

***Fletcher Allen Health
Care, Inc. and
Subsidiaries***

*Consolidated Financial Statements and
Additional Information as of and for the Years Ended
September 30, 2005 and 2004 and Independent
Auditors' Reports*

FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Fletcher Allen Health Care, Inc.:

We have audited the accompanying consolidated balance sheets of Fletcher Allen Health Care, Inc. and subsidiaries (the "Company") as of September 30, 2005 and 2004, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at September 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The additional information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic consolidated financial statements. This additional information is the responsibility of the management of Fletcher Allen Health Care, Inc. Such information has been subjected to the auditing procedures applied in our audit of the basic 2005 consolidated financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

In connection with our audit, nothing came to our attention that caused us to believe that the Company failed to comply with the terms, covenants, provisions or conditions of Article III, Section 3.07 of the Amended and Restated Master Trust Indenture and the Supplemental Indenture for Obligation No. 10 between Fletcher Allen Health Care, Inc. and Chittenden Trust Company, as Master Trustee, dated March 1, 2004 insofar as they relate to financial and accounting matters. However, our audit was not directed primarily toward obtaining knowledge of noncompliance with such Section.

This report is intended solely for the information and use of the Board of Trustees and management of Fletcher Allen Health Care, Inc. and Chittenden Trust Company and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte + Touche LLP

December 2, 2005

FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 2005 AND 2004 (In thousands)

ASSETS	2005	2004	LIABILITIES AND NET ASSETS	2005	2004
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash and cash equivalents	\$ 32,096	\$ 21,701	Current installments of long-term debt	\$ 6,616	\$ 3,965
Patient and other trade accounts receivable, net of allowance for doubtful accounts of \$13,900 in 2005 and \$18,230 in 2004	92,769	92,211	Accounts payable	20,312	25,739
Short-term investments	3,515	468	Accrued expenses and other liabilities	61,480	37,477
Inventories	9,052	7,641	Accrued payroll and related benefits	29,560	29,916
Current portion of restricted assets	4,000		Estimated third-party payor settlements	13,798	13,135
Prepaid and other current assets	12,418	10,732	Estimated amounts for incurred but unreported medical claims	15,345	10,333
Total current assets	153,850	132,753	Total current liabilities	147,111	120,565
ASSETS WHOSE USE IS LIMITED OR RESTRICTED:			LONG-TERM LIABILITIES:		
Board-designated assets	123,620	115,572	Long-term debt, excluding current installments	380,103	386,602
Assets held by trustee under bond indenture agreements	30,710	77,779	Reserve for outstanding losses on malpractice and workers' compensation claims	25,261	27,238
Restricted assets	24,551	27,492	Pension and other postretirement benefit obligations	36,485	22,913
Donor restricted assets for specific purposes	10,067	8,447	Other long-term liabilities	3,865	3,533
Donor restricted assets for permanent endowment	24,900	24,061			
			Total long-term liabilities	445,714	440,286
Total assets whose use is limited or restricted	213,848	253,351			
			Total liabilities	592,825	560,851
PROPERTY AND EQUIPMENT—Net	445,690	365,835			
			COMMITMENTS AND CONTINGENT LIABILITIES		
OTHER ASSETS:			NET ASSETS:		
Deferred financing costs and intangible assets, net	20,253	21,190	Unrestricted	218,429	196,917
Notes and other receivables	1,296	6,634	Temporarily restricted	14,725	14,260
Investment in affiliated companies	13,297	12,217	Permanently restricted	24,900	24,061
Pledges receivable	2,645	4,109			
			Total net assets	258,054	235,238
Total other assets	37,491	44,150			
TOTAL ASSETS	\$ 850,879	\$ 796,089	TOTAL LIABILITIES AND NET ASSETS	\$ 850,879	\$ 796,089

See notes to consolidated financial statements.

FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004 (In thousands)

	2005	2004
UNRESTRICTED REVENUE AND OTHER SUPPORT:		
Net patient service revenue	\$ 583,112	\$ 532,489
Premium revenue	58,789	55,977
Other revenue	<u>18,289</u>	<u>17,715</u>
Total unrestricted revenue and other support	<u>660,190</u>	<u>606,181</u>
EXPENSES:		
Salaries, payroll taxes and fringe benefits	374,933	353,213
Supplies and other	157,303	150,059
Purchased services	24,910	21,063
Depreciation and amortization	30,618	25,488
Interest expense	6,623	3,258
Provision for bad debts	12,759	16,622
Underwriting expenses	4,305	5,295
Medical claims	<u>24,473</u>	<u>24,241</u>
Total expenses	<u>635,924</u>	<u>599,239</u>
INCOME FROM OPERATIONS	<u>24,266</u>	<u>6,942</u>
NONOPERATING REVENUE (EXPENSE):		
Investment income and losses	7,745	4,045
Loss on extinguishment of debt		(2,116)
Unrealized (loss) gain on interest rate swap contracts	(1,183)	182
Contribution expense	(979)	(3,457)
Loss on disposals of fixed assets	(115)	(1,065)
Other	<u>713</u>	<u>437</u>
Total nonoperating revenue (expense)	<u>6,181</u>	<u>(1,974)</u>
EXCESS OF REVENUE OVER EXPENSES	30,447	4,968
NET UNREALIZED GAINS ON INVESTMENTS	5,667	6,568
ASSETS RELEASED FROM RESTRICTIONS FOR CAPITAL PURCHASES	2,573	3,559
ADDITIONAL MINIMUM PENSION LIABILITY ADJUSTMENT	(17,175)	186
TRANSFER OF NET ASSETS	<u> </u>	<u>4,351</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>\$ 21,512</u>	<u>\$ 19,632</u>

See notes to consolidated financial statements.

FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

(In thousands)

	2005	2004
UNRESTRICTED NET ASSETS:		
Excess of revenue over expenses	\$ 30,447	\$ 4,968
Net unrealized gains on investments	5,667	6,568
Assets released from restrictions for capital purchases	2,573	3,559
Additional minimum pension liability adjustment	(17,175)	186
Transfer of net assets		4,351
	<u>21,512</u>	<u>19,632</u>
Increase in unrestricted net assets		
TEMPORARILY RESTRICTED NET ASSETS:		
Gifts, grants and bequests	2,284	2,688
Investment income	531	369
Net unrealized gains on investments	1,050	1,409
Net assets released from restrictions used in operations	(674)	(7,943)
Net assets released from restrictions used for nonoperating purposes	(153)	
Transfer of net assets		(4,351)
Net assets released from restrictions used for capital purchases	<u>(2,573)</u>	<u>(3,559)</u>
	<u>465</u>	<u>(11,387)</u>
Increase (decrease) in temporarily restricted net assets		
PERMANENTLY RESTRICTED NET ASSETS:		
Gifts, grants and bequests	198	779
Change in beneficial interest in perpetual trusts	<u>641</u>	<u>585</u>
	<u>839</u>	<u>1,364</u>
Increase in permanently restricted net assets		
INCREASE IN NET ASSETS	22,816	9,609
NET ASSETS—Beginning of year	<u>235,238</u>	<u>225,629</u>
NET ASSETS—End of year	<u>\$ 258,054</u>	<u>\$ 235,238</u>

See notes to consolidated financial statements.

FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

(In thousands)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES AND GAINS:		
Increase in net assets	\$ 22,816	\$ 9,609
Adjustments to reconcile increase in net assets to net cash provided by operating activities and gains:		
Depreciation and amortization	31,037	26,144
Provision for bad debts	12,759	16,622
Restricted contributions and investment income received	(3,013)	(3,836)
Change in minimum pension liability	17,175	(186)
Unrealized loss (gain) on interest rate swap contracts	1,183	(182)
Realized and unrealized gains on investments, net	(8,851)	(8,935)
Undistributed earnings of affiliated companies	(1,081)	(1,613)
Change in permanently restricted perpetual trusts	(641)	(585)
Changes in operating assets and liabilities:		
Increase in patient and other accounts receivable	(13,317)	(22,339)
(Increase) decrease in short-term investments	(3,047)	22
Increase in current portion of restricted assets	4,000	
Decrease in pledges receivable	1,465	858
Decrease (increase) in other current and noncurrent assets	2,741	(1,788)
(Decrease) Increase in accounts payable and accrued expenses	(3,910)	16,430
Decrease in accrued payroll and related expenses	(356)	(1,255)
Increase in current and other liabilities	3,698	1,084
Decrease in pension and postretirement benefit obligations	(3,603)	(7,207)
Net cash provided by operating activities and gains	<u>59,055</u>	<u>22,843</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of property and equipment	(87,469)	(131,323)
Purchase of investments	(39,632)	(14,299)
Proceeds from sale of investments	20,420	11,074
Decrease (increase) in assets whose use is limited or restricted	<u>60,208</u>	<u>(67,029)</u>
Net cash used in investing activities	<u>(46,473)</u>	<u>(201,577)</u>
CASH FLOWS OF FINANCING ACTIVITIES:		
Repayment of line-of-credit borrowings		(2,434)
Proceeds from restricted contributions and restricted investment income	2,512	3,836
Repayment of long-term debt	(3,998)	(43,767)
Decrease in long-term liabilities	(851)	(574)
Proceeds from issuance of long-term debt	150	219,543
Debt issuance costs		(15,035)
Net cash (used in) provided by financing activities	<u>(2,187)</u>	<u>161,569</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,395	(17,165)
CASH AND CASH EQUIVALENTS —Beginning of year	<u>21,701</u>	<u>38,866</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 32,096</u>	<u>\$ 21,701</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year for interest	<u>\$ 15,200</u>	<u>\$ 12,666</u>

See notes to consolidated financial statements.

FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

1. ORGANIZATION

Fletcher Allen Health Care, Inc. (FAHC) is an academic and teaching health care resource and regional referral center providing a full range of primary, secondary and tertiary-level inpatient and outpatient health care services. FAHC is closely integrated with the University of Vermont College of Medicine (UVM) under an affiliation agreement for teaching and research.

FAHC has the following wholly owned subsidiaries: Fletcher Allen Health Ventures, Inc. (FAHV), Fletcher Allen Facilities Corporation (FAFC), Fletcher Allen Provider Corporation (FAPC), Fletcher Allen Outpatient Pharmacies, LLC (FAOP), Fletcher Allen Coordinated Transport, LLC (FACT), Fletcher Allen Skilled Nursing Care, LLC (FASNF) and VMC Indemnity Company Ltd. (VMCIC). Effective in April 2004, FAFC was merged into FAHC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principals of Consolidation—The consolidated financial statements include the accounts of FAHC and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The assets of members of the consolidated group may not be available to meet the obligations of another member of the group.

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 amount 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. Actual results could differ from those estimates.

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

Contributions—Unconditional promises to give that are expected to be collected within one year are recorded at their estimated net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Investments and Investment Income—Investments in equity securities with readily determinable fair market values and all investments in debt securities are recorded at fair value. Fair value is based on quoted market prices. Investments in limited partnerships and limited liability corporations for which FAHC's ownership is less than five percent are recorded at cost. Investment income or loss (including realized gains and losses on investments, interest and dividends), to the extent not capitalized, is included in nonoperating revenue (expense) 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, except that 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 balance sheets and statements of operations and changes in net assets.

Investment in Affiliates—Investments in 20% to 50% owned affiliates are accounted for using the equity method of accounting. These include Vermont Clinical Resources, Copley Woodlands, The Vermont Health Plan, Starr Farm Partnership, OB Net Services, LLC and Southwestern Vermont-Fletcher Allen Dialysis Services, LLC.

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.

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 asset and is computed on the straight-line method. Approximately \$420,000 and \$656,000 of depreciation expense in 2005 and 2004, respectively, is included in nonoperating expense. Equipment under capital lease obligations is amortized on 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.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, expiration of donor restrictions is reported when the donated or acquired long-lived assets are placed in service.

Impairment of Long-Lived Assets—Long-lived assets to be held and used are reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value, less cost 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 \$8,482,000 and \$10,155,000 of interest was capitalized during 2005 and 2004, respectively. Net deferred financing costs totaled \$19,900,000 and \$20,700,000 as of September 30, 2005 and 2004, respectively. Such amounts are reported with other assets and are being amortized over the period the related obligations are outstanding. Accumulated amortization of deferred financing costs totaled \$2,273,000 and \$1,477,000 at September 30, 2005 and 2004, respectively.

Temporarily and Permanently Restricted Net Assets—Temporarily restricted net assets are those whose use by FAHC has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by FAHC in perpetuity.

During 2004, FAHC undertook a study of its restricted net assets. As a result of that study, FAHC determined that temporarily restricted net assets of approximately \$4,351,000 should be reported as unrestricted net assets. This amount has been recorded as a transfer of net assets in the accompanying consolidated statements of operations and changes in net assets.

Consolidated Statements 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 expenses. Peripheral or incidental transactions are reported as nonoperating revenue and expense.

Excess of Revenue over Expenses—The consolidated statements of operations include excess of revenue over expenses. Changes in unrestricted net assets which are excluded from 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), permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions restricted by donors for acquiring such assets), and the minimum pension liability adjustment.

Net Patient Service Revenue—Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Under the terms of various agreements, regulations and statutes, certain elements of third-party reimbursements are subject to negotiation, audit and/or final determination by the third-party payors. In addition, laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Differences between amounts previously estimated for retroactive adjustments and amounts subsequently determined to be recoverable or payable are included in net patient service revenue in the year that such amounts become known. Changes in prior year estimates increased net patient service revenue by approximately \$3,800,000 in 2005 and \$3,000,000 in 2004.

FAHC has agreements with third-party payors that provide for payments to FAHC at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare—Inpatient acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient nonacute services are paid based on a cost reimbursement methodology. Outpatient services are based upon a prospective standard rate for procedures performed or services rendered. FAHC is reimbursed for cost-reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by FAHC and audits thereof by the Medicare fiscal intermediary. Medicare reimbursement for professional billings is determined by a standard fee schedule that is determined by the Centers for Medicare and Medicaid Services of the U.S. Department of Health and Human Services. The percentage of net patient service revenue and premium revenue earned from the Medicare program was approximately 31% and 30% in 2005 and 2004.

Medicaid—Inpatient services rendered to Medicaid program beneficiaries are reimbursed under prospectively determined per diem rates. The prospectively determined per diem rates are not subject to retroactive adjustment. Outpatient services rendered to Medicaid beneficiaries are reimbursed under a prospectively determined rate per charge for laboratory and some radiology services and under a cost reimbursement methodology for all other outpatient services. FAHC is reimbursed for outpatient services at a tentative rate, with final settlement determined after submission of annual cost reports by FAHC and audits thereof by the fiscal intermediary. Medicaid reimbursement for professional billings is determined by a standard fee schedule that is determined by the State of Vermont. Less than 10% of FAHC's net revenue in 2005 and 2004 was earned from the Medicaid program.

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.

Vermont Managed Care, Inc. (VMC), a wholly-owned subsidiary of FAHV, negotiates contracts with insurers and other payors for the provision of health care services through participating providers which are primarily its member organizations. As a result, VMC is currently managing and/or has entered into contracts with managed care plans primarily on behalf of FAHC. Under the terms of these agreements, VMC provides managed care services to subscribers of the managed care plans (the Plans) who select VMC as their primary health plan provider. Payments to FAHC for services on behalf of respective Plan subscribers are based on a discounted fee for service or a predetermined fee schedule.

Premium Revenue—FAHC has agreements with various Health Maintenance Organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, FAHC receives monthly capitation payments based on the number of each HMO's participants regardless of services actually performed by FAHC. In addition, the HMOs make fee-for-service payments to FAHC for certain covered services based upon discounted fee schedules.

Other Revenue—Other revenue consists primarily of research revenue, sales of pharmaceuticals and related products, net assets released from restrictions used for operations and rental income.

Research Grants and Contracts—Revenue related to research grants and contracts is recognized as the related costs are incurred. Indirect costs relating to certain government grants and contracts are reimbursed at fixed rates negotiated with the government agencies. Research grants and contracts are accounted for as exchange transactions. Amounts received in advance of incurring the related expenditures are recorded as unexpended research grants and are included with accrued expenses.

Goodwill—At September 30, 2005 and 2004, the carrying value of goodwill totaled \$356,000 and \$509,000, respectively. Goodwill is stated at cost and is amortized using the straight-line method over its estimated useful life. Accumulated amortization of goodwill amounted to \$428,000 and \$275,000 at September 30, 2005 and 2004, respectively.

Reserves for Outstanding Losses and Loss-Related Expenses for Malpractice 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 as well as losses pending settlement. Such liabilities are necessarily based on estimates and, while management believes that the amounts provided are adequate, the ultimate liability 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 liability are actuarially reviewed on an annual basis, and any adjustments are reflected in operations currently.

Income Taxes—FAHC and FAPC (and FAFC prior to its merger into FAHC) are incorporated and recognized by the Internal Revenue Service as tax-exempt under section 501(c)(3) of the Internal Revenue Code. Accordingly, the Internal Revenue Service has determined that FAHC and FAPC are exempt from federal income taxes on related income pursuant to section 501(a) of the Code. FAOP, FACT, and FASNF are single member limited liability corporations. As such, for tax purposes, FACT, FAOP and FASNF are treated as divisions of FAHC. Accordingly, no provision for federal income taxes has been recorded in the accompanying consolidated financial statements for these organizations.

