Fletcher Allen Partners, Inc.
and Subsidiaries

Consolidated Financial Statements
September 30, 2013 and 2012

Fletcher Allen Partners, Inc. and Subsidiaries
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September 30, 2013 and 2012

Independent Auditor's Report

To the Board of Trustees of
Fletcher Allen Partners, Inc.:

We have audited the accompanying consolidated financial statements of Fletcher Allen Partners, Inc. and its Subsidiaries (the "Organization"), which comprise the consolidated balance sheets as of September 30, 2013 and 2012, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We did not audit the 2013 combined financial statements of Community Providers Inc. and Affiliates, a subsidiary whose sole member is Fletcher Allen Partners, Inc., which statements reflect total assets constituting 16% of consolidated total assets at September 30, 2013 and total revenues constituting 16% of consolidated total revenues for the year then ended. Those statements as of September 30, 2013 and for the nine months then ended were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Community Providers Inc. and Affiliates, is based solely on the report of the other auditors. 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 Organization'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 Organization'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, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fletcher Allen Partners, Inc. and its Subsidiaries as of September 30, 2013 and 2012, and the results of their operations, their changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations 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 and results of operations of the individual companies.

PricewaterhouseCoopers LLP

February 7, 2014

Fletcher Allen Partners, Inc. and Subsidiaries
Consolidated Balance Sheets
September 30, 2013 and 2012

(in thousands)	2013	2012
Assets		
Current assets		
Cash and cash equivalents	$ 248,852	$ 173,865
Patient and other trade accounts receivable - net of allowance for doubtful accounts of $34,150 and $26,572, respectively	175,792	132,939
Inventories	29,654	23,861
Current portion of assets whose use is limited or restricted	20,845	13,132
Receivables from third-party payers	4,951	6,140
Prepaid, other current assets, and short-term investments	55,831	27,088
Total current assets	535,925	377,025
Assets whose use is limited or restricted		
Board-designated assets	317,715	294,100
Assets held by trustee under bond indenture agreements	26,013	31,228
Restricted assets	39,006	37,319
Donor-restricted assets for specific purposes	28,708	25,351
Donor-restricted assets for permanent endowment	29,775	29,165
Total assets whose use is limited or restricted	441,217	417,163
Property and equipment, net	608,519	471,064
Other	28,909	28,938
Total assets	$ 1,614,570	$ 1,294,190
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 27,688	$ 13,489
Accounts payable	23,413	25,671
Accrued expenses and other liabilities	83,878	50,807
Accrued payroll and related benefits	90,903	72,253
Third-party payer settlements	20,926	16,916
Current portion of incurred but not reported claims	31,991	24,631
Total current liabilities	278,799	203,767
Long-term liabilities		
Long-term debt, net of current portion	470,721	401,833
Malpractice and workers' compensation claims, net of current portion	23,753	28,982
Pension and other postretirement benefit obligations	66,300	81,582
Other	29,457	21,248
Total long-term liabilities	590,231	533,645
Total liabilities	869,030	737,412
Net assets		
Unrestricted	681,708	500,374
Temporarily restricted	32,500	27,239
Permanently restricted	31,332	29,165
Total net assets	745,540	556,778
Total liabilities and net assets	$ 1,614,570	$ 1,294,190

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

Fletcher Allen Partners, Inc. and Subsidiaries
Consolidated Statements of Operations
Years Ended September 30, 2013 and 2012

(in thousands)	**2013**	**2012**
Unrestricted revenue and other support		
Net patient service revenue	$ 1,297,512	$ 1,037,259
Less: Provision for bad debts	(37,524)	(35,856)
Net patient service revenue after provision for bad debts	1,259,988	1,001,403
Enhanced Medicaid Graduate Medical Education revenues-Hospital	18,582	-
Enhanced Medicaid Graduate Medical Education revenues-Professional	48,639	-
Net patient service revenue after provision for bad debts and enhanced Medicaid Graduate Medical Education revenues	1,327,209	1,001,403
Premium revenue	120,303	106,904
Other revenue	55,118	36,242
Total unrestricted revenue and other support	1,502,630	1,144,549
Expenses		
Salaries, payroll taxes, and fringe benefits	845,394	665,704
Supplies and other	389,719	264,803
Purchased services	59,844	45,660
Depreciation and amortization	70,338	57,104
Interest expense	21,332	19,951
Underwriting expenses	12,025	14,652
Medical claims	60,197	47,609
Total expenses	1,458,849	1,115,483
Income from operations	43,781	29,066
Nonoperating gains (losses)		
Investment income	38,297	21,668
Change in fair value of interest rate swaps	9,450	(1,266)
Loss on extinguishment of debt	(1,142)	(2,834)
Contribution revenue from acquisition	45,479	52,453
Other	6,498	5,885
Total nonoperating gains	98,582	75,906
Excess of revenue over expenses	142,363	104,972
Net (decrease) increase in unrealized gains on investments	(20,805)	30,945
Net assets released from restrictions for capital purchases	7,195	334
Pension related adjustments	52,581	(18,343)
Increase in unrestricted net assets	$ 181,334	$ 117,908

