purchases of property and equipment	(166,379)	(107,567)
Proceeds from sale of property and equipment	302	140
Purchase of investments	(119,093)	(911,360)
Proceeds from sale of investments	137,318	838,477
Use of bond proceeds deposited with trustees	-	2,424
Payments for acquisition, net of cash acquired	(4,927)	18,714
Net cash used in investing activities	<u>(152,779)</u>	<u>(159,172)</u>
Cash flows from financing activities		
Proceeds from restricted contributions & restricted investment income	2,333	904
Payments on long-term debt	(28,813)	(74,502)
Proceeds from debt issuance	40,313	101,544
Payment of debt issuance costs	(18)	(626)
Borrowings on line of credit	11,033	15,471
Repayments on line of credit	(17,449)	(13,966)
Net cash provided by financing activities	<u>7,399</u>	<u>28,825</u>
Net (decrease) increase in cash and cash equivalents	(17,612)	21,279
Cash and cash equivalents		
Beginning of year	<u>264,293</u>	<u>243,014</u>
End of year	<u>\$ 246,681</u>	<u>\$ 264,293</u>
Supplemental cash flow information		
Contribution from acquisitions, net of cash paid/acquired	\$ 29,086	\$ 12,184
Cash paid during the year for interest	18,401	18,631
Capital expenditures included in accounts payable	18,969	16,176
Assets acquired under capital lease	236	3,606

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

The University of Vermont Health Network Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

1. Organization

The University of Vermont Health Network Inc. (“UVM Health Network”), is a non-profit, tax-exempt Vermont corporation and the sole corporate member of University of Vermont Medical Center, Inc., University of Vermont Health Network Medical Group, Inc., University of Vermont Health Network - Central Vermont Medical Center, Inc., University of Vermont Health Network - Porter Medical Center, Inc., University of Vermont Health Network – Champlain Valley Physicians Hospital Medical Center, University of Vermont Health Network – Elizabethtown Community Hospital, University of Vermont Health Network – Alice Hyde Medical Center, Community Providers, Inc., UVM Health Network Health Ventures, Inc., and University of Vermont Health Network – Home Health & Hospice. UVM Health Network’s purpose is to establish an integrated regional health care system for the development of a highly coordinated health care network to improve the quality, increase the efficiencies, and lower the costs of health care delivery in the regions it serves.

The University of Vermont Medical Center, Inc. (“UVM Medical Center”) is a tertiary care teaching hospital that, in affiliation with The University of Vermont (“UVM”), serves as Vermont’s academic medical center. As a regional referral center, UVM Medical Center provides advanced level care throughout Vermont and Northern New York, with a full time emergency department which is also certified as a Level 1 Trauma Center. It is UVM Medical Center’s mission to improve the health of the people in the communities that it serves by integrating patient care, education, and research in a caring environment. As a charitable organization, UVM Medical Center lives its mission through a number of community benefit programs, many done in collaborative partnership with other community based organizations. These include, but are not limited to, community wellness programs, education, direct grants, free access to a community health resource center, direct financial assistance to patients, and other subsidized programs.

UVM Medical Center is the sole member of the following subsidiaries: University of Vermont Health Network Specialty Care Transport, LLC; University of Vermont Medical Center Skilled Nursing, LLC; University of Vermont Medical Center Foundation, Inc.; University of Vermont Medical Center Executive Services, LLC; and VMC Indemnity Company Ltd. (“VMCIC”). The following entities are partly owned or controlled by UVM Medical Center: Medical Education Center Condominium Association, Inc.; Copley Woodlands, Inc.; University of Vermont Health Network Medical Group – New York, PLLC; and OneCare Vermont Accountable Care Organization, LLC (“OCV”).

OCV is a 50/50 joint venture between UVM Medical Center and Dartmouth Hitchcock Health and a statewide accountable care organization that comprises an extensive network of providers across the full continuum of care, including hospitals in Vermont and New Hampshire, hundreds of primary and specialty care physicians, federally qualified health centers, designated agencies for mental health and substance use, skilled nursing facilities, home health agencies, and area agencies on aging.

The University of Vermont Health Network Medical Group, Inc., (“UVMHN Medical Group”) is organized to serve as the governing organization for physicians who are employed to provide clinical services to affiliated, member hospitals of the UVM Health Network. The purpose of the UVMHN Medical Group is to advance the clinical care, education, and training missions of UVM Health Network and its affiliated member hospitals and the education, training, and research missions of the University of Vermont College of Medicine.

The University of Vermont Health Network Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

The University of Vermont Health Network - Central Vermont Medical Center, Inc. ("CVMC") provides health care services under three distinct business units: Central Vermont Hospital, Woodridge Rehabilitation and Nursing ("Woodridge"), and Central Vermont Medical Group Practice. CVMC works collaboratively to meet the needs and improve the health of the residents of central Vermont. CVMC's hospital provides 24-hour emergency care and has a full spectrum of inpatient and outpatient services.

The University of Vermont Health Network – Porter Medical Center, Inc. ("PMC") was organized in 1986 to serve as a parent holding company for three subsidiaries: Porter Hospital, Inc. ("Porter Hospital"), Helen Porter Nursing Home, Inc. ("HPNH") and Porter Real Estate Holdings, LLC ("PREH"). Porter Hospital operates a 25-bed not-for-profit critical access hospital. HPNH operates a 105-bed not-for-profit long-term community oriented skilled healthcare and rehabilitation center. PREH is a single-member LLC real estate holding company that is owned 100% by PMC. All of these companies are Vermont corporations and operate out of facilities in Middlebury, Vermont.

The University of Vermont Health Network – Community Providers, Inc. ("CPI"), includes Mediquest Corp., Emergency Medical Transport of CVPH, Inc., Lake Champlain Physician Services, P.C. ("LCPS"), and Champlain Valley Health Network, Inc. ("CVHN").

The University of Vermont Health Network – Champlain Valley Physicians Hospital Medical Center ("CVPH") is the sole member of CVPH Foundation, Inc. ("Foundation"), Champlain Valley Open MRI, LLC, and Valcour Imaging, Inc., and is a member in Adirondack Accountable Care Organization, LLC ("ADK ACO"). CVPH is part of a six-hospital network serving patients and their families in northern New York and Vermont.

The University of Vermont Health Network – Alice Hyde Medical Center ("AHMC") is a not-for-profit corporation, incorporated in the State of New York, located in Malone, New York. The Medical Center operates 76 acute care beds, 135 nursing facility beds and 30 resident assisted living program in addition to providing emergency and outpatient services.

The University of Vermont Health Network – Elizabethtown Community Hospital ("ECH"), located in Elizabethtown, Essex County, New York, is a 25-bed hospital designated by Medicare and Medicaid as a Critical Access Hospital. The Hospital provides inpatient, outpatient, and emergency care services for residents in Essex County and admitting physicians are primarily practitioners in the local area. Effective April 10, 2018, certain assets and liabilities of Moses - Ludington Hospital, a 15 – bed critical access hospital and real property of Moses – Ludington Nursing Home Company, Inc. both located in Ticonderoga, New York were acquired by ECH. In connection with this transaction, ECH acquired net assets of \$8,900,000 in exchange for \$7,300,000 of cash, resulting in an inherent contribution of \$1,600,000, including \$336,000 of net assets with donor restrictions.

The University of Vermont Health Network – Home Health & Hospice, Inc., ("HH&H"), is a non-profit corporation organized in Vermont. The primary purpose is to provide home care services to residents of Chittenden and Grand Isle Counties.

The UVM Health Network Ventures is a for profit holdings company that holds the various, for profit investment activities of the UVM Health Network.

The University of Vermont Health Network Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of UVM Health Network and its subsidiaries for which it controls or serves as the sole corporate member. Intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Significant estimates include the allowances for doubtful accounts and contractual allowances, receivables and accruals for estimated settlements with third-party payers, contingencies, self-insurance program liabilities, accrued medical claims, pension and postretirement costs, and the valuation of investments and interest rate swaps. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with original maturities of three months or less when purchased, excluding amounts classified as assets whose use is limited or restricted.

Most of UVM Health Network's banking activity, including cash and cash equivalents, is maintained with multiple regional banks and cash deposits exceed federal insurance limits. It is UVM Health Network's policy to monitor these banks' financial strength on an ongoing basis.

Inventories

Inventories are stated using the lesser of average cost or fair value.

Prepaid and Other Current Assets

Prepaid and other current assets include miscellaneous nontrade receivables and prepaid expenses primarily related to software maintenance and other contracts.

Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted primarily include board-designated assets, assets held by trustees under indenture agreements, donor-restricted assets, and restricted assets which are held for insurance-related liabilities. Board-designated assets may be used at the Board's discretion. A significant portion of the assets are made up of investments.

Investments and Investment Income

During fiscal 2018, the UVM Health Network, excluding HH&H and PMC, consolidated all non-pension investment assets into a pooled/unitized structure to gain efficiencies in managing the various investment portfolios, simplify the trading process, and reduce trading and investment manager fees. Assets were separated into five asset class pools: cash, domestic equity, international equity, fixed income and liquid alternative investments. Each participating entity owns a percentage share of each asset class pool depending on its unique asset allocation. Trading is executed at the asset class pool level and allocated down to each investment portfolio based on their pro-rata ownership of each pool. Fair value of the asset class pools is determined by aggregating the fair value of the underlying investments within each pool.

The University of Vermont Health Network Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

Investments in equity securities and mutual funds with readily determinable fair values and all investments in debt securities are recorded at fair value. Investments for which a fair value is not readily determinable, including investments in hedge funds, are either recorded at cost or at their reported fair value based on information provided by the fund manager, and are reviewed for reasonableness by management. Investment income or loss (including realized gains and losses on investments, interest, and dividends), to the extent not capitalized, is included in nonoperating gains (losses), unless the income or gain (loss) is restricted by donor or law. Realized gains or losses on the sale of investments are determined by use of average costs. Unrealized gains and losses on investments carried at fair value are excluded from the excess of revenue over expenses and reported as an increase or decrease in net assets. Declines in fair value that are judged to be other-than-temporary are reported as realized losses.

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

UVM Health Network reviews its investments to identify those for which fair value is below cost. UVM Health Network then makes a determination as to whether the investment should be considered other-than-temporarily impaired. UVM Health Network recognized \$8,849,000 and \$0 in losses related to declines in value that were other-than-temporary in nature for the years ended September 30, 2018 and 2017, respectively, which is included as an offset to investment income in the statement of operations.

Property and Equipment

Property and equipment acquisitions are recorded at cost or, in the case of gifts, at fair market value at the date of the gift. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Equipment under capital lease obligations is amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements.

Depreciation is calculated using the following estimated useful lives:

Land improvements	2 – 25 years
Leasehold improvements	2 – 30 years
Building and improvements	5 – 40 years
Equipment, furniture, and fixtures	3 – 30 years

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as support without donor restrictions and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, expiration of donor restrictions is reported when the donated or acquired long-lived assets are placed in service.

Impairment of Long-Lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value, less costs to sell.

The University of Vermont Health Network Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets, net of investment income on borrowed assets held by trustees, is capitalized as a component of the cost of acquiring those assets. Approximately \$4,661,000 and \$4,297,000 of interest was capitalized during the years ended September 30, 2018 and 2017, respectively. Net deferred financing costs totaled \$2,720,000 and \$2,495,000 at September 30, 2018 and 2017, respectively. Such amounts are reported as an offset to long term debt and are amortized over the period the related obligations are outstanding using the effective interest method. Accumulated amortization of deferred financing costs totaled \$1,076,000 and \$851,000 at September 30, 2018 and 2017, respectively.

Net Assets with Donor Restriction

Net assets with donor restrictions include those whose use by UVM Health Network has been restricted by donors or law for a specific purpose, time period or both, either temporarily or in perpetuity.

Consolidated Statement of Operations

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenue and other support and expenses without donor restrictions. Peripheral or incidental transactions are reported as nonoperating gains (losses).

UVM Health Network's measure of operations as presented in the consolidated statements of operations includes revenue from health care services, pharmacy revenue, grants and contracts, the allocation of endowment spending for operations and other revenues. Operating expenses are reported on the consolidated statement of activities by natural classification.

Excess of Revenue over Expenses

The consolidated statements of operations include the excess of revenue over expenses. Changes in net assets without donor restrictions which are excluded from the excess of revenue over expenses, consistent with industry practice, primarily include unrealized gains and losses on investments (other than those on which other-than-temporary losses are recognized), contributions of long-lived assets (including assets acquired using contributions restricted by donors for acquiring such assets) and pension related adjustments.

Net Patient Service Revenue and Fixed Prospective Payment Revenue

Net patient service revenue is reported at the estimated net realizable amounts due from patients and third-party payers for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Under the terms of various agreements, regulations, and statutes, certain elements of third-party reimbursement are subject to negotiation, audit, and/or final determination by the third-party payers. In addition, laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Differences between amounts previously estimated for retroactive adjustments and amounts subsequently determined to be recoverable or payable are included in net patient service revenue in the year that such amounts become known. Changes in prior-year estimates increased (decreased) net patient service revenue by approximately \$7,556,000 and (\$2,832,000) in the years ended September 30, 2018 and 2017, respectively.

The University of Vermont Health Network Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

Beginning January 1, 2017, UVM Medical Center, CVMC and PMC began to receive monthly fixed prospective payments for services provided by hospitals (and hospital-owned practices) participating in the Vermont Medicaid Next Generation Accountable Care Organization (“ACO”) Pilot Program. As of January 1, 2018, the same entities entered into participation agreements with OCV for the Medicare Next Generation ACO, the Vermont Medicaid Next Generation ACO, and the Commercial Blue Cross Blue Shield of Vermont (“BCBS”) ACO programs; all three programs encompass services provided by hospitals (and hospital-owned practices) participating in the ACO arrangement. The Medicare and Medicaid programs provide for a monthly, per member payment received in advance of the services being performed and recognized as revenue in the month to which it relates. The BCBS program pays fee for service and provides for a reconciliation process at the end of the fiscal year. The revenues for the Medicare and Medicaid programs are recorded on the fixed prospective payment line on the statement of operations. Fee-for-service payments continue for all other non-hospital providers in the ACO, for all providers who are not a part of the ACO, and for all services that are not included in the fixed prospective payment. The ACO is responsible for both the cost and quality of care for each attributed member. This is true whether that person uses little or no care or whether they require services consistently throughout the year. UVM Medical Center, CVMC and PMC recognize their share of annual contract settlements as an increase or decrease to fixed prospective revenue.