FAHV is a for-profit subsidiary subject to federal and state taxation. A 50% interest in both Southwestern Vermont-Fletcher Allen Dialysis Services, LLC and OB Net Services, LLC is maintained by FAHC. These LLCs file federal partnership tax returns and FAHC recognizes its proportionate share of the income/loss as related function income. For these entities, FAHC applies the provisions of SFAS No. 109, “Accounting for Income Taxes.” The tax provisions, and related tax assets and liabilities, for these entities are not material.

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 2016.

Reclassifications—Certain 2004 amounts have been reclassified to conform to the 2005 presentation.

3. CHARITY CARE AND COMMUNITY SERVICE

FAHC provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because FAHC 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 FAHC’s charity care policy aggregated approximately \$17,400,000 and \$16,800,000 in 2005 and 2004, respectively.

4. ASSETS WHOSE USE IS LIMITED OR RESTRICTED

Assets whose use is limited or restricted are stated at fair value except as indicated, and consisted of the following at September 30 (in thousands):

	2005	2004
Cash and cash equivalents	\$ 4,462	\$ 2,958
Money market funds	8,691	16,433
Bonds and notes	37,110	81,556
Mutual funds	142,049	130,511
Limited partnerships (at cost)	17,940	11,940
Other	10,596	9,953
	<u>\$ 220,848</u>	<u>\$ 253,351</u>

Assets held by trustee under bond indenture agreements included approximately \$3,446,000 held in construction funds and \$30,162,000 held in debt service reserve funds at September 30, 2005, \$3,000,000 of which are reported as short-term investments.

Investment income and gains consisted of the following for the years ended September 30, 2005 and 2004 (in thousands):

	2005	2004
Nonoperating revenue and expenses:		
Investment income	\$ 5,611	\$ 3,087
Net realized gains on sales of securities	<u>2,134</u>	<u>958</u>
	<u>7,745</u>	<u>4,045</u>
Other changes in unrestricted net assets—net unrealized gains on investments	<u>5,667</u>	<u>6,568</u>
Changes in temporarily restricted net assets:		
Investment income	531	369
Net unrealized gains on investments	<u>1,050</u>	<u>1,409</u>
	<u>1,581</u>	<u>1,778</u>
Changes in permanently restricted net assets—change in beneficial interest in perpetual trusts	<u>641</u>	<u>585</u>
Total	<u>\$15,634</u>	<u>\$12,976</u>

No losses related to declines in value that were other than temporary in nature were recognized for the years ended September 30, 2005 and 2004. At September 30, 2005 and 2004, FAHC held investments that had a fair market value of approximately \$761,000 and \$170,000, respectively, less than their cost.

The amortized cost and estimated fair value of securities classified as available for sale by FAHC's for-profit subsidiaries at September 30, 2005 and 2004 were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2005				
U.S. Treasury securities	\$ 752	\$ 14	\$ -	\$ 766
Corporate debt securities	<u>500</u>	<u>1</u>	<u></u>	<u>501</u>
Total debt securities	1,252	15	-	1,267
Corporate index funds	1,492	642		2,134
Mutual funds	<u>21,658</u>	<u>2,959</u>	<u>(139)</u>	<u>24,478</u>
	<u>\$ 24,402</u>	<u>\$ 3,616</u>	<u>\$ (139)</u>	<u>\$ 27,879</u>

2004	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities	\$ 1,203	\$ 59	\$ -	\$ 1,262
Corporate debt securities	<u>498</u>	<u>23</u>	<u> </u>	<u>520</u>
Total debt securities	1,701	82		1,782
Corporate index funds	1,492	521	(17)	1,995
Mutual funds	<u>20,951</u>	<u>2,091</u>	<u> </u>	<u>23,044</u>
	<u>\$ 24,144</u>	<u>\$ 2,694</u>	<u>\$ (17)</u>	<u>\$ 26,821</u>

Proceeds from sales of available-for-sale securities were \$750,000 and \$2,600,000 for the years ended September 30, 2005 and 2004, respectively.

The amortized cost and estimated fair value of marketable debt securities classified as available for sale at September 30, 2005 and 2004, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (in thousands).

	2005		2004	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 750	\$ 752	\$ 451	\$ 458
Due within 1-5 years	<u>502</u>	<u>515</u>	<u>1,250</u>	<u>1,325</u>
	<u>\$ 1,252</u>	<u>\$ 1,267</u>	<u>\$ 1,701</u>	<u>\$ 1,783</u>

5. PROPERTY AND EQUIPMENT

A summary of property and equipment at September 30 is as follows (in thousands):

	2005	2004
Land	\$ 6,582	\$ 6,484
Land improvements	13,920	12,749
Leasehold improvements	35,769	34,791
Buildings	445,130	201,767
Equipment, furniture and fixtures	<u>210,868</u>	<u>194,939</u>
	712,269	450,730
Less accumulated depreciation and amortization	<u>(293,006)</u>	<u>(264,854)</u>
	419,263	185,876
Construction-in-progress	<u>26,427</u>	<u>179,959</u>
	<u>\$ 445,690</u>	<u>\$ 365,835</u>

Accounts payable and accrued expenses include approximately \$22,486,000 at September 30, 2005 related to a construction project. In addition, FAHC is committed to contracts approximating \$13,539,000 at September 30, 2005 for the completion of the project.

6. INVESTMENT IN AFFILIATED COMPANIES

Investment in affiliated companies consisted of the following at September 30 (in thousands):

	2005	2004
Starr Farm Partnership	\$ 3,760	\$ 3,798
The Vermont Health Plan	9,035	7,908
Other	<u>502</u>	<u>511</u>
	<u>\$ 13,297</u>	<u>\$ 12,217</u>

Distributions from these affiliated organizations totaled \$800,000 and \$1,000,000 for the years ended September 30, 2005 and 2004, respectively. FAHC's share of the earnings of these affiliates is reported as nonoperating revenue and totaled approximately \$1,900,000 and \$2,600,000 for the years ended September 30, 2005 and 2004, respectively. Summarized financial information from the unaudited financial statements of these organizations at September 30, 2005 and 2004 and for the years then ended is as follows (in thousands of dollars):

	Ownership Percentage	Total Assets	Net Assets	Change in Net Assets
2005				
Starr Farm Partnership	50 %	\$ 10,225	\$ 7,374	\$ (78)
The Vermont Health Plan	29	46,985	26,760	3,673
2004				
Starr Farm Partnership	50 %	\$ 10,492	\$ 7,452	\$ (592)
The Vermont Health Plan	29	42,630	23,087	7,227

7. LONG-TERM DEBT

Long-term debt consisted of the following at September 30, 2005 and 2004 (in thousands):

	2005	2004
Vermont Educational & Health Buildings Financing Agency		
Hospital Revenue Bonds:		
Series 2004B Bonds, variable rate (2.625% to 3.755% at September 30, 2005) payable through 2035	\$ 170,000	\$ 170,000
Series 2000A Bonds, 4.3% to 6.25%, payable through 2028, net of unamortized bond discount of \$730 and \$763	97,260	97,762
Series 2004A Bonds, 2.0% to 5.0%, payable through 2025, net of unamortized bond premium of \$1,781 and \$1,878	48,486	49,498
Series 2000B Bonds, variable rate (2.79% at September 30, 2005), payable through 2031	50,000	50,000
Select Auction Variable Rate Securities (SAVRS) 1994 Bonds, variable rate (2.389 to 4.93% at September 30, 2005), payable through 2013, net of unamortized discount of \$262 and \$291	19,688	21,709
Capital leases and other notes payable	<u>1,285</u>	<u>1,598</u>
	386,719	390,567
Less current portion	<u>(6,616)</u>	<u>(3,965)</u>
Long-term debt	<u>\$ 380,103</u>	<u>\$ 386,602</u>

Revenue Bonds—On April 15, 2004, FAHC, in connection with the Vermont Educational and Health Building Financing Agency (the Agency), issued \$170,000,000 of tax exempt revenue bonds (2004B Bonds), refunded its 1993 bonds with Series 2004A Bonds in the amount of \$47,620,000 and converted the 2000B Bonds from weekly variable rate bonds to auction rate securities. The 2004B, 2000B, and 2004A bonds are all insured. The net proceeds from the 2004B Bonds were used to refinance a construction loan and to finance the construction of a new ambulatory care building and the renovation of existing space (collectively, the “Renaissance Project”). FAHC granted the Agency a mortgage on certain property and a security interest in its gross receipts, as defined.

