

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

**Consolidated Financial Statements and  
Supplemental Consolidating Information  
September 30, 2017 and 2016**

# The University of Vermont Health Network Inc. and Subsidiaries

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September 30, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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.

***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.

*PricewaterhouseCoopers LLP*

Boston, Massachusetts  
December 12, 2017

**The University of Vermont Health Network Inc. and Subsidiaries**  
**Consolidated Balance Sheets**  
**September 30, 2017 and 2016**

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 264,293	\$ 243,014
Patient and other trade accounts receivable - net of allowance for doubtful accounts of \$48,557 and \$40,556, respectively	238,902	220,430
Inventories	38,672	35,510
Current portion of assets whose use is limited or restricted	93,349	95,165
Receivables from third-party payers	4,134	5,900
Short-term investments	28,910	16,712
Prepaid and other current assets	40,945	35,185
Total current assets	<u>709,205</u>	<u>651,916</u>
Assets whose use is limited or restricted		
Board-designated assets	614,890	475,304
Assets held by trustee under bond indenture agreements	4,981	42,808
Restricted assets	9,777	15,034
Donor-restricted assets for specific purposes	41,541	34,581
Donor-restricted assets for permanent endowment	36,580	32,168
Total assets whose use is limited or restricted	<u>707,769</u>	<u>599,895</u>
Property and equipment, net	765,727	706,759
Other	47,099	37,076
Total assets	<u>\$ 2,229,800</u>	<u>\$ 1,995,646</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Current installments of long-term debt	\$ 39,368	\$ 33,639
Accounts payable	56,169	59,877
Accrued expenses and other liabilities	58,449	52,578
Accrued payroll and related benefits	107,593	102,163
Current portion of third-party payer settlements	11,708	3,397
Incurred but not reported claims	24,087	26,834
Total current liabilities	<u>297,374</u>	<u>278,488</u>
Long-term liabilities		
Long-term debt - net of current installments	588,448	548,660
Malpractice and workers' compensation claims net of current portion	26,192	26,905
Pension and other postretirement benefit obligations	89,297	122,618
Third-party payer settlements, net of current portion	19,073	18,071
Other	36,685	44,727
Total long-term liabilities	<u>759,695</u>	<u>760,981</u>
Total liabilities	<u>1,057,069</u>	<u>1,039,469</u>
Commitments and contingent liabilities		
Net assets		
Unrestricted	1,083,350	878,222
Temporarily restricted	50,938	43,926
Permanently restricted	38,443	34,029
Total net assets	<u>1,172,731</u>	<u>956,177</u>
Total liabilities and net assets	<u>\$ 2,229,800</u>	<u>\$ 1,995,646</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, 2017 and 2016**

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
<b>Unrestricted revenue and other support</b>		
Net patient service revenue	\$ 1,777,908	\$ 1,636,585
Less: Provision for bad debts	<u>(45,277)</u>	<u>(41,753)</u>
Net patient service revenue after provision for bad debts	1,732,631	1,594,832
Enhanced Medicaid Graduate Medical Education revenues-Hospital	10,312	10,714
Enhanced Medicaid Graduate Medical Education revenues-Professional	<u>19,133</u>	<u>19,286</u>
Net patient service revenue after provision for bad debts and Enhanced Medicaid Graduate Medical Education revenues	1,762,076	1,624,832
Fixed prospective revenue	28,340	-
Premium revenue	9,040	9,897
Outpatient and specialty pharmacy revenue	84,532	60,741
Other revenue	<u>49,617</u>	<u>53,093</u>
Total unrestricted revenue and other support	<u>1,933,605</u>	<u>1,748,563</u>
<b>Expenses</b>		
Salaries, payroll taxes, and fringe benefits	1,197,511	1,051,259
Supplies and other	472,400	435,552
Purchased services	93,995	87,308
Depreciation and amortization	82,786	77,798
Interest expense	<u>18,968</u>	<u>17,583</u>
Total expenses	<u>1,865,660</u>	<u>1,669,500</u>
Income from operations	<u>67,945</u>	<u>79,063</u>
<b>Nonoperating gains (losses)</b>		
Investment income	58,244	10,070
Change in fair value of interest rate swap agreements	9,443	(4,865)
Loss on the extinguishment of debt	-	(22,696)
Contribution revenue from affiliation	26,935	23,774
Other	<u>(1,041)</u>	<u>(591)</u>
Total nonoperating gains, net	<u>93,581</u>	<u>5,692</u>
Excess of revenue over expenses	161,526	84,755
Net change in unrealized (losses) gains on investments	(10,332)	36,090
Net assets released from restrictions for capital purchases	1,118	2,515
Pension related adjustments	52,816	(37,471)
Other adjustments	<u>-</u>	<u>(216)</u>
Increase in unrestricted net assets	<u>\$ 205,128</u>	<u>\$ 85,673</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, 2017 and 2016**

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
<b>Unrestricted net assets</b>		
Excess of revenue over expenses	\$ 161,526	\$ 84,755
Net change in unrealized (losses) gains on investments	(10,332)	36,090
Net assets released from restrictions for capital purchases	1,118	2,515
Pension related adjustments	52,816	(37,471)
Other adjustments	-	(216)
Increase in unrestricted net assets	205,128	85,673
<b>Temporarily restricted net assets</b>		
Gifts, grants, and bequests	6,031	9,545
Investment income	602	221
Net change in unrealized gains on investments	792	2,150
Net realized gains on investments	3,342	870
Net assets released from restrictions used in operations	(2,773)	(3,843)
Net assets released from restrictions used for nonoperating purposes	(229)	(169)
Net assets released from restrictions used for capital purchases	(1,118)	(2,515)
Transfer of net assets	(49)	(98)
Increase in temporarily restricted net assets from affiliation	414	-
Increase in temporarily restricted net assets	7,012	6,161
<b>Permanently restricted net assets</b>		
Gifts, grants, and bequests	222	116
Change in beneficial interest in perpetual trusts	594	470
Transfer of net assets	49	98
Increase in permanently restricted net assets from affiliation	3,549	184
Increase in permanently restricted net assets	4,414	868
Increase in net assets	216,554	92,702
<b>Net assets</b>		
Beginning of year	956,177	863,475
End of year	\$ 1,172,731	\$ 956,177

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, 2017 and 2016**

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 216,554	\$ 92,702
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	82,786	77,798
Provision for bad debts	45,277	41,753
Contribution revenue from affiliation	(30,898)	(23,958)
Pension related adjustments	(52,816)	37,471
Contributions restricted for long-term use	(904)	(381)
Loss (gain) on disposal of property and equipment	288	(50)
(Gain) loss on interest rate swap agreements	(9,443)	4,865
Realized and unrealized gains on investments	(42,261)	(42,874)
Undistributed gains of affiliated companies	(68)	(1,081)
Change in beneficial interest in perpetual trusts	(594)	(470)
Loss on extinguishment of debt	-	7,715
Increase (decrease) in cash resulting from a change in		
Patient and other accounts receivable	(51,771)	(59,424)
Other current and noncurrent assets	(9,984)	(19,390)
Accounts payable and accrued expenses	(11,512)	14,201
Accrued payroll and related benefits	(2,348)	(10,153)
Other current and noncurrent liabilities	(3,505)	(1,574)
Estimated third-party payer settlements	9,447	8,650
Pension and other postretirement benefit obligations	13,378	(9,273)
Net cash provided by operating activities	<u>151,626</u>	<u>116,527</u>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(107,567)	(107,600)
Proceeds from sale of property and equipment	140	7
Purchase of investments	(911,360)	(307,226)
Proceeds from sale of investments	838,477	193,000
Use of bond proceeds deposited with trustees	2,424	8,459
Cash received through affiliation	18,714	487
Net cash used in investing activities	<u>(159,172)</u>	<u>(212,873)</u>
<b>Cash flows from financing activities</b>		
Proceeds from restricted contributions & restricted investment income	904	381
Payments on long-term debt	(74,502)	(223,564)
Proceeds from debt issuance	101,544	317,567
Payment of debt issuance costs	(626)	(790)
Borrowings on line of credit	15,471	27,667
Repayments on line of credit	(13,966)	(25,673)
Cash paid on defeasance of debt	-	14,981
Net cash provided by financing activities	<u>28,825</u>	<u>110,569</u>
Net increase in cash and cash equivalents	21,279	14,223
<b>Cash and cash equivalents</b>		
Beginning of year	<u>243,014</u>	<u>228,791</u>
End of year	<u>\$ 264,293</u>	<u>\$ 243,014</u>
<b>Supplemental cash flow information</b>		
Contribution from affiliation, net of cash received	\$ 12,184	\$ 23,471
Cash paid during the year for interest	18,631	17,541
Capital expenditures included in accounts payable	16,176	5,106
Assets acquired under capital lease	3,606	5,665

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, 2017 and 2016

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#### 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., The University of Vermont Health Network - Central Vermont Medical Center, Inc., The University of Vermont Health Network - Porter Medical Center, Inc., and Community Providers, Inc., doing business as University of Vermont Health Network – Adirondack Region (“UVM Health Network – Adirondack Region”). 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 Medical Center Health Ventures, Inc.; 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; VMC Indemnity Company Ltd. (“VMCIC”); and 116 Realty, LLC. Vermont Managed Care, Inc. (“VMC”) is a wholly owned subsidiary of UVM Medical Center Health Ventures. The following entities are partly owned or controlled by UVM Medical Center: Medical Education Center Condominium Association, Inc.; Copley Woodlands, Inc.; University of Vermont Medical Group – New York, PLLC; and OneCare Vermont Accountable Care Organization, LLC (“OCV”).