CVPH, through the Adirondack Regional Medical Home Pilot, which was established as a joint venture initiative of medical providers and public and private insurers to transform healthcare deliver in the rural, upstate New York region, receives monthly fixed prospective payments for the provision of care management services. This is a monthly, per member payment received in advance of the services being performed and recognized as revenue in the month to which it relates.

UVM Health Network has agreements with third-party payers that provide for payments to UVM Health Network at amounts different from its established rates. A summary of the payment arrangements with major third-party payers both Fee For Service (“FFS”) and Fixed Prospective Payments (“FPP”), is as follows:

Medicare

Inpatient acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient rehabilitation services are paid based on a prospective per discharge methodology. These rates vary according to a patient classification system based upon services provided, the patient’s level of functionality and other factors. Outpatient services are paid based upon a prospective standard rate for procedures performed or services rendered. UVM Health Network is reimbursed for cost-reimbursable items at tentative rates, with final settlement determined after submission of annual cost reports by UVM Health Network and audits thereof by the Medicare Audit Contractor (“MAC”). Medicare reimbursement for professional billings is determined by a standard fee schedule that is determined by the Centers for Medicare and Medicaid Services of the U.S. Department of Health and Human Services. The percentage of net patient service revenue and FPP revenue derived from the Medicare program was approximately 34% (28% FFS and 6% FPP) and 33% (33% FFS and 0% FPP) in the years ended September 30, 2018 and 2017, respectively.

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Medicaid

Inpatient services rendered to Vermont Medicaid program beneficiaries are paid at prospectively determined rates per discharge. As with Medicare, reimbursement is based on a diagnosis-related group (“DRG”) system that is based on clinical, diagnostic, and other factors. In Vermont, additional reimbursement for inpatient rehabilitation and neonatal cases is paid through a per diem add-on. In Vermont, additional reimbursement for inpatient psychiatric cases is based on a per diem rate calculation, including adjustments for diagnostic factors and length of stay. Outpatient services rendered to Vermont Medicaid beneficiaries are paid based upon a prospective standard rate. Certain laboratory, mammography, therapy, and dialysis services are paid on a fee schedule. Outpatient services rendered to New York Medicaid beneficiaries are paid under an Ambulatory Patient Group (“APG”). Ancillaries (i.e. lab) ordered by an Article 28 provider get bundled into the clinic visit and are paid under an APG. Medicaid reimbursement for professional services is determined by a standard fee schedule. The Medicaid program accounts for approximately 12% (10% FFS and 2% FPP) and 9% (8% FFS and 1% FPP) of UVM Health Network’s net patient service revenue and FPP revenue for the years ended September 30, 2018 and 2017, respectively.

Managed Care and Commercial Insurers

Services rendered to patients with commercial insurance are generally reimbursed at standard charges, less a negotiated discount or according to DRG or negotiated fee schedules. Approximately 47% (47% FFS and 0% FPP) and 50% (49% FFS and 1% FPP) of UVM Health Network’s net patient service and FPP revenue were derived from contracted insurers in the years ended September 30, 2018 and 2017. Approximately 8% of UVM Health Network’s net patient service revenue and FPP revenue were derived from non-contracted insurers in the years ended September 30, 2018 and 2017, respectively.

Enhanced Medicaid Graduate Medical Education Revenues (Hospital and Professional)

Under an Amendment to the Vermont State Medicaid Plan TN#11-019 (the “State Plan Amendment”), UVM Medical Center received increased Vermont Medicaid payments to support graduate medical education (“GME”) beginning in fiscal year 2013. The State Plan Amendment provided for enhanced Medicaid payments of GME through two funding mechanisms: (1) payments to “qualified teaching hospitals” and (2) payments to “qualified teaching physicians.” Under the definitions contained in the State Plan Amendment, UVM Medical Center is a qualified teaching hospital and physicians employed by UVM Medical Group are qualified teaching physicians.

The nonfederal source of these payments was provided by payments from UVM from its governmental appropriations from the State of Vermont (“the State”). UVM has entered into a contract with the State to provide annual amounts during the State’s fiscal year as the nonfederal share of GME payments for that year. UVM Medical Center expects that UVM will enter into similar contracts for subsequent years, though there is no assurance of this. UVM Medical Center entered into a contract with the State, by which UVM Medical Center agrees to assess and monitor program benefits to Medicaid beneficiaries and to report to the State annually on its performance on certain quality measures and improvement focus areas for Medicaid beneficiaries pertaining to UVM Medical Center’s GME programs, and the State agrees to provide GME payments to UVM Medical Center during the State fiscal year. UVM Medical Center expects to enter into similar contracts with the State for future years, but these are subject to continued funding by UVM of the nonfederal source. The State, UVM Medical Center and UVM have also entered into a Memorandum of Understanding (“MOU”), dated July 1, 2017 through June 31, 2021 that describes the State Plan Amendment and these funding arrangements.

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UVM Medical Center recognized enhanced GME revenue under the State Plan Amendment totaling \$30,000,000 and \$29,445,000 for the fiscal years ended September 30, 2018 and 2017, respectively. Under the MOU, both UVM and the State retain the right to discontinue GME payments at any time in the future.

Premium Revenue

Premium revenue consists primarily of payer incentives.

Outpatient and Specialty Pharmacy Revenue

Pharmacy revenue consists of sales of pharmaceuticals and related products, including 340b revenue.

Other Revenue

Other revenue consists primarily of research revenue, non-patient related contract revenues, cafeteria sales, parking garage income, net assets released from restrictions used for operations, and rental income.

Research Grants and Contracts

Revenue related to research grants and contracts is recognized as the related costs are incurred. Research grants and contracts are accounted for as exchange transactions. Amounts received in advance of incurring the related expenditures are recorded as unexpended research grants and are included within accrued expenses and other liabilities. Amounts expended in advance of the receipt of funding are included within patient and other trade accounts receivable.

Reserves for Outstanding Losses and Loss-Related Expenses for Malpractice and Workers' Compensation Claims

The liabilities for outstanding losses and loss-related expenses and the related provision for losses and loss-related expenses include estimates for malpractice losses incurred but not reported, losses pending settlement, as well as for workers' compensation claims and underwriting expenses. Such liabilities are not necessarily based on estimates and, while management believes the amounts provided are adequate, the ultimate liabilities may be in excess of or less than the amounts provided. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The methods for making such estimates and the resulting liabilities are actuarially reviewed on an annual basis and any adjustments required are reflected in estimated incurred but not reported medical claims.

Income Taxes

Entities within the UVM Health Network, with the exception of entities specifically named below, are incorporated and recognized by the Internal Revenue Service ("IRS") as tax-exempt under Section 501(c)(3) of the Internal Revenue Code (the "Code"). Accordingly, the IRS has determined that these organizations are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. UVM Health Network Specialty Care Transport, UVM Medical Center Executive Services, and UVM Medical Center Skilled Nursing are single-member limited liability corporations. As such, for tax purposes, these organizations are treated as divisions of UVM Medical Center. OCV and ADK ACO are limited liability companies and treated for tax purposes as partnerships. Earnings and losses are passed through to the owners, which are tax-exempt, and are treated in the same manner for tax purposes. No provision for federal income taxes has been recorded in the accompanying consolidated financial statements for these organizations.

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For tax years beginning after December 31, 2017, the Tax Cuts & Jobs Act provided for an excise tax on the sum of remuneration in excess of one million dollars paid to a covered employee, and an unrelated business income tax on the value of certain qualified transportation fringe benefits. The tax provisions and related liabilities for these items are not material to the consolidated financial statements.

University of Vermont Health Network Health Ventures, VMCIIC, Mediquest and CVHN are for-profit subsidiaries subject to federal and state taxation. The tax provisions and related tax assets and liabilities for these entities are not material to the consolidated financial statements.

UVM Health Network accounts for recognition and measurement of uncertain tax positions in accordance with Accounting Standards Codification (ASC) 740 *Income Taxes*, which addresses how to account for and report the effects of taxes based on income. No provision for uncertain tax positions is recorded in the accompanying consolidated financial statements.

VMCIIC is currently not a taxable entity under the provisions of the territory of Bermuda and, accordingly, no provision for taxes has been recorded by VMCIIC. In the event that such taxes are levied, VMCIIC has received an undertaking from the Bermuda Government exempting it from all such taxes until March 31, 2035.

Asset Retirement Obligations

UVM Health Network recognizes a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation is factored into the measurement of the liability when sufficient information exists. The types of asset retirement obligations that UVM Health Network considers are those for which it has a legal obligation to perform an asset retirement activity, however, the timing and/or method of settling the obligation are conditional on a future event that may or may not be within its control. The fair value of a liability for the legal obligation associated with an asset retirement is recorded in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement is capitalized.

The estimated future undiscounted value of the asset retirement obligation is approximately \$3,753,000 and \$4,153,000 at September 30, 2018 and 2017, respectively, substantially all of which relates to the estimated costs to remove asbestos that is contained within UVM Health Network's facilities. The initial asset retirement obligation was calculated using discount rates of 2.0%-6.0%. The recorded asset retirement obligation at September 30, 2018 and 2017 was approximately \$2,543,000 and \$2,555,000, respectively.

Defined Benefit Pension and Other Postretirement Benefit Plans

UVM Health Network recognizes the overfunded or underfunded status of its defined benefit pension and other postretirement benefit plans (collectively, "postretirement benefit plans") in the consolidated balance sheets. Changes in the funded status of the plans are reported in the year in which the changes occur as a change in net assets without donor restrictions presented below the excess of revenue over expenses in the consolidated statements of operations and changes in net assets.

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Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (also referred to as an “exit price”). A fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. In determining fair value, the use of various valuation approaches, including market, income, and cost approaches, is permitted.

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

UVM Health Network uses the following fair value hierarchy to present its fair value disclosures:

- Level 1 Quoted (unadjusted) prices for identical assets or liabilities in active markets. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 Other observable inputs, either directly or indirectly, including:
- Quoted prices for identical or similar assets in non-active markets (few transactions, limited information, noncurrent prices, high variability over time).
 - Inputs other than quoted prices that are observable for the asset (interest rates, yield curves, volatilities, default rates).
 - Inputs that are derived principally from or corroborated by other observable market data.
- Level 3 Pricing inputs are generally unobservable for the assets or liabilities and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management’s judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities.

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

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

Equities, Mutual Funds, Money Market Funds, and Real Estate Investment Trusts

The fair values of equities, mutual funds, money market funds, and real estate investment trusts are based on quoted market prices and are categorized as Level 1 or Level 2 based on the nature of the inputs.

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Debt Securities

The estimated fair values of debt securities are based on quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices. The marketable debt securities classified as Level 1 are classified based on quoted prices of the actual debt instruments in active markets. The marketable debt securities classified as Level 2 are classified as such due to the usage of observable market prices for similar securities that are traded in less active markets or when observable market prices for identical securities are not available. Marketable debt instruments are priced using: nonbinding market consensus prices that are corroborated with observable market data; quoted market prices for similar instruments; or pricing models, such as a discounted cash flow model, with all significant inputs derived from or corroborated with observable market data. These Level 2 debt securities primarily include corporate bonds, notes and other debt securities.

Beneficial Interest in Perpetual Trusts

The estimated fair values of UVM Health Network's beneficial interests in perpetual trusts are determined based upon information provided by the trustees. Such information is generally based on the pro rata interest in the net assets of the underlying investments. The assets held in trust consist primarily of cash equivalents and marketable securities. The fair values of the perpetual trusts are measured using the fair value of the assets contributed to the trusts, and therefore are categorized as level 3.

Hedge Funds

The fair values of investments in hedge funds were primarily determined using the calculated net asset value ("NAV"). The hedge funds include investments in funds that invest primarily in securities whose underlying values are based on Level 1 inputs. The fund managers receive prices from nationally recognized pricing services based on observable market transactions. Certain of the underlying securities held by the funds are listed on recognized securities exchanges and valued at the closing price as is customarily ascertained by the respective exchange.

Investments at Middlebury College

PMC has investments held with Middlebury College. These investments are considered Level 3 as the fair value is based on PMC's share of the quoted market prices of the underlying assets of the Middlebury pooled funds and beneficial trusts or of similar securities, as provided by the respective custodians.

Interest Rate Swap Agreements

Interest rate swap agreements are valued at the present value of the estimated series of cash flows resulting from the exchange of fixed rate payments for floating rate payments from the counterparty over the remaining life of the contract from the balance sheet date. Each floating rate payment is calculated based on forward market rates at the valuation date for each respective payment date. The valuation based on the estimated series of cash flows is obtained from third parties and assessed by management for reasonableness. Because the inputs used to value the contract can generally be corroborated by market data, the fair value is categorized as Level 2.

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Provider Tax Payments

The states of Vermont and New York operate provider tax programs related to certain patient services revenues and operating cash receipts, respectively, collectively referred to as provider tax expenses. UVM Health Network recorded provider tax expenses of approximately \$88,944,000 and \$82,939,000 for the years ended September 30, 2018 and 2017, respectively. UVM Health Network recorded provider tax liabilities of \$0 and \$337,000 at September 30, 2018 and 2017, respectively, which are included in current portion of third party payer settlements in the accompanying consolidated balance sheets.

Revision of 2017 Statement of Operations for Prior Period Error

The 2017 consolidated statement of operations has been revised from the previous presentation in the UVM Health Network's 2017 consolidated financial statements to correctly present \$80,380,000 of provider tax expenses as an operating expense. This amount excludes provider tax expense of \$2,559,000 related to PMC that was reported in operating expenses in 2017. Previously, this item had been presented in error as an offset to net patient service revenue. The UVM Health Network has concluded that this revision did not have a material impact to the prior period financial statements.

