

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

**Consolidated Financial Statements and
Supplemental Consolidating Information
September 30, 2019 and 2018**

The University of Vermont Health Network Inc. and Subsidiaries
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September 30, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, and the results of their operations, their changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the consolidated financial statements, the Network changed the manner in which it accounts for revenue recognition from contracts with customers in 2019. Our opinion is not modified with respect to this matter.

Other Matter

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

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

Boston, Massachusetts
January 21, 2020

The University of Vermont Health Network Inc. and Subsidiaries
Consolidated Balance Sheets
September 30, 2019 and 2018

<i>(in thousands)</i>	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 171,861	\$ 246,681
Short-term investments	29,702	32,932
Current portion of assets whose use is limited or restricted	6,403	54,523
Patient and other trade accounts receivable	257,588	237,633
Inventories	44,857	43,396
Receivables from third-party payers	11,820	8,993
Prepaid and other current assets	52,549	44,079
Total current assets	<u>574,780</u>	<u>668,237</u>
Assets whose use is limited or restricted		
Board-designated assets	659,416	656,229
Assets held by trustee under bond indenture agreements	3,974	3,881
Restricted assets	84,396	27,423
Donor-restricted assets for specific purposes	45,483	45,747
Donor-restricted assets for endowment	40,521	44,900
Total assets whose use is limited or restricted	<u>833,790</u>	<u>778,180</u>
Property and equipment, net	927,238	867,372
Other	48,040	53,220
Total assets	<u>\$ 2,383,848</u>	<u>\$ 2,367,009</u>
Liabilities and Net Assets		
Current liabilities		
Current installments of long-term debt	\$ 39,582	\$ 29,168
Accounts payable	50,901	61,530
Accrued expenses and other liabilities	53,259	57,671
Accrued payroll and related benefits	113,751	123,216
Current portion of third-party payer settlements	12,757	15,810
Incurred but not reported claims	18,486	13,855
Total current liabilities	<u>288,736</u>	<u>301,250</u>
Long-term liabilities		
Long-term debt - net of current installments	570,990	602,684
Current portion of incurred malpractice and workers' compensation claims	37,540	39,310
Pension and other postretirement benefit obligations	92,890	64,233
Third-party payer settlements, net of current portion	19,788	21,624
Other	40,383	35,381
Total long-term liabilities	<u>761,591</u>	<u>763,232</u>
Total liabilities	<u>1,050,327</u>	<u>1,064,482</u>
Net assets		
Without donor restrictions	1,229,029	1,195,635
With donor restrictions		
Time or purpose	58,385	60,750
Perpetual	46,107	46,142
Total with donor restrictions	<u>104,492</u>	<u>106,892</u>
Total net assets	<u>1,333,521</u>	<u>1,302,527</u>
Total liabilities and net assets	<u>\$ 2,383,848</u>	<u>\$ 2,367,009</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, 2019 and 2018

<i>(in thousands)</i>	2019	2018
Revenue and other support without donor restrictions		
Net patient service revenue before Enhanced Medicaid Graduate Medical Education revenues	\$ 1,848,988	\$ 1,810,904
Enhanced Medicaid Graduate Medical Education revenues-Hospital	10,386	10,389
Enhanced Medicaid Graduate Medical Education revenues-Professional	19,614	19,611
Net patient service revenue	1,878,988	1,840,904
Fixed prospective payment revenue	201,773	159,172
Premium revenue	5,517	6,487
Outpatient and specialty pharmacy revenue	138,582	103,849
Net assets released from restrictions	5,427	3,342
Other revenue	65,451	56,149
Total revenue and other support without donor restrictions	2,295,738	2,169,903
Expenses		
Salaries, payroll taxes, and fringe benefits	1,373,785	1,305,410
Supplies and other	580,349	522,953
Purchased services	127,538	116,368
Provider tax	92,446	88,944
Depreciation and amortization	89,446	85,531
Interest expense	19,661	18,490
Total expenses	2,283,225	2,137,696
Income from operations	12,513	32,207
Nonoperating gains (losses)		
Investment income	26,554	26,435
Change in fair value of interest rate swap agreements	(9,367)	6,562
Loss on the extinguishment of debt	-	-
Contribution revenue from acquisition	-	20,268
Other	8,430	(343)
Total nonoperating gains, net	25,617	52,922
Excess of revenue over expenses	38,130	85,129
Net change in unrealized gains on investments	20,454	2,898
Net assets released from restrictions for capital purchases	12,014	4,607
Pension related adjustments	(37,183)	19,542
Transfers and other adjustments	(21)	109
Increase in net assets without donor restrictions	\$ 33,394	\$ 112,285

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, 2019 and 2018

<i>(in thousands)</i>	2019	2018
Changes in net assets without donor restrictions:		
Excess of revenue over expenses	\$ 38,130	\$ 85,129
Net change in unrealized gains on investments	20,454	2,898
Net assets released from restrictions for capital purchases	12,014	4,607
Pension related adjustments	(37,183)	19,542
Transfers and other adjustments	(21)	109
	<u>33,394</u>	<u>112,285</u>
Changes in net assets with donor restrictions:		
Gifts, grants, and bequests	12,389	10,750
Investment income	1,246	1,028
Net change in unrealized gains (losses) on investments	1,339	(408)
Net realized gains on investments	620	2,453
Net assets released from restrictions used in operations	(5,427)	(3,567)
Net assets released from restrictions used for nonoperating purposes	(251)	(493)
Net assets released from restrictions used for capital purchases	(12,014)	(4,607)
Change in beneficial interest in perpetual trusts	(221)	546
Acquisition of net assets with donor restrictions	-	11,198
Transfer of net assets	(81)	611
	<u>(2,400)</u>	<u>17,511</u>
Increase in net assets	30,994	129,796
Net assets		
Beginning of year	<u>1,302,527</u>	<u>1,172,731</u>
End of year	<u>\$ 1,333,521</u>	<u>\$ 1,302,527</u>

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

The University of Vermont Health Network Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended September 30, 2019 and 2018

<i>(in thousands)</i>	2019	2018
Cash flows from operating activities		
Increase in net assets	\$ 30,994	\$ 129,796
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	89,446	85,531
Contribution revenue from acquisition	-	(31,466)
Pension related adjustments	37,183	(19,542)
Contributions restricted for long-term use	(105)	(2,333)
Loss (gain) on disposal of property and equipment	325	(273)
Loss on interest rate swap agreements	9,367	(6,562)
Realized and unrealized gains on investments	(41,163)	(27,439)
Undistributed gains of affiliated companies	(2,853)	(3,369)
Change in beneficial interest in perpetual trusts	221	(546)
(Decrease) increase in cash resulting from a change in		
Patient and other accounts receivable	(19,955)	4,976
Other current and noncurrent assets	(2,543)	(14,576)
Accounts payable and accrued expenses	(3,477)	(2,571)
Accrued payroll and related expenses	(9,465)	12,897
Other current and noncurrent liabilities	(1,504)	7,547
Estimated settlements with third-party payer settlements	(7,716)	(156)
Pension and other postretirement benefit obligations	(8,526)	(4,146)
Net cash provided by operating activities	<u>70,229</u>	<u>127,768</u>
Cash flows from investing activities		
Purchases of property and equipment	(161,355)	(166,379)
Proceeds from sale of property and equipment	-	302
Purchase of investments	(50,209)	(119,093)
Proceeds from sale of investments	87,268	137,318
Change in bond proceeds with trustees	-	-
Payments for acquisition, net of cash acquired	-	(4,927)
Net cash used in investing activities	<u>(124,296)</u>	<u>(152,779)</u>
Cash flows from financing activities		
Proceeds from restricted contributions & restricted investment income	105	2,333
Payments on long-term debt	(27,142)	(28,813)
Proceeds from debt issuance	2,884	40,313
Payment of debt issuance costs	-	(18)
Borrowings on line of credit	7,450	11,033
Repayments on line of credit	(4,050)	(17,449)
Cash paid on defeasance of debt	-	-
Net cash (used in) provided by financing activities	<u>(20,753)</u>	<u>7,399</u>
Net decrease in cash and cash equivalents	(74,820)	(17,612)
Cash and cash equivalents		
Beginning of year	<u>246,681</u>	<u>264,293</u>
End of year	<u>\$ 171,861</u>	<u>\$ 246,681</u>
Supplemental cash flow information		
Contribution from affiliation	\$ -	\$ 29,086
Cash paid during the year for interest	19,521	18,401
Capital expenditures included in accounts payable	6,791	18,969
Assets acquired under capital lease	1,607	236

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, 2019 and 2018

1. Organization

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

The University of Vermont Medical Center, Inc. (“UVM Medical Center”) is a tertiary care teaching hospital with 620 licensed beds that, in affiliation with The University of Vermont (“UVM”), serves as Vermont’s academic medical center. As a regional referral center, UVM Medical Center provides advanced level care throughout Vermont and Northern New York, with a full time emergency department which is also certified as a Level 1 Trauma Center. It is UVM Medical Center’s mission to improve the health of the people in the communities that it serves by integrating patient care, education, and research in a caring environment. As a charitable organization, UVM Medical Center lives its mission through a number of community benefit programs, many done in collaborative partnership with other community based organizations. These include, but are not limited to, community wellness programs, education, direct grants, free access to a community health resource center, direct financial assistance to patients, and other subsidized programs.

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

OCV is a 50/50 joint venture between UVM Medical Center and Dartmouth-Hitchcock Health and is a statewide accountable care organization that comprises an extensive network of providers across the full continuum of care, including hospitals in Vermont and New Hampshire, hundreds of primary and specialty care physicians, federally qualified health centers, designated agencies for mental health and substance use, skilled nursing facilities, home health agencies, and area agencies on aging. UVM Medical Center, CVMC and PMC participate in OCV risk-sharing contracts and in connection with their participation, paid participation fees to OCV totaling \$6,573,000 and \$4,942,000 for the years ending September 30, 2019 and 2018. Additionally, UVM Medical Center provides various administrative services to OCV, including the processing of payroll and accounts payable transactions. All employees of OCV are UVM Medical Center employees and are covered under UVM Medical Center’s insurance policies and employee benefit plans. OCV reimburses UVM Medical Center for all administrative and payroll-related costs, which totaled \$12,595,000 and \$10,289,000 for the years ending September 30, 2019 and 2018.

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

The University of Vermont Health Network Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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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 the Central Vermont Medical Group Practice. CVMC works collaboratively to meet the needs and improve the health of the residents of central Vermont. As the sole community hospital, CVMC provides 24-hour emergency care, 122 acute care beds, and has a full spectrum of inpatient and outpatient services. Woodridge offers 153 beds for long-term and short-term rehabilitative care.

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 40 licensed bed not-for-profit critical access hospital. HPNH operates a 98-bed not-for-profit long-term community oriented skilled healthcare and rehabilitation center. PREH is a single-member LLC real estate holding company that is owned 100% by PMC. All of these companies are Vermont corporations and operate out of facilities in Middlebury, Vermont.