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 - 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 Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

### September 30, 2017 and 2016

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UVM Health Network – Adirondack Region’s primary purpose is to develop and coordinate a community and regionally focused healthcare system in Northern New York that provides appropriate, cost-effective care, emphasizing wellness and prevention, and providing both public and patient education.

UVM Health Network – Adirondack Region includes The University of Vermont Health Network - Champlain Valley Physician Hospital (“CVPH”), Mediquest Corp., Emergency Medical Transport of CVPH, Inc., Lake Champlain Physician Services, P.C. (“LCPS”), Champlain Valley Health Network, Inc. (“CVHN”), The University of Vermont Health Network – Elizabethtown Community Hospital (“ECH”), and The University of Vermont Health Network – Alice Hyde Medical Center, Inc (“AHMC”). CVPH is the sole member of CVPH Foundation, Inc., Champlain Valley Open MRI, LLC, and Valcour Imaging, Inc., and is a member in Adirondack Accountable Care Organization, LLC (“ADK ACO”).

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.

## 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 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.

# The University of Vermont Health Network Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

### September 30, 2017 and 2016

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#### **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. The carrying value of prepaid and other current assets is reviewed if the facts and circumstances suggest that it may be impaired.

#### **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**

Investments in equity securities and mutual funds with readily determinable fair market values and all investments in debt securities are recorded at fair value. Investments for which a market value is not readily determinable, including investments in common collective trusts and 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 \$0 and \$1,297,000 in losses related to declines in value that were other-than-temporary in nature for the years ended September 30, 2017 and 2016, respectively.

#### **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

# The University of Vermont Health Network Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

### September 30, 2017 and 2016

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Gifts of long-lived assets, such as land, buildings, or equipment, are reported as unrestricted support 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.

#### **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 \$4,297,000 and \$1,514,000 of interest was capitalized during the years ended September 30, 2017 and 2016, respectively. Net deferred financing costs totaled \$2,495,000 and \$2,052,000 at September 30, 2017 and 2016, 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 \$851,000 and \$668,000 at September 30, 2017 and 2016, respectively.

#### **Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by UVM Health Network has been limited by donors or law to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by UVM Health Network 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 unrestricted revenue and other support and expenses. Peripheral or incidental transactions are reported as nonoperating gains (losses).

#### **Excess of Revenue Over Expenses**

The consolidated statements of operations include the excess of revenue over expenses. Changes in unrestricted net assets 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**

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

# The University of Vermont Health Network Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

### September 30, 2017 and 2016

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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 (decreased) increased net patient service revenue by approximately (\$2,832,000) and \$2,891,000 in the years ended September 30, 2017 and 2016, respectively.

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 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 derived from the Medicare program was approximately 34% and 33% in the years ended September 30, 2017 and 2016, respectively.

#### ***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 8% and 9% of UVM Health Network's net patient service revenue for the years ended September 30, 2017 and 2016.

#### ***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 50% and 48% of UVM Health Network's net revenues were derived from contracted insurers in the years ended September 30, 2017 and 2016. Approximately 8% and 10% of UVM Health Network's net patient service revenue were derived from noncontracted insurers in the years ended September 30, 2017 and 2016, respectively.

# The University of Vermont Health Network Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

### September 30, 2017 and 2016

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#### **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 June 10, 2013 that describes the State Plan Amendment and these funding arrangements.

UVM Medical Center recognized enhanced GME revenue under the State Plan Amendment totaling \$29,445,000 and \$30,000,000 for the fiscal years ended September 30, 2017 and 2016, respectively. Under the MOU, both UVM and the State retain the right to discontinue GME payments at any time in the future.

#### **Fixed Prospective Payment ("FPP") Revenue**

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. 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. Medicaid 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.

#### **Premium Revenue**

Premium revenue consists primarily of payer incentives and meaningful use dollars.

# The University of Vermont Health Network Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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#### **Outpatient and Specialty Pharmacy Revenue**

Pharmacy revenue consists of sales of pharmaceuticals and related products.

#### **Other Revenue**

Other revenue consists primarily of research revenue, nonpatient 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 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, 116 Realty, LLC, 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, ADK ACO, and OB Net Services 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.

University of Vermont Health Ventures, VMC, 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.

# The University of Vermont Health Network Inc. and Subsidiaries

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VMCIC is currently not a taxable entity under the provisions of the territory of Bermuda and, accordingly, no provision for taxes has been recorded by VMCIC. In the event that such taxes are levied, VMCIC 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 \$4,153,000 at September 30, 2017 and 2016, 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, 2017 and 2016 was approximately \$2,555,000 and \$2,549,000, 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 unrestricted net assets presented below the excess of revenue over expenses in the consolidated statements of operations and changes in net assets.

#### **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).

# The University of Vermont Health Network Inc. and Subsidiaries

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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 nonactive 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.

#### ***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 were classified based on quoted prices of the actual debt instruments in active markets. The marketable debt securities classified as Level 2 were 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.

#### ***Common Collective Trusts and Hedge Funds***

The fair values of investments in common trust funds were primarily determined using the calculated net asset value ("NAV"). The common collective trust 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

# The University of Vermont Health Network Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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securities exchanges and valued at the closing price as is customarily ascertained by the respective exchange.

#### ***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.

#### ***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.

#### **Reclassifications**

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation.

### **3. New Accounting Guidance**

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. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In May 2014, the FASB issued a standard on *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.

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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 August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, which makes targeted changes to the not-for-profit financial reporting model. Under the new ASU, net asset reporting will be streamlined and clarified. The existing three category classification of net assets will be 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 will highlight restrictions on the use of resources that make otherwise liquid assets unavailable for meeting near-term financial requirements. The ASU also imposes several new requirements related to reporting expenses. The ASU is effective for fiscal years beginning after December 15, 2017 or fiscal year 2019 for UVM Health Network and early adoption is permitted. UVM Health Network is evaluating the impact of the new guidance on the consolidated financial statements.

#### **4. Porter Medical Center, Inc. Affiliation**

On April 1, 2017, UVM Health Network entered into an affiliation agreement whereby UVM Health Network became the sole corporate member of Porter Medical Center. Porter Medical Center, located in Middlebury, VT, is tax-exempt under 501(c)(3) of the Internal Revenue Code, as amended and is comprised of a 25-bed acute care facility, a 105-bed long-term care facility, 10 physician practices, and a single-member LLC real estate holding company.

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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 Porter Medical Center to be revalued at their fair value as of the affiliation date. In connection with the affiliation, UVM Health Network received an inherent contribution of \$30,898,000 reflecting the fair value of the contributed net assets of PMC on the transaction date. There were no intangible assets recorded as a result of this transaction. Of this amount, \$26,935,000 represents unrestricted net assets and is included as a nonoperating gain in the accompanying consolidated statement of operations. Permanently restricted net assets of \$3,549,000 were recorded as permanently restricted contribution income, and temporarily restricted net assets of \$414,000 were recorded as temporarily restricted contribution income. The consolidated statements of operations and statement of changes in net assets include PMC's activities for the 6-month period April 1, 2017 to September 30, 2017, as follows:

<i>(in thousands)</i>	<b>2017</b>
<b>Unrestricted revenue and other support</b>	
Net patient service revenue	\$ 44,078
Less: Provision for bad debts	<u>(1,723)</u>
Net patient service revenue after provision for bad debts	42,355
Fixed prospective revenue	1,452
Premium revenue	51
Outpatient and specialty pharmacy revenue	1,420
Other revenue	<u>1,810</u>
Total unrestricted revenue and other support	<u>47,088</u>
<b>Expenses</b>	
Salaries, payroll taxes, and fringe benefits	30,255
Supplies and other	9,642
Purchased services	3,831
Depreciation and amortization	1,695
Interest expense	<u>224</u>
Total expenses	<u>45,647</u>
Income from operations	<u>1,441</u>
<b>Nonoperating gains</b>	
Investment income	374
Other	<u>203</u>
Total nonoperating gains, net	<u>577</u>
Excess of revenue over expenses	2,018
Net assets released from restrictions for capital purchases	167
Pension related adjustments	385
Other adjustments	<u>99</u>
Increase in unrestricted net assets	<u>\$ 2,669</u>