3. New Accounting Guidance

On October 1, 2017, UVM Health Network early adopted ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, which made targeted changes to the not-for-profit financial reporting model and applied these changes retroactively. The new ASU marks the completion of the first phase of a larger project aimed at improving not-for profit financial reporting. Under the new ASU, net asset reporting has been streamlined and clarified. The existing three category classification of net assets has been replaced with a simplified model that combines temporarily restricted and permanently restricted into a single category called "net assets with donor restrictions." The guidance for classifying deficiencies in endowment funds and on accounting for the lapsing of restrictions on gifts to acquire property, plant, and equipment have also been simplified and clarified. New disclosures have been incorporated to highlight restrictions on the use of resources that make otherwise liquid assets unavailable for meeting near-term financial requirements (Note 4). The ASU also imposes several new requirements related to reporting expenses (Note 18). As a result of early adopting this standard, certain prior year amounts were reclassified to conform to the presentation requirements.

A summary of the net asset reclassifications resulting from the adoption of ASU 2016-14 on the previously issued September 30, 2017 consolidated financial statements is as follows:

<i>(in thousands)</i>	Without donor restrictions	With donor restrictions	Total Net Assets
Net Assets Classifications			
As previously presented:			
Unrestricted	\$ 1,083,350	\$ -	\$ 1,083,350
Temporarily restricted	-	50,938	50,938
Permanently restricted	-	38,443	38,443
Net assets as reclassified	<u>\$ 1,083,350</u>	<u>\$ 89,381</u>	<u>\$ 1,172,731</u>

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In May 2014, the FASB issued ASU 2014-09 *Revenue from Contracts with Customers*. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2017. UVM Health Network is evaluating the impact this will have on the consolidated financial statements upon adoption in fiscal year 2019.

In September 2015, the FASB issued ASU No. 2015-16 *Simplifying the Accounting for Measurement-Period Adjustments* which is applicable to organizations that have had an acquisition and the accounting for which is not complete at the end of the reporting period and an adjustment was made in the next reporting period. The updated guidance requires an organization to present separately on the face of the statement of operations or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if an adjustment to the provisional amounts had been recognized. The revised guidance is effective for fiscal year 2018. The adoption of this guidance did not have a material impact on our consolidated financial statements.

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

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 705): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This guidance requires the service cost component of net periodic benefit cost for pension and other postretirement benefits to be presented as a component part of employee benefit expense. The other components of net periodic benefit cost, such as interest, expected return on plan assets, and amortization of other actuarially determined amounts, are required to be presented as a nonoperating change in net assets without restrictions. The ASU is effective for fiscal years beginning after December 15, 2018, or fiscal year 2020 for UVM Health Network. Early adoption is permitted. The UVM Health Network is evaluating the impact of the new guidance on the consolidated financial statements upon adoption in fiscal year 2020.

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new standard applies to all entities that receive or make contributions. The guidance clarifies the definition of transactions accounted for as an exchange transaction subject to ASU 2014-09 or other applicable guidance, and transactions that should be accounted for as contributions (non-exchange) subject to the contribution accounting model. Further, the guidance provides criteria for evaluating whether contributions are unconditional or conditional. Conditional contributions must specify a barrier that the recipient must overcome and a right of return that releases the donor from its obligation if the barrier is not achieved, otherwise the contribution is unconditional. This ASU is

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applicable for annual periods beginning after September 30, 2018 and thus fiscal year 2019 for UVM Health Network. The UVM Health Network is evaluating the impact of the new guidance on the consolidated financial statements upon adoption in fiscal year 2019.

4. Financial Assets and Liquidity Resources

As of September 30, 2018 and 2017, respectively, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, consisted of the following:

<i>(in thousands)</i>	2018	2017
Liquidity and Availability:		
Cash and cash equivalents	\$ 246,681	\$ 264,293
Short-term investments	32,932	28,910
Current portion of assets whose use is limited or restricted	54,523	93,349
Patient and other trade accounts receivable, net	<u>237,633</u>	<u>238,902</u>
Financial assets available at year end for current use	<u>\$ 571,769</u>	<u>\$ 625,454</u>

The UVM Health Network's endowment funds consist of donor-restricted funds. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure.

To manage liquidity, UVM Health Network maintains sufficient cash and cash equivalent balances to support daily operations throughout the year. Cash and cash equivalents include bank deposits, CDs, money market funds, and other similar vehicles that generate a return on cash and provide daily liquidity to the UVM Health Network. Short-term investments without donor restriction are also utilized to generate a higher yield on balances versus cash and cash equivalents, and to provide the UVM Health Network with an additional layer of liquidity for daily operations if needed. As of September 30, 2018 and 2017, the balances held in cash and cash equivalents and short-term investments were \$279,613,000, and \$293,203,000, respectively. The UVM Health Network also maintains a line of credit in the amount of \$20,000,000 for use by UVM Health Network entities that are part of the UVM Medical Center Obligated Group. As of September 30, 2018 and 2017, the amount outstanding under this line of credit was \$4,550,000 and \$0, respectively. Additionally, CPI has a line of credit of \$3,000,000 and AHMC has a line of credit of \$1,500,000 and no amounts were outstanding at September 30, 2018 on either of these lines. Each of these lines of credit can be used to support short-term cash and/or working capital needs. In addition, the UVM Health Network has Board-designated assets without donor restriction that can be utilized at the discretion of management to help fund both operational needs and/or capital projects. As of September 30, 2018 and 2017, the balance in Board-designated assets were \$656,229,000 and \$614,890,000 respectively.

5. University of Vermont Health Network – Home Health & Hospice, Inc. Affiliation

On January 1, 2018, UVM Health Network entered into an affiliation agreement whereby UVM Health Network became the sole corporate member of HH&H. HH&H is a non-profit corporation organized in Vermont. HH&H's primary purpose is to provide home care services to residents of Chittenden and Grand Isle Counties.

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No consideration was given for this transaction that was accounted for using the acquisition method of accounting, which requires all the assets and liabilities of HH&H to be revalued at fair value as of the acquisition date. In connection with the acquisition, UVM Health Network received an inherent contribution of \$29,881,000 reflecting the fair value of the contributed net assets of HH&H on the transaction date. There were no intangible assets recorded as a result of this transaction. Of this amount, \$19,019,000 represents net assets without donor restriction and is included as a nonoperating gain in the accompanying consolidated statement of operations. \$10,862,000 was recorded as contribution income within changes in net assets with donor restriction. The consolidated statements of operations and changes in net assets include HH&H's activities for the 9-month period January 1, 2018 to September 30, 2018, as follows:

<i>(in thousands)</i>	2018
Revenue and other support without donor restrictions	
Net patient service revenue	\$ 22,281
Less: Provision for bad debts	<u>(140)</u>
Net patient service revenue after provision for bad debts	22,141
Other revenue	<u>151</u>
Total revenue and other support without donor restrictions	<u>22,292</u>
Expenses	
Salaries, payroll taxes, and fringe benefits	18,278
Supplies and other	3,643
Purchased services	1,876
Depreciation and amortization	<u>505</u>
Total expenses	<u>24,302</u>
Loss from operations	<u>(2,010)</u>
Nonoperating gains (losses)	
Investment income	96
Other	<u>1,693</u>
Total nonoperating gains, net	<u>1,789</u>
Deficit of revenue over expenses	(221)
Net change in unrealized gains on investments	(147)
Other adjustments	<u>375</u>
Increase in net assets without donor restrictions	<u>7</u>
Changes in net assets with donor restrictions	
Gifts, grants and bequests	9
Investment income	208
Net change in unrealized (losses) on investemnts	(328)
Net assets released from restrictions used in operations	<u>(226)</u>
Decrease in net assets with donor restrictions	<u>(337)</u>
Decrease in net assets	<u>\$ (330)</u>

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The table below discloses the assets and liabilities at fair value as of January 1, 2018 for HH&H and the inherent contribution received from this transaction:

<i>(in thousands)</i>	2018
Assets	
Current assets	
Cash and cash equivalents	\$ 2,013
Patient and other trade accounts receivable, net	3,124
Prepaid and other current assets	<u>1,289</u>
Total current assets	6,426
Assets whose use is limited or restricted	20,023
Property and equipment, net	<u>8,148</u>
Total assets	<u>\$ 34,597</u>
Current liabilities	
Accounts payable	\$ 340
Accrued expenses and other liabilities	1,528
Accrued payroll and related benefits	<u>2,320</u>
Total current liabilities	<u>4,188</u>
Long-term liabilities	
Other	<u>528</u>
Total long-term liabilities	<u>528</u>
Total liabilities	<u>4,716</u>
Net assets	
Without donor restrictions	19,019
With donor restrictions	
Time or purpose	4,370
Perpetual	<u>6,492</u>
Total net assets	<u>29,881</u>
Total liabilities and net assets	<u>\$ 34,597</u>

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A summary of the consolidated financial results of UVM Health Network for the years ended September 30, 2018 and 2017 as if the transaction had occurred on October 1, 2016 is as follows (unaudited):

<i>(in thousands)</i>	2018	2017
Total operating revenues	\$ 2,178,039	\$ 2,046,266
Total operating expenses	<u>2,146,540</u>	<u>1,979,708</u>
Gain from operations	31,499	66,558
Nonoperating gains	<u>34,430</u>	<u>114,741</u>
Excess of revenue over expenses	65,929	181,299
Net assets released from restriction used for capital purchases	4,607	1,118
Other adjustments	2,898	(10,332)
Pension related adjustments	19,542	52,816
Transfer of assets	<u>(266)</u>	<u>-</u>
Increase in net assets without donor restrictions	<u>\$ 92,710</u>	<u>\$ 224,901</u>

6. Charity Care and Community Service

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

The amount of charges foregone for services and supplies furnished under UVM Health Network's charity care policy aggregated approximately \$28,677,000 and \$27,577,000 for the years ended September 30, 2018 and 2017, respectively.

Approximately \$13,169,000 and \$11,964,000 of UVM Health Network's total expenses for the years ended September 30, 2018 and 2017 arose from providing services to charity patients. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on UVM Health Network's total expenses divided by gross patient service revenue. For the years ended September 30, 2018 and 2017, respectively, UVM Health Network used \$568,000 and \$533,000 in charitable endowment earnings to help defray the costs of indigent care.

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7. Investments, including Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted at September 30, 2018 and 2017 consisted of the following:

<i>(in thousands)</i>	2018	2017
Equities	\$ 2,553	\$ 1,121
Mutual funds		
Bond funds	370,599	330,379
U.S. treasury obligation funds	-	323
International equity funds	167,387	157,562
Domestic equity funds	216,577	187,576
Real estate funds	37,005	32,791
Total mutual funds	791,568	708,631
Money market funds	11,327	54,946
U.S. Treasuries	6,060	-
Bonds and notes	14,049	15,408
Beneficial interest in perpetual trusts	18,016	17,470
Hedge funds	3,523	3,175
Investments held at Middlebury College	6,245	367
	853,341	801,118
Less: Current portion	(54,523)	(93,349)
Less: Other short term pooled investments	(20,638)	-
	<u>\$ 778,180</u>	<u>\$ 707,769</u>

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The cost and estimated fair value of securities classified as available-for-sale by the organization, which excludes beneficial interest in perpetual trusts of \$18,016,000 and \$17,470,000 and unrestricted pooled investments of \$20,638,000, and includes short-term investments of \$32,932,000 and \$28,910,000 as of September 30, 2018 and 2017, respectively, and long-term investments within Other assets of \$4,781,000 and \$10,290,000 as of September 30, 2018 and 2017, respectively, is as follows:

<i>(in thousands)</i>	2018		
	Cost	Gross Unrealized Gains/(Losses)	Estimated Fair Value
Equities	\$ 3,038	\$ 587	\$ 3,625
Mutual funds			
Bond funds	370,679	1,449	372,128
International equity funds	148,737	18,912	167,649
Domestic equity funds	181,203	36,302	217,505
Commodity funds	75	2	77
Real estate funds	34,862	2,143	37,005
Total mutual funds	<u>735,556</u>	<u>58,808</u>	<u>794,364</u>
Money market funds	24,402	(95)	24,307
U.S. Treasuries	6,292	(232)	6,060
Bonds and notes	14,468	(423)	14,045
Hedge funds	2,985	756	3,741
Investments held at Middlebury College	6,245	-	6,245
Real Estate	14	(1)	13
	<u>\$ 793,000</u>	<u>\$ 59,400</u>	<u>\$ 852,400</u>
<i>(in thousands)</i>	2017		
	Cost	Gross Unrealized Gains/(Losses)	Estimated Fair Value
Equities	\$ 3,843	\$ 906	\$ 4,749
Mutual funds			
Bond funds	328,572	9,020	337,592
U.S. treasury obligation funds	323	-	323
International equity funds	138,364	23,981	162,345
Domestic equity funds	174,498	18,974	193,472
Commodity funds	147	(35)	112
Real estate funds	32,300	1,291	33,591
Total mutual funds	<u>674,204</u>	<u>53,231</u>	<u>727,435</u>
Money market funds	65,590	(41)	65,549
Bonds and notes	15,584	(174)	15,410
Hedge funds	2,978	678	3,656
Investments held at Middlebury College	6,049	-	6,049
	<u>\$ 768,248</u>	<u>\$ 54,600</u>	<u>\$ 822,848</u>

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The following tables present information as of September 30, 2018 and 2017, about UVM Health Network's financial assets and liabilities that are measured at fair value on a recurring basis:

	2018				Fair Value
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	NAV as Practical Expedient	
<i>(in thousands)</i>					
Equities	\$ 3,625	\$ -	\$ -	\$ -	\$ 3,625
Mutual funds					
Bond funds	372,128	-	-	-	372,128
U.S. treasury obligation funds	-	-	-	-	-
International equity funds	167,649	-	-	-	167,649
Domestic equity funds	217,505	-	-	-	217,505
Commodity funds	77	-	-	-	77
Real estate funds	37,005	-	-	-	37,005
Total mutual funds	<u>794,364</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>794,364</u>
Money market funds	21,526	2,781	-	-	24,307
U.S. Treasuries	6,060	-	-	-	6,060
Bonds and notes	-	14,045	-	-	14,045
Beneficial interest in perpetual trusts	-	-	18,016	-	18,016
Hedge funds	218	-	-	3,523	3,741
Investments held at Middlebury College	-	-	6,245	-	6,245
Real Estate	13	-	-	-	13
	<u>\$ 825,806</u>	<u>\$ 16,826</u>	<u>\$ 24,261</u>	<u>\$ 3,523</u>	<u>\$ 870,416</u>
Interest rate swap agreements	<u>\$ -</u>	<u>\$ 13,622</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,622</u>
	2017				
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	NAV as Practical Expedient	Fair Value
<i>(in thousands)</i>					
Equities	\$ 4,749	\$ -	\$ -	\$ -	4,749
Mutual Funds					
Bond funds	337,592	-	-	-	337,592
U.S. treasury obligation funds	323	-	-	-	323
International equity funds	162,345	-	-	-	162,345
Domestic equity funds	193,472	-	-	-	193,472
Commodity funds	112	-	-	-	112
Real estate funds	33,591	-	-	-	33,591
Total mutual funds	<u>727,435</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>727,435</u>
Money market funds	65,549	-	-	-	65,549
Bonds and notes	6,180	9,230	-	-	15,410
Beneficial interest in perpetual trusts	-	-	17,470	-	17,470
Hedge funds	-	-	-	3,656	3,656
Investments held at Middlebury College	-	-	6,049	-	6,049
	<u>\$ 803,913</u>	<u>\$ 9,230</u>	<u>\$ 23,519</u>	<u>\$ 3,656</u>	<u>\$ 840,318</u>
Interest rate swap agreements	<u>\$ -</u>	<u>\$ 20,184</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,184</u>

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The table below summarizes the fair value measurements of the investments in certain entities that calculate net asset value per share as of September 30, 2018 and 2017.