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

The University of Vermont Health Network – Champlain Valley Physicians Hospital Medical Center ("CVPH") is the sole member of CVPH Foundation, Inc. ("Foundation"), Champlain Valley Open MRI, LLC, and Valcour Imaging, Inc., Lake Champlain Physician Services, P.C. ("LCPS"), and is a member in Adirondack Accountable Care Organization, LLC ("ADK ACO"). CVPH operates 300 licensed inpatient beds and a 54-bed skilled nursing facility.

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

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

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

The University of Vermont Health Network Inc. and Subsidiaries

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

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 implicit and explicit price concessions related to patient service revenue, receivables and accruals for estimated settlements with third-party payers, contingencies, self-insurance program liabilities, accrued medical claims, pension and postretirement costs, and the valuation of investments and interest rate swaps. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

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

Inventories

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

Prepaid and Other Current Assets

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

Assets Whose Use is Limited or Restricted

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

Investments and Investment Income

During fiscal 2018, the UVM Health Network, excluding HH&H and PMC, consolidated all non-pension investment assets into a pooled/unitized structure to gain efficiencies in managing the various investment portfolios, simplify the trading process, and reduce trading and investment manager fees. Assets are separated into five asset class pools: cash, domestic equity, international equity, fixed income and liquid alternative investments. Each participating entity owns a percentage share of each asset class pool depending on its unique asset allocation. Trading is

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executed at the asset class pool level and allocated to each investment portfolio based on their pro-rata ownership of each pool. Fair value of the asset class pools is determined by aggregating the fair value of the underlying investments within each pool.

Investments in equity securities and mutual funds with readily determinable fair values and all investments in debt securities are recorded at fair value. Investments for which a fair value is not readily determinable, including investments in hedge funds, are either recorded at cost or at their reported fair value based on information provided by the fund manager, and are reviewed for reasonableness by management. Investment income or loss (including realized gains and losses on investments, interest, and dividends), to the extent not capitalized, is included in nonoperating gains (losses), net of direct investment expenses, 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 annually to identify those for which fair value is below cost, then makes a determination as to whether the investment should be considered other-than-temporarily impaired. UVM Health Network recognized \$1,978,000 and \$8,849,000 in losses related to declines in value that were other-than-temporary in nature for the years ended September 30, 2019 and 2018, respectively, which is included as an offset to investment income in the statements of operations.

Property and Equipment

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

Depreciation is calculated using the following estimated useful lives:

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

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

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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 \$4,688,000 and \$4,661,000 of interest was capitalized during the years ended September 30, 2019 and 2018, respectively. Net deferred financing costs totaled \$2,530,000 and \$2,720,000 at September 30, 2019 and 2018, respectively. Such amounts are reported as an offset to long-term debt and are amortized over the period the related obligations are outstanding using the effective interest method. Accumulated amortization of deferred financing costs totaled \$1,329,000 and \$1,076,000 at September 30, 2019 and 2018, respectively.

Net Assets with Donor Restriction

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

Consolidated Statement of Operations

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

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

Excess of Revenue over Expenses

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

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.

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

UVM Medical Center recognized enhanced GME revenue under the State Plan Amendment totaling \$30,000,000 for each of the fiscal years ended September 30, 2019 and 2018. Under the MOU, both UVM and the State retain the right to discontinue GME payments at any time in the future.

Premium Revenue

Premium revenue consists primarily of managed care and payer incentives. The UVM Health Network recognizes these revenue sources in accordance with Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers*.

Outpatient and Specialty Pharmacy Revenue

Pharmacy revenue consists of sales of pharmaceuticals and related products, including 340b revenue. The UVM Health Network recognizes these revenue sources in accordance with ASU 2014-09, *Revenue from Contracts with Customers*, which the UVM Health Network records as customer revenues in the amounts that reflect the consideration to which it expects to be entitled in exchange for the prescription.

Other Revenue

In addition to patient service revenue, the UVM Health Network also recognizes revenue related to other, non-patient related transactions. These transactions consist primarily of non-patient related contract revenues, cafeteria sales, parking garage income, net assets released from restrictions used for operations, and rental income. Revenue from these transactions is recognized when obligations under the terms of the respective contracts are satisfied. Revenue from these transactions is measured as the amount of consideration the UVM Health Network expects to receive from those services. The UVM Health Network recognizes rental income on a straight-line basis over the lease term in accordance with Accounting Standards Codifications (“ASC”) 840-10, *Leases*.

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Research Grants and Contracts

UVM Health Network receives sponsored support from governmental and private sources. Certain sponsored arrangements are considered exchange arrangements, and revenue under these agreements is recognized based on UVM Health Network's fulfillment of the contract, which is typically based on costs incurred or the achievement of milestones. Federal grants and other sponsored research are considered non-exchange transactions in accordance with ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, and is recognized when any donor-imposed conditions (if any) have been met. As of September 30, 2019, UVM Health Network had \$14,794,000 awarded but not yet expended contributions related to sponsored programs where the condition had not yet been met. This is subject to federal appropriations. There were no funds received in advance of September 30, 2019 that required a reclassification to deferred revenue.

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

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

Income Taxes

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

For tax years beginning after December 31, 2017, the Tax Cuts & Jobs Act provided for an excise tax on the sum of remuneration in excess of one million dollars paid to a covered employee, and an unrelated business income tax on the value of certain qualified transportation fringe benefits. The tax provisions and related liabilities for these items are not material to the consolidated financial statements for the fiscal years ended September 30, 2019 and 2018, respectively.

UVM Health Network Ventures, VMCIC, 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 ASC 740 *Income Taxes*, which addresses how to account for and report the

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effects of taxes based on income. No provision for uncertain tax positions is recorded in the accompanying consolidated financial statements.

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. On October 1, 2019, VMCIC redomiciled to Vermont.

Asset Retirement Obligations

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

The estimated future undiscounted value of the asset retirement obligation is approximately \$3,553,000 and \$3,753,000 at September 30, 2019 and 2018, respectively, substantially all of which relates to the estimated costs to remove asbestos that is contained within UVM Health Network's facilities. The initial asset retirement obligation was calculated using discount rates of 2.0%-6.0%. The recorded asset retirement obligation at September 30, 2019 and 2018 was approximately \$2,394,000 and \$2,543,000, respectively.

Defined Benefit Pension and Other Postretirement Benefit Plans

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

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).

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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 non-active markets (few transactions, limited information, noncurrent prices, high variability over time).
 - Inputs other than quoted prices that are observable for the asset (interest rates, yield curves, volatilities, default rates).
 - Inputs that are derived principally from or corroborated by other observable market data.
- Level 3 Pricing inputs are generally unobservable for the assets or liabilities and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities.

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

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

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

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

Debt Securities

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

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Beneficial Interest in Perpetual Trusts

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

Hedge Funds

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

Investments at Middlebury College

PMC had investments held with Middlebury College for the year ended September 30, 2018. These investments were considered Level 3 as the fair value is based on PMC's share of the quoted market prices of the underlying assets of the Middlebury pooled funds and beneficial trusts or of similar securities, as provided by the respective custodians. These investments were fully distributed to PMC as of September 30, 2019, with the intent to reinvest in the year ending September 30, 2020.

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.

Provider Tax Payments

The states of Vermont and New York operate provider tax programs related to certain patient service revenues and operating cash receipts, respectively, collectively referred to as provider tax expenses. UVM Health Network recorded provider tax expenses of approximately \$92,446,000 and \$88,944,000 for the years ended September 30, 2019 and 2018, respectively.

3. Current and Upcoming Accounting Guidance

On October 1, 2018, UVM Health Network adopted, using the full retrospective approach, ASU 2014-09 and ASU 2016-08, *Revenue from Contracts with Customers* (Topic 606) and *Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, respectively, which provide guidance for revenue recognition. These standards core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The most significant change from the adoption of the new standards relates to the presentation of implicit price concessions. Under the previous standards, the estimate for amounts not expected to be collected based upon historical experience, were reflected as provision for doubtful accounts, and presented separately as an offset to net patient

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service revenue. Under the new standard, the estimate for amounts not expected to be collected based on historical experience will continue to be recognized as a reduction to net revenue, however, not reflected separately as provision for doubtful accounts. Under the new standard, subsequent changes in estimate of collectability due to a change in the financial status of a payer, for example a bankruptcy, will be recognized as bad debt expense and presented as an operating expense. The adoption of this guidance in fiscal year 2019, with retrospective adjustment to 2018, did not have a material impact on the consolidated financial statements.

See Note 4 for additional disclosure related to patient service revenues including a disaggregation of consolidated net revenues by major source for each of the periods presented herein.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new standard applies to all entities that receive or make contributions. The guidance clarifies the definition of transactions accounted for as exchange transactions subject to Topic 606 or other applicable guidance, and transactions that should be accounted for as contributions (non-exchange) subject to the contribution accounting model. Further, the guidance provides criteria for evaluating whether contributions are unconditional or conditional. Conditional contributions must specify a barrier that the recipient must overcome and a right of return that releases the donor from its obligation if the barrier is not achieved, otherwise the contribution is unconditional. This ASU is applicable for annual periods beginning after September 30, 2018 and thus fiscal year 2019 for UVM Health Network. UVM Health Network adopted ASU 2018-08 simultaneously with adoption of Topic 606, using the modified prospective transition method. The adoption of this guidance did not have a material impact on the consolidated financial statements.

In May 2019, the FASB issued ASU 2019-06, *Intangibles-Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958): Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*. The pronouncement extends the optional accounting alternatives for goodwill and intangible assets acquired in a business combination that were previously only available to private companies to all not-for-profit entities. A not-for-profit organization that elects the accounting alternative for goodwill would amortize existing and future goodwill on a straight-line basis over 10 years (or a period less than 10 years if appropriate), perform trigger-based impairment tests, and have an option to test impairment at either the entity level or the reporting unit level. The UVM Health Network elected to adopt this standard effective October 1, 2018. The standard did not have a material impact on the consolidated financial statements.

In September 2015, the FASB issued ASU 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 2019. The adoption of this guidance did not have a material impact on our consolidated financial statements.

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In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The ASU is effective for UVM Health Network's fiscal 2020; however, as permitted by the ASU, UVM Health Network has chosen to early adopt the provision to eliminate the requirement to disclose the fair value of financial instruments measured at cost (such as the fair value of debt). UVM Health Network is evaluating the impact of the remainder of the new guidance on the consolidated financial statements. The impact related to the early adoption of the provision of ASU 2016-01 was limited to the notes to the financial statements.

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

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* that changes the presentation of restricted cash and cash equivalents in the statements of cash flows. Restricted cash and restricted cash equivalents will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows. The standard is effective for the UVM Health Network's year ending September 30, 2020. The UVM Health Network is currently assessing the impact of this pronouncement.