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The table below discloses the assets and liabilities at fair value as of April 1, 2017 for PMC and the inherent contribution received from this transaction:

*(in thousands)*

**Assets**

Current assets		
Cash and cash equivalents	\$	18,714
Patient and other trade accounts receivable, net		11,978
Inventories		1,591
Current portion of assets whose use is limited or restricted		192
Prepaid and other current assets		1,138
Total current assets		<u>33,613</u>
Assets whose use is limited		5,409
Property and equipment, net		21,382
Other		5,481
Total assets	\$	<u>65,885</u>
Current liabilities		
Current installments of long-term debt	\$	961
Accounts payable and accrued expenses		2,605
Accrued payroll and related benefits		7,778
Estimated third-party liabilities		1,632
Total current liabilities		<u>12,976</u>
Long-term liabilities		
Long-term debt - net of current installments		14,448
Pension and other postretirement benefit obligations		6,117
Other		1,446
Total long-term liabilities		<u>22,011</u>
Total liabilities		<u>34,987</u>
Commitments and contingent liabilities		
Net assets		
Unrestricted		26,935
Temporarily restricted		414
Permanently restricted		3,549
Total net assets		<u>30,898</u>
Total liabilities and net assets	\$	<u>65,885</u>

**The University of Vermont Health Network Inc. and Subsidiaries**  
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A summary of the consolidated financial results of UVM Health Network for the years ended September 30, 2017 and 2016 as if the transaction had occurred on October 1, 2015 is as follows (unaudited):

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
Total operating revenues	\$ 1,980,693	\$ 1,838,177
Total operating expenses	<u>1,911,307</u>	<u>1,757,242</u>
Operating gain	69,386	80,935
Nonoperating gains	<u>67,224</u>	<u>33,371</u>
Excess of revenues over expenses	136,610	114,306
Net assets released from restriction used for capital purchases	1,285	2,695
Other changes in unrealized net assets	(10,233)	35,874
Change in funded status of pension and other post retirement benefits	<u>52,816</u>	<u>(38,396)</u>
Increase in unrestricted net assets	<u>\$ 180,478</u>	<u>\$ 114,479</u>

**5. Charity Care and Community Service**

UVM Health Network provides care to patients who meet certain criteria under its charity care policy 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 \$27,576,000 and \$18,975,000 for the years ended September 30, 2017 and 2016, respectively.

Approximately \$11,307,000 and \$7,391,000 of UVM Health Network's total expenses for the years ended September 30, 2017 and 2016 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, 2017 and 2016, respectively, UVM Health Network used \$533,000 and \$911,000 in charitable endowment earnings to help defray the costs of indigent care.

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**6. Assets Whose Use is Limited or Restricted**

Assets whose use is limited or restricted at September 30, 2017 and 2016 consisted of the following:

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
Equities	\$ 1,121	\$ 26,487
Mutual funds		
Bond funds	330,379	57,255
U.S. treasury obligation funds	323	397
International equity funds	157,562	32,967
Domestic equity funds	187,576	38,192
Commodity funds	-	1,768
Real estate funds	32,791	6,159
Total mutual funds	<u>708,631</u>	<u>136,738</u>
Money market funds	54,946	114,954
Bonds and notes	15,408	53,599
Common collective trusts		
Bond funds	-	164,025
U.S. treasury obligation funds	-	45,654
International equity funds	-	62,628
Domestic equity funds	-	13,688
Commodity funds	-	26,191
Real estate funds	-	30,711
Total common collective trusts	<u>-</u>	<u>342,897</u>
Beneficial Interest in perpetual trusts	17,470	13,445
Hedge funds	3,175	6,423
Investments held at Middlebury College	367	-
Real estate	-	517
	<u>801,118</u>	<u>695,060</u>
Less: Current portion	<u>(93,349)</u>	<u>(95,165)</u>
	<u>\$ 707,769</u>	<u>\$ 599,895</u>

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Investment income and gains (losses) for the years ended September 30, 2017 and 2016 consisted of the following:

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
<b>Nonoperating revenue and expenses</b>		
Investment income	\$ 10,097	\$ 6,734
Net realized gains	<u>48,147</u>	<u>3,336</u>
Investment income recorded in nonoperating gains	<u>58,244</u>	<u>10,070</u>
Net change in unrealized (losses) gains on investments	<u>(10,332)</u>	<u>36,090</u>
<b>Changes in temporarily restricted net assets</b>		
Investment income	602	221
Net change in unrealized gains on investments	792	2,150
Net realized gains on investments	<u>3,342</u>	<u>870</u>
	<u>4,736</u>	<u>3,241</u>
<b>Changes in permanently restricted net assets</b>		
Change in beneficial interest in perpetual trusts	<u>594</u>	<u>470</u>
	<u>\$ 53,242</u>	<u>\$ 49,871</u>

The cost and estimated fair value of securities classified as available-for-sale by the organization, which excludes beneficial interest in perpetual trusts of \$17,470,000 and \$13,445,000, and includes short-term investments of \$28,910,000 and \$16,712,000 as of September 30, 2017 and 2016, respectively, and long-term investments of \$10,290,000 and \$4,099,000 as of September 30, 2017 and 2016, respectively, is as follows:

<i>(in thousands)</i>	<b>2017</b>		
	<b>Cost</b>	<b>Gross Unrealized Gains (Losses)</b>	<b>Estimated Fair Value</b>
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	<u>32,300</u>	<u>1,291</u>	<u>33,591</u>
Total mutual funds	674,204	53,231	727,435
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	<u>6,049</u>	<u>-</u>	<u>6,049</u>
	<u>\$ 768,248</u>	<u>\$ 54,600</u>	<u>\$ 822,848</u>

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<i>(in thousands)</i>	<b>2016</b>		
	<b>Cost</b>	<b>Gross Unrealized Gains (Losses)</b>	<b>Estimated Fair Value</b>
Equities	\$ 32,098	\$ 3,625	\$ 35,723
Mutual funds			
Bond funds	60,388	2,079	62,467
U.S. treasury obligation funds	748	(2)	746
International equity funds	29,596	4,273	33,869
Domestic equity funds	33,917	5,544	39,461
Commodity funds	1,865	76	1,941
Real estate funds	6,172	309	6,481
Total mutual funds	132,686	12,279	144,965
Money market funds	116,066	(199)	115,867
Bonds and notes	54,615	706	55,321
Common collective trusts	295,005	47,892	342,897
Hedge funds	6,396	469	6,865
Real estate	696	92	788
	<b>\$ 637,562</b>	<b>\$ 64,864</b>	<b>\$ 702,426</b>

The following tables present information as of September 30, 2017 and 2016, about UVM Health Network's financial assets and liabilities that are measured at fair value on a recurring basis:

<i>(in thousands)</i>	<b>2017</b>				<b>Fair Value</b>
	<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Other Observable Inputs (Level 2)</b>	<b>Unobservable Inputs (Level 3)</b>	<b>NAV as Practical Expedient</b>	
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	727,435	-	-	-	727,435
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
	<b>\$ 803,913</b>	<b>\$ 9,230</b>	<b>\$ 23,519</b>	<b>\$ 3,656</b>	<b>\$ 840,318</b>
Interest rate swap agreements	\$ -	\$ 20,184	\$ -	\$ -	\$ 20,184

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(in thousands)	2016					Fair Value
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	NAV as Practical Expedient		
Equities	35,723	\$ -	\$ -	\$ -		35,723
Mutual funds						
Bond funds	62,467	-	-	-	-	62,467
U.S. treasury obligation funds	746	-	-	-	-	746
International equity funds	33,869	-	-	-	-	33,869
Domestic equity funds	39,461	-	-	-	-	39,461
Commodity funds	1,941	-	-	-	-	1,941
Real estate funds	6,481	-	-	-	-	6,481
Total mutual funds	144,965	-	-	-	-	144,965
Money market funds	115,867	-	-	-	-	115,867
Bonds and notes	11,704	43,617	-	-	-	55,321
Common collective trusts	-	-	-	342,897	-	342,897
Beneficial interest in perpetual trusts	-	-	13,445	-	-	13,445
Hedge funds	-	-	-	6,865	-	6,865
Real estate	788	-	-	-	-	788
	<u>\$ 309,047</u>	<u>\$ 43,617</u>	<u>\$ 13,445</u>	<u>\$ 349,762</u>	<u>\$ -</u>	<u>\$ 715,871</u>
Interest rate swap agreements	\$ -	\$ 29,627	\$ -	\$ -	\$ -	\$ 29,627

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, 2017 and 2016.

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

  

Category of Investment	2016					
	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
Common Collective Trusts	\$ 342,897	-	Not applicable	Daily	Not applicable	Not applicable
Hedge Funds	\$ 6,865	-	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, 2016, 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. Additionally, as of and for the years ended September 30, 2017 the fair value of the Level 3 assets related to investments held at Middlebury College ("College") is based on UVM Health Network's share of the quoted market prices of the underlying assets of the investments. 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.