Category of Investment	2018					
	Fair Value	Unfunded Commitments	Remaining Life, if Applicable	Redemption Terms, If Currently Eligible	Redemption Restrictions and Terms	Redemption Restrictions and Terms in Place at Year End
Hedge Funds	\$ 3,523	-	Not applicable	Ranges from 60 - 95 days notice, quarterly	100% of these funds are either not under lock or have a lock of one year or less.	None

Category of Investment	2017					
	Fair Value	Unfunded Commitments	Remaining Life, if Applicable	Redemption Terms, If Currently Eligible	Redemption Restrictions and Terms	Redemption Restrictions and Terms in Place at Year End
Hedge Funds	\$ 3,656	-	Not applicable	Ranges from 60 - 95 days notice, quarterly	100% of these funds are either not under lock or have a lock of one year or less.	None

As of and for the years ended September 30, 2018 and 2017, the fair value of the assets and change in the value of the assets measured using significant unobservable inputs (Level 3) were related to beneficial interests in perpetual trusts and investments held at Middlebury College ("College"). Distributions from the investments held at the College are to be made by a disbursement from the College to the UVM Health Network, based on the value of the fund after providing the College with thirty (30) days written notice. The investments held at the College shall thereafter be valued as of the end of the calendar month following such notice and distributed as soon as is practicable but in no event later than sixty (60) days after such notice. At least 20% of the value of the investments held at the College will be made available to the UVM Health Network within thirty (30) days of College's receipt of the notice for a distribution up to that amount.

A roll forward of the Level 3 fair value measurements (defined above) for the years ended September 30, 2018 and 2017, is as follows:

	2018		
	Investments held at Middlebury College	Beneficial Interest in Perpetual Trusts	Total Level 3 Assets
<i>(in thousands)</i>			
Beginning of year	\$ 6,049	\$ 17,470	\$ 23,519
Change in beneficial interest in perpetual trusts	-	546	546
Realized gains	196	-	196
End of the year	\$ 6,245	\$ 18,016	\$ 24,261

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<i>(in thousands)</i>	2017		
	Investments held at Middlebury College	Beneficial Interest in Perpetual Trusts	Total Level 3 Assets
Beginning of year	\$ -	\$ 13,445	\$ 13,445
Investments due to affiliation	6,077	3,431	9,508
Change in beneficial interest in perpetual trusts	-	594	594
Realized gains	(28)	-	(28)
End of the year	\$ 6,049	\$ 17,470	\$ 23,519

8. Property and Equipment

A summary of property and equipment at September 30, 2018 and 2017 is as follows:

<i>(in thousands)</i>	2018	2017
Land	\$ 37,347	\$ 33,320
Land improvements	24,922	24,297
Leasehold improvements	68,835	66,258
Buildings	887,503	829,444
Equipment, furniture, and fixtures	586,238	543,978
	<u>1,604,845</u>	<u>1,497,297</u>
Less: Accumulated depreciation	(901,522)	(813,696)
	<u>703,323</u>	<u>683,601</u>
Construction-in-progress	164,049	82,126
	<u>\$ 867,372</u>	<u>\$ 765,727</u>

UVM Health Network sold, traded-in or wrote off approximately \$8,006,000 and \$10,774,000 in gross property and equipment in the years ended September 30, 2018 and 2017, respectively. In conjunction with these sales, trade-ins or disposals, a gain of \$273,000 and a loss of \$288,000 were recorded in the years ended September 30, 2018 and 2017, respectively. These gains and losses are included in supplies and other expense. At September 30, 2018, UVM Health Network had commitments to purchase approximately \$125,063,000 of property and equipment, which are primarily composed of the following: \$25,591,000 related to the Inpatient Bed replacement project (the "Miller Building Project"), \$90,573,000 related to the EPIC project and \$1,807,000 related to other projects. Anticipated future cash flows related to these commitments are \$70,434,000, \$28,546,000, and \$18,991,000 for the years ending September 30, 2019, 2020 and 2021, respectively.

UVM Health Network recorded depreciation expense of \$86,841,000 and \$84,229,000 for the years ended September 30, 2018 and 2017, respectively.

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9. Long-Term Debt

Long-term debt at September 30, 2018 and 2017 consisted of the following:

<i>(in thousands)</i>	2018	2017
Vermont Educational and Health Buildings Financing Agency		
Hospital Revenue Bonds		
Series 2009A Loan, fixed rate at (5.08%), payable through 2024	\$ -	\$ 682
Series 2008A Bonds, variable rate (1.50% and 0.84% at September 2018 and 2017, respectively), payable through 2030	54,706	54,706
Series 2013A Bonds, fixed rate (2.60%), payable through 2027	27,713	28,038
Series 1996 Loan, fixed rate (3.50%), payable through 2021	4,029	5,193
Series 2015A Bonds, fixed rate (2.27%), payable through 2023	17,695	19,815
Series 2016A Bonds, fixed rate (3.00% to 5.00%), payable through 2036 (including unamortized premium of \$22,994 and \$24,204 at September 30, 2018 and 2017, respectively)	192,584	197,189
Series 2016B Bonds, fixed rate (3.13% to 5.00%), payable through 2046 (including unamortized premium of \$10,980 and \$11,370 at September 30, 2018 and 2017, respectively)	99,980	100,370
Series 2015A Bonds, fixed rate (2.85%), payable through 2025	13,866	14,495
Essex County Capital Resource Corporation		
Hospital Revenue Bonds		
Series 2011 Bonds, variable rate, (2.92% and 2.35% at September 30, 2018 and 2017, respectively), payable through 2032	4,635	4,870
Other long-term debt		
Bank of America Loan, fixed rate (2.92%), payable through 2027	42,920	47,918
KeyBank Loan, fixed rate (3.13%), payable through 2023	29,315	34,320
Series 2016A Bonds variable rate, (2.52% at September 30, 2018), payable through 2042	13,260	13,775
Series 2016B Bonds, variable rate (2.20% at September 30, 2018), payable through 2042	16,210	16,840
Community Bank Loan, fixed rate (3.38%), payable through 2027	13,716	14,253
Series 2013A variable rate bonds, 1.60% average rate for 2018, payable through 2038, (including unamortized discount of \$386K at September 30, 2018)	24,810	25,264
Capital leases, fixed rate (0.68% to 24.8%), payable through 2024	7,059	10,221
TD Bank fixed rate loan at 3.59%, interest only payment through April 2020, payable through April 2030	10,000	-
TD Bank fixed rate loan at 3.87% at September 30, 2018, payable through 2033	18,313	-
Lines of Credit	4,550	10,967
Other debt	39,211	31,395
	<u>634,572</u>	<u>630,311</u>
Less: Current portion	(29,168)	(39,368)
Less: Unamortized discount and debt issuance costs	(2,720)	(2,495)
Long-term debt	<u>\$ 602,684</u>	<u>\$ 588,448</u>

Obligated Group

UVM Medical Center, UVM Health Network, CVMC, CVPH and ECH are the members of the UVM Medical Center Obligated Group ("Obligated Group") at September 30, 2018.

The Master Trust Indenture contains provisions permitting the addition, withdrawal or consolidation of members of the Obligated Group under certain conditions. The Master Trust Indenture constitutes joint and several obligations of the members of the Obligated Group.

As of September 30, 2018 an obligated group does not exist for AHMC, HH&H, or PMC.

Series 2008A Bonds

On May 21, 2008, UVM Medical Center converted the Series 2004B auction rate bonds from 35-day variable-rate bonds to fixed-rate bonds through a mandatory tender of the bonds as provided for under the original bond agreement. The tender was financed through the reissuance of \$160,525,000 of Series 2004B bonds as tax-exempt fixed-rate bonds, and a payment of \$2,700,000 from UVM Medical Center's debt service reserve funds. The 2004B bonds were refunded in 2016 as part of the Series 2016A bond issuance.

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Also on May 21, 2008, UVM Medical Center in connection with the Vermont Educational and Health Buildings Financing Agency (“VEHBFA”), issued \$54,706,000 of tax-exempt variable-rate hospital revenue bonds (“Series 2008A”), the proceeds of which were used to refund its Series 2000B bonds in the amount of \$50,000,000, pay an early termination payment in the amount of \$3,128,000 on a related interest rate swap, and pay issuance costs in the amount of \$1,577,000. The Series 2008A bonds are collateralized by an irrevocable letter of credit from a bank in the amount of \$55,334,000 (covers principal of \$54,706,000 and interest of \$629,000), which expires in 2021. The interest rate on the Series 2008A bonds is set weekly. Series 2008A bondholders have the option to put the bonds back to UVM Medical Center. Such bonds would be subject to remarketing efforts by UVM Medical Center’s remarketing agent. To the extent that such remarketing efforts were unsuccessful, the nonmarketable bonds would be purchased from the proceeds of the letter of credit. Monthly payments of principal on the letter of credit borrowings would commence on the first calendar day of the first month that commences more than one year after the borrowing. Repayment in full of the letter of credit would be required by the earlier of four years from the date of the borrowing under the letter of credit or the stated expiration date, currently, April 30, 2021.

In conjunction with these transactions, the notional amount of the original swap agreement covering the 2004B bonds was reduced from \$135,000,000 to \$55,190,000 and transferred to the 2008A bonds in exchange for the payment of \$3,128,000.

UVM Medical Center and certain subsidiaries are obligated under various other revenue bonds, capital leases, and notes payable. Various trustee-held funds are required under the terms of the loan agreements. Under one of the loan agreements, a reserve fund is required only upon the failure to meet certain financial ratios. As of September 30, 2018 and 2017, no funding has been required under this agreement.

UVM Medical Center has granted a mortgage on substantially all of its property and an interest in its gross receipts, as defined in connection with the issuance of its long-term debt.

The 2008A letter of credit was not drawn upon as of September 30, 2018, and the scheduled maturities of long-term debt assume the Series 2008A bonds are not put back to the UVM Health Network Obligated Group. If the letter of credit was drawn upon, the repayment would begin one year and one day from the date of the letter of credit being drawn upon. The repayment schedule would occur over the remaining three years of the letter of credit term. The repayment of principal would be as follows: \$21,176,000 in year two, \$21,176,000 in year three and \$12,354,000 in the final year.

Series 2011 Bonds

On December 1, 2011, ECH issued Essex County Capital Resource Corporation Revenue Bonds, Series 2011 in the amount of \$6,160,000. The Series 2011 bonds were purchased by Key Bank, N.A. under a bond purchase agreement. As part of the agreement, the Series 2011 bonds are subject to mandatory redemption and are subject to optional tender by the bank for purchase by ECH at a price equal to the principal plus accrued and unpaid interest beginning on June 1, 2017. As of September 30, 2018, Key Bank informed ECH that they have no intention of tending the bonds back to ECH. The Series 2011 bonds are collateralized by a mortgage that Key Bank holds with ECH. The Series 2011 bonds carry a variable interest rate of 65% of 1-month LIBOR plus 155 basis points (2.92% at September 30, 2018) due in quarterly installments through March 1, 2032.

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Series 2013A Bonds (UVM Medical Center)

The 2000A Bonds were partially refunded in 2011. The remaining \$32,550,000 balance of the initial aggregate principal amount of the Series 2000A Bonds with maturities between December 2025 and December 2027 were refunded in March 2013 and replaced with a tax-exempt direct bank private placement with TD Bank (the 2013A bonds), in the aggregate principal amount of \$29,500,000 with a final maturity date in December 2027. As part of the agreement, the series 2013A bonds are subject to an optional tender by the bank for purchase by UVM Medical Center in whole or in part, at a redemption price equal to the principal amount tendered plus accrued and unpaid interest beginning March 1, 2023 and on any date thereafter.

The Series 2013A bonds carry a fixed interest rate of 2.60%.

Series 2013A Bonds (AHMC)

In October 2013, AHMC secured \$27,375,000 in financing from the Franklin County Civic Development Corporation Tax – Exempt Variable Rate Demand Revenue Bonds, Series 2013A (2013A Revenue Bonds) to provide funding for the Skilled Nursing Home facility.

The Revenue Bonds consist of variable interest rate, term bonds, requiring annual sinking fund payments ranging from \$765,000 to \$1,645,000 through October 2037, with a \$1,715,000 principal amount maturing on October 1, 2038 to be paid at maturity. Interest rates are variable and are reset weekly by the remarketing agent. The interest rate as of September 30, 2018 was 1.60%. Interest payments are due monthly. In addition to interest to bondholders, interest is paid to HSBC Bank at a rate of 2.50% on the outstanding balance. Interest is paid to HSBC Bank quarterly. The bonds are collateralized by a direct pay letter of credit with a bank aggregating the outstanding principal amount plus 35 days interest at an assumed rate of 12% per annum for the term of the bonds. Any outstanding balance put to the letter of credit would be repaid in accordance with the payment schedule of the 2013A Revenue Bonds and must be repaid prior to the letter of credit expiring on October 1, 2019. The Revenue Bonds are administered by the provisions of a Master Trust Indenture (Indenture) between the AHMC and bond trustee.