Various trustee held funds are required under terms of the Series 2004A and 2004B Bonds. A project fund in the amount of \$143,806,000 was established from which to pay for the cost of the Renaissance Project, and debt service reserve funds were established in the amount of \$4,772,864 and \$13,657,628 respectively, for the payment of principal and interest if FAHC fails to make required payments.

FAHC and certain of its subsidiaries are obligated under various other revenue bonds, capital leases, and notes payable. Under the terms of the loan agreements, the obligations are collateralized by liens on pledged assets and gross receipts, as defined. Various trustee held funds are required under the terms of the loan agreements (See note 4). Under one of the loan agreements, a reserve fund is required only upon the failure to meet certain financial ratios. Such ratios have been met and, as such, no funding has been required under this agreement.

Scheduled Maturities of Long-term Debt—Scheduled maturities of long-term debt and payments on capital lease obligations for the next five years and thereafter are as follows (in thousands):

Year Ending September 30

2006	\$ 6,616
2007	7,687
2008	7,070
2009	7,673
2010	7,930
Thereafter	<u>348,954</u>
	<u>\$ 385,930</u>

Loan Covenants—Under the terms of a master indenture, FAHC is required to meet certain covenant requirements. In addition, the indenture provides for restrictions on, among other things, additional indebtedness and dispositions of property. At September 30, 2005 and 2004, FAHC was in compliance with these requirements.

Interest Rate Swap Agreements—In connection with the issuance of the Series 2004B Bonds, FAHC entered into two interest rate swap contracts in the notional principal amount of \$67,500,000 each, which effectively convert the variable auction rate of the bonds to a fixed rate of 3.76% over the life of the bonds. The termination date of these swaps contracts is December 1, 2034.

In August 1993, FAHC entered into an interest rate swap agreement in the notional principal amount of \$37,600,000, covering three swaps with a combined fixed payment thereunder equal to a 4.93% interest rate on the 1994 SAVRS bond issue. The termination date of this swap agreement is September 1, 2013.

FAHC 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. FAHC and its counterparty under the 1993 swap agreement entered into a bilateral pledge agreement whereby, on a monthly basis, the counterparty calculates the aggregate exposure amount based on current market value of replacing the interest rate swap agreement with a like financial instrument should either party default. Depending upon the market price at the calculation date, FAHC or its counterparty is required to either collateralize or insure any aggregate exposure in excess of \$1,000,000. The replacement of fair value of the interest rate swap agreement with a like instrument would cause FAHC to pay approximately \$1,323,000 and \$2,191,000 at September 30, 2005 and 2004, respectively, to the counterparty. FAHC has insured this amount in excess of \$1,000,000.

FAHC's only derivatives are the interest rate swaps described above. As of September 30, 2005 and 2004, the fair value of the swap agreements of approximately \$3,865,000 and \$2,682,000, respectively, was included in other long-term liabilities, with the change in value recorded as nonoperating revenue (expense).

Line of Credit—During 2003, FAHC entered into a line-of-credit agreement with a bank, expiring in 2004, which provided for maximum borrowings of up to \$25,000,000. Borrowings under the line-of-credit were due on demand with interest at prime. The line-of-credit was paid off during 2004.

Loan Guarantees—At September 30, 2005, FAHC has guaranteed the following debt (in thousands):

Starr Farm Partnership	\$ 2,019
Copley Woodlands	171

8. OPERATING LEASES

FAHC has entered into certain operating lease agreements for the rental of building space and equipment. Rental expense amounted to \$10,004,000 and \$6,396,000 for 2005 and 2004, respectively.

Minimum future lease payments required under noncancelable operating leases at September 30, 2005 were as follows (in thousands):

Year Ending September 30	
2006	\$ 6,844
2007	5,544
2008	3,655
2009	2,224
2010	1,479
Thereafter	<u>5,348</u>
	<u>\$ 25,094</u>

The above payments exclude anticipated payments under fair market purchase options. FAHC expects to exercise fair market purchase options totaling approximately \$3,900,000 under leases in effect at September 30, 2005.

9. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes at September 30, 2005 and 2004 (in thousands):

	2005	2004
Indigent care	\$ 1,530	\$ 1,303
Education and research	4,680	3,797
Children's programs	1,361	1,187
Capital projects	3,487	5,070
Other health care services	<u>3,667</u>	<u>2,903</u>
	<u>\$ 14,725</u>	<u>\$ 14,260</u>

Permanently restricted net assets are restricted to (in thousands):

	2005	2004
Investments to be held in perpetuity, the income from which is expendable to support:		
Indigent care	\$ 4,517	\$ 4,430
Education and research	4,153	4,442
Other health care services	<u>16,230</u>	<u>15,189</u>
	<u>\$ 24,900</u>	<u>\$ 24,061</u>

10. MALPRACTICE AND OTHER CONTINGENCIES

Malpractice and Workers' Compensation—FAHC is insured against malpractice losses under a claims-made insurance policy with VMCIC. VMCIC has reinsurance with commercial carriers for coverage above a self insured retainage amount of \$5,000,000 per claim with a \$20,000,000 aggregate, with limits on such reinsurance. VMCIC provides claims-made coverage to certain affiliates of FAHC for periods prior to the merger that created FAHC.

FAHC is also self-insured for workers' compensation claims, in part through VMCIC, and maintains an excess insurance policy to limit its exposure on claims to \$500,000 per occurrence.

The reserve for outstanding losses has been discounted at a rate of 5% at September 30, 2005 and 2004, resulting in a reduction in the reserve of approximately \$1,800,000 in both years.

Activity in the reserve for outstanding losses and loss-related expenses for malpractice and workers' compensation claims is summarized as follows (in thousands):

	2005	2004
Balance—beginning of year	<u>\$ 27,238</u>	<u>\$ 26,818</u>
Losses incurred related to:		
Current period	7,373	7,736
Prior acts and tail coverage assumed	<u>(3,068)</u>	<u>(2,441)</u>
Total incurred	<u>4,305</u>	<u>5,295</u>
Paid losses related to:		
Current period	122	346
Prior period	<u>3,697</u>	<u>4,529</u>
Total paid	<u>3,819</u>	<u>4,875</u>
Net balance—end of year	27,724	27,238
Reinsurance recoverables	<u>1,537</u>	<u>—</u>
Balance—end of year	<u>\$ 29,261</u>	<u>\$ 27,238</u>

As a result of changes in estimates of incurred events in prior years, primarily professional liability, the estimate of incurred losses decreased by approximately \$3,068,000 and \$2,441,000 as of September 30, 2005 and 2004, respectively.

The reserve for losses, which was determined with the assistance of an actuarial consultant, includes estimates of claims incurred but not reported. Approximately \$4,000,000 of the reserve is included in accrued expenses and the balance of the reserve is included in the reserve for outstanding losses on malpractice and workers' compensation claims in the accompanying balance sheets.

Employee Health and Dental Insurance—FAHC maintains a self-insurance plan for employee health and dental insurance. Under the terms of the plan, employees and their dependents are eligible for participation and, as such, FAHC is responsible for the administration of the plan and any resultant liability incurred. FAHC maintained a stop-loss insurance policy to limit its exposure on claims to \$175,000 and \$150,000 per member per year, in 2005 and 2004, respectively, with a per year benefit maximum of \$1,500,000. FAHC has recorded a reserve of approximately \$4,180,000 and \$2,901,000 at September 30, 2005 and 2004, respectively, to provide for claims made and claims incurred but not reported. The amount of the reserve was determined with the assistance of an actuarial consultant and is included in accrued expenses in the accompanying balance sheets.

Institutional Compliance Agreement—FAHC entered into an Institutional Compliance Agreement (ICA) with the Office of the Inspector General of the United States Department of Health and Human Services (OIG). The five year agreement was completed in 2004. The ICA required FAHC, among other things, to provide education and training to its billing providers and billing staff and review billings submitted to federal health care programs on behalf of its employed billing providers.

Other Contingencies—FAHC and its subsidiaries are parties in various legal proceedings and potential claims arising in the ordinary course of its 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 FAHC's consolidated financial position or results of operations.

Collective Bargaining Agreement—The organization is subject to a collective bargaining agreement with respect to its RN and LPN nursing staff. The current agreement runs through July 9, 2006 and covers 1,421 staff.