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

	<b>2017</b>		
	<b>Investments held at Middlebury College</b>	<b>Beneficial Interest in Perpetual Trusts</b>	<b>Total Level 3 Assets</b>
<i>(in thousands)</i>			
<b>Beginning of year</b>	\$ -	\$ 13,445	\$ 13,445
Investments due to affiliation	6,077	3,431	9,508
Change in beneficial interest in perpetual trusts	-	594	594
Realized losses	(28)	-	(28)
<b>End of the year</b>	<b>\$ 6,049</b>	<b>\$ 17,470</b>	<b>\$ 23,519</b>
Decrease in fair value of Level 3 investments held at September 30, included in the statement of changes in net assets	\$ (28)	\$ -	\$ (28)

**7. Property and Equipment**

A summary of property and equipment at September 30, 2017 and 2016 is as follows:

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
Land	\$ 33,320	\$ 32,734
Land improvements	24,297	20,153
Leasehold improvements	66,258	60,376
Buildings	829,444	781,163
Equipment, furniture, and fixtures	543,978	514,258
	<u>1,497,297</u>	<u>1,408,684</u>
Less: Accumulated depreciation	(813,696)	(739,917)
	683,601	668,767
Construction-in-progress	82,126	37,992
	<u>\$ 765,727</u>	<u>\$ 706,759</u>

UVM Health Network sold, traded-in or wrote off approximately \$10,774,000 and \$7,958,000 in gross property and equipment in the years ended September 30, 2017 and 2016, respectively. In conjunction with these sales, trade-ins or disposals, a loss of \$288,000 and a gain of \$50,000 were recorded in the years ended September 30, 2017 and 2016, respectively. These gains and losses are included in supplies and other expense. At September 30, 2017 and 2016, UVM Health Network had commitments to purchase approximately \$90,886,000 and \$117,175,000, respectively, of property and equipment, of which, \$79,904,000 is related to the Inpatient Bed replacement project (the "Miller Building Project") as of September 30, 2017. Anticipated future cash flows related to this commitment are \$51,818,000 and \$28,086,000 for the years ending September 30, 2018 and 2019, respectively.

UVM Health Network recorded depreciation expense of \$84,229,000 and \$78,392,000 for the years ended September 30, 2017 and 2016, respectively.

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**8. Long-Term Debt**

Long-term debt at September 30, 2017 and 2016 consisted of the following:

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
<b>Vermont Educational and Health Buildings Financing Agency</b>		
<b>Hospital Revenue Bonds</b>		
Series 2009A loan, fixed rate (5.08%), payable through 2024	\$ 682	\$ 1,662
Series 2008A Bonds, variable rate (0.84% at September 30, 2017 and 2016), payable through 2030	54,706	54,706
Series 2013A Bonds, fixed rate (2.60%) payable through 2027	28,038	28,363
Series 1996 loan, fixed rate (3.50%), payable through 2021	5,193	6,356
Series 2015A Bonds, fixed rate (2.27%), payable through 2023	19,815	21,835
Series 2016A Bonds, fixed rate (3.00% to 5.00%), payable through 2036 (including unamortized premium of \$24,204 and \$25,415 at September 30, 2017 and 2016, respectively)	197,189	201,790
Series 2016B Bonds, fixed rate (3.13% to 5.00%), payable through 2047 (including unamortized premium of \$11,370 and \$11,759 at September 30, 2017 and 2016, respectively)	100,370	100,759
Series 2015A Bonds, fixed rate (2.85%), payable through 2025	14,495	-
<b>County of Clinton Industrial Development Agency</b>		
<b>Hospital Revenue Bonds</b>		
Series 2006A & 2006B Bonds, variable rate (0.91% at September 30, 2016), refinanced in 2017	-	1,430
Series 2007B Bonds, variable rate (0.91% at September 30, 2016), payable through 2042	-	10,970
<b>Essex County Capital Resource Corporation</b>		
<b>Hospital Revenue Bonds</b>		
Series 2011 Bonds, variable rate (2.35% and 1.89% at September 30, 2017 and 2016, respectively), payable through 2032	4,870	5,120
<b>Other long-term debt</b>		
Bank of America Loan, fixed rate (2.92%), payable through 2027	47,918	-
KeyBank Loan, fixed rate (3.13%), payable through 2023	34,320	39,130
Series 2007A Key Bank Bonds, variable rate (1.87% at September 30, 2016), refinanced in 2017	-	17,250
Series 2016A Bonds, variable rate (1.94% at September 30, 2017), payable through 2042	13,775	-
Series 2016B Bonds, variable rate (1.59% at September 30, 2017), payable through 2042	16,840	-
Community Bank Loan Payable, fixed rate (3.38%), payable through 2027	14,253	14,658
Series 2013A Bonds, variable rate (0.98% at September 30, 2017 and 2016), payable through 2038	25,264	26,070
Capital leases, fixed rate (0.68% to 10.11%), payable through 2024	10,221	10,356
Lines of credit	9,483	7,978
Other debt	32,879	35,918
	<u>630,311</u>	<u>584,351</u>
Less: Current portion	(39,368)	(33,639)
Less: Unamortized discount and debt issuance costs	(2,495)	(2,052)
Long-term debt	<u>\$ 588,448</u>	<u>\$ 548,660</u>

**Obligated Group**

UVM Medical Center and CVMC are the sole members of the UVM Health Network Obligated Group at September 30, 2017.

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, 2017 an obligated group does not exist for the UVM Health Network – Adirondack Region entities or PMC. See subsequent event footnote.

# The University of Vermont Health Network Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

### September 30, 2017 and 2016

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#### **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.

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 of its 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, 2017 and 2016, 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, 2017, 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.

# The University of Vermont Health Network Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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#### **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. 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 (2.35% at September 30, 2017) due in quarterly installments through March 1, 2032.

#### **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. 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, 2017 was 0.98%. 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 July 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%.

# The University of Vermont Health Network Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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#### **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 \$660,000 at September 30, 2017 will be amortized over the life of the loan. The 2016 refunding resulted in a loss on extinguishment of debt of \$22,320,000.

#### **Series 2016B Bonds (UVM Medical Center)**

On July 28, 2016, UVM Medical Center, in connection with the Vermont Educational and Health Buildings Financing Agency, 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%, and the bonds mature on September 30, 2047. 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.

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**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 (2.28% at September 30, 2017). 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% and receives a variable rate of one month LIBOR.

**Scheduled Maturities of Long-Term Debt**

As of September 30, 2017, scheduled maturities of long-term debt, not including a net unamortized premium of \$35,574,000 for the next five years and thereafter are as follows:

**Years Ending September 30**

2018	\$	39,368
2019		31,951
2020		26,173
2021		26,418
2022		25,426
Thereafter		445,401
	<b>\$</b>	<b>594,737</b>

**Loan Covenants**

Under the terms of the master indenture agreement, the UVM Health Network Obligated Group is required to meet certain covenant requirements, as is AHMC 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 UVM Health Network Obligated Group.

**Lines of Credit**

CVMC has a bank line of credit that exists with a maximum borrowing of \$2,000,000 at September 30, 2017. The line matures on May 31, 2019, and bears interest at the Wall Street Journal prime rate adjusted daily with a floor of 3.25%, with advances collateralized. At September 30, 2017, CVMC did not have any outstanding borrowings under the line of credit.

UVM Health Network – Adirondack Region has an uncollateralized line of credit in the amount of \$3,000,000 at September 30, 2017. The interest rate is set at a floating rate equal to LIBOR plus 150 basis points (2.69% at September 30, 2017). At September 30, 2017 UVM Health Network – Adirondack Region had outstanding borrowings under the line of credit of \$3,000,000. 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, 2018.

CVPH has an available uncollateralized line of credit in the amount of \$6,500,000 at September 30, 2017. The interest rate is set at a floating rate equal to LIBOR plus, 150 basis points (2.69% at September 30, 2017). At September 30, 2017, CVPH had outstanding borrowings under the line of credit of \$6,483,000. The maturity date for the line of credit is July 31, 2018.

AHMC has an uncollateralized line of credit in the amount of \$1,500,000 at September 30, 2017. The interest rate is set at a floating rate equal to prime plus 100 basis points (5.25% at September 30, 2017). At September 30, 2017, AHMC had borrowings under the line of credit of \$1,483,560. The revolving line of credit is interest only payments with accrued interest and principal due upon demand.

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**Guarantor**

As of September 30, 2017, UVM Medical Center is the guarantor of the Series 2016A, Series 2016B, and Community Bank debt at CVPH, and the letter of credit at AHMC for the Series 2013A bonds.