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

4. Patient Service Revenue

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

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Performance obligations are determined based on the nature of the services provided by the UVM Health Network. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The UVM Health Network believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in our hospitals receiving inpatient acute care services. The UVM Health Network measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and the UVM Health Network does not believe it is required to provide additional goods or services to the patient.

Under the provisions of Topic 606, amounts related to services provided to patients that have not billed and that do not meet the conditions of unconditional right to payment at the end of the reporting period are contract assets. Contract assets consist primarily of services that have been provided to patients who are still receiving inpatient care in our facilities at the end of the reporting period. Contract assets are included in patient and other trade accounts receivable in the accompanying consolidated balance sheet at September 30, 2019 and 2018. Contract assets are as follows: \$11,576,000 and 10,551,000 as of September 30, 2019 and 2018, respectively.

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

The UVM Health Network determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payers and discounts provided to uninsured patients in accordance with the UVM Health Network's policy (explicit price concessions), and/or implicit price concessions provided to uninsured patients. The UVM Health Network determines its estimates of explicit price concessions based on contractual agreements, its discount policies, and historical experience. The UVM Health Network determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

The UVM Health Network has agreements with third-party payers that provide for payments to UVM Health Network at amounts different from its established rates.

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. Medicare reimbursement for

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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.

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.

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.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the UVM Health Network's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the UVM Health Network. In addition, the contracts the UVM Health Network has with commercial payers also provide for retroactive audit and review of claims.

Settlements with third-party payers for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer and the UVM Health Network's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Changes in prior-year estimates (decreased) increased patient service revenue by approximately (\$3,130,000) and \$7,556,000 in the years ended September 30, 2019 and 2018, respectively.

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Generally, patients who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. The UVM Health Network also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The UVM Health Network estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended September 30, 2019 and 2018, revenue recognized due to changes in the UVM Health Network's estimates of implicit price concessions for performance obligations satisfied in prior years was not significant. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended September 30, 2019 and 2018 was not significant.

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

Patients who meet the UVM Health Network's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

UVM Medical Center, CVMC and PMC receive monthly fixed prospective payments for services provided by hospitals (and hospital-owned practices) participating in the Vermont Medicaid Next Generation Accountable Care Organisation ("Medicaid ACO") Pilot Program and the CMS Vermont Modified Next Generation ACO Model ("Medicare ACO"). Under these arrangements, monthly, per member payments are received in advance of the services being performed and recognized as revenue in the month to which they relate. Medicaid and Medicare fee-for-service payments continue for all other nonhospital 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. UVM Health Network 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, which include shared savings or losses and quality incentives as an increase or decrease to fixed prospective payment revenue. UVM Medical Center, CVMC and PMC also participate in an accountable care program with BlueCross BlueShield of Vermont, under which they continue to be paid on a fee-for-service basis. Quality incentives and shared savings or losses under this contract are recorded as increases or decreases to patient service 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 delivery 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.

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For services provided under Fee For Service (“FFS”) and Fixed Prospective Payment (“FPP”) arrangements, composition by payer for the years ended September 30 is as follows:

	2019			2018		
	Total	FFS	FPP	Total	FFS	FPP
Medicare	34%	27%	7%	34%	28%	6%
Medicaid	10%	8%	2%	12%	10%	2%
Contracted Commercial	47%	47%	0%	45%	45%	0%
Noncontracted Insurers	8%	8%	0%	8%	8%	0%
Patients	1%	1%	0%	1%	1%	0%

5. Financial Assets and Liquidity Resources

As of September 30, 2019 and 2018, respectively, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, consisted of the following:

(in thousands)	2019	2018
Liquidity and Availability:		
Cash and cash equivalents	\$ 171,861	\$ 246,681
Short-term investments	29,702	32,932
Current portion of assets whose use is limited or restricted	6,403	54,523
Patient and other trade accounts receivable, net	257,588	237,633
Receivables from third-party payers	11,820	8,993
Financial assets available at year end for current use	<u>\$ 477,374</u>	<u>\$ 580,762</u>

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

To manage liquidity, UVM Health Network maintains sufficient cash and cash equivalent balances to support daily operations throughout the year. Cash and cash equivalents include bank deposits, CDs, money market funds, and other similar vehicles that generate a return on cash and provide daily liquidity to the UVM Health Network. Short-term investments without donor restriction are also utilized to generate a higher yield on balances versus cash and cash equivalents, and to provide the UVM Health Network with an additional layer of liquidity for daily operations if needed. As of September 30, 2019 and 2018, the balances held in cash and cash equivalents and short-term investments were \$201,563,000 and \$279,613,000, respectively. The UVM Health Network also maintains a line of credit in the amount of \$20,000,000 for use by UVM Health Network entities that are part of the UVM Medical Center Obligated Group. As of September 30, 2019 and 2018, the amount outstanding under this line of credit was \$7,500,000 and \$4,550,000, respectively. Additionally, CPI has a line of credit of \$3,000,000 which was fully outstanding as of September 30, 2019 and had no outstanding balance at September 30, 2018, and AHMC has a line of credit of \$1,500,000 which had no amounts outstanding at September 30, 2019 and 2018. Each of these lines of credit can be used to support short-term cash and/or working capital needs. In addition, the UVM Health Network has Board-designated assets without donor restriction that can be utilized at the discretion of management to help fund both operational needs and/or capital projects. As of September 30, 2019 and 2018, the balance in Board-designated assets were \$659,416,000 and \$656,229,000, respectively.

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6. Charity Care and Community Service

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

The amount of charges foregone for services and supplies furnished under UVM Health Network's charity care policy aggregated approximately \$31,839,000 and \$28,677,000 for the years ended September 30, 2019 and 2018, respectively.

Approximately \$14,643,000 and \$13,169,000 of UVM Health Network's total expenses for the years ended September 30, 2019 and 2018, respectively, arose from providing services to charity care patients. The estimated costs of providing charity care 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, 2019 and 2018, respectively, UVM Health Network used \$412,000 and \$568,000 in charitable endowment earnings to help defray the costs of indigent care.

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

Assets whose use is limited or restricted at September 30, 2019 and 2018 consisted of the following:

<i>(in thousands)</i>	2019	2018
Equities	\$ 47,942	\$ 2,553
Mutual funds		
Bond funds	367,456	370,599
U.S. treasury obligation funds	1,947	-
International equity funds	169,823	167,387
Domestic equity funds	172,969	216,577
Real estate funds	41,771	37,005
Total mutual funds	<u>753,966</u>	<u>791,568</u>
Money market funds	9,124	11,327
U.S. treasuries	10,981	6,060
Bonds and notes	16,618	14,049
Beneficial interest in perpetual trusts	17,795	18,016
Hedge funds	4,173	3,523
Investments held at Middlebury College	-	6,245
Venture capital and partnerships	662	-
	<u>861,261</u>	<u>853,341</u>
Less: Current portion	(6,403)	(54,523)
Less: Other pooled investments	(21,068)	(20,638)
	<u>\$ 833,790</u>	<u>\$ 778,180</u>

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The cost and estimated fair value of securities classified as available-for-sale by the organization, which excludes beneficial interest in perpetual trusts of \$17,795,000 and \$18,016,000 and unrestricted pooled investments of \$21,068,000 and \$20,638,000, and includes short-term investments of \$29,702,000 and \$32,932,000 as of September 30, 2019 and 2018, respectively, and long-term investments within other assets of \$4,839,000 and \$4,781,000 as of September 30, 2019 and 2018, respectively, is as follows:

<i>(in thousands)</i>	2019		
	Cost	Gross Unrealized Gains	Estimated Fair Value
Equities	\$ 46,014	\$ 3,048	\$ 49,062
Mutual funds			
Bond funds	349,558	19,756	369,314
International equity funds	151,747	18,746	170,493
Domestic equity funds	146,038	26,556	172,594
Commodity funds	2,534	438	2,972
Real estate funds	35,437	6,362	41,799
Total mutual funds	<u>685,314</u>	<u>71,858</u>	<u>757,172</u>
Money market funds	18,250	20	18,270
U.S. treasuries	11,064	233	11,297
Bonds and notes	16,083	220	16,303
Hedge funds	3,338	835	4,173
Venture capital and partnerships	630	32	662
	<u>\$ 780,693</u>	<u>\$ 76,246</u>	<u>\$ 856,939</u>

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<i>(in thousands)</i>	2018		
	Cost	Gross Unrealized Gains/(Losses)	Estimated Fair Value
Equities	\$ 3,038	\$ 587	\$ 3,625
Mutual funds			
Bond funds	370,679	1,449	372,128
International equity funds	148,737	18,912	167,649
Domestic equity funds	181,203	36,302	217,505
Commodity funds	75	2	77
Real estate funds	34,862	2,143	37,005
Total mutual funds	735,556	58,808	794,364
Money market funds	24,402	(95)	24,307
U.S. treasuries	6,292	(232)	6,060
Bonds and notes	14,468	(423)	14,045
Hedge funds	2,985	756	3,741
Investments held at Middlebury College	6,245	-	6,245
Real estate	14	(1)	13
	<u>\$ 793,000</u>	<u>\$ 59,400</u>	<u>\$ 852,400</u>

The following tables present information as of September 30, 2019 and 2018, about UVM Health Network's financial assets and liabilities that are measured at fair value on a recurring basis:

<i>(in thousands)</i>	2019				
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	NAV as Practical Expedient	Fair Value
Equities	\$ 49,062	\$ -	\$ -	\$ -	\$ 49,062
Mutual funds					
Bond funds	369,314	-	-	-	369,314
International equity funds	170,493	-	-	-	170,493
Domestic equity funds	172,594	-	-	-	172,594
Commodity funds	2,972	-	-	-	2,972
Real estate funds	41,799	-	-	-	41,799
Total mutual funds	757,172	-	-	-	757,172
Money market funds	13,875	4,395	-	-	18,270
U.S. treasuries	11,297	-	-	-	11,297
Bonds and notes	-	16,303	-	-	16,303
Beneficial interest in perpetual trusts	-	-	17,795	-	17,795
Hedge funds	-	-	-	4,173	4,173
Venture capital and partnerships	-	-	-	662	662
	<u>\$ 831,406</u>	<u>\$ 20,698</u>	<u>\$ 17,795</u>	<u>\$ 4,835</u>	<u>\$ 874,734</u>
Interest rate swap agreements	\$ -	\$ 22,989	\$ -	\$ -	\$ 22,989

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(in thousands)	2018				
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	NAV as Practical Expedient	Fair Value
Equities	\$ 3,625	\$ -	\$ -	\$ -	\$ 3,625
Mutual funds					
Bond funds	372,128	-	-	-	372,128
U.S. treasury obligation funds	-	-	-	-	-
International equity funds	167,649	-	-	-	167,649
Domestic equity funds	217,505	-	-	-	217,505
Commodity funds	77	-	-	-	77
Real estate funds	37,005	-	-	-	37,005
Total mutual funds	794,364	-	-	-	794,364
Money market funds	21,526	2,781	-	-	24,307
U.S. treasuries	6,060	-	-	-	6,060
Bonds and notes	-	14,045	-	-	14,045
Beneficial interest in perpetual trusts	-	-	18,016	-	18,016
Hedge funds	218	-	-	3,523	3,741
Investments held at Middlebury College	-	-	6,245	-	6,245
Real estate	13	-	-	-	13
	<u>\$ 825,806</u>	<u>\$ 16,826</u>	<u>\$ 24,261</u>	<u>\$ 3,523</u>	<u>\$ 870,416</u>
Interest rate swap agreements	\$ -	\$ 13,622	\$ -	\$ -	\$ 13,622

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, 2019 and 2018. There were no transfers between levels as of September 30, 2019 and 2018.