11. STATUTORY CAPITAL AND SURPLUS

VMCIC is registered under the Bermuda Insurance Act of 1978 and related regulations (the "Act") and is obliged to comply with various provisions of the Act regarding minimum levels of solvency and liquidity. Statutory capital and surplus at September 30, 2005 and 2004 was \$18,969,000 and \$12,465,000, respectively, and the amount required to be maintained by VMCIC was \$2,921,000 and \$2,873,000, respectively. In addition, a minimum liquidity ratio must be maintained whereby liquid assets, as defined by the Act, must exceed 75% of defined liabilities. The minimum required level of liquid assets was \$22,000,000 and \$21,608,000 at September 30, 2005 and 2004, respectively. As of September 30, 2005 and 2004, the liquidity requirements were met. FAHC reports all of VMCIC's investments in marketable securities as restricted assets in the accompanying balance sheets.

The declaration of dividends from retained earnings and additional paid-in capital is limited to the extent that the above requirements are met. At September 30, 2005 and 2004, retained earnings and additional paid-in capital of VMCIC amounting to \$2,921,000 and \$2,873,000, respectively, was not available for distribution.

12. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS

Fletcher Allen Health Care Defined Benefit Plan—Employees of the former Medical Center Hospital of Vermont (MCHV) are covered by a pension plan, formerly the Pension Plan for Employees of Vermont Health Foundation, Inc. The Plan is a defined benefit final average pay plan with benefit accruals based on an average of salary rates on each January 1. It is the policy to fund at least the required minimum contribution under Internal Revenue Code section 412.

The Plan was amended effective January 1, 1995 to provide for the continued participation in the Plan of any eligible employee who was a member on December 31, 1994 and who was an employee on January 1, 1995. The amendment also provided that no person could become a member on and after January 1, 1995. Effective July 1, 1996, the Plan was further amended to account for a curtailment of benefits for certain other employees.

In addition to providing pension benefits, FAHC sponsors a defined benefit postretirement health care plan for retired employees. Substantially all of FAHC's employees who are at least age 55 with 15 years of pension eligibility service and all employees who are eligible for normal 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 to provide for postretirement benefits.

A reconciliation of the changes in the FAHC Defined Benefit Plan and the FAHC Defined Benefit Postretirement Health Care Plan projected benefit obligations and the fair value of assets for the years ended September 30, 2005 and 2004 follows. FAHC uses a June 30 measurement date for measuring plan assets and obligations. The premiums paid by retirees participating in the FAHC Postretirement Health Care Plan exceed the cost covered by FAHC. Therefore the projected benefit obligation has been reduced to zero.

	FAHC Defined Benefit Plan		Postretirement Health Care Plan	
	2005	2004	2005	2004
	(In thousands)			
Changes in benefit obligations:				
Projected benefit obligations—beginning of year	\$ (100,444)	\$ (93,398)	\$ -	\$ -
Service cost	(783)	(828)		
Interest cost	(6,154)	(5,498)		
Benefits paid	4,181	4,225		
Actuarial gain (loss)	<u>(19,305)</u>	<u>(4,945)</u>		
Projected benefit obligation—end of year	<u>\$ (122,505)</u>	<u>\$ (100,444)</u>	<u>\$ -</u>	<u>\$ -</u>
Changes in plan assets:				
Fair value of plan assets—beginning of year	\$ 68,039	\$ 60,516	\$ -	\$ -
Actual return on plan assets	6,769	9,748		
Contributions	7,826	2,000		
Benefits paid	<u>(4,181)</u>	<u>(4,225)</u>		
Fair value of plan assets—end of year	<u>\$ 78,453</u>	<u>\$ 68,039</u>	<u>\$ -</u>	<u>\$ -</u>
Funded status:				
Funded status of the plan	\$ (44,051)	\$ (32,404)	\$	\$ -
Contributions	1,193	7,826		
Unrecognized net (gain) loss	44,162	26,957	(691)	(768)
Unrecognized prior service costs			461	519
Unrecognized transition asset			<u>(1,011)</u>	<u>(1,213)</u>
	1,304	2,379	(1,241)	(1,462)
Additional minimum liability	<u>(41,005)</u>	<u>(23,830)</u>		
Total benefit liability	<u>\$ (39,701)</u>	<u>\$ (21,451)</u>	<u>\$ (1,241)</u>	<u>\$ (1,462)</u>
Accumulated benefit obligation	<u>\$ 119,347</u>	<u>\$ 97,316</u>		

Approximately \$4,458,000 of the above liability has been reported with accrued expenses in the accompanying balance sheets. Under the requirements of SFAS No. 87, "Employers' Accounting for Pensions," an additional minimum pension liability of \$41,005,000 and \$23,830,000, representing the excess of accumulated benefits over plan assets and accrued pension costs, was recognized at September 30, 2005 and 2004, respectively. The minimum pension liability adjustment was recorded as a reduction of net assets.

The cost components of the net periodic benefit cost for each of the plans for the years ended September 30, 2005 and 2004 are as follows:

	FAHC Defined Benefit Plan		FAHC Defined Benefit Postretirement Health Care Plan	
	2005	2004	2005	2004
	(In thousands)			
Service cost	\$ 783	\$ 828	\$	\$ -
Interest cost	6,154	5,498		
Expected return on plan assets	(6,181)	(4,977)		
Amortization of unrecognized net (gain) loss	1,512	1,492	(19)	(19)
Amortization of transitional asset			(202)	(202)
Net periodic benefit cost (benefit)	<u>\$ 2,268</u>	<u>\$ 2,841</u>	<u>\$ (221)</u>	<u>\$ (221)</u>

The weighted-average assumptions used in accounting for the defined benefit pension plan and the defined benefit postretirement health care plan are as follows:

	FAHC Defined Benefit Plan		FAHC Defined Benefit Postretirement Health Care Plan	
	2005	2004	2005	2004
Weighted-average assumptions used to determine the benefit liability:				
Discount rates	5.00 %	6.25 %	5.00 %	6.25 %
Rates of increase in future compensation levels	3.0	3.0		
Weighted-average assumptions used to determine expense:				
Discount rates	6.25	6.0		
Rates of increase in future compensation levels	3.0	3.0		
Expected long-term rate of return on plan assets	8.5	8.5		

The expected long-term rate of return for the plans' total assets is based on the expected return of each of its asset categories, weighted based on the median of the target 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, FAHC expects that the plans' asset managers will provide a modest (.5% to 1.0% per annum) premium to their respective market benchmark indices.

For measurement purposes, a 5.0% annual rate of increase in the per capita cost of covered health benefits was assumed for fiscal 2004 and remains at that level thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in assumed health care cost trend rates would not have a material effect on total service and interest cost components or the postretirement benefit obligation.

Plan Assets—FAHC’s pension plan weighted-average asset allocations at September 30, 2005 and 2004 by asset category are as follows:

Asset Category	2005	2004
Equity securities	69 %	60 %
Debt securities	13	26
Real estate investment trusts	2	2
Other	<u>16</u>	<u>12</u>
	<u>100 %</u>	<u>100 %</u>

The investment strategy as established by FAHC’s Finance Committee, 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—FAHC expects to contribute \$4,458,000 to its pension plan in 2006.

Cash Flows: Estimated Future Benefit Payments—The following benefit payments, which reflect expected future service as appropriate, are expected to be paid (in thousands):

September 30

2006	\$ 4,415
2007	4,703
2008	5,061
2009	5,489
2010	5,966
2011-2015	36,050

Medical Center of Vermont—Retirement Plan—A tax-sheltered annuity benefit plan is maintained covering substantially all of the employees of the former MCHV who have at least one year of continuous service. Contributions are determined based on a percentage of employees’ salaries up to 1.5% of pay.

Fanny Allen Hospital (“FAH”)—Pension Plan—Substantially all of the employees of the former FAH were covered by a defined contribution retirement plan. Eligibility begins after one year of service. A contribution of 4% of each eligible employee’s compensation is made to the plan. A tax-deferred annuity plan covering substantially all employees is also provided. Matching contribution is discretionary.

The Plan was amended on January 1, 1996 to discontinue all contributions effective July 1, 1996. All participants became 100% vested as of that date. The amendment also provided that no person may become a member on and after January 1, 1996. In all other respects, the Plan remained in full force and effect.

University Health Center (“UHC”)—Retirement Plan—A tax-sheltered annuity benefit plan is maintained covering substantially all of the employees of the former UHC who have at least two years of continuous service. Contributions are determined based on a percentage of employees’ salaries.

In accordance with ERISA guidelines, FAHC provided a new retirement plan for employees effective July 1, 1996. The new Plan is described as follows:

Fletcher Allen Health Care, Inc.—Retirement Plan—FAHC maintains a tax-sheltered annuity benefit plan covering substantially all of its employees who have at least six months of continuous service. Contributions are determined based on a percentage of employees' salaries up to 10% of pay.

Benefit Plan Costs—FAHC funds the benefit costs related to the above retirement and postretirement benefit plans as accrued which amounted to \$18,588,000 and \$18,114,000 for the years ended September 30, 2005 and 2004, respectively.