**9. 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	Notional	Counterparty	Expiration Date	Pay Fixed	Receive Floating
			Amount	Amount				
			September 30	September 30				
			2017	2016				
			(\$ in 000's)	(\$ in 000's)				
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		7,834	8,392	Peoples United Bank	October 2, 2028	2.67 %	1 Month LIBOR
LIBOR Swap	Series 2006A		-	1,430	Key Bank	July 1, 2017	3.50 %	69.0% of LIBOR
LIBOR Swap	Series 2007B		10,705	10,970	Key Bank	July 1, 2042	4.06 %	68.0% of LIBOR
LIBOR Swap	Series 2007A		16,805	17,250	Key Bank	July 1, 2042	4.00 %	65.0% of LIBOR
LIBOR Swap	Series 2011		4,870	4,960	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:

	Fair Value	
	2017	2016
<i>(in thousands)</i>		
2008A Swaps	\$ (11,077)	\$ (16,078)
Holly Court Loan	(277)	(762)
2006A Swap	-	(36)
2007B Swap	(3,279)	(4,708)
2007A Swaps	(5,169)	(7,430)
2011 Swap	(382)	(613)
	<u>\$ (20,184)</u>	<u>\$ (29,627)</u>

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The effect of interest rate swap agreements on the consolidated statements of operations and changes in net assets for 2017 and 2016 are as follows:

<i>(in thousands)</i>	<b>Amount of Gain/(Loss) Recognized in Statement of Operations</b>	
	<b>2017</b>	<b>2016</b>
2008A Swaps	\$ 5,001	\$ (2,869)
Holly Court Loan	485	(191)
2006A Swap	36	82
2007B Swap	1,429	(765)
2007A Swaps	2,261	(1,169)
2011 Swap	231	47
	<u>\$ 9,443</u>	<u>\$ (4,865)</u>

UVM Health Network also made payments on the interest rate swap agreements of \$3,415,000 and \$3,156,000 for the years ended September 30, 2017 and 2016, which are included in interest expense on the statement of operations.

**10. 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 \$18,917,000 and \$16,757,000 for the years ended September 30, 2017 and 2016, respectively.

Minimum future lease payments required under noncancelable operating leases at September 30, 2017, were as follows:

<b>Years Ending September 30,</b>	
2018	\$ 20,196
2019	17,553
2020	14,817
2021	10,289
2022	6,004
Thereafter	10,288
	<u>\$ 79,147</u>

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**11. Net Assets**

**Temporarily Restricted Net Assets**

At September 30, 2017 and 2016, temporarily restricted net assets are available for the following purposes:

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
Indigent care	\$ 773	\$ 471
Education and research	16,012	13,782
Children's programs	5,580	4,651
Capital projects and other health care services	25,985	23,480
Long-term care services at Woodridge	2,588	1,542
	<u>\$ 50,938</u>	<u>\$ 43,926</u>

At September 30, 2017 and 2016, temporarily restricted net assets include approximately \$23,725,000 and \$20,315,000, respectively, of accumulated gains on permanently restricted net assets, which are subject to board appropriation in accordance with state law.

**Permanently Restricted Net Assets**

At September 30, 2017 and 2016, income earned on permanently restricted net assets is restricted to:

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
Indigent care	\$ 6,917	\$ 4,825
Education and research	6,146	5,872
Other health care services	24,318	22,353
Long-term care services at Woodridge	1,062	979
	<u>\$ 38,443</u>	<u>\$ 34,029</u>

**Endowment Funds**

UVM Health Network's endowment consists of 141 funds established for a variety of purposes. UVM Health Network does not currently have any unrestricted funds designated by the Board of Trustees (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.

**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 permanently restricted net assets to be retained in a temporarily restricted net asset classification until appropriated by the Board and expended. These state laws allow the Board to appropriate the net appreciation of permanently restricted net assets 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, 2017 and 2016, \$569,000 and \$986,000, respectively, was appropriated.

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As a result of this interpretation, UVM Health Network classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent 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 permanent 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 temporarily restricted 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, and 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, 2017 and 2016, and the changes therein for the years then ended:

**Endowment Net Asset Composition by Type of Fund**

	<b>September 30, 2017</b>		
<i>(in thousands)</i>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ 23,725	\$ 20,973	\$ 44,698
Adjustments for funds with deficiencies	-	-	-
	<u>\$ 23,725</u>	<u>\$ 20,973</u>	<u>\$ 44,698</u>
	<b>September 30, 2016</b>		
<i>(in thousands)</i>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ 20,342	\$ 20,557	\$ 40,899
Adjustments for funds with deficiencies	(27)	27	-
	<u>\$ 20,315</u>	<u>\$ 20,584</u>	<u>\$ 40,899</u>



# The University of Vermont Health Network Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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#### **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.

## **12. 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, and PMC (discussed below), are 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, 2017, 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, 2017. A related liability of approximately \$1,081,000 and \$1,111,000 has been recorded as of September 30, 2017 and 2016, respectively.

PMC has a guaranteed cost policy for workers compensation insurance. The policy year is October 1 – October 1 each year. The policy coverage is \$500,000 per employee.

The reserves for outstanding losses at UVM Medical Center, CVMC, CVPH and ECH, have been discounted at a rate of 1.93% and 2.3% at September 30, 2017 and 2016, respectively, resulting in a decrease in the reserve for professional liability of approximately \$2,400,000 and \$2,516,000 at September 30, 2017 and 2016, respectively, and a reduction in the reserve for workers' compensation of approximately \$310,000 and \$316,000 at September 30, 2017 and 2016, 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 \$1,459,000 and (\$9,077,000) for the years ended September 30, 2017 and 2016, 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

**The University of Vermont Health Network Inc. and Subsidiaries**  
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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, 2017, of which, \$100,000 of each entities exposure is covered by VMCIIC. PMC maintained a stop-loss insurance policy for its medical plan to limit its exposure on all claims to the first \$175,000 per 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, 2017, of which, \$100,000 of exposure is covered by VMCIIC. 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 financial position or results of operations.

**13. Statutory Capital and Surplus**

VMCIIC 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, 2017 and 2016, was \$31,255,000 and \$24,134,000, respectively. The required minimum statutory capital at September 30, 2017 and 2016 was \$3,351,000 and \$3,396,000, 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 \$25,475,000 and \$25,525,000 at September 30, 2017 and 2016, respectively. The measurement of liquid assets at September 30, 2017 and 2016 is \$65,222,000 and \$58,167,000, respectively. UVM Health Network reports all of VMCIIC’s investments in marketable securities as restricted assets in the accompanying consolidated balance sheets.

**14. 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>	<b>Years Ending September 30</b>	
	<b>2017</b>	<b>2016</b>
Defined benefit plans	\$ 22,295	\$ 7,722
Defined contribution plans	39,032	36,959
	<u>\$ 61,327</u>	<u>\$ 44,681</u>

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.

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<b>Benefit Obligations</b> <i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
<b>Changes in benefit obligations</b>		
Projected benefit obligations - beginning of year	\$ (491,771)	\$ (436,062)
Effect of affiliation	(16,699)	-
Service cost	(6,907)	(5,164)
Plan change cost	-	464
Interest cost	(17,952)	(20,048)
Benefits paid	23,992	17,565
Settlements	57,359	8,940
Actuarial gain (loss)	17,943	(59,574)
Administrative penses paid	2,896	2,108
Projected benefit obligation - end of year	<u>(431,139)</u>	<u>(491,771)</u>
Accumulated benefit obligation	<u>(427,629)</u>	<u>(486,933)</u>
<b>Changes in plan assets</b>		
Fair value of plan assets - beginning of year	369,153	341,642
Effect of affiliation	10,582	-
Actual gain on plan assets	37,421	39,129
Contributions	8,933	16,995
Benefits paid	(23,992)	(17,565)
Settlements	(57,359)	(8,940)
Administrative expenses paid	(2,896)	(2,108)
Fair value of plan assets - end of year	<u>341,842</u>	<u>369,153</u>
Funded status of the plans (long-term)	<u>\$ (89,297)</u>	<u>\$ (122,618)</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 below.

The reconciliation of the unrecognized actuarial losses for the years ended September 30, 2017 and 2016 is as follows:

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
<b>Unrecognized actuarial losses - beginning of year</b>	\$ 120,118	\$ 84,262
Net loss amortized during year	(3,735)	(1,960)
Settlements	(18,637)	(3,725)
Net prior service cost amortized during year	21	(464)
Net (gain) loss during year	<u>(30,465)</u>	<u>42,005</u>
<b>Unrecognized actuarial losses - end of year</b>	<u>\$ 67,302</u>	<u>\$ 120,118</u>

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The cost components of the net periodic benefit cost for the years ended September 30, 2017 and 2016 are as follows:

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
Service cost	\$ 6,907	\$ 5,164
Interest cost	17,952	20,048
Settlements	18,637	3,725
Expected return on plan assets	(24,936)	(23,175)
Amortization of unrecognized net loss	3,735	1,960
Net periodic benefit cost	<u>\$ 22,295</u>	<u>\$ 7,722</u>

The expected net periodic benefit cost to be recognized in fiscal year 2018 is \$4,372,000.