Series 2015A Bonds (UVM Medical Center)

The remaining \$30,480,000 par of the initial aggregate principal amount of the Series 2004A Bonds, with maturities between December 2015 and December 2023, were refunded in January 2015 and replaced with a tax-exempt direct bank private placement with Key Government Finance (the 2015A bonds), in the aggregate principal amount of \$23,840,000 with a final maturity date in December 2023. Debt service reserve fund proceeds of \$6,640,000 were used to buy down the par amount of the new bonds. The Series 2015A bonds carry a fixed interest rate of 2.27%.

Series 2016A Bonds (UVM Medical Center)

The remaining \$192,965,000 par of the initial aggregate principal amount of the Series 2004B and 2007A Bonds, with maturities between December 2016 and December 2036, were advance refunded in February 2016 and replaced with a tax-exempt public bond issue (the 2016A bonds), in the aggregate principal amount of \$176,375,000 with a final maturity date in December 2036. The Series 2016A bonds carry fixed interest rates ranging between 3.00% - 5.00%. The premium on the 2016A bonds was \$27,500,000. Bond issuance costs of \$579,000 at September 30, 2018 will be amortized over the life of the loan. The 2016 refunding resulted in a loss on extinguishment of debt of \$22,320,000.

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Series 2016B Bonds (UVM Medical Center)

On July 28, 2016, UVM Medical Center, in connection with the VEHBFA, issued \$89,000,000 of tax-exempt fixed rate hospital revenue bonds ("Series 2016B"), the proceeds of which are being used to partially fund the Miller Building Project on the UVM Medical Center's main campus, fund a capitalized interest account in the amount of \$12,278,224, and pay issuance costs in the amount of \$1,205,400. The Series 2016B bonds carry fixed interest rates ranging from 3.13% - 5.00%, with an average coupon of 4.54%, bonds mature on December 31, 2046. The premium on the 2016B bonds was \$12,600,000. The Series 2016B Bonds were labeled "Green Bonds" as a result of their usage to finance the Miller Building Project for which UVM Medical Center expects to obtain Silver LEED-certified status. The purpose of the "Green Bonds" label was to allow investors to invest directly in an environmentally beneficial project. However, there is no guarantee that UVM Medical Center will obtain Silver LEED-certified status.

Series 2015A Bonds (PMC)

PMC issued VEHBFA Revenue Bond Refunding Series 2015A on August 1, 2015 with a fixed rate of 2.85%, payable in monthly payments of \$69,000 for the hospital and \$17,000 for the nursing home. The bonds are collateralized by gross receipts and payable through August 2025. The indenture requires PMC to meet certain covenants annually.

Series 2016A and 2016B Bonds (CVPH)

On October 31, 2016, CVPH, through the Clinton County Capital Resource Corporation, issued \$14,255,000 of tax-exempt variable rate hospital revenue refunding bonds ("Series 2016A CVPH") and \$17,425,000 of tax-exempt variable rate hospital revenue refunding bonds ("Series 2016B CVPH"). The proceeds, along with the bond escrow funds of \$1,890,000 as of October 31, 2016, were used to refund its Series 2007A, Series 2007B and Series 2002A bonds in the amount of \$33,170,000 and debt issuance costs of \$400,000. The Series 2016A bonds are bank qualified bonds payable in annual installments ranging from \$355,000 to \$780,000, plus interest at one month LIBOR times 65% plus 115 basis points adjusted monthly through July 1, 2042. The Series 2016B bonds are bank qualified bonds, payable in annual installments ranging from \$440,000 and \$960,000, plus interest at one-month LIBOR times 70% plus 72.8 basis points adjusted monthly through July 1, 2042.

People's United Loan (UVM Medical Center)

On September 30, 2013, UVM Medical Center entered into a mortgage for property ("Holly Court") in the amount of \$9,903,000. The mortgage is payable through September 2028, and bears interest at a variable rate equal to one month LIBOR plus 105 basis points (3.16% at September 30, 2018). Concurrent with the issuance of the Holly Court mortgage, an interest rate swap was entered into whereby UVM Medical Center pays a fixed rate of 2.67% a variable rate of one month LIBOR, (see footnote 10).

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Scheduled Maturities of Long-Term Debt

As of September 30, 2018, scheduled maturities of long-term debt, not including a net unamortized premium of \$33,198,000 for the next five years and thereafter are as follows:

(in thousands)

Years Ending September 30,	
2019	\$ 29,168
2020	37,027
2021	28,894
2022	27,979
2023	29,910
Thereafter	<u>448,396</u>
	<u>\$ 601,374</u>

Loan Covenants

Under the terms of the Master Trust Indenture agreement, the Obligated Group is required to meet certain covenant requirements, as is AHMC and PMC for its respective long-term debt. In addition, the indenture provides for restrictions on, among other things, additional indebtedness and dispositions of property of the Obligated Group.

Lines of Credit

CPI has an uncollateralized line of credit in the amount of \$3,000,000 at September 30, 2018. The interest rate is set at a floating rate equal to LIBOR plus 150 basis points (3.67% at September 30, 2018). At September 30, 2018, CPI had no outstanding borrowings under the line of credit. This revolving line of credit is interest only payments with accrued interest and principal due upon maturity. The maturity date for the line of credit is July 31, 2019.

AHMC has an uncollateralized line of credit in the amount of \$1,500,000 at September 30, 2018. The interest rate is set at a floating rate equal to prime plus 100 basis points (5.75% at September 30, 2018). At September 30, 2018, AHMC had no borrowings under the line of credit. The revolving line of credit is interest only payments with accrued interest and principal due upon maturity. The maturity date for the line of credit is October 31, 2019.

As of September 30, 2018, UVM Health Network has an available line of credit in the amount of \$20,000,000, less the face value of all Letters of Credit that may be issued by the lender for the benefit of the UVM Health Network. The Line of Credit is available to each member of the Obligated Group (UVM Medical Center, UVM Health Network CVMC, CVPH and ECH). The Line of Credit is secured by a joint and several obligation of the UVM Health Network and each member of the Obligated Group. The interest rate is set at a floating rate equal to 1 Month LIBOR plus 40 basis points (2.57% at September 30, 2018) adjusting monthly. At September 30, 2018, the UVM Health Network had borrowings under the line of credit of \$4,550,000. The maturity date for the line of credit is May 10, 2020.

Guarantor

As of September 30, 2018, UVM Medical Center is the guarantor of the letter of credit at AHMC for the Series 2013A bonds and the 2018 TD Bank loan at AHMC.

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10. Interest Rate Swap Agreements

For certain variable rate debt, interest rate swap agreements are used to manage interest rate risk and hedge the risk of cash flow volatility. The table below details UVM Health Network's swap agreements. None of the swap agreements require collateral posting. Both UVM Health Network and the counterparties in the interest rate swap agreements are exposed to credit risk in the event of nonperformance or early termination of the agreements. In addition, each agreement may be terminated following the occurrence of certain events, at which time UVM Health Network or the counterparty may be required to make a termination payment to the other.

Swap	Bond Series	Notional Amount September 30 2018 (\$ in 000's)	Notional Amount September 30 2017 (\$ in 000's)	Counterparty	Expiration Date	Pay Fixed	Receive Floating
LIBOR Swap (Series B-1)	2008A	\$ 27,595	\$ 27,595	Citibank, NA	October 28, 2032	3.76 %	66.5% of LIBOR + 32bps
LIBOR Swap (Series B-2)	2008A	27,595	27,595	Citibank, NA	November 4, 2032	3.76 %	66.5% of LIBOR + 32bps
LIBOR Swap	Holly Court Loan	7,255	7,834	Bank	October 2, 2028	2.67 %	1 Month LIBOR
LIBOR Swap	Series 2007B	10,465	10,705	Key Bank	July 1, 2042	4.06 %	68.0% of LIBOR
LIBOR Swap	Series 2007A	16,545	16,905	Key Bank	July 1, 2042	4.00 %	65.0% of LIBOR
SIFMA Swap	Series 2011	4,635	4,870	Key Bank	December 1, 2021	3.24 %	65.0% of LIBOR

The fair value of interest rate swap agreements, all of which are recorded as Other long-term liabilities at September 30, is as of follows:

<i>(in thousands)</i>	2018	2017
2008A Swaps	\$ (7,394)	\$ (11,077)
Holly Court Loan	80	(277)
2006A Swap	-	-
2007B Swap	(2,366)	(3,279)
2007A Swaps	(3,754)	(5,169)
2011 Swap	(188)	(382)
	<u>\$ (13,622)</u>	<u>\$ (20,184)</u>

The effect of interest rate swap agreements on the consolidated statements of operations and changes in net assets for 2018 and 2017 are as follows:

<i>(in thousands)</i>	2018	2017
2008A Swaps	\$ 3,683	\$ 5,001
Holly Court Loan	357	485
2006A Swap	-	36
2007B Swap	913	1,429
2007A Swaps	1,415	2,261
2011 Swap	194	231
	<u>\$ 6,562</u>	<u>\$ 9,443</u>

UVM Health Network also made payments on the interest rate swap agreements of \$2,260,000 and \$3,415,000 for the years ended September 30, 2018 and 2017, which are included in interest expense on the statement of operations.

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11. Operating Leases

UVM Health Network has entered into certain operating lease agreements for the rental of building space and equipment. Rental expense, inclusive of common area maintenance charges, amounted to \$20,069,000 and \$18,917,000 for the years ended September 30, 2018 and 2017, respectively.

Minimum future lease payments required under noncancelable operating leases at September 30, 2018, were as follows:

(in thousands)

Years Ending September 30,	
2019	\$ 20,718
2020	16,521
2021	12,312
2022	8,266
2023	7,264
Thereafter	15,123
	<u>\$ 80,204</u>

12. Net Assets

Net Assets with Donor Restrictions

At September 30, 2018 and 2017, net assets with donor restrictions are available for the following purposes:

(in thousands)

	2018	2017
Indigent care	\$ 17,372	\$ 7,690
Education and research	24,751	22,158
Children's programs	6,342	5,580
Capital projects and other health care services	55,874	51,232
Long-term care services at Woodridge	2,553	2,721
	<u>\$ 106,892</u>	<u>\$ 89,381</u>

At September 30, 2018 and 2017, net assets with donor restrictions include approximately \$28,436,000 and \$23,725,000, respectively, of accumulated gains, which are subject to Board appropriation in accordance with state law.

Endowment Funds

UVM Health Network's endowment funds consist of 139 funds established for a variety of purposes. UVM Health Network does not currently have any unrestricted funds designated by the Board to function as endowment. Accordingly, for the purposes of this disclosure, endowment funds include only donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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Interpretation of Relevant Law

UVM Health Network has interpreted relevant state laws for the states in which it operates as requiring realized and unrealized gains of net assets with donor restrictions to be retained in a with donor restrictions net asset classification until appropriated by the Board and expended. These state laws allow the Board to appropriate the net appreciation of net assets with donor restrictions as is prudent considering UVM Health Network's long and short-term needs, present and anticipated financial requirements, and expected total return on its investments, price level trends, and general economic conditions. In the years ended September 30, 2018 and 2017, \$1,355,000 and \$569,000, respectively, was appropriated.

As a result of this interpretation, UVM Health Network classifies net assets with donor restrictions as the original value of the gifts donated to the with donor restrictions endowment when explicit donor stipulations requiring permanent maintenance of the historical fair value are present, and (b) the original value of subsequent gifts to the with donor restrictions endowment when explicit donor stipulations requiring permanent maintenance of the historical fair value are present. The remaining portion of the donor-restricted endowment fund is comprised of accumulated gains not required to be maintained in perpetuity. These amounts are classified as with donor restrictions net assets until those amounts are appropriated for expenditure in a manner consistent with the donor's stipulations. UVM Health Network considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: duration and preservation of the fund, purposes of the donor-restricted endowment funds, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of UVM Health Network, and the investment policies of UVM Health Network.

Endowment Net Asset Composition and Changes in Endowment Net Assets

The following is a summary of the endowment net asset composition by type of fund at September 30, 2018 and 2017, and the changes therein for the years then ended:

(in thousands)

	2018
	With Donor
	restrictions
Changes in the fair value of endowment investments:	
Investment returns, net	\$ 3,064
Effect of affiliation	10,862
Appropriations of endowment assets for expenditure	(1,355)
Other	1,193
Net change in endowment investments	<u>13,764</u>
Endowment investments at:	
Beginning of year	<u>44,698</u>
End of year	<u>\$ 58,462</u>

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<i>(in thousands)</i>	2017 With Donor restrictions
Changes in the fair value of endowment investments:	
Investment returns, net	\$ 4,032
Effect of affiliation	118
Appropriations of endowment assets for expenditure	(569)
Other	218
Net change in endowment investments	<u>3,799</u>
Endowment investments at:	
Beginning of year	<u>40,899</u>
End of year	<u>\$ 44,698</u>

Beneficial Interest in Perpetual Trusts

The above amounts exclude UVM Health Network's beneficial interest in perpetual trusts, which are not within management's investment control. Such beneficial interests totaled \$18,016,000 and \$17,470,000 at September 30, 2018 and 2017, respectively.

Charitable Remainder Trust

UVM Health Network has received an irrevocable charitable remainder trust, for which UVM Health Network does not serve as trustee. For this trust, UVM Health Network recorded its beneficial interest in those assets as contributions revenue and pledges receivable at the present value of the expected future cash inflows. Trusts are recorded at the date UVM Health Network has been notified of the trust's existence and sufficient information regarding the trust has been accumulated to form the basis for an accrual. Changes in the value of these assets are recorded in net assets with donor restrictions.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires UVM Health Network to retain as a fund of perpetual duration. The UVM Health Network has a policy that does not allow the spending from underwater endowments. At September 30, 2018 and 2017, there were no funds with deficiencies.

Investment Return Objectives and Spending Policy

UVM Health Network has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s). Under this policy, the endowment assets are invested in a manner to generate returns at least equal to and preferably greater than the consumer price index. To satisfy its return objective, UVM Health Network targets a diversified asset allocation that provides for a balanced portfolio.