13. CONCENTRATIONS OF CREDIT RISK

FAHC grants credit without collateral to its patients, most of who are local residents and are insured under third-party agreements. The mix of receivable from patients and third-party payors follows:

	2005	2004
Medicare	32 %	32 %
Medicaid	20	18
Blue Cross	15	16
Other third-party payors	25	25
Patients	<u>8</u>	<u>9</u>
	<u>100 %</u>	<u>100 %</u>

14. TRANSACTIONS WITH UVM

Certain goods and services related to the affiliation with UVM were received in the ordinary course of business during the years ended September 30, 2005 and 2004.

As UVM clinical faculty, associated group physicians receive a portion of their university salary for patient care activities. That patient care compensation is an expense of FAHC, but is processed in part through the UVM payroll system. The amounts of salaries and fringe benefits for patient care and related effort processed through the UVM system approximated \$10,498,000 and \$9,178,000 in 2005 and 2004, respectively. In addition, FAHC reimburses UVM for equipment rental, research and certain other administrative expenses. Total reimbursements, including salaries and benefits, approximated \$17,116,000 and \$15,557,000 in 2005 and 2004, respectively. At September 30, 2005 and 2004, amounts due to UVM approximated \$3,689,000 and \$480,000, respectively, and are included in accrued expenses.

As part of the Renaissance Project, FAHC entered into an Education Center Development Agreement ("Development Agreement") with UVM for the construction of an education center that will provide educational facilities to the staff and employees of FAHC, and the faculty, residents, fellows and students of UVM. The Development Agreement provides that UVM will pay approximately \$9,900,000 of the costs, as therein defined, associated with the design, construction and equipping of the Education Center and FAHC will be responsible for paying the balance. Based on revised estimates of costs to complete, FAHC has recorded contribution expense in the amount of \$538,000 and \$1,225,000 for the years ended September 30, 2005 and 2004, respectively.

The Development Agreement required that FAHC provide UVM with financial security for the completion of the Education Center. Financial security consisted of a \$6,100,000 letter of credit and an escrow account containing payments otherwise due to FAHC from UVM, which totaled \$5,595,000. This amount was recorded as a note receivable at September 30, 2004. In October 2004, UVM released the escrow account to FAHC.

15. FUNCTIONAL EXPENSES

FAHC provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows (in thousands):

	2005	2004
Education and research	\$ 15,222	\$ 14,976
Health care services	445,968	421,488
Management and general	<u>174,734</u>	<u>162,775</u>
	<u>\$ 635,924</u>	<u>\$ 599,239</u>

16. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash, accounts receivable, accounts payable, accrued expenses, and accrued payroll and related benefits—The carrying amount approximates fair value because of the short maturity of these instruments.

Investments and assets whose use is limited—The fair values of some investments and assets whose use is limited are estimated based on quoted market prices for those or similar investments.

Debt—The fair value of FAHC's debt, which approximates \$399,198,930 and \$402,733,260 at September 30, 2005 and 2004, respectively, is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to FAHC for debt with the same remaining maturities.

Interest rate swaps—The fair values of interest rate swap agreements are obtained from quotes. These values represent the estimated amounts FAHC would receive or pay to terminate agreements, taking into consideration current interest rates and the current creditworthiness of the counterparty.

17. PLEDGES RECEIVABLE

In connection with the renovation and expansion project on the MCHV campus, FAHC has undertaken a capital fund raising campaign. As of September 30, 2005 and 2004 the following pledges were receivable (in thousands):

	2005	2004
Due in less than one year	\$ 1,602	\$ 1,804
Due in one to five years	1,987	3,400
Due in over five years	<u>814</u>	<u>963</u>
	4,403	6,167
Less allowances for uncollectible amounts	<u>(245)</u>	<u>(354)</u>
	<u>\$ 4,158</u>	<u>\$ 5,813</u>

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ADDITIONAL INFORMATION

FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES

OBLIGATED GROUP COMPUTATION OF LONG-TERM DEBT SERVICE COVERAGE RATIO FOR THE YEAR ENDED SEPTEMBER 30, 2005 (Dollars in thousands)

EXCESS OF REVENUE OVER EXPENSES	\$ 30,448
ADD:	
Depreciation and amortization	30,848
Interest	6,614
Loss on extinguishment of debt	<u>-</u>
INCOME AVAILABLE FOR DEBT SERVICE	<u>\$ 67,910</u>
MAXIMUM ANNUAL DEBT SERVICE	<u>\$ 23,869</u>
LONG-TERM DEBT SERVICE COVERAGE RATIO	<u>2.85</u>

FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2005 (In thousands)

	Fletcher Allen Health Care, Inc.	Fletcher Allen Health Venture, Inc.	Fletcher Allen Outpatient Pharmacies, LLC	Fletcher Allen Skilled Nursing Care, LLC	Vermont Managed Care Indemnity Company Ltd.	Fletcher Allen Facilities Corporation	Fletcher Allen Coordinated Transport	Eliminations	Total
ASSETS									
CURRENT ASSETS:									
Cash and cash equivalents	\$ 19,529	\$ 5,810	\$ 734	\$ -	\$ 5,869	\$ -	\$ 154	\$ -	\$ 32,096
Patient and other trade accounts receivable—net	88,518	3,119	1,161				264	(293)	92,769
Due from related parties			45		14,522			(14,567)	
Short-term investments	3,515								3,515
Inventories	7,152		1,900						9,052
Current portion of restricted assets					4,000				4,000
Prepaid and other current assets	<u>8,457</u>	<u>2,387</u>	<u></u>	<u></u>	<u>1,574</u>	<u></u>	<u></u>	<u></u>	<u>12,418</u>
Total current assets	<u>127,171</u>	<u>11,316</u>	<u>3,840</u>	<u>-</u>	<u>25,965</u>	<u>-</u>	<u>418</u>	<u>(14,860)</u>	<u>153,850</u>
ASSETS WHOSE USE IS LIMITED OR RESTRICTED:									
Board-designated assets	123,620								123,620
Assets held by trustee under bond indenture agreements	30,710								30,710
Restricted assets	671				23,880				24,551
Donor restricted assets for specific purposes	10,067								10,067
Donor restricted assets for permanent endowment	<u>24,900</u>	<u></u>	<u></u>	<u></u>	<u></u>	<u></u>	<u></u>	<u></u>	<u>24,900</u>
Total assets whose use is limited or restricted	<u>189,968</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,880</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>213,848</u>
PROPERTY AND EQUIPMENT—Net	<u>445,397</u>	<u>147</u>	<u>15</u>	<u></u>	<u></u>	<u></u>	<u>131</u>	<u></u>	<u>445,690</u>
OTHER ASSETS:									
Intangible assets—net	20,253								20,253
Notes and other receivables	1,296								1,296
Investment in affiliated companies	30,640			3,760				(21,103)	13,297
Pledges receivable	<u>2,645</u>	<u></u>	<u></u>	<u></u>	<u></u>	<u></u>	<u></u>	<u></u>	<u>2,645</u>
Total other assets	<u>54,834</u>	<u>-</u>	<u>-</u>	<u>3,760</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(21,103)</u>	<u>37,491</u>
TOTAL ASSETS	<u>\$817,370</u>	<u>\$11,463</u>	<u>\$3,855</u>	<u>\$3,760</u>	<u>\$49,845</u>	<u>\$ -</u>	<u>\$ 549</u>	<u>\$ (35,963)</u>	<u>\$850,879</u>

(Continued)

FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2005 (In thousands)

	Fletcher Allen Health Care, Inc.	Fletcher Allen Health Venture, Inc.	Fletcher Allen Outpatient Pharmacies, LLC	Fletcher Allen Skilled Nursing Care, LLC	Vermont Managed Care Indemnity Company Ltd.	Fletcher Allen Facilities Corporation	Fletcher Allen Coordinated Transport	Eliminations	Total
LIABILITIES AND NET ASSETS									
CURRENT LIABILITIES:									
Current installments of long-term debt	\$ 6,528	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 88	\$ -	\$ 6,616
Accounts payable	20,130	53			129				20,312
Accrued expenses and other liabilities	54,927	4,175	309				11	(293)	59,129
Accrued payroll and related benefits	29,537	96					73	(146)	29,560
Estimated third-party payor settlements	13,798								13,798
Due to related parties	12,313	1,025	300				3,134	(14,421)	2,351
Estimated amounts for incurred but unreported medical claims	5,145	6,200			4,000				15,345
Total current liabilities	142,378	11,549	609	-	4,129	-	3,306	(14,860)	147,111
LONG-TERM LIABILITIES									
Long-term debt, excluding current installments	380,065						38		380,103
Reserve for outstanding losses on malpractice and workers' compensation claims					25,261				25,261
Pension and other postretirement benefit obligations	36,485								36,485
Other long-term liabilities	3,865								3,865
Total long-term liabilities	420,415	-	-	-	25,261	-	38	-	445,714
Total liabilities	562,793	11,549	609	-	29,390	-	3,344	(14,860)	592,825
COMMITMENTS AND CONTINGENT LIABILITIES									
NET ASSETS:									
Unrestricted	214,952		3,246	3,760			(2,795)	(735)	218,429
Temporarily restricted	14,725								14,725
Permanently restricted	24,900								24,900
Retained earnings		(86)			20,454			(20,368)	
Total net assets (deficit)	254,577	(86)	3,246	3,760	20,454	-	(2,795)	(21,103)	258,054
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$817,370	\$ 11,463	\$ 3,855	\$ 3,760	\$ 49,845	\$ -	\$ 549	\$(35,963)	\$850,879