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

	<b>2017</b>	<b>2016</b>
<b>Weighted-average assumptions used to determine the benefit liability</b>		
Discount rates	3.9% - 4.0%	3.6% - 3.7%
Rates of increase in future compensation levels	3.0% - 4.1%	3.0% - 3.5%
<b>Weighted-average assumptions used to determine expense</b>		
Discount rates	3.6% - 4.1%	4.6% - 4.7%
Rates of increase in future compensation levels	3.0% - 3.5%	3.0% - 3.5%
Expected long-term rate of return on plan assets	5.7% - 7.3%	6.5% - 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, 2017 and 2016, by asset category, are as follows:

<b>Asset category</b>	<b>2017</b>	<b>2016</b>
Money market	4 %	2 %
Bonds	0	3
Equities	0	14
Mutual funds		
Bond funds	37	17
International equity funds	27	7
Domestic equity funds	27	10
Real estate funds	5	4
Total mutual funds	<u>96</u>	<u>38</u>
Common collective trusts	<u>0</u>	<u>43</u>
	<u>100 %</u>	<u>100 %</u>

**The University of Vermont Health Network Inc. and Subsidiaries**  
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The following table presents information, as of September 30, 2017 and 2016, about UVM Health Network's pension assets that are measured at fair value on a recurring basis:

<b>2017</b>				
<i>(in thousands)</i>	<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Other Observable Inputs (Level 2)</b>	<b>NAV as Practical Expedient NAV</b>	<b>Fair Value</b>
Money market	\$ 13,890	\$ -	\$ -	\$ 13,890
Mutual funds				
Bond funds	128,043	-	-	128,043
International equity funds	92,734	-	-	92,734
Domestic funds	91,452	-	-	91,452
Real estate funds	15,723	-	-	15,723
Total mutual funds	<u>327,952</u>	<u>-</u>	<u>-</u>	<u>327,952</u>
	<u>\$ 341,842</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 341,842</u>
<b>2016</b>				
<i>(in thousands)</i>	<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Other Observable Inputs (Level 2)</b>	<b>NAV as Practical Expedient NAV</b>	<b>Fair Value</b>
Money market	\$ 6,308	\$ -	\$ -	\$ 6,308
Bonds	-	10,031	-	10,031
Equities	51,049	-	-	51,049
Mutual funds				
Bond funds	64,407	-	-	64,407
International equity funds	24,087	-	-	24,087
Domestic funds	34,888	-	-	34,888
Real estate funds	15,160	-	-	15,160
Total mutual funds	<u>138,542</u>	<u>-</u>	<u>-</u>	<u>138,542</u>
Common collective trusts	-	-	163,223	163,223
	<u>\$ 195,899</u>	<u>\$ 10,031</u>	<u>\$ 163,223</u>	<u>\$ 369,153</u>

As of September 30, 2017 and 2016 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 \$4,137,000 to its pension plans in the year ending September 30, 2018.

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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:

<b>Years Ending September 30,</b>		
2018	\$	24,878
2019		20,437
2020		21,588
2021		22,604
2022		23,502
2023–2027		127,615

**Multiemployer 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 multiemployer 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 \$5,970,000 and \$5,070,000 for the following multi-employer defined benefit plans for the years ended September 30, 2017 and 2016, respectively.

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

<b>Pension Fund</b>	<b>EIN/Pension Plan Number</b>	<b>Zone Status</b>		<b>FIP/RP Status Pending/ Implemented</b>	<b>Surcharge Imposed</b>	<b>Expiration Date of Collective-Bargaining Agreement</b>
		<b>September 30, 2017</b>	<b>September 30, 2016</b>			
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	16-1112391-001	not available	Green	N/A	No	June 30, 2018

CVPH and AHMC were not listed on the Plans' Forms 5500 as providing more than 5 percent of the total contributions.

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**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, 2016 the premiums paid by retirees participating in the UVM Medical Center postretirement health care plan ("the plan") exceeded the costs covered by UVM Medical Center. As of September 30, 2017 the premiums paid by retirees did not exceed the costs and a \$1,504,000 accumulated postretirement benefit obligation was recorded. The plan does not have any assets as of September 30, 2017 and 2016. Unrestricted net assets at September 30, 2017 include unrecognized actuarial gain of \$1,578,000 and an unrecognized actuarial loss at September 30, 2016 of \$2,371,000. The expected amortization of the unrecognized losses to be recognized in postretirement benefit obligation expenses in the year ending September 30, 2018 is \$43,000. Assumptions used in accounting for the plan include a discount rate of 3.81%, a current health care cost trend rate of 7.25%, 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, 2017. 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 \$6,092,000 or 405%, effect of a 1% decrease in the trend rate would decrease the accumulated postretirement benefit obligation by \$1,504,000 or 100%.

**15. 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, 2017 and 2016 is as follows:

	<b>2017</b>	<b>2016</b>
Medicare	27 %	28 %
Medicaid	10	12
Contracted Commercial	29	28
Noncontracted Insurers	16	15
Patients	18	17
	<u>100 %</u>	<u>100 %</u>

**16. 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

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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 \$40,507,000 and \$38,546,000 in the years ended September 30, 2017 and 2016, 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 \$7,857,000 and \$7,650,000 in the years ended September 30, 2017 and 2016, 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 \$6,268,000 and \$6,214,000 in the years ended September 30, 2017 and 2016, respectively.

Under the current affiliation agreement, the base payments for the academic support payments increased to \$7,974,000 in fiscal year 2018, with an inflationary increase in the years thereafter.

**17. 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, 2017 and 2016, are as follows:

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
Education and research	\$ 3,495	\$ 2,333
Health care services	1,520,110	1,379,718
Management and general	<u>345,393</u>	<u>289,995</u>
Total functional expenses	1,868,998	1,672,046
Less: Nonoperating expenses	<u>3,338</u>	<u>2,546</u>
Total operating expenses	<u>\$ 1,865,660</u>	<u>\$ 1,669,500</u>

**18. 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, 2017 and 2016:

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
<b>Receivables</b>		
Patients	\$ 62,612	\$ 54,097
Third-party payers	<u>224,847</u>	<u>206,889</u>
	<u>\$ 287,459</u>	<u>\$ 260,986</u>

**The University of Vermont Health Network Inc. and Subsidiaries**  
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The allowance for doubtful accounts is summarized as follows at September 30, 2017 and 2016:

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
<b>Allowance for doubtful accounts</b>		
Patients	\$ 31,190	\$ 25,065
Third-party payers	<u>17,367</u>	<u>15,491</u>
	<u>\$ 48,557</u>	<u>\$ 40,556</u>

Bad debt expense for nonpatient 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, 2017 and 2016, is summarized as follows:

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
<b>Net patient service revenue</b>		
Patients	\$ 39,004	\$ 31,486
Third-party payers	<u>1,738,904</u>	<u>1,605,099</u>
	<u>\$ 1,777,908</u>	<u>\$ 1,636,585</u>

**19. Subsequent Events**

The network has assessed the impact of subsequent events through December 12, 2017, the date the audited consolidated financial statements were issued, and has concluded that there were no such events that require adjustment to the audited consolidated financial statements or disclosure in the notes to the audited consolidated financial statements other than as noted below.

Effective as of October 1, 2017, CVPH and ECH have been admitted as a member of the University of Vermont Obligated Group pursuant to the University of Vermont Obligated Group Master Trust Indenture. In connection with CVPH's and ECH's admission to the University of Vermont Obligated Group, CVPH's and ECH's existing debt as of October 1, 2017, totaling \$63,700,000, has become an obligation of the University of Vermont Obligated Group.

On November 9, 2017, UVM Health Network approved an affiliation agreement between UVM Health Network and The Visiting Nurse Association of Chittenden and Grand Isle Counties, Inc, ("VNA"). Under the terms of this agreement, UVM Health Network will become the sole corporate member of the VNA. This agreement was subject to due diligence which has completed in the quarter ending December 31, 2017. The VNA provides medically-complex home and community-based care to individuals and families throughout Chittenden and Grand Isle counties. The effective date of the affiliation is January 1, 2018.