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

Fletcher Allen Partners, Inc. and Subsidiaries
Statements of Changes in Net Assets
Years Ended September 30, 2013 and 2012

(in thousands)	2013	2012
Unrestricted net assets		
Excess of revenue over expenses	$ 142,363	$ 104,972
Net (decrease) increase in unrealized gains on investments	(20,805)	30,945
Net assets released from restrictions for capital purchases	7,195	334
Pension related adjustments	52,581	(18,343)
Increase in unrestricted net assets	181,334	117,908
Temporarily restricted net assets		
Gifts, grants, and bequests	9,773	2,908
Investment income	192	180
Net increase in unrealized gains on investments	1,197	3,099
Net realized gains on investments	1,728	617
Net assets released from restrictions used in operations	(2,209)	(1,522)
Net assets released from restrictions used for nonoperating purposes	(1,150)	(306)
Net assets released from restrictions used for capital purchases	(7,195)	(334)
Transfer of net assets	(29)	(64)
Contribution of temporarily restricted net assets from acquisition	2,954	6,035
Increase in temporarily restricted net assets	5,261	10,613
Permanently restricted net assets		
Gifts, grants, and bequests	75	67
Change in beneficial interest in perpetual trusts	506	941
Transfer of net assets	29	64
Contribution of permanently restricted net assets from acquisition	1,557	3,101
Increase in permanently restricted net assets	2,167	4,173
Increase in net assets	188,762	132,694
Net assets		
Beginning of year	556,778	424,084
End of year	$ 745,540	$ 556,778

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

Fletcher Allen Partners, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended September 30, 2013 and 2012

(in thousands)	**2013**	**2012**
Cash flows from operating activities		
Increase in net assets	$ 188,762	$ 132,694
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	70,338	57,104
Contribution revenue from acquisition	(49,990)	(61,589)
Provision for bad debts	37,524	35,856
Contributions restricted for long-term use	(5,478)	(67)
Pension related adjustments	(52,581)	18,343
Loss on extinguishment of debt	1,142	2,834
Gain on disposal of property and equipment	(264)	(218)
Change in fair value of interest rate swaps	(9,450)	1,266
Net realized and change in unrealized gains on investments	(13,301)	(48,943)
Undistributed losses (gains) of affiliated companies	1,293	(226)
Change in beneficial interest in perpetual trusts	(506)	(941)
Changes in operating assets and liabilities		
Increase in patient and other accounts receivable	(39,878)	(28,747)
Increase in other current and noncurrent assets	(3,584)	(5,607)
Decrease (increase) in estimated receivables from third-party payers	1,189	(901)
Increase in accounts payable and accrued expenses	17,249	16,843
Increase in accrued payroll and related expenses	5,658	7,743
(Decrease) increase in other current and noncurrent liabilities	(8,668)	11,289
Decrease in estimated settlements with third-party settlements	(6,434)	(3,580)
Decrease in pension and other postretirement benefit obligations	(10,559)	(7,398)
Net cash provided by operating activities	122,462	125,755
Cash flows from investing activities		
Purchases of property and equipment	(83,848)	(39,488)
Purchase of investments	(295,904)	(213,760)
Proceeds from sale of investments	314,003	201,683
Proceeds from sale of affiliated company	397	397
Cash received through acquisition	30,073	7,336
Net cash used in investing activities	(35,279)	(43,832)
Cash flows from financing activities		
Contributions restricted for long-term use	5,478	67
Proceeds from debt issuance	36,419	67,559
Payment of long-term debt	(53,843)	(85,438)
Debt issuance costs	(250)	(547)
Net cash used in financing activities	(12,196)	(18,359)
Net increase in cash and cash equivalents	74,987	63,564
Cash and cash equivalents		
Beginning of year	173,865	110,301
End of year	$ 248,852	$ 173,865
Supplemental cash flow information		
Cash paid during the year for interest	$ 21,233	$ 19,459
Capital expenditures included in accounts payable	4,765	3,460
Increase in fair value of assets acquired	2,634	5,390
Assets acquired under capital lease	-	571
Noncash increase in other current assets and long term debt associated with debt issuance	9,903	-