Category of Investment	2019					
	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	\$ 4,173	-	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
Venture Capital and Partnerships	\$ 662	\$ 2,870	9 years	None	None	None

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

As of and for the years ended September 30, 2018, the fair value of the assets and change in the value of the assets measured using significant unobservable inputs (Level 3) were related to beneficial interests in perpetual trusts and investments held at Middlebury College ("College"). Distributions from the investments held at the College are to be made by a disbursement from the College to the UVM Health Network, based on the value of the fund after providing the College with thirty (30) days written notice. The investments held at the College shall thereafter be valued as of the end of the calendar month following such notice and distributed as soon as is practicable but in no event later than sixty (60) days after such notice. At least 20% of the value of the investments held at the College will be made available to the UVM Health Network within thirty (30) days of College's receipt of the notice for a distribution up to that amount. As of September 30, 2019 these investments were distributed to PMC.

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A roll forward of the Level 3 fair value measurements (defined above) for the years ended September 30, 2019 and 2018, is as follows:

	2019		
	Investments held at Middlebury College	Beneficial Interest in Perpetual Trusts	Total Level 3 Assets
<i>(in thousands)</i>			
Beginning of year	\$ 6,245	\$ 18,016	\$ 24,261
Withdrawals	(6,301)	-	(6,301)
Change in beneficial interest in perpetual trusts	-	(221)	(221)
Realized gains	56	-	56
End of the year	<u>\$ -</u>	<u>\$ 17,795</u>	<u>\$ 17,795</u>
	2018		
	Investments held at Middlebury College	Beneficial Interest in Perpetual Trusts	Total Level 3 Assets
<i>(in thousands)</i>			
Beginning of year	\$ 6,049	\$ 17,470	\$ 23,519
Change in beneficial interest in perpetual trusts	-	546	546
Realized gains	196	-	196
End of the year	<u>\$ 6,245</u>	<u>\$ 18,016</u>	<u>\$ 24,261</u>

8. Property and Equipment

A summary of property and equipment at September 30, 2019 and 2018 is as follows:

<i>(in thousands)</i>	2019	2018
Land	\$ 38,795	\$ 37,347
Land improvements	26,182	24,922
Leasehold improvements	71,615	68,835
Buildings	1,084,906	887,503
Equipment, furniture, and fixtures	601,809	586,238
	<u>1,823,307</u>	<u>1,604,845</u>
Less: Accumulated depreciation	<u>(986,033)</u>	<u>(901,522)</u>
	837,274	703,323
Construction-in-progress	89,964	164,049
	<u>\$ 927,238</u>	<u>\$ 867,372</u>

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UVM Health Network sold, traded-in or wrote off approximately \$7,336,000 and \$8,006,000 in gross property and equipment in the years ended September 30, 2019 and 2018, respectively. In conjunction with these sales, trade-ins or disposals, a loss of \$325,000 and a gain of \$273,000 was recorded in the years ended September 30, 2019 and 2018, respectively. These gains and losses are included in supplies and other expense. At September 30, 2019, UVM Health Network had commitments to purchase approximately \$79,455,000 of property and equipment, which are primarily composed of the following: \$42,413,000 related to the EPIC project and \$37,042,000 related to other projects. Anticipated future cash flows related to these commitments are \$63,353,000 and \$16,102,000 for the years ending September 30, 2020 and 2021, respectively.

UVM Health Network recorded depreciation expense of \$90,595,000 and \$86,841,000 for the years ended September 30, 2019 and 2018, respectively.

9. Long-Term Debt

Long-term debt at September 30, 2019 and 2018 consisted of the following:

<i>(in thousands)</i>	2019	2018
Vermont Educational and Health Buildings Financing Agency		
Hospital Revenue Bonds		
Series 2008A Bonds, variable rate (1.43% and 1.50% at September 2019 and 2018, respectively), payable through 2030	\$ 54,706	\$ 54,706
Series 2013A Bonds, fixed rate (2.60%), payable through 2027	27,388	27,713
Series 1996 Loan, fixed rate (3.50%), payable through 2021	2,866	4,029
Series 2015A Bonds, fixed rate (2.27%), payable through 2023	15,580	17,695
Series 2016A Bonds, fixed rate (3.00% to 5.00%), payable through 2036 (including unamortized premium of \$21,784 and \$22,994 at September 30, 2019 and 2018, respectively)	187,574	192,584
Series 2016B Bonds, fixed rate (3.13% to 5.00%), payable through 2046 (including unamortized premium of \$10,590 and \$10,980 at September 30, 2019 and 2018, respectively)	99,590	99,980
Series 2015A Bonds, fixed rate (2.85%), payable through 2025	13,219	13,866
Essex County Capital Resource Corporation		
Hospital Revenue Bonds		
Series 2011 Bonds, variable rate, (3.17% and 2.92% at September 30, 2019 and 2018), payable through 2032	4,390	4,635
Other long-term debt		
Bank of America Loan, fixed rate (2.92%), payable through 2027	37,922	42,920
KeyBank Loan, fixed rate (3.50%), payable through 2023	24,155	29,315
Series 2016A Bonds, variable rate (2.68% and 2.52% at September 30, 2019 and 2018, respectively), payable through 2042	12,750	13,260
Series 2016B Bonds, variable rate (2.67% and 2.20% at September 30, 2019 and 2018, respectively), payable through 2042	15,580	16,210
Community Bank Loan, fixed rate (3.38%), payable through 2027	13,162	13,716
Series 2013A variable rate bonds, 1.60% average rate for 2019, payable through 2038, (including unamortized discount of \$367 at September 30, 2019)	24,040	24,810
Capital leases, fixed rate (0.68% to 24.8%), payable through 2024	4,826	7,059
TD Bank fixed rate loan at 3.59%, interest only payment through April 2020, payable through April 2030	10,000	10,000
TD Bank, fixed rate (3.73%), payable through 2025	2,579	-
TD Bank fixed rate loan at 3.87% at September 30, 2019, payable through 2033	17,413	18,313
Lines of Credit	10,500	4,550
Other debt	34,862	39,211
	<u>613,102</u>	<u>634,572</u>
Less: Current portion	(39,582)	(29,168)
Less: Capitalized debt issuance costs	(2,530)	(2,720)
Long-term debt, net of current installments	<u>\$ 570,990</u>	<u>\$ 602,684</u>

Obligated Group

UVM Medical Center, UVM Health Network, CVMC, CVPH and ECH are the members of the UVM Medical Center Obligated Group ("Obligated Group") at September 30, 2019.

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.

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As of September 30, 2019, an obligated group does not exist for AHMC, HH&H, or PMC.

Series 2008A Bonds (UVM Medical Center)

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 \$628,000), which expires in 2021. The interest rate on the Series 2008A bonds is set weekly. Series 2008A bondholders have the option to put the bonds back to UVM Medical Center. Such bonds would be subject to remarketing efforts by UVM Medical Center's remarketing agent. To the extent that such remarketing efforts were unsuccessful, the nonmarketable bonds would be purchased from the proceeds of the letter of credit. Monthly payments of principal on the letter of credit borrowings would commence on the first calendar day of the first month that commences more than one year after the borrowing. Repayment in full of the letter of credit would be required by the earlier of four years from the date of the borrowing under the letter of credit or the stated expiration date, currently, April 30, 2021.

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

UVM Medical Center and certain subsidiaries are obligated under various other revenue bonds, capital leases, and notes payable. Various trustee-held funds are required under the terms of the loan agreements. Under one of the loan agreements, a reserve fund is required only upon the failure to meet certain financial ratios. As of September 30, 2019 and 2018, 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, 2019, 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.

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Series 2011 Bonds (ECH)

On December 1, 2011, ECH issued Essex County Capital Resource Corporation Revenue Bonds, Series 2011 in the amount of \$6,160,000. The Series 2011 bonds were purchased by Key Bank, N.A. under a bond purchase agreement. As part of the agreement, the Series 2011 bonds are subject to mandatory redemption and are subject to optional tender by the bank for purchase by ECH at a price equal to the principal plus accrued and unpaid interest beginning on June 1, 2017. As of September 30, 2019, Key Bank informed ECH that they have no intention of tendering the bonds back to ECH. The Series 2011 bonds are collateralized by a mortgage that Key Bank holds with ECH. The Series 2011 bonds carry a variable interest rate of 65% of 1-Month LIBOR plus 155 basis points (3.17% at September 30, 2019) 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. As part of the agreement, the series 2013A bonds are subject to an optional tender by the bank for purchase by UVM Medical Center in whole or in part, at a redemption price equal to the principal amount tendered plus accrued and unpaid interest beginning March 1, 2023 and on any date thereafter. The Series 2013A bonds carry a fixed interest rate of 2.60%.

Series 2013A Bonds (AHMC)

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

The Revenue Bonds consist of variable interest rate, term bonds, requiring annual sinking fund payments ranging from \$765,000 to \$1,645,000 through October 2037, with a \$1,715,000 principal amount maturing on October 1, 2038 to be paid at maturity. Interest rates are variable and are reset weekly by the remarketing agent. The interest rate as of September 30, 2019 was 1.60%. Interest payments are due monthly. In addition to interest to bondholders, interest is paid to HSBC Bank at a rate of 2.50% on the outstanding balance. Interest is paid to HSBC Bank quarterly. The bonds are collateralized by a direct pay letter of credit with a bank aggregating the outstanding principal amount plus 35 days interest at an assumed rate of 12% per annum for the term of the bonds. Any outstanding balance put to the letter of credit would be repaid in accordance with the payment schedule of the 2013A Revenue Bonds and must be repaid prior to the letter of credit expiring on October 1, 2021. 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 pay down the par amount of the new bonds. The Series 2015A bonds carry a fixed interest rate of 2.27%.