## **Supplemental Consolidating Information**

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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, 2017. 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 Health Network Obligated Group as of and for the fiscal year ended September 30, 2017. The University of Vermont Health Network Obligated Group consists of UVM Medical Center and Central Vermont Medical Center. 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, 2017

<i>(in thousands)</i>	Total UVM Health Network Obligated Group (1)	UVM Health Network Adirondack Region	PMC	HPNH	PMC Eliminations	Total PMC	Other Entities	Eliminations	Total UVM Health Network
<b>Assets</b>									
<b>Current assets</b>									
Cash and cash equivalents	\$ 163,486	\$ 27,612	\$ 20,817	\$ 330	\$ -	\$ 21,147	\$ 52,048	\$ -	\$ 264,293
Patient and other trade accounts receivable, net	172,580	54,029	10,962	1,151	-	12,113	180	-	238,902
Due from related parties	-	-	1,681	97	(1,778)	-	39,475	(39,475)	-
Inventories	30,516	6,599	1,543	14	-	1,557	-	-	38,672
Current portion of assets whose use is limited or restricted	45,190	1,000	120	34	-	154	47,005	-	93,349
Receivables from third-party payers	4,134	-	-	-	-	-	-	-	4,134
Short-term investments	12,357	16,553	-	-	-	-	-	-	28,910
Prepaid and other current assets	25,237	10,265	1,516	52	-	1,568	2,870	1,005	40,945
<b>Total current assets</b>	<b>453,500</b>	<b>116,058</b>	<b>36,639</b>	<b>1,678</b>	<b>(1,778)</b>	<b>36,539</b>	<b>141,578</b>	<b>(38,470)</b>	<b>709,205</b>
<b>Assets whose use is limited or restricted</b>									
Board-designated assets	586,329	28,561	-	-	-	-	-	-	614,890
Assets held by trustee under bond indenture agreements	4,902	79	-	-	-	-	-	-	4,981
Restricted assets	759	7,504	1,514	-	-	1,514	-	-	9,777
Donor-restricted assets for specific purposes	40,204	913	388	36	-	424	-	-	41,541
Donor-restricted assets for permanent endowment	32,894	-	3,686	-	-	3,686	-	-	36,580
<b>Total assets whose use is limited or restricted</b>	<b>665,088</b>	<b>37,057</b>	<b>5,588</b>	<b>36</b>	<b>-</b>	<b>5,624</b>	<b>-</b>	<b>-</b>	<b>707,769</b>
Property and equipment, net	567,248	176,558	19,717	1,219	(58)	20,878	1,043	-	765,727
Other	66,439	8,155	7,693	-	(1,903)	5,790	7,791	(41,076)	47,099
<b>Total assets</b>	<b>\$ 1,752,275</b>	<b>\$ 337,828</b>	<b>\$ 69,637</b>	<b>\$ 2,933</b>	<b>\$ (3,739)</b>	<b>\$ 68,831</b>	<b>\$ 150,412</b>	<b>\$ (79,546)</b>	<b>\$ 2,229,800</b>
<b>Liabilities and Net Assets</b>									
<b>Current liabilities</b>									
Current installments of long-term debt	\$ 20,177	\$ 18,307	\$ 762	\$ 122	\$ -	\$ 884	\$ -	\$ -	\$ 39,368
Accounts payable	41,468	12,781	1,740	135	-	1,875	45	-	56,169
Accrued expenses and other liabilities	54,679	4,347	775	141	-	916	246	(1,739)	58,449
Accrued payroll and related benefits	78,239	21,135	7,448	915	-	8,363	293	(437)	107,593
Current portion of third-party payer settlements	4,774	6,449	362	123	-	485	-	-	11,708
Due to related parties	5,019	4,194	1,094	835	(1,778)	151	25,359	(34,723)	-
Incurred but not reported claims	6,230	1,250	470	105	-	575	16,032	-	24,087
<b>Total current liabilities</b>	<b>210,586</b>	<b>68,463</b>	<b>12,651</b>	<b>2,376</b>	<b>(1,778)</b>	<b>13,249</b>	<b>41,975</b>	<b>(36,899)</b>	<b>297,374</b>
Long-term debt, net of current installments	490,412	83,925	11,371	2,739	-	14,110	1	-	588,448
Malpractice and workers' compensation claims	2,094	6,000	450	-	-	450	17,648	-	26,192
Pension and other postretirement benefit obligations	32,451	51,138	4,902	805	-	5,707	1	-	89,297
Third-party payer settlements, net of current portion	16,270	1,191	1,612	-	-	1,612	-	-	19,073
Other	16,921	21,966	-	742	(742)	-	-	(2,202)	36,685
<b>Total long-term liabilities</b>	<b>558,148</b>	<b>164,220</b>	<b>18,335</b>	<b>4,286</b>	<b>(742)</b>	<b>21,879</b>	<b>17,650</b>	<b>(2,202)</b>	<b>759,695</b>
<b>Total liabilities</b>	<b>768,734</b>	<b>232,683</b>	<b>30,986</b>	<b>6,662</b>	<b>(2,520)</b>	<b>35,128</b>	<b>59,625</b>	<b>(39,101)</b>	<b>1,057,069</b>
<b>Net assets</b>									
Unrestricted	904,075	99,330	34,589	(3,766)	(1,219)	29,604	57,417	(7,076)	1,083,350
Temporarily restricted	46,571	3,952	376	37	-	413	2	-	50,938
Permanently restricted	32,895	1,863	3,686	-	-	3,686	33,368	(33,369)	38,443
<b>Total net assets</b>	<b>983,541</b>	<b>105,145</b>	<b>38,651</b>	<b>(3,729)</b>	<b>(1,219)</b>	<b>33,703</b>	<b>90,787</b>	<b>(40,445)</b>	<b>1,172,731</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,752,275</b>	<b>\$ 337,828</b>	<b>\$ 69,637</b>	<b>\$ 2,933</b>	<b>\$ (3,739)</b>	<b>\$ 68,831</b>	<b>\$ 150,412</b>	<b>\$ (79,546)</b>	<b>\$ 2,229,800</b>

(1) The consolidating balance sheet for the UVM Health Network Obligated Group is presented on page 47.

# The University of Vermont Health Network Obligated Group

## Consolidating Balance Sheet

### September 30, 2017

<i>(in thousands)</i>	Central Vermont Hospital and Medical Group Practice	Woodridge Rehabilitation and Nursing	CVMC Eliminations	Total CVMC	UVM Medical Center	Obligated Group Eliminations	Total UVM Health Network Obligated Group
<b>Assets</b>							
<b>Current assets</b>							
Cash and cash equivalents	\$ 12,557	\$ 507	\$ -	\$ 13,064	\$ 150,422	\$ -	\$ 163,486
Patient and other trade accounts receivable, net	24,243	995	-	25,238	147,342	-	172,580
Due from related parties	8,770	-	(8,770)	-	13,384	(13,384)	-
Inventories	4,172	-	-	4,172	26,344	-	30,516
Current portion of assets whose use is limited or restricted	-	-	-	-	45,190	-	45,190
Receivables from third-party payers	-	-	-	-	4,134	-	4,134
Short-term investments	-	-	-	-	12,357	-	12,357
Prepaid and other current assets	3,687	-	-	3,687	21,550	-	25,237
Total current assets	<u>53,429</u>	<u>1,502</u>	<u>(8,770)</u>	<u>46,161</u>	<u>420,723</u>	<u>(13,384)</u>	<u>453,500</u>
<b>Assets whose use is limited or restricted</b>							
Board-designated assets	42,901	7,455	-	50,356	535,973	-	586,329
Assets held by trustee under bond indenture agreements	-	-	-	-	4,902	-	4,902
Restricted assets	-	-	-	-	759	-	759
Donor-restricted assets for specific purposes	6,290	-	-	6,290	33,914	-	40,204
Donor-restricted assets for permanent endowment	3,261	-	-	3,261	29,633	-	32,894
Total assets whose use is limited or restricted	<u>52,452</u>	<u>7,455</u>	<u>-</u>	<u>59,907</u>	<u>605,181</u>	<u>-</u>	<u>665,088</u>
Property and equipment, net	66,215	5,182	-	71,397	495,851	-	567,248
Other	2,696	-	-	2,696	63,743	-	66,439
Total assets	<u>\$ 174,792</u>	<u>\$ 14,139</u>	<u>\$ (8,770)</u>	<u>\$ 180,161</u>	<u>\$ 1,585,498</u>	<u>\$ (13,384)</u>	<u>\$ 1,752,275</u>
<b>Liabilities and Net Assets</b>							
<b>Current liabilities</b>							
Current installments of long-term debt	\$ 2,697	\$ 500	\$ -	\$ 3,197	\$ 16,980	\$ -	\$ 20,177
Accounts payable	2,957	-	-	2,957	38,511	-	41,468
Accrued expenses and other liabilities	4,661	35	-	4,696	50,090	(107)	54,679
Accrued payroll and related benefits	10,834	885	-	11,719	66,520	-	78,239
Current portion of third-party payer settlements	2,034	-	-	2,034	2,740	-	4,774
Due to related parties	13,280	8,770	(8,770)	13,280	5,016	(13,277)	5,019
Incurred but not reported claims	-	-	-	-	6,230	-	6,230
Total current liabilities	<u>36,463</u>	<u>10,190</u>	<u>(8,770)</u>	<u>37,883</u>	<u>186,087</u>	<u>(13,384)</u>	<u>210,586</u>
Long-term debt, net of current installments	14,402	1,765	-	16,167	474,245	-	490,412
Malpractice and workers' compensation claims	1,644	450	-	2,094	-	-	2,094
Pension and other postretirement benefit obligations	30,188	-	-	30,188	2,263	-	32,451
Third-party payer settlements, net of current portion	1,379	-	-	1,379	14,891	-	16,270
Other	2,228	-	-	2,228	14,693	-	16,921
Total long-term liabilities	<u>49,841</u>	<u>2,215</u>	<u>-</u>	<u>52,056</u>	<u>506,092</u>	<u>-</u>	<u>558,148</u>
Total liabilities	<u>86,304</u>	<u>12,405</u>	<u>(8,770)</u>	<u>89,939</u>	<u>692,179</u>	<u>(13,384)</u>	<u>768,734</u>
<b>Net assets</b>							
Unrestricted	78,948	1,723	-	80,671	823,404	-	904,075
Temporarily restricted	6,279	11	-	6,290	40,281	-	46,571
Permanently restricted	3,261	-	-	3,261	29,634	-	32,895
Total net assets	<u>88,488</u>	<u>1,734</u>	<u>-</u>	<u>90,222</u>	<u>893,319</u>	<u>-</u>	<u>983,541</u>
Total liabilities and net assets	<u>\$ 174,792</u>	<u>\$ 14,139</u>	<u>\$ (8,770)</u>	<u>\$ 180,161</u>	<u>\$ 1,585,498</u>	<u>\$ (13,384)</u>	<u>\$ 1,752,275</u>