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13. Malpractice and Other Contingencies

Malpractice and Workers' Compensation

UVM Health Network is insured against malpractice losses under a claims-made insurance policy with VMCIC, its wholly owned subsidiary. VMCIC has reinsurance with commercial carriers for coverage above a self-insured per claim retainage amount of \$5,000,000, \$1,000,000, \$2,000,000 and \$2,000,000 for UVM Medical Center, CVMC, CVPH and ECH, respectively, for Professional Liability, and per claim retainage amount of \$2,000,000, \$1,000,000, \$1,000,000 and \$1,000,000 for UVM Medical Center, CVMC, CVPH and ECH, respectively, for Commercial General Liability with a \$20,000,000 aggregate for Professional Liability and \$10,000,000 for Commercial General Liability, with limits on such reinsurance. VMCIC provides claims-made coverage to certain affiliates of UVM Medical Center for periods prior to the merger that created UVM Medical Center.

UVM Health Network, excluding AHMC, PMC, and HH&H (discussed below), is also self-insured for workers' compensation claims, and maintains an excess insurance policy to limit its exposure on claims up to \$1,000,000 per occurrence in the year ended September 30, 2018, with a \$25,000,000 aggregate limit.

The workers compensation insurance policy year for AHMC is from September 1 – September 1 each year. AHMC's potential workers compensation exposure covers the period between September 1 2012, and September 30, 2018. A related liability of approximately \$1,136,000 and \$1,081,000 has been recorded as of September 30, 2018 and 2017, respectively.

PMC has a guaranteed cost policy for worker's compensation insurance. The policy year is October 1 – October 1 each year. The policy coverage is \$500,000 per employee. There is no liability recorded related to this policy.

HH&H insures its medical malpractice risks on a claims-made basis. There were no known malpractice claims outstanding at September 30, 2018, nor were there any unasserted claims or incidents which require loss accrual. HH&H intends to renew coverage on a claims-made basis and anticipates that such coverage will be available.

The reserves for outstanding losses at UVM Medical Center, CVMC, CVPH and ECH, have been discounted at a rate of 1.93% at September 30, 2018 and 2017, resulting in a decrease in the reserve for professional liability of approximately \$2,414,000 and \$2,400,000 at September 30, 2018 and 2017, respectively, and an increase (decrease) in the reserve for workers' compensation of approximately \$341,000 and (\$310,000) at September 30, 2018 and 2017, respectively.

As a result of changes in estimates of incurred events in prior years, primarily professional liability, the estimate of incurred losses increased (decreased) by approximately (\$750,000) and \$1,459,000 for the years ended September 30, 2018 and 2017, respectively.

Employee Health and Dental Insurance

UVM Medical Center, CVPH, CVMC, and PMC maintain self-insured plans for employee health insurance. Under the terms of the plans, employees and their dependents are eligible for participation and, as such, UVM Medical Center, CVPH, CVMC, and PMC are responsible for paying claims and third party administrator costs. UVM Medical Center and CVPH maintained a stop-loss insurance policy for its medical plan to limit its exposure on nondomestic claims to the first \$650,000 and \$400,000, respectively, per member per plan year ending September 30, 2018, of which, \$100,000 of each entity's exposure is covered by VMCIC. PMC maintained a stop-loss insurance policy for its medical plan to limit its exposure on all claims to the first \$175,000 per

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member per plan year. CVMC maintains a stop loss insurance policy for its medical plan to limit its exposure on all claims to the first \$400,000 per member, per plan year ending September 30, 2018, of which, \$100,000 of each entities exposure is covered by VMCI. In addition, UVM Medical Center, CVMC and PMC maintain self-insured plans for employee dental.

Other Contingencies

UVM Health Network and its subsidiaries are parties in various legal proceedings and potential claims arising in the ordinary course of business. In addition, the health care industry as a whole is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to government review and interpretation, as well as regulatory actions, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue from patient services. Management does not believe that these matters will have a material adverse effect on UVM Health Network’s consolidated balance sheet or results of operations.

14. Statutory Capital and Surplus

VMCI is registered under the Bermuda Insurance Act of 1978 and related regulations (the “Act”) and is obligated to comply with various provisions of the Act regarding minimum levels of solvency and liquidity. Statutory capital and surplus at September 30, 2018 and 2017, was \$35,926,000 and \$31,255,000, respectively. The required minimum statutory capital at September 30, 2018 and 2017 was \$3,531,000 and \$3,351,000, respectively. In addition, a minimum liquidity ratio must be maintained whereby liquid assets, as defined by the Act, must exceed 75% of defined liabilities. The required minimum level of liquid assets was \$26,789,000 and \$25,475,000 at September 30, 2018 and 2017, respectively. The measurement of liquid assets at September 30, 2018 and 2017 is \$71,645,000 and \$65,222,000, respectively. UVM Health Network reports all of VMCI’s investments in marketable securities as restricted assets in the accompanying consolidated balance sheets.

15. Pension Plans

Substantially all employees of UVM Health Network are covered under various noncontributory defined benefit pension plans, various defined contribution pension plans, or combinations thereof. Total expense for these plans consists of the following:

<i>(in thousands)</i>	2018	2017
Defined benefit plans	\$ 2,799	\$ 22,295
Defined contribution plans	40,254	39,032
	<u>\$ 43,053</u>	<u>\$ 61,327</u>

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Information regarding UVM Health Network benefit obligations, plan assets, funded status, expected cash flows and net periodic benefit cost for the pension plan follows within this footnote.

Benefit Obligations

<i>(in thousands)</i>	2018	2017
Changes in benefit obligations		
Projected benefit obligations - beginning of year	\$ (431,139)	\$ (491,771)
Effect of Affiliation	-	(16,699)
Service cost	(6,234)	(6,907)
Interest cost	(16,402)	(17,952)
Benefits paid	24,592	23,992
Settlements	5,039	57,359
Actuarial gain	23,547	17,943
Administrative expenses paid	2,952	2,896
Projected benefit obligation - end of year	<u>(397,645)</u>	<u>(431,139)</u>
Accumulated benefit obligation	<u>(395,074)</u>	<u>(427,629)</u>
Changes in plan assets		
Fair value of plan assets - beginning of year	341,842	369,153
Effect of Affiliation	-	10,582
Actual gain on plan assets	14,631	37,421
Contributions	10,898	8,933
Benefits paid	(24,592)	(23,992)
Settlements	(5,039)	(57,359)
Administrative expenses paid	(2,952)	(2,896)
Fair value of plan assets - end of year	<u>334,788</u>	<u>341,842</u>
Funded status of the plan (long-term)	(62,857)	(89,297)
Funded status of plans - asset	1,376	-
Funded status of plans (liability)	<u>\$ (64,233)</u>	<u>\$ (89,297)</u>

During 2017, UVM Health Network completed a retiree annuity purchase initiative as part of a de-risking strategy around its various plans. Retiree monthly benefits ranging up to \$325, \$500, and \$1,000 for CVPH, CVMC, and UVM Medical Center, respectively, were bundled into a single offering that settled the obligation for 1,655 participants. This activity, along with some lump-sum acceptances, are reported as settlements in the tables above.

The reconciliation of the unrecognized actuarial losses for the years ended September 30, 2018 and 2017 is as follows:

<i>(in thousands)</i>	2018	2017
Unrecognized actuarial losses - beginning of year	\$ 67,302	\$ 120,118
Net gain amortized during year	(2,856)	(3,735)
Settlements	-	(18,637)
Net prior service cost amortized during year	21	21
Net loss during year	(16,707)	(30,465)
Unrecognized actuarial losses - end of year	<u>\$ 47,760</u>	<u>\$ 67,302</u>

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The cost components of the net periodic benefit cost for the years ended September 30, 2018 and 2017 are as follows:

<i>(in thousands)</i>	2018	2017
Service cost	\$ 6,234	\$ 6,907
Interest cost	16,402	17,952
Settlements	-	18,637
Expected return on plan assets	(21,492)	(24,936)
Amortization of unrecognized net loss	1,655	3,735
Net periodic benefit cost	<u>\$ 2,799</u>	<u>\$ 22,295</u>

The expected net periodic benefit cost to be recognized in fiscal year 2019 is \$2,655,000.

The assumptions used in accounting for the defined benefit pension plan are as follows:

	2018	2017
Weighted-average assumptions used to determine the benefit liability		
Discount rates	4.4 %	3.9% - 4.0%
Rates of increase in future compensation levels	3.0% - 3.5%	3.0% - 4.1%
Weighted-average assumptions used to determine expense		
Discount rates	3.9 %	3.6% - 4.1%
Rates of increase in future compensation levels	3.0% - 3.5%	3.0% - 3.5%
Expected long-term rate of return on plan assets	5.2% - 7.3%	5.7% - 7.3%

The expected long-term rate of return for the UVM Health Network Plans' total assets is based on the expected return of each of its asset categories, weighted based on the median of the allocation for each class. Equity securities are expected to return 9% to 11% over the long-term, while cash and fixed income is expected to return between 5% and 6%. Based on historical experience, UVM Health Network expects that the plans' asset managers will provide a modest (0.5% to 1.0% per annum) premium to their respective market benchmark indices.

Plan Assets

UVM Health Network's pension plans weighted-average asset allocations as of September 30, 2018 and 2017, by asset category, are as follows:

Asset category	2018	2017
Money market	<u>3 %</u>	<u>4 %</u>
Mutual funds		
Bond funds	37	37
U.S. treasury obligation funds	8	0
International equity funds	21	27
Domestic equity funds	28	27
Real estate funds	<u>3</u>	<u>5</u>
Total mutual funds	<u>97</u>	<u>96</u>
	<u>100 %</u>	<u>100 %</u>

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The following table presents information, as of September 30, 2018 and 2017, about UVM Health Network's pension assets that are measured at fair value on a recurring basis:

	2018		
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Fair Value
<i>(in thousands)</i>			
Money market	\$ 3	\$ 10,193	\$ 10,196
Mutual funds			-
Bond funds	33,683	89,275	122,958
U.S. treasury obligation funds	28,340	-	28,340
International equity funds	71,273	-	71,273
Domestic equity funds	91,243	-	91,243
Real estate funds	10,778	-	10,778
Total mutual funds	<u>235,317</u>	<u>89,275</u>	<u>324,592</u>
	<u>\$ 235,320</u>	<u>\$ 99,468</u>	<u>\$ 334,788</u>
	2017		
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Fair Value
<i>(in thousands)</i>			
Money market	\$ 13,890	\$ -	\$ 13,890
Mutual funds			-
Bond funds	128,043	-	128,043
U.S. treasury obligation funds	-	-	-
International equity funds	92,734	-	92,734
Domestic equity funds	91,452	-	91,452
Real estate funds	15,723	-	15,723
Total mutual funds	<u>327,952</u>	<u>-</u>	<u>327,952</u>
	<u>\$ 341,842</u>	<u>\$ -</u>	<u>\$ 341,842</u>

As of September 30, 2018 and 2017, there were no Level 3 investments.

The investment strategy established for pension plan assets is to meet present and future benefit obligations to all participants and beneficiaries, cover reasonable expenses incurred to provide such benefits, and provide a total return that maximizes the ratio of assets to liabilities by maximizing investment return at the appropriate level of risk.

Cash Flows - Contributions

UVM Health Network expects to contribute \$5,415,000 to its pension plans in the year ending September 30, 2019.

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Cash Flows - Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service as appropriate, are expected to be paid:

(in thousands)

Years Ending September 30,

2019	\$	21,101
2020		21,854
2021		22,689
2022		23,436
2023		24,158
2024–2028		127,828

Multi-employer Defined Benefit Plan

UVM Health Network participates in multi-employer defined benefit pension plans. UVM Health Network makes cash contributions to these plans under the terms of collective-bargaining agreements that cover its union employees based on a fixed rate and hours of service per week worked by the covered employees. The risks of participating in these multi-employer plans are different from other single-employer plans in the following aspects: (1) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers; (2) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and (3) if UVM Health Network chooses to stop participating in some of its multi-employer plans, UVM Health Network may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability. The measurement dates for the following plans are as of June 30 and December 31, as applicable.

As required by collective bargaining agreements, UVM Health Network is obligated to contribute to the 1199 SEIU multi-employer plan on behalf of union employees at a contribution rate required by the Trustees for participation in the fund, in the amounts and on the dates determined by the Trustees.

UVM Health Network has contributed cash and recorded expenses of \$6,672,000 and \$5,970,000 for the following multi-employer defined benefit plans for the years ended September 30, 2018 and 2017, respectively.

The following table includes additional disclosure information related to the following pension funds:

Pension Fund	EIN/Pension Plan Number	Zone Status Pension Protection Act		FIP/RP Status Pending/ Implemented	Surcharge Imposed	Expiration Date of Collective- Bargaining Agreement
		September 30, 2018	September 30, 2017			
1199 SEIU Health Care Employees Pension Fund	13-3604862-001	not available	Green	June 26, 2009	No	April 30, 2020
1199 SEIU Health Care Employees Pension Fund	16-1112391	not available	Green	N/A	No	June 30, 2022

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Members of the UVM Health Network were not listed on the Plans' Forms 5500 as providing more than 5 percent of the total contributions.

Postretirement Health Benefits

In addition to providing pension benefits, UVM Medical Center sponsors a defined benefit postretirement health care plan for retired employees. Substantially all of UVM Medical Center's employees who are at least age 55 with 15 years of service and all employees who are eligible for retirement may become eligible for such benefits. The postretirement health care plan is contributory with retiree contributions adjusted annually. The marginal cost method is used for accounting purposes for postretirement healthcare benefits.

As of September 30, 2018 and 2017, the premiums paid by retirees did not exceed the costs and a \$4,247,000 and \$1,504,000, respectively, accumulated postretirement benefit obligation was recorded. The plan does not have any assets as of September 30, 2018 and 2017. Net assets without donor restrictions at September 30, 2018 include unrecognized actuarial loss of \$2,082,000 and an unrecognized actuarial gain at September 30, 2017 of \$1,578,000. The expected amortization of the unrecognized losses to be recognized in postretirement benefit obligation expenses in the year ending September 30, 2019 is \$212,000. Assumptions used in accounting for the plan include a discount rate of 4.30%, a current health care cost trend rate of 6.75%, an ultimate health care cost trend rate of 4.75%, the year of ultimate trend rate of 2023, and census data as of January 1, 2018. The accumulated postretirement benefit obligation is highly sensitive to the health care cost trend rates; as such, the effect of a 1% increase in the trend rate would increase the accumulated postretirement benefit obligation by \$5,967,000 or 141%, effect of a 1% decrease in the trend rate would decrease the accumulated postretirement benefit obligation by \$4,247,000 or 100%.