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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 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 VEHBFA, issued \$89,000,000 of tax-exempt fixed rate hospital revenue bonds ("Series 2016B"), the proceeds of which were used to partially fund the Miller Building Project on the UVM Medical Center's main campus, fund a capitalized interest account in the amount of \$12,278,224, and pay issuance costs in the amount of \$1,205,400. The Series 2016B bonds carry fixed interest rates ranging from 3.13% - 5.00%, with an average coupon of 4.54%, bonds mature on December 31, 2046. The premium on the 2016B bonds was \$12,600,000. Bond issuance costs of \$398,000 will be amortized over the life of the loan. 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 obtained Silver LEED-certified status. The purpose of the "Green Bonds" label was to allow investors to invest directly in an environmentally beneficial project.

Series 2015A Bonds (PMC)

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

Series 2016A and 2016B Bonds (CVPH)

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

People's United Loan (UVM Medical Center)

On September 30, 2013, UVM Medical Center entered into a mortgage for property ("Holly Court") in the amount of \$9,903,000. The mortgage is payable through September 2028, and bears interest at a variable rate equal to one-Month LIBOR plus 105 basis points (3.14% at September 30, 2019). Concurrent with the issuance of the Holly Court mortgage, an interest rate swap was entered into whereby UVM Medical Center pays a fixed rate of 2.67% a variable rate of one-Month LIBOR, (Note 10).

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Scheduled Maturities of Long-Term Debt

As of September 30, 2019, scheduled maturities of long-term debt, not including a net unamortized premium of \$32,741,000 for the next five years and thereafter are as follows:

(in thousands)

Years Ending September 30,	
2020	\$ 39,582
2021	33,741
2022	28,457
2023	30,405
2024	27,418
Thereafter	420,758
	<u>\$ 580,361</u>

Loan Covenants

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

Lines of Credit

CPI has an uncollateralized line of credit in the amount of \$3,000,000 at September 30, 2019. The interest rate is set at a floating rate equal to LIBOR plus 150 basis points (3.54% at September 30, 2019). At September 30, 2019, CPI had \$3,000,000 outstanding borrowings under the line of credit. This revolving line of credit is interest only payments with accrued interest and principal due upon maturity. The maturity date for the line of credit is July 31, 2020.

AHMC has an uncollateralized line of credit in the amount of \$1,500,000 at September 30, 2019. The interest rate is set at a floating rate equal to prime plus 100 basis points (6.15% at September 30, 2019). At September 30, 2019, AHMC had no borrowings under the line of credit. The revolving line of credit is interest only payments with accrued interest and principal due upon maturity. The maturity date for the line of credit is October 31, 2021.

HH&H has a revolving \$1,500,000 line of credit payable on demand with a Community Bank N.A., collateralized by the HH&H personal property (accounts receivable, machinery, equipment, furniture and fixtures), with a variable interest rate equal to the prime rate with a 4.75% floor. There is no outstanding balance of September 30, 2019. The maturity date for the line of credit is February 28, 2020.

As of September 30, 2019, UVM Health Network has an available line of credit in the amount of \$20,000,000, less the face value of all letters of credit that may be issued by the lender for the benefit of the UVM Health Network. The line of credit is available to each member of the Obligated Group (UVM Medical Center, UVM Health Network CVMC, CVPH and ECH). The line of credit is collateralized by a joint and several obligations of the UVM Health Network and each member of the Obligated Group. The interest rate is set at a floating rate equal to 1 Month LIBOR plus 40 basis points (3.00% at September 30, 2019) adjusting monthly. At September 30, 2019, CVPH and CVMC had borrowings under the line of credit of \$4,500,000 and \$3,000,000, respectively. The maturity date for the line of credit is October 1, 2022.

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On October 15, 2019, the UVM Health Network entered into a \$30,000,000 revolving credit facility agreement (line of credit) with Bank of America which can be used to finance the working capital needs of members of the Obligated Group. In December 2019, UVM Medical Center made a draw on the line of credit in the amount of \$25,000,000. Interest on the line of credit is due monthly on any outstanding balances and principal is due no later than October 15, 2021, the expiration date of the facility.

Guarantor

As of September 30, 2019, UVM Medical Center is the guarantor of the letter of credit at AHMC for the Series 2013A bonds and the 2018 TD Bank loan at AHMC. CVPH is the guarantor of the CPI line of credit.

10. Interest Rate Swap Agreements

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

Swap	Bond Series	Notional Amount September 30 2019 (\$ in 000's)	Notional Amount September 30 2018 (\$ in 000's)	Counterparty	Expiration Date	Pay Fixed	Receive Floating
LIBOR Swap (Series B-1)	2008A	\$ 27,595	\$ 27,595	Citibank, NA	October 28, 2032	3.76 %	66.5% of LIBOR + 32bps
LIBOR Swap (Series B-2)	2008A	27,595	27,595	Citibank, NA	November 4, 2032	3.76 %	66.5% of LIBOR + 32bps
LIBOR Swap	Holly Court Loan	6,653	7,255	Peoples United Bank	October 2, 2028	2.67 %	1 Month LIBOR
LIBOR Swap	Series 2007B	10,250	10,465	Key Bank	July 1, 2042	4.06 %	68.0% of LIBOR
LIBOR Swap	Series 2007A	16,165	16,545	Key Bank	July 1, 2042	4.00 %	65.0% of LIBOR
SIFMA Swap	Series 2011	4,390	4,635	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:

(in thousands)	2019	2018
2008A Swaps	\$ (12,828)	\$ (7,394)
Holly Court Loan	(382)	80
2007B Swap	(3,720)	(2,366)
2007A Swaps	(5,847)	(3,754)
2011 Swap	(212)	(188)
	<u>\$ (22,989)</u>	<u>\$ (13,622)</u>

The effect of interest rate swap agreements on the consolidated statements of operations and changes in net assets for 2019 and 2018 are as follows:

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<i>(in thousands)</i>	Amount of Gain/(Loss) Recognized in Statements of Operations	
	2019	2018
2008A Swaps	\$ (5,434)	\$ 3,683
Holly Court Loan	(462)	357
2007B Swap	(1,354)	913
2007A Swaps	(2,093)	1,415
2011 Swap	(24)	194
	<u>\$ (9,367)</u>	<u>\$ 6,562</u>

UVM Health Network also made payments on the interest rate swap agreements of \$1,764,000 and \$2,260,000 for the years ended September 30, 2019 and 2018, which are included in interest expense on the statements of operations.

11. Operating Leases

UVM Health Network has entered into certain operating lease agreements for the rental of building space and equipment. Rental expense, inclusive of common area maintenance charges, amounted to \$19,412,000 and \$20,069,000 for the years ended September 30, 2019 and 2018, respectively.

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

(in thousands)

Years Ending September 30,	
2020	\$ 19,340
2021	14,505
2022	10,674
2023	8,845
2024	7,200
Thereafter	18,316
	<u>\$ 78,880</u>

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12. Net Assets

Net Assets with Donor Restrictions

At September 30, 2019 and 2018, net assets with donor restrictions are available for the following purposes:

<i>(in thousands)</i>	2019	2018
Indigent care	\$ 17,623	\$ 17,372
Education and research	26,500	24,751
Children's programs	8,533	6,342
Capital projects and other health care services	50,208	55,874
Long-term care services at Woodridge	1,628	2,553
	<u>\$ 104,492</u>	<u>\$ 106,892</u>

At September 30, 2019 and 2018, net assets with donor restrictions include approximately \$25,583,000 and \$28,436,000, respectively, of accumulated gains, which are subject to Board appropriation in accordance with state law.

Endowment Funds

UVM Health Network's endowment funds consist of 144 funds established for a variety of purposes. UVM Health Network does not currently have any unrestricted funds designated by the Board to function as endowment. Accordingly, for the purposes of this disclosure, endowment funds include only donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

UVM Health Network has interpreted relevant state laws for the states in which it operates as requiring realized and unrealized gains of net assets with donor restrictions to be retained in a with donor restrictions net asset classification until appropriated by the Board and expended. These state laws allow the Board to appropriate the net appreciation of net assets with donor restrictions as is prudent considering UVM Health Network's long and short-term needs, present and anticipated financial requirements, and expected total return on its investments, price level trends, and general economic conditions. In the years ended September 30, 2019 and 2018, \$1,250,000 and \$1,355,000, respectively, was appropriated.

As a result of this interpretation, UVM Health Network classifies net assets with donor restrictions as the original value of the gifts donated to the 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 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 net assets with donor restrictions until those amounts are appropriated for expenditure in a manner consistent with the donor's stipulations. UVM Health Network considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: duration and preservation of the fund, purposes of the donor-restricted endowment funds, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of UVM Health Network, and the investment policies of UVM Health Network.

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Endowment Net Asset Composition and Changes in Endowment Net Assets

The following is a summary of the endowment net asset composition at September 30, 2019 and 2018, and the changes therein for the years then ended:

<i>(in thousands)</i>	2019	2018
Changes in the fair value of endowment investments:		
Investment returns, net	\$ 2,876	\$ 3,064
Effect of affiliation	-	10,862
Appropriations of endowment assets for expenditure	(1,250)	(1,355)
Other	114	1,193
Net change in endowment investments	<u>1,740</u>	<u>13,764</u>
Endowment investments at:		
Beginning of year	<u>58,462</u>	<u>44,698</u>
End of year	<u>\$ 60,202</u>	<u>\$ 58,462</u>

Beneficial Interest in Perpetual Trusts

The above amounts exclude UVM Health Network's beneficial interest in perpetual trusts, which are not within management's investment control. Such beneficial interests totaled \$17,795,000 and \$18,016,000 at September 30, 2019 and 2018, respectively.

Charitable Remainder Trust

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

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires UVM Health Network to retain as a fund of perpetual duration. The UVM Health Network has a policy that does not allow the spending from underwater endowments. At September 30, 2019 and 2018, there were no funds with deficiencies.

Investment Return Objectives and Spending Policy

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

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13. Malpractice and Other Contingencies

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:

UVM Medical Center	\$ 5,000,000	per occurrence limit
CVMC	\$ 1,000,000	per occurrence limit
CVPH	\$ 2,000,000	per occurrence limit
ECH	\$ 2,000,000	per occurrence limit
PMC	\$ 1,000,000	per occurrence limit

The annual aggregate is \$20,000,000 for Professional Liability.

VMCIC has a Commercial General Liability policy with coverage limits per claim retainage amount of:

UVM Medical Center	\$2,000,000	per occurrence limit
CVMC	\$1,000,000	per occurrence limit
CVPH	\$1,000,000	per occurrence limit
ECH	\$1,000,000	per occurrence limit
PMC	\$1,000,000	per occurrence limit

The annual aggregate is \$10,000,000 for Commercial General Liability.

VMCIC provides claims-made coverage to certain affiliates of UVM Health Network for periods prior to the merger that created UVM Health Network.

UVM Health Network, excluding AHMC, PMC, and HH&H (discussed below), is also self-insured for workers' compensation claims, and maintains an excess insurance policy to limit its exposure on claims up to \$1,000,000 and \$750,000 per occurrence for UVM Medical Center and CVPH, respectively, in the year ended September 30, 2019, with a \$50,000,000 aggregate limit for UVM Medical Center. CVPH's workers compensation claim reserve is secured by a letter of credit and reimbursement agreement in the amount of \$9,553,000 which has an expiration date of September 30, 2020.