# The University of Vermont Health Network Inc. and Subsidiaries

## Consolidating Statement of Operations

### Year Ended September 30, 2017

<i>(in thousands)</i>	Total UVM Health Network Obligated Group (1)	UVM Health Network Adirondack Region	PMC	HPNH	PMC Eliminations	Total PMC	Other Entities	Eliminations	Total UVM Health Network
<b>Unrestricted revenue and other support</b>									
Net patient service revenue	\$ 1,304,090	\$ 429,809	\$ 39,099	\$ 5,022	\$ (43)	\$ 44,078	\$ 1,238	\$ (1,307)	\$ 1,777,908
Less: Provision for bad debt	(30,360)	(13,206)	(1,703)	(20)	-	(1,723)	12	-	(45,277)
Net patient service revenue after provision for bad debts	1,273,730	416,603	37,396	5,002	(43)	42,355	1,250	(1,307)	1,732,631
Enhanced Medicaid Graduate Medical Education revenues – Hospital	10,312	-	-	-	-	-	-	-	10,312
Enhanced Medicaid Graduate Medical Education revenues – Professional	19,133	-	-	-	-	-	-	-	19,133
Net patient service revenue after provision for bad debts and enhanced Graduate Medical Education revenues	1,303,175	416,603	37,396	5,002	(43)	42,355	1,250	(1,307)	1,762,076
Fixed prospective revenue	25,510	1,369	1,452	-	-	1,452	9	-	28,340
Premium revenue	8,988	-	51	-	-	51	1	-	9,040
Outpatient and specialty pharmacy revenue	70,499	12,613	1,420	-	-	1,420	-	-	84,532
Other revenue	34,899	13,426	4,239	15	(2,444)	1,810	3,829	(4,347)	49,617
Total unrestricted revenue and other support	1,443,071	444,011	44,558	5,017	(2,487)	47,088	5,089	(5,654)	1,933,605
<b>Expenses</b>									
Salary, payroll taxes and fringe benefits	872,765	292,246	25,741	4,545	(31)	30,255	2,245	-	1,197,511
Supplies and other	373,927	95,715	8,733	968	(59)	9,642	10,138	(17,022)	472,400
Purchased services	56,845	32,091	5,650	576	(2,395)	3,831	2,539	(1,311)	93,995
Depreciation and amortization	57,867	22,972	1,503	192	-	1,695	252	-	82,786
Interest expense	14,602	4,142	184	41	(1)	224	-	-	18,968
Total expenses	1,378,006	447,166	41,811	6,322	(2,486)	45,647	15,174	(18,333)	1,865,660
Income (loss) from operations	67,065	(3,155)	2,747	(1,305)	(1)	1,441	(10,085)	12,679	67,945
<b>Nonoperating gains (losses)</b>									
Investment income	52,942	3,273	374	-	-	374	1,655	-	58,244
Change in fair value of interest rate swap agreements	5,485	3,958	-	-	-	-	-	-	9,443
Loss on extinguishment of debt	-	-	-	-	-	-	-	-	-
Contribution revenue from affiliation	-	-	26,935	-	-	26,935	-	-	26,935
Other	3,535	(710)	403	2	(202)	203	504	(4,573)	(1,041)
Total nonoperating gains (losses)	61,962	6,521	27,712	2	(202)	27,512	2,159	(4,573)	93,581
Excess (deficit) of revenue over expenses	129,027	3,366	30,459	(1,303)	(203)	28,953	(7,926)	8,106	161,526
Net change in unrealized gains (losses) on investments	(12,127)	1,794	-	-	-	-	1	-	(10,332)
Net assets released from restrictions for capital purchases	221	730	167	-	-	167	-	-	1,118
Pension related adjustments	38,154	14,277	330	55	-	385	-	-	52,816
Transfer between affiliates	(50,380)	281	(1,001)	1,100	-	99	50,000	-	-
Increase (decrease) in unrestricted net assets	\$ 104,895	\$ 20,448	\$ 29,955	\$ (148)	\$ (203)	\$ 29,604	\$ 42,075	\$ 8,106	\$ 205,128

(1) The consolidating statement of operations for the UVM Health Network Obligated Group is presented on page 49.

# The University of Vermont Health Network Obligated Group

## Consolidating Statement of Operations

### Year Ended September 30, 2017

<i>(in thousands)</i>	Central Vermont Hospital and Medical Group Practice	Woodridge Rehabilitation and Nursing	Total CVMC	UVM Medical Center	Obligated Group Eliminations	Total UVM Health Network Obligated Group
<b>Unrestricted revenue and other support</b>						
Net patient service revenue	\$ 168,630	\$ 14,984	\$ 183,614	\$ 1,120,795	\$ (319)	\$ 1,304,090
Less: Provision for bad debt	(5,837)	-	(5,837)	(24,523)	-	(30,360)
Net patient service revenue after provision for bad debts	162,793	14,984	177,777	1,096,272	(319)	1,273,730
Enhanced Medicaid Graduate Medical Education revenues - Hospital	-	-	-	10,312	-	10,312
Enhanced Medicaid Graduate Medical Education revenues - Professional	-	-	-	19,133	-	19,133
Net patient service revenue after provision for bad debts and enhanced Graduate Medical Education revenues	162,793	14,984	177,777	1,125,717	(319)	1,303,175
Fixed prospective revenue	6,999	-	6,999	18,511	-	25,510
Premium revenue	1,551	-	1,551	7,437	-	8,988
Outpatient and specialty pharmacy revenue	5,608	-	5,608	64,891	-	70,499
Other revenue	5,429	338	5,767	30,374	(1,242)	34,899
Total unrestricted revenue and other support	182,380	15,322	197,702	1,246,930	(1,561)	1,443,071
<b>Expenses</b>						
Salary, payroll taxes and fringe benefits	125,794	13,424	139,218	733,547	-	872,765
Supplies and other	38,106	3,376	41,482	333,346	(901)	373,927
Purchased services	8,136	377	8,513	49,380	(1,048)	56,845
Depreciation and amortization	8,925	868	9,793	48,074	-	57,867
Interest expense	512	87	599	14,003	-	14,602
Total expenses	181,473	18,132	199,605	1,178,350	(1,949)	1,376,006
Income (loss) from operations	907	(2,810)	(1,903)	68,580	388	67,065
<b>Nonoperating gains (losses)</b>						
Investment income	129	212	341	52,601	-	52,942
Change in fair value of interest rate swap agreements	-	-	-	5,485	-	5,485
Contribution revenue from affiliation	-	-	-	-	-	-
Other	1,210	13	1,223	2,700	(388)	3,535
Total nonoperating gains (losses)	1,339	225	1,564	60,786	(388)	61,962
Excess (deficit) of revenue over expenses	2,246	(2,585)	(339)	129,366	-	129,027
Net change in unrealized gains (losses) on investments	3,917	576	4,493	(16,620)	-	(12,127)
Net assets released from restrictions for capital purchases	-	-	-	221	-	221
Pension related adjustments	10,969	-	10,969	27,185	-	38,154
Transfer between affiliates	-	-	-	(50,380)	-	(50,380)
Increase (decrease) in unrestricted net assets	\$ 17,132	\$ (2,009)	\$ 15,123	\$ 89,772	\$ -	\$ 104,895