(Concluded)

FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2004 (In thousands)

	Fletcher Allen Health Care, Inc.	Fletcher Allen Health Venture, Inc.	Fletcher Allen Outpatient Pharmacies, LLC	Fletcher Allen Skilled Nursing Care, LLC	Vermont Managed Care Indemnity Company Ltd.	Fletcher Allen Facilities Corporation	Fletcher Allen Coordinated Transport	Eliminations	Total
ASSETS									
CURRENT ASSETS:									
Cash and cash equivalents	\$ 12,722	\$ 5,652	\$ 1,628	\$ -	\$ 1,686	\$ -	\$ 13	\$ -	\$ 21,701
Patient and other trade accounts receivable—net	87,874	2,777	1,680				218	(338)	92,211
Due from related parties			45		12,724			(11,327)	1,442
Short-term investments	468								468
Inventories	6,250		1,391						7,641
Prepaid and other current assets	7,935	1,306			49				9,290
Total current assets	<u>115,249</u>	<u>9,735</u>	<u>4,744</u>	<u>-</u>	<u>14,459</u>	<u>-</u>	<u>231</u>	<u>(11,665)</u>	<u>132,753</u>
ASSETS WHOSE USE IS LIMITED OR RESTRICTED:									
Board-designated assets	115,572								115,572
Assets held by trustee under bond indenture agreements	77,779								77,779
Restricted assets	671				26,821				27,492
Donor restricted assets for specific purposes	8,447								8,447
Donor restricted assets for permanent endowment	24,061								24,061
Total assets whose use is limited or restricted	<u>226,530</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,821</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>253,351</u>
PROPERTY AND EQUIPMENT—Net	<u>365,390</u>	<u>184</u>	<u>25</u>				<u>236</u>		<u>365,835</u>
OTHER ASSETS:									
Intangible assets—net	21,190								21,190
Notes receivable	6,634								6,634
Investment in affiliated companies	23,154			3,799				(14,736)	12,217
Pledges receivable	4,109								4,109
Total other assets	<u>55,087</u>	<u>-</u>	<u>-</u>	<u>3,799</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(14,736)</u>	<u>44,150</u>
TOTAL ASSETS	<u>\$762,256</u>	<u>\$ 9,919</u>	<u>\$ 4,769</u>	<u>\$ 3,799</u>	<u>\$ 41,280</u>	<u>\$ -</u>	<u>\$ 467</u>	<u>\$ (26,401)</u>	<u>\$796,089</u>

(Continued)

FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2004 (In thousands)

	Fletcher Allen Health Care, Inc.	Fletcher Allen Health Venture, Inc.	Fletcher Allen Outpatient Pharmacies, LLC	Fletcher Allen Skilled Nursing Care, LLC	Vermont Managed Care Indemnity Company Ltd.	Fletcher Allen Facilities Corporation	Fletcher Allen Coordinated Transport	Eliminations	Total
LIABILITIES AND NET ASSETS									
CURRENT LIABILITIES:									
Current installments of long-term debt	\$ 3,871	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 94	\$ -	\$ 3,965
Accounts payable	25,490	100	66		83				25,739
Accrued expenses and other liabilities	34,582	3,196					37	(338)	37,477
Accrued payroll and related benefits	29,893	87					43	(107)	29,916
Estimated third-party payor settlements	13,135								13,135
Due to related parties	8,946	201	275				1,798	(11,220)	
Estimated amounts for incurred but unreported medical claims	4,061	6,272							10,333
Total current liabilities	119,978	9,856	341	-	83	-	1,972	(11,665)	120,565
LONG-TERM LIABILITIES:									
Long-term debt, excluding current installments	386,484						118		386,602
Reserve for outstanding malpractice and workers' compensation claims					27,238				27,238
Pension and other postretirement benefit obligations	22,913								22,913
Other long-term liabilities	3,533								3,533
Total long-term liabilities	412,930	-	-	-	27,238	-	118	-	440,286
Total liabilities	532,908	9,856	341	-	27,321	-	2,090	(11,665)	560,851
COMMITMENTS AND CONTINGENT LIABILITIES									
NET ASSETS:									
Unrestricted	191,027		4,428	3,799			(1,623)	(714)	196,917
Temporarily restricted	14,260								14,260
Permanently restricted	24,061								24,061
Retained earnings		63			13,959			(14,022)	
Total net assets (deficit)	229,348	63	4,428	3,799	13,959	-	(1,623)	(14,736)	235,238
TOTAL	\$ 762,256	\$ 9,919	\$ 4,769	\$ 3,799	\$ 41,280	\$ -	\$ 467	\$ (26,401)	\$ 796,089

(Concluded)

FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED SEPTEMBER 30, 2005 (In thousands)

	Fletcher Allen Health Care, Inc.	Fletcher Allen Health Venture, Inc.	Fletcher Allen Outpatient Pharmacies, LLC	Fletcher Allen Skilled Nursing Care, LLC	Vermont Managed Care Indemnity Company Ltd.	Fletcher Allen Facilities Corporation	Fletcher Allen Coordinated Transport	Eliminations	Total
UNRESTRICTED REVENUE AND OTHER SUPPORT:									
Net patient service revenue	\$610,499	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 931	\$ (28,318)	\$583,112
Premium revenue	3,959	57,121						(2,291)	58,789
Other revenue	6,523		14,235		9,950			(12,419)	18,289
Total unrestricted revenue and other support	620,981	57,121	14,235	-	9,950	-	931	(43,028)	660,190
OPERATING EXPENSES:									
Salaries, payroll taxes and fringe benefits	371,777	1,907	1,711				1,686	(2,148)	374,933
Supplies and other	157,432	546	11,156		51		135	(12,017)	157,303
Purchased services	22,164	1,876	54		1,122		96	(402)	24,910
Depreciation and amortization	30,429	74	10				105		30,618
Interest expense	6,614						9		6,623
Provision for bad debts	12,699		(11)				71		12,759
Underwriting expenses					4,305				4,305
Medical claims		52,934						(28,461)	24,473
Total operating expenses	601,115	57,337	12,920	-	5,478	-	2,102	(43,028)	635,924
NET INCOME (LOSS) FROM OPERATIONS	19,866	(216)	1,315	-	4,472	-	(1,171)	-	24,266
NONOPERATING REVENUE (EXPENSE):									
Investment income and losses on investments	6,451	67	2		1,225				7,745
Loss on extinguishment of debt									
Unrealized gain on interest rate swap contracts	(1,183)								(1,183)
Contributions	(979)								(979)
Loss on disposal of fixed assets	(115)								(115)
Other	6,408			760				(6,455)	713
Total nonoperating revenue (expense)	10,582	67	2	760	1,225	-	-	(6,455)	6,181
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	30,448	(149)	1,317	760	5,697	-	(1,171)	(6,455)	30,447
NET UNREALIZED GAINS ON INVESTMENTS	4,867				800				5,667
ASSETS RELEASED FROM RESTRICTIONS—For capital purchase	2,573								2,573
ADDITIONAL ADJUSTMENT MINIMUM PENSION LIABILITY ADJUSTMENT	(17,175)								(17,175)
TRANSFER OF NET ASSETS	3,212							(3,212)	
EQUITY TRANSFER			(2,500)	(800)				3,300	
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	\$ 23,925	\$ (149)	\$ (1,183)	\$ (40)	\$ 6,497	\$ -	\$ (1,171)	\$ (6,367)	\$ 21,512

FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED SEPTEMBER 30, 2004 (In thousands)