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, 2019. A related liability of approximately \$1,136,000 has been recorded as of September 30, 2019 and 2018, respectively.

The workers compensation insurance policy year for PMC is from October 1 – October 1. The policy coverage is \$500,000 per employee. There is no liability recorded related to this policy.

HH&H insures its medical malpractice risks on a claims-made basis. There were no known malpractice claims outstanding at September 30, 2019, nor were there any unasserted claims or incidents which require loss accrual. HH&H intends to renew coverage on a claims-made basis and anticipates that such coverage will be available.

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Malpractice insurance coverage of AHMC is provided on an occurrence basis. AHMC intends to renew its coverage on an occurrence basis and has no reason to believe that it may be prevented from renewing such coverage. All known asserted and unasserted claims alleging malpractice have been communicated to the insurer who is responsible for resolving the claim and the related cost of litigation.

The reserves for outstanding losses at UVM Medical Center, CVMC, CVPH and ECH have been discounted at a rate of 1.75% and 1.93% at September 30, 2019 and 2018, resulting in a decrease in the reserve for professional liability of approximately \$2,770,000 and \$2,414,000 at September 30, 2019 and 2018, respectively, and a decrease in the reserve for workers' compensation of approximately \$315,000 and \$341,000 at September 30, 2019 and 2018, respectively.

As a result of changes in estimates of incurred events in prior years, primarily professional liability, the estimate of incurred losses decreased by approximately \$2,273,000 and \$750,000 for the years ended September 30, 2019 and 2018, respectively.

Employee Health and Dental Insurance

UVM Medical Center, CVPH, CVMC, and PMC maintain self-insured plans for employee health insurance. Under the terms of the plans, employees and their dependents are eligible for participation and, as such, UVM Medical Center, CVPH, CVMC, and PMC are responsible for paying claims and third party administrator costs. UVM Medical Center, CVPH, and CVMC maintained a stop-loss insurance policy for its medical plan to limit its exposure on nondomestic claims to the first \$550,000, \$300,000, and \$300,000, respectively, per member per plan year ending September 30, 2019, of which \$100,000 of each entity's exposure is covered by VMCIC. PMC maintained a stop-loss insurance policy for its medical plan to limit its exposure on all claims to the first \$175,000 per member per plan year. In addition, UVM Medical Center, CVMC and PMC maintain self-insured plans for employee dental.

Other Contingencies

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

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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>	Years Ending September 30,	
	2019	2018
Defined benefit plans	\$ 2,628	\$ 2,799
Defined contribution plans	43,311	40,254
	<u>\$ 45,939</u>	<u>\$ 43,053</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.

Benefit Obligations

<i>(in thousands)</i>	2019	2018
Changes in benefit obligations		
Projected benefit obligations - beginning of year	\$ (397,645)	\$ (431,139)
Service cost	(5,416)	(6,234)
Interest cost	(17,022)	(16,402)
Benefits paid	19,227	24,592
Settlements	-	5,039
Actuarial loss	(50,845)	23,547
Administrative expenses paid	2,023	2,952
Projected benefit obligation - end of year	<u>(449,678)</u>	<u>(397,645)</u>
Accumulated benefit obligation	<u>(447,480)</u>	<u>(395,074)</u>
Changes in plan assets		
Fair value of plan assets - beginning of year	334,788	341,842
Actual gain on plan assets	33,471	14,631
Employer contributions	9,779	10,898
Benefits paid	(19,227)	(24,592)
Settlements	-	(5,039)
Administrative expenses paid	(2,023)	(2,952)
Fair value of plan assets - end of year	<u>356,788</u>	<u>334,788</u>
Funded status of the plan (long-term)	<u>(92,890)</u>	<u>(62,857)</u>
Funded status of plans - asset	<u>-</u>	<u>1,376</u>
Funded status of plans - (liability)	<u>\$ (92,890)</u>	<u>\$ (64,233)</u>

During fiscal year 2018, UVM Health Network completed a retiree annuity purchase initiative as part of a de-risking strategy around its various plans. Retiree monthly benefits ranging up to \$325, \$500, and \$1,000 for CVPH, CVMC, and UVM Medical Center, respectively, were bundled into a single offering that settled the obligation for 1,655 participants. This activity, along with some lump-sum acceptances, are reported as settlements in the tables above.

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The reconciliation of the unrecognized actuarial losses for the years ended September 30, 2019 and 2018 is as follows:

<i>(in thousands)</i>	2019	2018
Unrecognized actuarial losses - beginning of year	\$ 47,760	\$ 67,302
Net loss amortized during year	(1,740)	(2,856)
Net prior service cost amortized during year	21	21
Net loss/(gain) during year	<u>38,902</u>	<u>(16,707)</u>
Unrecognized actuarial losses - end of year	<u>\$ 84,943</u>	<u>\$ 47,760</u>

The components of the net periodic benefit cost for the years ended September 30, 2019 and 2018 are as follows:

<i>(in thousands)</i>	2019	2018
Service cost	\$ 5,416	\$ 6,234
Interest cost	17,022	16,402
Expected return on plan assets	(21,550)	(21,492)
Amortization of unrecognized net loss	<u>1,740</u>	<u>1,655</u>
Net periodic benefit cost	<u>\$ 2,628</u>	<u>\$ 2,799</u>

The expected net periodic benefit income to be recognized in fiscal year 2020 is \$1,364,000.

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

	2019	2018
Weighted-average assumptions used to determine the benefit liability		
Discount rates	3.2% - 3.3%	4.4 %
Rates of increase in future compensation levels	3.0% - 3.5%	3.0% - 3.5%
Weighted-average assumptions used to determine expense		
Discount rates	4.4 %	3.9 %
Rates of increase in future compensation levels	3.0% - 3.5%	3.0% - 3.5%
Expected long-term rate of return on plan assets	5.5% - 7.3%	5.2% - 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.

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Plan Assets

UVM Health Network's pension plans weighted-average asset allocations as of September 30, 2019 and 2018, by asset category, are as follows:

	2019	2018
Asset category		
Money market	3%	3%
Mutual funds		
Bond funds	40%	37%
U.S. treasury obligation funds	12%	8%
International equity funds	19%	21%
Domestic equity funds	23%	28%
Real estate funds	3%	3%
Total mutual funds	97%	97%
	100%	100%

The following table presents information, as of September 30, 2019 and 2018, about UVM Health Network's pension assets that are measured at fair value on a recurring basis:

	2019		
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Fair Value
<i>(in thousands)</i>			
Money market	\$ 535	\$ 8,251	\$ 8,786
Mutual funds			
Bond funds	33,912	109,543	143,455
U.S. treasury obligation funds	41,511	-	41,511
International equity funds	67,446	-	67,446
Domestic equity funds	83,250	-	83,250
Real estate funds	12,340	-	12,340
Total mutual funds	238,459	109,543	348,002
	\$ 238,994	\$ 117,794	\$ 356,788

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

As of September 30, 2019 and 2018, there were no Level 3 investments. There were no transfers between levels for the years ended September 30, 2019 and 2018.

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 \$9,005,000 to its pension plans in the year ending September 30, 2020.

Cash Flows - Estimated Future Benefit Payments

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

Years Ending September 30,	
2020	\$ 22,370
2021	23,243
2022	23,793
2023	24,337
2024	24,990
2025–2029	129,484

Multi-Employer Defined Benefit Plan

UVM Health Network participates in multi-employer defined benefit pension plans. UVM Health Network makes cash contributions to these plans under the terms of collective-bargaining agreements that cover its union employees based on a fixed rate and hours of service per week worked by the covered employees. The risks of participating in these multi-employer plans are different from other single-employer plans in the following aspects: (1) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers; (2) if a participating employer stops contributing to the plan, the unfunded

The University of Vermont Health Network Inc. and Subsidiaries
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September 30, 2019 and 2018

obligations of the plan may be borne by the remaining participating employers; and (3) if UVM Health Network chooses to stop participating in some of its multi-employer plans, UVM Health Network may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability. The measurement dates for the following plans are as of June 30 and December 31, as applicable.

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

UVM Health Network has contributed cash and recorded expenses of \$7,416,000 and \$6,672,000 for the multi-employer defined benefit plans for the years ended September 30, 2019 and 2018, respectively.

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

Pension Fund	EIN/Pension Plan Number	Zone Status		FIP/RP Status Pending/ Implemented	Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
		Pension Protection Act				
		September 30, 2019	September 30, 2018			
1199 SEIU Health Care Employees Pension Fund	13-3604862-001	not available	Green	June 26, 2009	No	April 30, 2020
1199 SEIU Health Care Employees Pension Fund	16-1112391	not available	Green	N/A	No	June 30, 2022

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

Postretirement Health Benefits

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

As of September 30, 2019 and 2018, the premiums paid by retirees did not exceed the costs and an accumulated postretirement benefit obligation of \$0 and \$4,247,000, respectively, was recorded. The plan does not have any assets as of September 30, 2019 and 2018. Net assets without donor restrictions at September 30, 2019 and 2018 include unrecognized actuarial (gain)/loss of (\$5,128,000) and \$2,082,000, respectively. The expected amortization of the unrecognized losses to be recognized in postretirement benefit obligation expenses in the year ending September 30, 2020 is \$212,000. Assumptions used in accounting for the plan include a discount rate of 3.30%, a current health care cost trend rate of 6.50%, 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, 2019.

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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, 2019 and 2018 is as follows:

	2019	2018
Medicare	27%	25%
Medicaid	9%	10%
Contracted Commercial	39%	36%
Noncontracted Insurers	15%	17%
Patients	10%	12%
	<u>100%</u>	<u>100%</u>

16. Transactions With UVM

UVM Medical Center's Affiliation Agreement with UVM was renewed as of December 2018, and extends through June 30, 2021. The Affiliation Agreement expresses the shared goals of UVM and UVM Medical Center for teaching, clinical care and research, documents the many points of close collaboration between the two organizations, provides the underpinnings for UVM Medical Center's status as an academic medical center, and obligates UVM Medical Center to provide substantial, annual financial support to UVM. The current Affiliation Agreement provides for three components of financial support to UVM: (1) payments by UVM Medical Center, known as the "commitment," to fund two costs: (a) a portion of the salary, benefits and related expenses paid through UVM to physician-faculty who are jointly employed by both UVM and UVM Medical Group and, (b) a portion of the cost of UVM facilities, utilities and other campus operating expenses that are not paid or reimbursed by any form of federal funding; (2) an academic support payment paid by UVM Medical Center and, (3) a Dean's Tax paid by UVM Medical Group. The amounts of the commitment approximated \$46,198,000 and \$46,724,000 in the years ended September 30, 2019 and 2018, respectively. In addition, UVM Medical Center reimburses UVM for equipment rental, research, and certain other administrative expenses through the commitment.