16. Concentrations of Credit Risk

UVM Health Network grants credit without collateral to its patients, most of whom are local residents and are insured under third-party agreements. The mix of net receivables from patients and third-party payers at September 30, 2018 and 2017 is as follows:

	2018	2017
Medicare	24 %	27 %
Medicaid	9	10
Contracted Commercial	31	29
Noncontracted Insurers	16	16
Patients	20	18
	<u>100 %</u>	<u>100 %</u>

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17. Transactions With UVM

UVM Medical Center's Affiliation Agreement with UVM was renewed as of June 19, 2014, for a five year term. The Affiliation Agreement expresses the shared goals of UVM and UVM Medical Center for teaching, clinical care and research, documents the many points of close collaboration between the two organizations, provides the underpinnings for UVM Medical Center's status as an academic medical center, and obligates UVM Medical Center to provide substantial, annual financial support to UVM. The current Affiliation Agreement provides for three components of financial support to UVM: (1) payments by UVM Medical Center, known as the "commitment," to fund two costs: (a) a portion of the salary, benefits and related expenses paid through UVM to physician-faculty who are jointly employed by both UVM and UVM Medical Group and, (b) a portion of the cost of UVM facilities, utilities and other campus operating expenses that are not paid or reimbursed by any form of federal funding; (2) an academic support payment paid by UVM Medical Center and, (3) a Dean's Tax paid by UVM Medical Group. The amounts of the commitment approximated \$46,724,000 and \$40,507,000 in the years ended September 30, 2018 and 2017, respectively. In addition, UVM Medical Center reimburses UVM for equipment rental, research, and certain other administrative expenses through the commitment. In addition to the commitment, UVM Medical Center made academic support payments to UVM in monthly installments. The amount of the academic support payment was \$7,936,000 and \$7,857,000 in the years ended September 30, 2018 and 2017, respectively. Under the Affiliation Agreement, the Dean's Tax is paid to UVM by UVM Medical Center in an amount equal to 2.3% of the Medical Group's net patient service revenues exclusive of all Medicaid revenues for that fiscal year. The amount of the Dean's Tax approximated \$4,710,000 and \$6,268,000 in the years ended September 30, 2018 and 2017, respectively. A guaranteed payment of \$1,000,000 in Dean's Taxes on UVM Medical Group net patient revenues of community-based physicians was recorded in the years ended September 30, 2018 and 2017.

Under the current affiliation agreement, the base payments for the academic support payments increased to \$8,166,000 in fiscal year 2019, with an inflationary increase in the years thereafter.

18. Functional Expenses

UVM Health Network provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended September 30, 2018 and 2017, are as follows:

	2018		
	Healthcare Service	Administrative Support	Total
Salary, payroll taxes and fringe benefits	\$ 1,102,046	\$ 203,364	\$ 1,305,410
Supplies and other	385,951	137,002	522,953
Purchased services	58,574	57,794	116,368
Provider taxes	88,944	-	88,944
Depreciation and amortization	58,129	27,402	85,531
Interest expense	11,063	7,427	18,490
	<u>\$ 1,704,707</u>	<u>\$ 432,989</u>	<u>\$ 2,137,696</u>

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	2017		
	Healthcare Service	Administrative Support	Total
Salary, payroll taxes and fringe benefits	\$ 985,298	\$ 212,213	\$ 1,197,511
Supplies and other	380,049	89,792	469,841
Purchased services	56,399	37,596	93,995
Provider taxes	82,939	-	82,939
Depreciation and amortization	56,742	26,044	82,786
Interest expense	11,493	7,475	18,968
	<u>\$ 1,572,920</u>	<u>\$ 373,120</u>	<u>\$ 1,946,040</u>

Expenses are presented by functional classification in accordance with the overall service mission of the organization. Each functional classification displays all expenses related to the underlying operations by natural classification. Depreciation expense is allocated based on square footage occupancy. Interest expense on external debt is allocated to the functional categories which have benefited from the proceeds of the external debt. Plant operations and maintenance represents space related costs which are allocated to the functional categories directly and/or based on the square footage occupancy.

19. Allowance for Doubtful Accounts

Accounts receivable are reduced by an allowance for doubtful accounts. UVM Health Network analyzes its past history for patients with self-pay balances, either after third party insurance payment (deductible and copayment balances) or those without insurance. UVM Health Network records an allowance for doubtful accounts in the period of service based on past experience of patients unwilling to pay a portion of their bill for which they are financially responsible.

Accounts receivable, prior to adjustment for doubtful accounts, is summarized as follows at September 30, 2018 and 2017:

<i>(in thousands)</i>	2018	2017
Receivables		
Patients	\$ 68,842	\$ 62,612
Third-party payers	215,394	224,847
	<u>\$ 284,236</u>	<u>\$ 287,459</u>

The allowance for doubtful accounts is summarized as follows at September 30, 2018 and 2017:

<i>(in thousands)</i>	2018	2017
Allowance for doubtful accounts		
Patients	\$ 30,427	\$ 31,190
Third-party payers	16,176	17,367
	<u>\$ 46,603</u>	<u>\$ 48,557</u>

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Bad debt expense for non-patient related accounts receivable is reflected in total operating expenses on the statements of operations. Patient related bad debt is reflected as a reduction in patient service revenues on the statements of operations.

Net patient service revenue before the provision for bad debts and enhanced Medicaid graduate medical education revenues for the years ended September 30, 2018 and 2017, is summarized as follows:

<i>(in thousands)</i>	2018	2017
Net patient service revenue		
Patients	\$ 47,371	\$ 39,004
Third-party payers	<u>1,813,826</u>	<u>1,819,284</u>
	<u>\$ 1,861,197</u>	<u>\$ 1,858,288</u>

20. Subsequent Events

The UVM Health Network has assessed the impact of subsequent events through January 23, 2019, the date the audited consolidated financial statements were issued, and has concluded that there were no such events that require adjustment to the audited consolidated financial statements or disclosure in the notes to the audited consolidated financial statements other than as noted below.

Supplemental Consolidating Information

The University of Vermont Health Network Inc. and Subsidiaries

Note to Supplemental Consolidating Information

September 30, 2018 and 2017

1. Basis of Presentation

The following supplemental consolidating information includes the consolidating balance sheets and the consolidating statement of operations of the individual consolidated subsidiaries of UVM Health Network Inc. as of and for the fiscal year ended September 30, 2018. All intercompany accounts and transactions between subsidiaries have been eliminated. The consolidating information presented has been prepared in accordance with accounting principles generally accepted in the United States of America consistent with the consolidated financial statements. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements and is not required as part of the basic financial statements.

The following supplemental information also includes the consolidating balance sheet and statement of operations of the University of Vermont Medical Centers Obligated Group as of and for the fiscal year ended September 30, 2018. The University of Vermont Health Network Obligated Group consists of UVM Health Network, UVM Medical Center, CVMC, CVPH, and ECH. All intercompany accounts and transactions between these subsidiaries have been eliminated. The consolidating information presented has been prepared in accordance with accounting principles generally accepted in the United States of America consistent with the consolidated financial statements. The consolidating information of the University of Vermont Health Network Obligated Group is presented for purposes of additional analysis of the consolidated financial statements and is not required as part of the basic financial statements.

The University of Vermont Health Network Inc. and Subsidiaries

Consolidating Balance Sheet

September 30, 2018

(in thousands)	Total UVM Medical Center Obligated Group (1)	Alice Hyde Medical Center	PH	HPNH	PMC/ PREH	PMC Eliminations	Total PMC	UVM Health Network Home Health & Hospice	Other Entities	Total Eliminations	Total UVM Health Network
Assets											
Current assets											
Cash and cash equivalents	\$ 211,628	\$ 7,246	\$ 21,047	\$ 530	\$ 2,491	\$ -	\$ 24,068	\$ 2,332	\$ 1,407	\$ -	\$ 246,681
Short-term investments	27,115	-	-	-	-	-	-	-	5,817	-	32,932
Current portion of assets whose use is limited or restricted	-	-	123	139	8	-	270	-	54,253	-	54,523
Patient and other trade accounts receivable, net	212,441	8,227	12,772	1,072	-	-	13,844	2,997	124	-	237,633
Due from related parties	22,431	-	1,035	22	501	(1,558)	-	-	1,589	(24,020)	-
Inventories	40,738	769	1,759	18	-	-	1,777	-	112	-	43,396
Receivables from third-party payers	5,263	3,730	-	-	-	-	-	-	-	-	8,993
Prepaid and other current assets	36,490	490	1,687	19	80	-	1,786	784	4,528	-	44,079
Total current assets	<u>556,106</u>	<u>20,462</u>	<u>38,423</u>	<u>1,800</u>	<u>3,080</u>	<u>(1,558)</u>	<u>41,745</u>	<u>6,113</u>	<u>67,831</u>	<u>(24,020)</u>	<u>668,237</u>
Assets whose use is limited or restricted											
Board-designated assets	638,125	3,018	5,866	-	170	-	6,036	9,050	-	-	656,229
Assets held by trustee under bond indenture agreements	197	-	3,684	-	-	-	3,684	-	-	-	3,881
Restricted assets	9,234	277	1,205	-	208	-	1,413	-	16,499	-	27,423
Donor-restricted assets for specific purposes	45,346	-	339	62	-	-	401	-	-	-	45,747
Donor-restricted assets for permanent endowment	33,980	-	118	-	-	-	118	10,802	-	-	44,900
Total assets whose use is limited or restricted	<u>726,882</u>	<u>3,295</u>	<u>11,212</u>	<u>62</u>	<u>378</u>	<u>-</u>	<u>11,652</u>	<u>19,852</u>	<u>16,499</u>	<u>-</u>	<u>778,180</u>
Property and equipment, net	789,061	46,295	18,977	2,082	603	(58)	21,604	8,168	2,244	-	867,372
Other	84,761	1,042	-	-	1,939	(1,939)	-	117	11,034	(43,734)	53,220
Total assets	<u>\$ 2,156,810</u>	<u>\$ 71,094</u>	<u>\$ 68,612</u>	<u>\$ 3,944</u>	<u>\$ 6,000</u>	<u>\$ (3,555)</u>	<u>\$ 75,001</u>	<u>\$ 34,250</u>	<u>\$ 97,608</u>	<u>\$ (67,754)</u>	<u>\$ 2,367,009</u>
Liabilities and Net Assets											
Current liabilities											
Current installments of long-term debt	\$ 27,340	\$ 914	\$ 692	\$ 130	\$ -	\$ -	\$ 822	\$ -	\$ 92	\$ -	\$ 29,168
Accounts payable	56,528	2,704	1,404	31	(1)	-	1,434	436	428	-	61,530
Accrued expenses and other liabilities	52,624	1,793	1,606	486	185	-	2,277	868	20	89	57,671
Accrued payroll and related benefits	106,584	6,084	6,680	986	742	-	8,408	2,575	2	(437)	123,216
Current portion of third-party payer settlements	13,964	-	1,721	125	-	-	1,846	-	-	-	15,810
Due to related parties	12,333	3,036	830	760	372	(1,558)	404	311	7,872	(23,956)	-
Incurred but not reported claims	8,361	-	425	105	45	-	575	-	4,919	-	13,855
Total current liabilities	<u>277,734</u>	<u>14,531</u>	<u>13,358</u>	<u>2,623</u>	<u>1,343</u>	<u>(1,558)</u>	<u>15,766</u>	<u>4,190</u>	<u>13,333</u>	<u>(24,304)</u>	<u>301,250</u>
Long-term debt, net of current installments	555,739	33,696	10,647	2,602	-	-	13,249	-	-	-	602,684
Malpractice and workers' compensation claims, net of current portion	7,363	-	700	-	-	-	700	-	31,247	-	39,310
Pension and other postretirement benefit obligations	59,957	-	3,580	612	84	-	4,276	-	-	-	64,233
Third-party payer settlements, net of current portion	20,571	-	1,053	-	-	-	1,053	-	-	-	21,624
Other	33,103	1,588	-	766	-	(742)	24	505	161	-	35,381
Total long-term liabilities	<u>676,733</u>	<u>35,284</u>	<u>15,980</u>	<u>3,980</u>	<u>84</u>	<u>(742)</u>	<u>19,302</u>	<u>505</u>	<u>31,408</u>	<u>-</u>	<u>763,232</u>
Total liabilities	<u>954,467</u>	<u>49,815</u>	<u>29,338</u>	<u>6,603</u>	<u>1,427</u>	<u>(2,300)</u>	<u>35,068</u>	<u>4,695</u>	<u>44,741</u>	<u>(24,304)</u>	<u>1,064,482</u>
Net assets											
Without donor restrictions	1,112,656	20,448	35,159	(2,799)	4,573	(1,255)	35,678	19,026	51,277	(43,450)	1,195,635
With donor restrictions											
Time or purpose	54,355	647	314	140	-	-	454	4,026	1,268	-	60,750
Perpetual	35,332	184	3,801	-	-	-	3,801	6,503	322	-	46,142
Total net assets	<u>1,202,343</u>	<u>21,279</u>	<u>39,274</u>	<u>(2,659)</u>	<u>4,573</u>	<u>(1,255)</u>	<u>39,933</u>	<u>29,555</u>	<u>52,867</u>	<u>(43,450)</u>	<u>1,302,527</u>
Total liabilities and net assets	<u>\$ 2,156,810</u>	<u>\$ 71,094</u>	<u>\$ 68,612</u>	<u>\$ 3,944</u>	<u>\$ 6,000</u>	<u>\$ (3,555)</u>	<u>\$ 75,001</u>	<u>\$ 34,250</u>	<u>\$ 97,608</u>	<u>\$ (67,754)</u>	<u>\$ 2,367,009</u>

(1) The consolidating balance sheet for the UVM Medical Center Obligated Group is presented on page 50.

The accompanying note is an integral part of this supplemental consolidating information.