	Fletcher Allen Health Care, Inc.	Fletcher Allen Health Venture, Inc.	Fletcher Allen Outpatient Pharmacies, LLC	Fletcher Allen Skilled Nursing Care, LLC	Vermont Managed Care Indemnity Company Ltd.	Fletcher Allen Facilities Corporation	Fletcher Allen Coordinated Transport	Eliminations	Total
UNRESTRICTED REVENUE AND OTHER SUPPORT:									
Net patient service revenue	\$557,453	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 656	\$(25,620)	\$532,489
Premium revenue	3,878	54,208						(2,109)	55,977
Other revenue	6,659		13,601		9,540	198	1	(12,284)	17,715
Total unrestricted revenue and other support	567,990	54,208	13,601	-	9,540	198	657	(40,013)	606,181
OPERATING EXPENSES:									
Salaries, payroll taxes and fringe benefits	350,730	1,640	1,608				1,188	(1,953)	353,213
Supplies and other	149,956	586	10,944		64	5	91	(11,587)	150,059
Purchased services	18,470	2,016	52		1,044	43	135	(697)	21,063
Depreciation and amortization	25,321	49	13				105		25,488
Interest expense	3,247						11		3,258
Provision for bad debts	16,471		81				70		16,622
Underwriting expenses					5,295				5,295
Medical claims		50,017						(25,776)	24,241
Total operating expenses	564,195	54,308	12,698	-	6,403	48	1,600	(40,013)	599,239
NET INCOME (LOSS) FROM OPERATIONS	3,795	(100)	903	-	3,137	150	(943)	-	6,942
NONOPERATING REVENUE (EXPENSE):									
Investment income and losses on investments	3,244	62	1		738				4,045
Loss on extinguishment of debt	(2,116)								(2,116)
Unrealized gain on interest rate swap contracts	182								182
Contributions	(3,457)								(3,457)
Loss on disposal of fixed assets	(1,065)								(1,065)
Other	4,385	2		703				(4,653)	437
Total nonoperating revenue (expense)	1,173	64	1	703	738	-	-	(4,653)	(1,974)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	4,968	(36)	904	703	3,875	150	(943)	(4,653)	4,968
NET UNREALIZED GAINS ON INVESTMENTS	5,584				984				6,568
ASSETS RELEASED FROM RESTRICTIONS—For capital purchases	3,559								3,559
ADDITIONAL ADJUSTMENT MINIMUM PENSION LIABILITY ADJUSTMENT	186								186
TRANSFER OF NET ASSETS	4,351								4,351
EQUITY TRANSFER				(1,000)		541		459	
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	\$ 18,648	\$ (36)	\$ 904	\$ (297)	\$ 4,859	\$ 691	\$ (943)	\$ (4,194)	\$ 19,632

FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES

OBLIGATED GROUP BALANCE SHEETS

AS OF SEPTEMBER 30, 2005 AND 2004

(In thousands)

ASSETS	2005	2004
CURRENT ASSETS:		
Cash and cash equivalents	\$ 19,529	\$ 12,722
Patient and other trade accounts receivable—net	88,518	87,874
Short-term investments	3,515	468
Inventories	7,152	6,250
Prepaid and other current assets	<u>8,457</u>	<u>7,935</u>
Total current assets	<u>127,171</u>	<u>115,249</u>
ASSETS WHOSE USE IS LIMITED OR RESTRICTED:		
Board-designated assets	123,620	115,572
Assets held by trustee under bond indenture agreements	30,710	77,779
Donor restricted assets for specific purposes	10,067	8,447
Donor restricted assets for permanent endowment	<u>24,900</u>	<u>24,061</u>
Total assets whose use is limited or restricted	<u>189,297</u>	<u>225,859</u>
PROPERTY AND EQUIPMENT—Net	<u>445,397</u>	<u>365,390</u>
OTHER ASSETS:		
Intangible assets—net	20,253	21,190
Notes and other receivables	1,296	6,634
Investment in affiliated companies	30,640	23,154
Pledges receivable	<u>2,645</u>	<u>4,109</u>
Total other assets	<u>54,834</u>	<u>55,087</u>
TOTAL	<u>\$ 816,699</u>	<u>\$ 761,585</u>

(Continued)

FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES

OBLIGATED GROUP BALANCE SHEETS

AS OF SEPTEMBER 30, 2005 AND 2004

(In thousands)

LIABILITIES AND NET ASSETS	2005	2004
CURRENT LIABILITIES:		
Current installments of long-term debt	\$ 6,528	\$ 3,871
Accounts payable	20,130	25,490
Accrued expenses and other liabilities	54,927	34,582
Accrued payroll and related benefits	29,537	29,893
Estimated third-party payor settlements	13,798	13,135
Due to related parties	12,313	8,946
Estimated amounts for incurred but unreported medical claims	<u>5,145</u>	<u>4,061</u>
Total current liabilities	<u>142,378</u>	<u>119,978</u>
LONG-TERM LIABILITIES		
Long-term debt, excluding current installments	380,065	386,484
Pension and other postretirement benefit obligations	36,485	22,913
Other long-term liabilities	<u>3,865</u>	<u>3,533</u>
Total long-term liabilities	<u>420,415</u>	<u>412,930</u>
Total liabilities	<u>562,793</u>	<u>532,908</u>
COMMITMENTS AND CONTINGENT LIABILITIES		
NET ASSETS:		
Unrestricted	214,281	190,356
Temporarily restricted	14,725	14,260
Permanently restricted	<u>24,900</u>	<u>24,061</u>
Total net assets	<u>253,906</u>	<u>228,677</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 816,699</u>	<u>\$ 761,585</u>

(Concluded)

FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES

OBLIGATED GROUP STATEMENTS OF OPERATIONS FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004 (In thousands)

	2005	2004
UNRESTRICTED REVENUE AND OTHER SUPPORT:		
Net patient service revenue	\$ 610,499	\$ 557,453
Premium revenue	3,959	3,878
Other revenue	6,523	6,659
Total unrestricted revenue and other support	620,981	567,990
EXPENSES:		
Salaries, payroll taxes and fringe benefits	371,777	350,730
Supplies and other	157,432	149,956
Purchased services	22,164	18,470
Depreciation and amortization	30,429	25,321
Interest expense	6,614	3,247
Provision for bad debts	12,699	16,471
Total expenses	601,115	564,195
NET INCOME FROM OPERATIONS	19,866	3,795
NONOPERATING REVENUE (EXPENSE):		
Investment income and losses on investments	6,451	3,244
Loss on extinguishment of debt		(2,116)
Unrealized gain in interest rate swap contracts	(1,183)	182
Contributions	(979)	(3,457)
Loss on disposals of fixed assets	(115)	(1,065)
Other	6,408	4,385
Total nonoperating revenue	10,582	1,173
EXCESS OF REVENUES OVER EXPENSES	30,448	4,968
NET UNREALIZED GAINS ON INVESTMENTS	4,867	5,584
ASSETS RELEASED FROM RESTRICTIONS FOR CAPITAL PURCHASES AND NONOPERATING EXPENDITURES	2,573	3,559
ADDITIONAL MINIMUM PENSION LIABILITY ADJUSTMENT	(17,175)	186
TRANSFER OF NET ASSETS	3,212	4,351
INCREASE IN UNRESTRICTED NET ASSETS	\$ 23,925	\$ 18,648

FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES

OBLIGATED GROUP STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004 (In thousands)

	2005	2004
UNRESTRICTED NET ASSETS:		
Excess of revenues over expenses	\$ 30,448	\$ 4,968
Net unrealized gains on investments	4,867	5,584
Assets released from restrictions for capital purchases	2,573	3,559
Transfer of net assets	3,212	4,351
Additional minimum pension liability adjustment	<u>(17,175)</u>	<u>186</u>
Increase in unrestricted net assets	<u>23,925</u>	<u>18,648</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Gifts, grants and bequests	2,284	2,688
Investment income	531	369
Net unrealized gains on investments	1,050	1,409
Net assets released from restrictions used in operations	(674)	(7,945)
Net assets released from restrictions used for nonoperating purposes	(153)	
Transfer of net assets		(4,351)
Net assets released from restrictions used for capital purchases	<u>(2,573)</u>	<u>(3,559)</u>
Increase (decrease) in temporarily restricted net assets	<u>465</u>	<u>(11,389)</u>
PERMANENTLY RESTRICTED NET ASSETS:		
Gifts, grants and bequests	198	779
Change in beneficial interest in perpetual trusts	<u>641</u>	<u>585</u>
Increase in permanently restricted net assets	<u>839</u>	<u>1,364</u>
INCREASE IN NET ASSETS	25,230	8,623
NET ASSETS—Beginning of year	<u>228,677</u>	<u>220,054</u>
NET ASSETS—End of year	<u>\$ 253,907</u>	<u>\$ 228,677</u>