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

1. Organization

Fletcher Allen Partners, Inc. ("FAP"), established as of October 1, 2011, is a non-profit, tax-exempt Vermont corporation and the sole corporate member of Fletcher Allen Health Care, Inc., Central Vermont Medical Center, Inc., and Community Providers, Inc. FAP became the sole corporate member of Fletcher Allen Health Care, Inc. and Central Vermont Medical Center, Inc. on October 1, 2011, and Community Providers, Inc. on January 1, 2013. FAP'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.

Fletcher Allen Health Care, Inc. ("FAHC") is a tertiary care teaching hospital that, in affiliation with The University of Vermont ("UVM"), serves as Vermont's Academic Medical Center. As a regional referral center, FAHC 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 FAHC'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, FAHC 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.

FAHC is the sole member of the following subsidiaries: Fletcher Allen Health Ventures, Inc. ("FAHV"); University of Vermont Medical Group ("UVM Medical Group"); Fletcher Allen Coordinated Transport, LLC ("FACT"); Fletcher Allen Skilled Nursing Care, LLC ("FASN"); Fletcher Allen Health Care Foundation, Inc. ("FAHC Foundation"); Fletcher Allen Executive Services, LLC ("FAES"); and VMC Indemnity Company Ltd. ("VMCIC"). Vermont Managed Care, Inc. ("VMC") is a wholly owned subsidiary of FAHV. The following entities are partly owned or controlled by FAHC: Medical Education Center Condominium Association, Inc.; OB Net Services, LLC; Copley Woodlands, Inc.; Fletcher Allen Medical Group, PLLC ("FAMG"); and OneCare Vermont Accountable Care Organization, LLC ("OCV").

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

Community Providers, Inc. ("CPI") is incorporated as a not-for-profit corporation under the laws of the state of New York. CPI's primary purpose is to develop and coordinate a community and regionally focused healthcare system that provides appropriate, cost-effective care, emphasizing wellness and prevention, and promising both public and patient education.

CPI includes Champlain Valley Physician Hospital Medical Center ("CVPH"), Mediquest Corp. ("Mediquest"), Emergency Medical Transport of CVPH, Inc. ("EMT"), Champlain Valley Health Network, Inc. ("CVHN"), and Elizabethtown Community Hospital ("ECH"). CVPH is the sole member of the CVPH Medical Center Foundation, Champlain Valley Open MRI, LLC, and Valcour Imaging, Inc.

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 FAP and its subsidiaries for which it serves as the sole corporate member. 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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Significant estimates include the allowances for doubtful accounts and contractual allowances, receivables and accruals for estimated settlements with third-party payers, contingencies, self-insurance program liabilities, accrued medical claims, pension and postretirement costs, and the valuation of investments and interest rate swaps. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Most of FAP’s banking activity, including cash and cash equivalents, is maintained with several national banks and from time to time cash deposits exceed federal insurance limits. It is FAP’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 nonpatient receivables and prepaid expenses primarily related to software maintenance and other contracts. The carrying value of prepaid and other current assets is reviewed if the facts and circumstances suggest that it may be impaired.

Assets Whose Use is Limited or Restricted

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

Investments and Investment Income

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

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

FAP reviews its investments to identify those for which fair value is below cost. FAP then makes a determination as to whether the investment should be considered other-than-temporarily impaired. FAP recognized $1,047,000 and $778,000 in losses related to declines in value that were other-than-temporary in nature in the years ended September 30, 2013 and 2012, respectively.