The University of Vermont Medical Center Obligated Group

Consolidating Balance Sheet

September 30, 2018

<i>(in thousands)</i>	Central Vermont Hospital and Medical Group Practice	Woodridge Rehabilitation and Nursing	CVMC Eliminations	Total CVMC	UVM Medical Center	Champlain Valley Physicians Hospital	Elizabethtown Community Hospital	UVM Health Network	Obligated Group Eliminations	Total UVM Medical Center Obligated Group
Assets										
Current assets										
Cash and cash equivalents	\$ 8,690	\$ 196	\$ -	\$ 8,886	\$ 144,114	\$ 4,929	\$ 11,906	\$ 41,793	\$ -	\$ 211,628
Short-term investments	-	-	-	-	15,444	11,671	-	-	-	27,115
Current portion of assets whose use is limited or restricted	-	-	-	-	-	-	-	-	-	-
Patient and other trade accounts receivable, net	19,404	1,169	-	20,573	143,106	42,889	5,873	-	-	212,441
Due from related parties	5,957	-	(5,957)	-	35,562	-	-	8,787	(21,918)	22,431
Inventories	4,199	-	-	4,199	29,747	6,245	547	-	-	40,738
Receivables from third-party payers	282	-	-	282	4,981	-	-	-	-	5,263
Prepaid and other current assets	4,529	-	-	4,529	22,605	6,691	2,665	-	-	36,490
Total current assets	43,061	1,365	(5,957)	38,469	395,559	72,425	20,991	50,580	(21,918)	556,106
Assets whose use is limited or restricted										
Board-designated assets	50,341	2,817	-	53,158	556,642	25,416	2,909	-	-	638,125
Assets held by trustee under bond indenture agreements	-	-	-	-	183	14	-	-	-	197
Restricted assets	-	-	-	-	848	8,386	-	719,883	(719,883)	9,234
Donor-restricted assets for specific purposes	6,061	-	-	6,061	37,988	-	1,297	-	-	45,346
Donor-restricted assets for permanent endowment	3,274	-	-	3,274	30,370	-	336	-	-	33,980
Total assets whose use is limited or restricted	59,676	2,817	-	62,493	626,031	33,816	4,542	719,883	(719,883)	726,882
Property and equipment, net	63,999	4,584	-	68,583	583,952	102,822	33,704	-	-	789,061
Other	3,271	-	-	3,271	70,185	7,081	99	4,125	-	84,761
Total assets	\$ 170,007	\$ 8,766	\$ (5,957)	\$ 172,816	\$ 1,675,727	\$ 216,144	\$ 59,336	\$ 774,588	\$ (741,801)	\$ 2,156,810
Liabilities and Net Assets										
Current liabilities										
Current installments of long-term debt	\$ 3,311	\$ -	\$ -	\$ 3,311	\$ 18,476	\$ 4,790	\$ 763	\$ -	\$ -	\$ 27,340
Accounts payable	2,616	-	-	2,616	45,468	6,193	2,251	-	-	56,528
Accrued expenses and other liabilities	5,624	45	-	5,669	43,860	3,066	601	-	(572)	52,624
Accrued payroll and related benefits	11,376	928	-	12,304	78,226	13,915	2,139	-	-	106,584
Current portion of third-party payer settlements	5,497	-	-	5,497	2,122	4,454	1,891	-	-	13,964
Due to related parties	13,728	6,457	(5,957)	14,228	669	18,925	210	-	(21,699)	12,333
Incurred but not reported claims	-	-	-	-	7,211	1,150	-	-	-	8,361
Total current liabilities	42,152	7,430	(5,957)	43,625	196,032	52,493	7,855	-	(22,271)	277,734
Long-term debt, net of current installments	11,594	1,261	-	12,855	472,646	50,073	15,615	4,550	-	555,739
Malpractice and workers' compensation claims, net of current portion	1,463	416	-	1,879	-	5,412	72	-	-	7,363
Pension and other postretirement benefit obligations	19,662	-	-	19,662	4,247	36,048	-	-	-	59,957
Third-party payer settlements, net of current portion	-	-	-	-	15,975	-	4,596	-	-	20,571
Other	2,746	-	-	2,746	18,831	-	810	-	-	33,103
Total long-term liabilities	35,465	1,677	-	37,142	509,699	104,249	21,093	4,550	-	676,733
Total liabilities	77,617	9,107	(5,957)	80,767	705,731	156,742	28,948	4,550	(22,271)	954,467
Net assets										
Without donor restriction	82,908	(348)	-	82,560	894,693	56,139	28,756	770,038	(719,530)	1,112,656
With donor restriction	-	-	-	-	-	-	-	-	-	-
Time or purpose	6,208	7	-	6,215	44,933	1,919	1,288	-	-	54,355
Perpetual	3,274	-	-	3,274	30,370	1,344	344	-	-	35,332
Total net assets	92,390	(341)	-	92,049	969,996	59,402	30,388	770,038	(719,530)	1,202,343
Total liabilities and net assets	\$ 170,007	\$ 8,766	\$ (5,957)	\$ 172,816	\$ 1,675,727	\$ 216,144	\$ 59,336	\$ 774,588	\$ (741,801)	\$ 2,156,810

The accompanying note is an integral part of this supplemental consolidating information.

The University of Vermont Health Network Inc. and Subsidiaries

Consolidating Statement of Operations

Year Ended September 30, 2018

(in thousands)

	Total UVM Medical Center Obligated Group (1)	Alice Hyde Medical Center	PH	HPNH	PMC/ PREH	PMC Eliminations	Total Porter	UVM Health Network Home Health & Hospice	Other Entities	Total Eliminations	Total UVM Health Network
Revenue and other support without donor restrictions											
Net patient service revenue	\$ 1,670,868	\$ 84,444	\$ 73,655	\$ 9,740	\$ -	\$ (80)	\$ 83,315	\$ 22,281	\$ 881	\$ (592)	\$ 1,861,197
Less: Provision for bad debts	(43,450)	(2,375)	(4,231)	(47)	-	-	(4,278)	(140)	(50)	-	(50,293)
Net patient service revenue after provision for bad debts	1,627,418	82,069	69,424	9,693	-	(80)	79,037	22,141	831	(592)	1,810,904
Enhanced Medicaid Graduate Medical Education revenues – Hospital	10,389	-	-	-	-	-	-	-	-	-	10,389
Enhanced Medicaid Graduate Medical Education revenues – Professional	19,611	-	-	-	-	-	-	-	-	-	19,611
Net patient service revenue after provision for bad debts and enhanced Graduate Medical Education revenues	1,657,418	82,069	69,424	9,693	-	(80)	79,037	22,141	831	(592)	1,840,904
Fixed prospective payment revenue	148,636	-	10,480	-	-	-	10,480	-	56	-	159,172
Premium revenue	6,377	-	110	-	-	-	110	-	-	-	6,487
Outpatient and specialty pharmacy revenue	94,328	6,419	3,102	-	-	-	3,102	-	-	-	103,849
Net assets released from restrictions	3,340	-	2	-	-	-	2	-	-	-	3,342
Other revenue	39,898	3,861	2,709	(67)	4,618	(4,384)	2,876	151	20,451	(11,088)	56,149
Total revenue and other support without donor restrictions	1,949,997	92,349	85,827	9,626	4,618	(4,464)	95,607	22,292	21,338	(11,680)	2,169,903
Expenses											
Salary, payroll taxes and fringe benefits	1,160,930	57,353	50,043	8,295	3,576	(62)	61,852	18,278	6,933	64	1,305,410
Supplies and other	484,379	21,204	12,338	1,407	342	(85)	14,002	3,643	10,908	(11,183)	522,953
Purchased services	97,030	8,389	10,945	1,161	368	(4,318)	8,156	1,876	1,478	(561)	116,368
Provider taxes	82,769	955	4,703	517	-	-	5,220	-	-	-	88,944
Depreciation and amortization	76,736	4,538	2,859	212	26	-	3,097	505	655	-	85,531
Interest expense	17,121	820	345	81	5	-	431	-	118	-	18,490
Total expenses	1,918,965	93,259	81,233	11,673	4,317	(4,465)	92,758	24,302	20,092	(11,680)	2,137,696
Income (loss) from operations	31,032	(910)	4,594	(2,047)	301	1	2,849	(2,010)	1,246	-	32,207
Nonoperating gains (losses)											
Investment income	24,995	198	459	4	9	-	472	96	674	-	26,435
Change in interest in investment pool	(23)	20	-	-	-	-	-	-	3	-	-
Change in fair value of interest rate swap agreements	6,562	-	-	-	-	-	-	-	-	-	6,562
Loss on extinguishment of debt	-	-	-	-	-	-	-	-	-	-	-
Contribution revenue from acquisitions	1,249	-	-	-	-	-	-	19,019	-	-	20,268
Other	(842)	451	209	-	147	(36)	320	1,693	(206)	(1,759)	(343)
Total nonoperating gains (losses)	31,941	669	668	4	156	(36)	792	20,808	471	(1,759)	52,922
Excess (deficit) of revenue over expenses	62,973	(241)	5,262	(2,043)	457	(35)	3,641	18,798	1,717	(1,759)	85,129
Net change in unrealized gains (losses) on investments	3,103	(114)	-	-	-	-	-	(147)	160	(104)	2,898
Net assets released from restrictions for capital purchases	4,181	-	66	360	-	-	426	-	-	-	4,607
Pension related adjustments	18,084	-	1,166	199	93	-	1,458	-	-	-	19,542
Transfers and other adjustments	(1,167)	(358)	(1,700)	2,250	-	-	550	375	1,503	(794)	109
Increase (decrease) in net assets without donor restrictions	\$ 87,174	\$ (713)	\$ 4,794	\$ 766	\$ 550	\$ (35)	\$ 6,075	\$ 19,026	\$ 3,380	\$ (2,657)	\$ 112,285

(1) The consolidating statement of operations for the UVM Medical Center Obligated Group is presented on page 52.

The accompanying note is an integral part of this supplemental consolidating information.

The University of Vermont Medical Center Obligated Group

Consolidating Statement of Operations

Year Ended September 30, 2018

(in thousands)

	Central Vermont Hospital and Medical Group Practice	Woodridge Rehabilitation and Nursing	Total CVMC	UVM Medical Center	Champlain Valley Physicians Hospital	Elizabethtown Community Hospital	UVM Health Network	Obligated Group Eliminations	Total UVM Medical Center Obligated Group
Revenue and other support without donor restrictions									
Net patient service revenue	\$ 155,370	\$ 13,578	\$ 168,948	\$ 1,134,859	\$ 331,949	\$ 34,419	\$ -	\$ 693	\$ 1,670,868
Less: Provision for bad debts	(3,053)	-	(3,053)	(29,309)	(9,529)	(1,559)	-	-	(43,450)
Net patient service revenue after provision for bad debts	152,317	13,578	165,895	1,105,550	322,420	32,860	-	693	1,627,418
Enhanced Medicaid Graduate Medical Education revenues – Hospital	-	-	-	10,389	-	-	-	-	10,389
Enhanced Medicaid Graduate Medical Education revenues – Professional	-	-	-	19,611	-	-	-	-	19,611
Net patient service revenue after provision for bad debts and enhanced Graduate Medical Education revenues	152,317	13,578	165,895	1,135,550	322,420	32,860	-	693	1,657,418
Fixed prospective payment revenue	27,552	1,139	28,691	118,487	1,458	-	-	-	148,636
Premium revenue	1,535	-	1,535	4,842	-	-	-	-	6,377
Outpatient and specialty pharmacy revenue	6,416	-	6,416	74,117	11,934	1,861	-	-	94,328
Net assets released from restrictions	552	18	570	2,067	629	74	-	-	3,340
Other revenue	4,525	533	5,058	28,455	8,066	2,454	-	(4,135)	39,898
Total revenue and other support without donor restrictions	192,897	15,268	208,165	1,363,518	344,507	37,249	-	(3,442)	1,949,997
Expenses									
Salary, payroll taxes and fringe benefits	124,510	13,194	137,704	757,238	242,759	21,477	-	1,752	1,160,930
Supplies and other	43,628	2,510	46,138	358,227	74,683	9,991	-	(4,660)	484,379
Purchased services	10,064	298	10,362	69,475	17,942	-	175	(924)	97,030
Provider taxes	10,758	753	11,511	69,820	1,327	111	-	-	82,769
Depreciation and amortization	8,964	865	9,829	48,959	15,208	2,740	-	-	76,736
Interest expense	421	69	490	13,668	2,500	463	-	-	17,121
Total expenses	198,345	17,689	216,034	1,317,387	354,419	34,782	175	(3,832)	1,918,965
Income (loss) from operations	(5,448)	(2,421)	(7,869)	46,131	(9,912)	2,467	(175)	390	31,032
Nonoperating gains (losses)									
Investment income	8,167	839	9,006	13,585	1,707	(9)	(5,450)	6,156	24,995
Change in interest in investment pool	385	28	413	6,098	126	10	-	(6,670)	(23)
Change in fair value of interest rate swap agreements	-	-	-	4,040	2,328	194	-	-	6,562
Loss on extinguishment of debt	-	-	-	-	-	-	-	-	-
Contribution revenue from acquisitions	-	-	-	-	-	1,249	-	-	1,249
Other	870	3	873	(937)	(396)	8	-	(390)	(842)
Total nonoperating gains (losses)	9,422	870	10,292	22,786	3,765	1,452	(5,450)	(904)	31,941
Excess (deficit) of revenue over expenses	3,974	(1,551)	2,423	68,917	(6,147)	3,919	(5,625)	(514)	62,973
Net change in unrealized gains (losses) on investments	(7,032)	(520)	(7,552)	3,684	213	88	7,315	(645)	3,103
Net assets released from restrictions for capital purchases	-	-	-	186	1,572	2,423	-	-	4,181
Pension related adjustments	7,018	-	7,018	129	10,937	-	-	-	18,084
Transfers and other adjustments	-	-	-	(1,631)	825	14	718,349	(718,724)	(1,167)
Increase (decrease) in net assets without donor restrictions	\$ 3,960	\$ (2,071)	\$ 1,889	\$ 71,285	\$ 7,400	\$ 6,444	\$ 720,039	\$ (719,883)	\$ 87,174

The accompanying note is an integral part of this supplemental consolidating information.