UVM Medical Center made academic support payments to UVM in monthly installments. The amount of the academic support payment was \$8,166,000 and \$7,936,000 in the years ended September 30, 2019 and 2018, respectively. Under the current affiliation agreement, the base payments for the academic support payments increased to \$8,346,000 in fiscal year 2020, with an inflationary increase in the years thereafter.

Under the Affiliation Agreement, the Dean's Tax is paid to UVM by UVM Medical Center in an amount equal to 2.3% of the Medical Group's net patient service revenues exclusive of all Medicaid revenues for that fiscal year. The amount of the Dean's Tax approximated \$4,552,000 and \$4,710,000 in the years ended September 30, 2019 and 2018, respectively. A guaranteed payment of \$1,000,000 in Dean's Taxes on UVM Medical Group patient service revenues of community-based physicians was recorded in the years ended September 30, 2019 and 2018.

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Notes to Consolidated Financial Statements
September 30, 2019 and 2018

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, 2019 and 2018, are as follows:

Net periodic pension costs (other than service costs) represent administrative costs were \$2,788,000 and \$3,435,000 at September 30, 2019 and 2018 respectively.

	2019		
	Healthcare Service	Administrative Support	Total
Salary, payroll taxes and fringe benefits	\$ 1,155,740	\$ 218,045	\$ 1,373,785
Supplies and other	455,240	125,109	580,349
Purchased services	69,330	58,208	127,538
Provider Tax	92,446	-	92,446
Depreciation and amortization	64,010	25,436	89,446
Interest expense	12,189	7,472	19,661
	<u>\$ 1,848,955</u>	<u>\$ 434,270</u>	<u>\$ 2,283,225</u>

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

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

18. Subsequent Events

The UVM Health Network has assessed the impact of subsequent events through January 21, 2020, 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 the line of credit disclosed in Note 9.

Supplemental Consolidating Information

The University of Vermont Health Network Inc. and Subsidiaries

Note to Supplemental Consolidating Information

September 30, 2019 and 2018

1. Basis of Presentation

The following supplemental consolidating information includes the consolidating balance sheets and the consolidating statements of operations of the individual consolidated subsidiaries of UVM Health Network Inc. as of and for the fiscal year ended September 30, 2019. All intercompany accounts and transactions between subsidiaries have been eliminated. The consolidating information presented has been prepared in accordance with accounting principles generally accepted in the United States of America consistent with the consolidated financial statements. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements and is not required as part of the basic financial statements.

The following supplemental information also includes the consolidating balance sheet and statement of operations of the University of Vermont Medical Center Obligated Group as of and for the fiscal year ended September 30, 2019. The University of Vermont Medical Center Obligated Group consists of UVM Health Network, UVM Medical Center, CVMC, CVPH, and ECH. All intercompany accounts and transactions between these subsidiaries have been eliminated. The consolidating information presented has been prepared in accordance with accounting principles generally accepted in the United States of America consistent with the consolidated financial statements. The consolidating information of the University of Vermont Medical Center 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 Medical Center Obligated Group

Consolidating Balance Sheet

September 30, 2019

	Central Vermont Hospital and Medical Group Practice	Woodridge Rehabilitation and Nursing	CVMC Eliminations	Total CVMC	UVM Medical Center	Champlain Valley Physicians Hospital	Elizabethtown Community Hospital	UVM Health Network	Obligated Group Eliminations	UVM Medical Center	Total Obligated Group
<i>(in thousands)</i>											
Assets											
Cash and cash equivalents	\$ 6,003	\$ 85	\$ -	\$ 6,088	\$ 63,502	\$ 2,612	\$ 12,639	\$ 36,351	\$ -	\$ -	\$ 120,192
Short-term investments	-	-	-	-	11,139	12,265	207	35	-	-	23,646
Current portion of assets whose use is limited or restricted	-	-	-	-	-	-	-	-	-	-	-
Patient and other trade accounts receivable, net	21,241	1,106	(6,339)	22,347	156,944	50,305	4,985	-	(42,970)	-	234,581
Due from related parties	6,339	-	-	6,339	43,541	-	-	14,932	-	-	15,503
Inventories	4,482	-	-	4,482	30,073	6,865	600	-	-	-	42,020
Receivables from third-party payers	3,365	-	-	3,365	9,793	7,010	-	-	-	-	9,793
Prepaid and other current assets	41,450	1,191	(6,339)	36,302	340,477	79,057	1,944	50,318	(37,549)	(37,549)	488,980
Total current assets											
Assets whose use is limited or restricted											
Board-designated assets	48,652	2,973	-	51,625	564,154	26,707	2,865	-	-	-	645,251
Assets held by trustee under bond indenture agreements	-	-	-	-	243	14	-	-	-	-	257
Restricted assets	4,676	-	-	4,676	877	6,017	-	717,612	(708,910)	-	15,596
Donor-restricted assets for specific purposes	3,383	-	-	3,383	33,911	-	1,301	-	-	-	38,888
Donor-restricted assets for permanent endowment	56,611	2,973	-	59,584	629,358	32,738	344	-	-	-	33,900
Total assets whose use is limited or restricted	63,260	4,111	-	67,371	646,093	105,114	4,510	717,612	(708,910)	-	734,892
Property and equipment, net	489	-	-	489	78,611	7,944	110	-	-	-	85,475
Other	181,810	8,275	(6,339)	183,746	1,694,539	224,853	59,892	767,830	(746,459)	(746,459)	2,164,501
Total assets											
Liabilities and Net Assets											
Current liabilities											
Current installments of long-term debt	5,847	500	-	6,347	19,337	9,177	777	-	-	-	34,638
Accounts payable	6,576	236	-	6,812	29,281	8,396	1,658	-	-	-	48,057
Accrued expenses and other liabilities	2,814	-	-	2,814	40,222	4,734	388	62	(363)	-	47,867
Accrued payroll and related benefits	10,849	787	-	11,636	69,710	15,125	2,329	135	-	-	98,935
Current portion of third-party payer settlements	3,163	-	-	3,163	2,305	2,793	883	-	-	-	9,144
Due to related parties	9,362	6,339	(6,339)	9,362	94	24,690	467	6,031	(37,549)	-	3,095
Inured but not reported claims	1,693	472	-	2,165	8,572	1,000	-	-	-	-	11,737
Total current liabilities	40,304	8,334	(6,339)	42,299	168,521	65,825	6,502	6,228	(37,902)	(37,902)	251,473
Long term debt, net of current installments	8,751	768	-	9,509	452,873	48,662	14,839	-	-	-	525,913
Malpractice and workers' compensation claims, net of current portion	29,939	-	-	29,939	2,519	4,964	-	-	-	-	4,964
Pension and other postretirement benefit obligations	-	-	-	-	14,856	54,061	-	-	-	-	86,519
Third-party payer settlements, net of current portion	-	-	-	-	-	-	4,180	-	-	-	19,036
Due to related parties, long term	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	22,505	-	779	-	-	-	38,043
Total long-term liabilities	38,690	758	-	39,448	492,753	123,476	19,798	-	-	-	675,475
Total liabilities	78,994	9,092	(6,339)	81,747	661,274	189,301	26,300	6,228	(37,902)	(37,902)	926,948
Net assets											
With donor restriction	74,576	(888)	-	73,718	980,466	32,358	31,947	761,702	(708,657)	(708,657)	1,151,664
Without donor restriction	4,857	41	-	4,898	42,596	1,850	1,301	-	-	-	50,645
Time or Purpose	3,383	-	-	3,383	30,173	3,444	-	-	-	-	35,244
Perpetual	82,816	(817)	-	81,999	1,033,265	35,552	33,592	761,702	(708,557)	(708,557)	1,237,553
Total net assets	161,810	8,275	(6,339)	163,746	1,694,539	224,853	59,892	767,830	(746,459)	(746,459)	2,164,501
Total liabilities and net assets											

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

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

The University of Vermont Health Network Inc. and Subsidiaries

Consolidating Balance Sheet

September 30, 2019

(in thousands)	Total UVM Medical Center Obligated Group (1)	Alice Hyde Medical Center	PH	HPNH	PMC/ PREH	PMC Eliminations	Total PMC	UVM Health Network Home Health & Hospice	Other Entities	Total Eliminations	Total UVM Health Network
Assets											
Current assets											
Cash and cash equivalents	120,022	16,788	29,492	554	2,089	-	32,135	1,272	1,474	-	171,861
Accounts receivable, net	23,046	-	-	69	-	-	229	-	6,066	-	29,702
Current portion of assets whose use is limited or restricted	-	-	-	-	10	-	-	-	-	-	6,403
Current portion of trade accounts receivable, net	234,981	6,981	11,403	1,559	-	-	13,092	2,876	118	-	257,588
Patient and other trade accounts receivable, net	15,603	-	893	21	867	(1,841)	-	-	2,050	(17,653)	-
Due from related parties	42,020	770	1,872	16	-	-	-	-	179	-	44,857
Inventories	9,793	-	2,027	-	-	-	2,027	-	-	-	11,820
Receivables from third-party payers	43,245	3,089	863	32	61	-	961	733	4,386	156	52,549
Prepaid and other current assets	488,960	27,597	46,855	2,251	3,017	(1,841)	50,292	4,881	20,437	(17,397)	574,760
Total current assets	645,251	3,174	3,717	-	932	-	932	10,059	-	-	659,416
Assets whose use is limited or restricted											
Board-designated assets	257	-	-	-	-	-	-	-	-	-	3,974
Assets held by trustee under bond indenture agreements	15,996	244	1,203	663	203	-	1,406	-	75,852	(8,702)	84,396
Restricted assets	39,886	-	118	-	-	-	118	4,453	-	-	45,483
Donor-restricted assets for specific purposes	33,800	-	-	-	-	-	-	-	-	-	40,521
Donor-restricted assets for permanent endowment	794,892	42,033	13,049	663	1,136	-	6,503	21,015	75,852	(8,702)	833,790
Total assets whose use is limited or restricted	853,475	42,271	13,049	379	1,136	(58)	20,701	7,793	2,068	-	927,238
Property and equipment, net	87,154	-	-	-	1,995	(1,994)	1	178	10,809	-	48,040
Other	2,164,501	74,085	70,431	5,046	6,725	(3,893)	78,309	33,837	109,764	(76,626)	2,383,848
Total assets	\$ 2,164,501	\$ 74,085	\$ 70,431	\$ 5,046	\$ 6,725	\$ (3,893)	\$ 78,309	\$ 33,837	\$ 109,764	\$ (76,626)	\$ 2,383,848

(in thousands)											
Liabilities and Net Assets											
Current liabilities											
Current installments of long-term debt	34,638	1,191	563	131	-	-	694	-	-	-	39,582
Accounts payable	46,057	1,959	1,664	90	(1)	-	1,753	449	683	-	50,901
Accrued expenses and other liabilities	47,867	1,939	2,472	224	248	-	2,944	639	47	-	53,259
Accrued payroll and related benefits	98,935	6,064	4,839	849	919	-	6,607	2,881	1	(437)	113,751
Current portion of third-party payer settlements	9,144	794	2,694	125	2,819	-	2,819	80	-	-	12,757
Due to related parties	3,095	1,035	1,841	689	434	(1,841)	1,123	80	12,821	(18,154)	-
Incurred but not reported claims	11,737	-	425	105	45	-	575	-	-	-	18,486
Total current liabilities	251,473	12,982	14,498	2,213	1,645	(1,841)	6,215	3,149	22,785	(18,768)	288,736
Long-term debt, net of current installments	525,813	32,524	10,083	2,471	-	-	12,654	-	-	-	570,960
Malpractice and workers' compensation claims, net of current portion	4,964	-	100	-	-	-	100	-	32,476	-	37,540
Pension and other postretirement benefit obligations	86,519	-	5,270	881	219	-	6,370	-	1	-	92,890
Third-party payer settlements, net of current portion	19,086	-	752	-	-	-	752	-	-	-	19,788
Due to related parties, long term	-	2,200	-	-	-	-	-	-	-	(2,200)	-
Other	39,943	701	-	765	-	-	28	460	195	-	40,383
Total long-term liabilities	673,673	35,225	16,265	4,117	-	(742)	19,798	460	32,832	(2,200)	781,991
Total liabilities	925,146	48,207	30,763	6,330	1,894	(2,583)	26,314	4,239	55,417	(20,966)	1,036,327
Net assets	1,151,064	24,785	35,442	(1,947)	4,861	(1,310)	37,946	18,672	52,522	(65,866)	1,229,029
Without donor restrictions	50,845	689	451	663	-	-	1,114	4,453	1,484	-	58,385
With donor restrictions	35,244	184	3,835	1,284	-	-	3,835	6,503	341	-	46,107
Perpetual	1,237,535	25,658	39,728	(1,284)	4,861	(1,310)	41,995	29,628	54,347	(65,866)	1,333,521
Total net assets	2,164,501	74,085	70,431	5,046	6,725	(3,893)	78,309	33,837	109,764	(76,626)	2,383,848
Total liabilities and net assets	\$ 2,164,501	\$ 74,085	\$ 70,431	\$ 5,046	\$ 6,725	\$ (3,893)	\$ 78,309	\$ 33,837	\$ 109,764	\$ (76,626)	\$ 2,383,848

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

The University of Vermont Medical Center Obligated Group

Consolidating Statement of Operations

Year Ended September 30, 2019

	Central Vermont Hospital and Medical Group Practice	Woodridge Rehabilitation and Nursing	Total CVMC	UVM Medical Center	Champlain Valley Physicians Hospital	Elizabethtown Community Hospital	UVM Health Network	Obligated Group Eliminations	UVM Medical Center Obligated Group	Total Medical Center Obligated Group
<i>(in thousands)</i>										
Unrestricted revenue and other support										
Net patient service revenue	\$ 152,353	\$ 14,404	\$ 166,757	\$ 1,111,749	\$ 338,956	\$ 38,624	\$ -	\$ 1,037	\$ 1,657,123	\$ 10,386
Enhanced Medicaid Graduate Medical Education revenues – Hospital	-	-	-	19,614	-	-	-	-	-	19,614
Enhanced Medicaid Graduate Medical Education revenues – Professional	-	-	-	-	-	-	-	-	-	-
Enhanced Medicaid Graduate Medical Education revenues – Professional enhanced Graduate Medical Education revenues	152,353	14,404	166,757	1,141,749	338,956	38,624	-	1,037	1,687,123	1,687,123
Fixed prospective revenue	39,213	1,937	41,250	143,484	1,607	-	-	-	1,607	1,607
Pharmaceutical revenue	7,933	-	7,933	3,996	-	-	-	-	-	3,996
Outpatient and specialty pharmacy revenue	1,055	1,021	2,076	105,604	10,467	2,225	-	-	128,229	128,229
Net assets released from restrictions	4,144	167	4,311	39,297	8,737	140	-	-	4,452	4,452
Other revenue	205,209	17,529	222,738	1,436,348	359,767	43,096	-	(3,103)	2,059,846	2,059,846
Expenses										
Salary, payroll taxes and fringe benefits	129,715	13,955	143,670	797,493	245,467	25,845	737	1,904	1,215,116	1,215,116
Supplies and other	5,164	2,472	7,636	39,990	4,990	11,792	-	(4,990)	53,802	53,802
Professional services	11,713	365	12,078	89,083	19,202	1,792	3,874	(1,020)	103,277	103,277
Provider tax	10,841	753	11,594	72,231	1,330	130	-	-	85,085	85,085
Depreciation and amortization	8,550	620	9,170	52,395	15,438	3,230	-	-	80,233	80,233
Interest expense	408	51	459	14,741	2,370	576	-	-	18,146	18,146
Total expenses	210,221	18,196	228,417	1,404,942	367,806	41,573	4,611	(3,423)	2,043,926	2,043,926
Income (loss) from operations	(4,912)	(687)	(5,600)	31,406	(8,039)	1,522	(4,611)	320	15,920	15,920
Nonoperating gains (losses)										
Investment income	939	40	979	2,239	48	(54)	23,864	(2,759)	24,317	24,317
Change in interest in investment pool	485	116	601	30,874	1,961	139	-	(33,695)	(9,367)	(9,367)
Losses on investments in interest rate swap agreements	-	-	-	(3,686)	(3,447)	(24)	-	-	-	-
Losses on disposal of debt	-	-	-	-	-	-	-	-	-	-
Contribution revenue from acquisition	-	-	-	-	-	-	-	-	-	-
Other	1,062	1	1,063	(538)	149	843	-	(321)	1,196	1,196
Total nonoperating gains (losses)	2,486	157	2,643	(26,679)	(1,269)	904	23,864	(36,675)	16,146	16,146
Excess (deficit) of revenue over expenses	(1,526)	(510)	(2,036)	56,085	(9,308)	2,427	19,253	(36,355)	32,086	32,086
Net change in unrealized gains (losses) on investments	-	-	-	6,619	14	-	14,600	(822)	20,311	20,311
Net assets released from restrictions for capital purchases	(14,438)	-	(14,438)	7,836	3,274	747	-	-	11,857	11,857
Pension related adjustments	7,631	-	7,631	(2,020)	(22,297)	21	(42,189)	48,249	(34,715)	(34,715)
Transfers and other adjustments	(8,333)	(510)	(8,843)	65,804	(23,780)	3,195	(6,336)	10,972	9,465	9,465
Increase (decrease) in unrestricted net assets										

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

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

The University of Vermont Health Network Inc. and Subsidiaries

Consolidating Statement of Operations

Year Ended September 30, 2019

	Total UVM Medical Center Obligated Group (1)	Alma Hyde Medical Center	PH	HPNH	RMC/ PREH	RMC Eliminations	Total Porter	UVM Health Network & Hospitals	Other Entities	Total Eliminations	Total Health Network
Unrestricted revenue and other support											
Net patient service revenue	\$ 1,697,123	\$ 82,630	\$ 69,135	\$ 9,876	\$ -	\$ (80)	\$ 78,831	\$ 28,152	\$ 870	\$ 282	\$ 1,848,968
Net patient service revenue - Hospital enhanced Medicaid	19,814	-	-	-	-	-	-	-	-	-	19,814
Enhanced Medicaid Graduate Medical Education revenue - Professional	-	-	-	-	-	-	-	-	-	-	-
Net patient service revenue after provision for bad debts and enhanced Graduate Medical Education revenues	1,887,123	82,630	69,135	9,876	-	(80)	78,831	28,152	870	282	1,879,988
Fixed prospective revenue	186,341	-	15,355	-	-	-	15,355	-	77	-	201,773
Premium revenue	126,229	7,825	3,696	-	-	-	3,696	-	1,132	-	138,952
Outpatient and specialty pharmacy revenue	4,125	-	-	15	-	-	15	34	-	-	49
Revenue used from restrictions	50,312	3,900	3,035	4,452	5,535	(5,322)	3,239	133	20,212	(12,250)	66,451
Other revenue	2,059,846	93,855	91,354	9,882	5,535	(5,402)	101,389	28,827	22,909	(11,988)	2,265,738
Expenses											
Salary, payroll taxes and fringe benefits	1,215,116	56,862	52,930	9,088	3,970	(50)	65,038	25,246	9,592	1,041	1,373,795
Supplies and other	542,069	20,568	11,285	1,219	161	(1)	12,664	4,165	13,207	(12,514)	580,349
Purchased services	103,277	9,445	14,903	1,195	1,082	(5,351)	11,429	2,045	1,992	(650)	127,538
Travel	1,135	1,135	-	-	-	-	-	-	-	-	-
Depreciation and amortization	80,235	4,558	2,884	287	26	-	3,147	702	796	-	88,446
Interest expense	18,148	869	328	77	2	-	407	-	139	-	19,691
Total expenses	2,043,026	93,742	86,648	12,327	5,241	(5,402)	98,814	33,150	25,716	(12,123)	2,263,225
Income (loss) from operations	15,020	213	4,706	(2,445)	294	-	2,555	(3,523)	(2,807)	155	12,513
Nonoperating gains (losses)											
Investment income	24,317	67	487	7	1	-	495	217	1,485	(27)	26,554
Change in interest in investment pool	-	49	-	-	-	-	-	-	5	-	-
Change in fair value of private rate swap agreements	(9,367)	-	-	-	-	-	-	-	-	-	(9,367)
Loss on sale of investment property	-	-	-	-	-	-	-	-	-	-	-
Contribution revenue from acquisition	-	-	-	-	-	-	-	-	-	-	-
Other	1,196	3,550	211	-	131	(65)	285	1,930	1,484	(18)	6,430
Total nonoperating gains (losses)	16,146	3,679	698	(2,437)	132	(65)	793	2,147	2,974	(89)	25,617
Excess (deficit) of revenue over expenses	32,066	3,679	5,404	(2,437)	426	(85)	3,338	(1,376)	167	96	38,130
Net change in unrealized gains (losses) on investments	20,311	-	-	-	-	-	-	161	4,202	(4,220)	20,454
Net assets released from restrictions for capital purchases	11,857	-	-	157	-	-	157	-	-	-	12,014
Pension related adjustments	(54,715)	460	(2,000)	3,939	(140)	-	(2,469)	-	-	-	(57,183)
Transfer and other adjustments	1,016	-	(3,882)	-	-	-	-	860	(3,131)	(8,044)	(10,058)
Increase (decrease) in unrestricted net assets	39,012	4,339	285	362	288	(65)	1,380	(552)	1,239	(12,200)	33,391

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