Property and Equipment

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

Depreciation is calculated using the following estimated useful lives:

Land improvements	15 – 25 years
Building and improvements	7 – 40 years
Fixed equipment	5 – 20 years
Major moveable equipment	2 – 20 years

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

Impairment of Long-Lived Assets

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

Costs of Borrowing
Interest cost incurred on borrowed funds during the period of construction of capital assets, net of investment income on borrowed assets held by trustees, is capitalized as a component of the cost of acquiring those assets. Approximately $358,000 and $339,000 of interest was capitalized during the years ended September 30, 2013 and 2012, respectively. Net deferred financing costs totaled $13,956,000 and $13,150,000 at September 30, 2013 and 2012, respectively. Such amounts are reported within other assets and are amortized over the period the related obligations are outstanding using the effective interest method. Accumulated amortization of deferred financing costs totaled $8,290,000 and $9,746,000 at September 30, 2013 and 2012, respectively.

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

Consolidated Statement of Operations
For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as unrestricted revenue and other support and expenses. Peripheral or incidental transactions are reported as nonoperating gains (losses).

Excess of Revenue Over Expenses
The consolidated statement of operations includes excess of revenue over expenses. Changes in unrestricted net assets which are excluded from the excess of revenue over expenses, consistent with industry practice, primarily include unrealized gains and losses on investments (other than those on which other-than-temporary losses are recognized), contributions of long-lived assets (including assets acquired using contributions restricted by donors for acquiring such assets), and pension related adjustments.

Net Patient Service Revenue
Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Under the terms of various agreements, regulations, and statutes, certain elements of third-party reimbursement are subject to negotiation, audit, and/or final determination by the third-party payers. In addition, laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Differences between amounts previously estimated for retroactive adjustments and amounts subsequently determined to be recoverable or payable are included in net patient service revenue in the year that such amounts become known. Changes in prior-year estimates increased net patient service revenue by approximately $3,202,000 and $12,723,000 in the years ended September 30, 2013 and 2012, respectively.

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

Medicare

Inpatient acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient rehabilitation services are paid based on a prospective per discharge methodology. These rates vary according to a patient classification system based upon services provided, the patient's level of functionality and other factors. Outpatient services are paid based upon a prospective standard rate for procedures performed or services rendered. FAP is reimbursed for cost-reimbursable items at tentative rates, with final settlement determined after submission of annual cost reports by FAP and audits thereof by the Medicare Audit Contractor ("MAC"). Medicare reimbursement for professional billings is determined by a standard fee schedule that is determined by the Centers for Medicare and Medicaid Services of the U.S. Department of Health and Human Services. The percentage of net patient service revenue derived from the Medicare program was approximately 31% and 28% in the years ended September 30, 2013 and 2012, respectively.

Medicaid

Inpatient services rendered to 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. For inpatient rehabilitation and neonatal cases, additional reimbursement is paid through a per diem add-on. For inpatient psychiatric cases, reimbursement is based on a per diem rate calculation, including adjustments for diagnostic factors and length of stay. Outpatient services rendered to Medicaid beneficiaries are paid based upon a prospective standard rate. Certain laboratory, mammography, therapy, and dialysis services are paid on a fee schedule. Medicaid reimbursement for professional services is determined by a standard fee schedule. The Medicaid program accounts for approximately 11% of FAP's net revenue in each of the years ended September 30, 2013 and 2012.

Managed Care and Commercial Insurers

Services rendered to patients with commercial insurance are generally reimbursed at standard charges, less a negotiated discount or according to DRG or negotiated fee schedules. Approximately 44% and 46% of FAP's net revenues were derived from contracted insurers in the years ended September 30, 2013 and 2012, respectively. Approximately 9% of FAP's net revenues were derived from noncontracted insurers in each of the years ended September 30, 2013 and 2012.

VMC negotiates contracts with insurers and other payers for the provision of health care services through participating providers associated with its network. As a result, VMC is currently managing and/or has entered into contracts with managed care plans on behalf of FAP and its network providers. Under the terms of these agreements, VMC provides managed care services to subscribers of the managed care plans who select VMC as their primary health plan provider. Payments to FAP from VMC for services on behalf of respective managed care plan subscribers are based on a discounted fee for service or a predetermined fee schedule.

VMC has agreements with various Health Maintenance Organizations ("HMO") to provide medical services to subscribing participants. Under these agreements, VMC receives monthly capitation payments based on the number of each HMO's participants regardless of services actually performed. These revenues are subsequently disbursed to participating providers based on both discounted fee for service schedules and predetermined payment rates. Participating providers share a limited degree of risk through a set withhold that is only paid if cost and utilization targets are met.

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"), FAHC received increased Vermont Medicaid payments to support graduate medical education ("GME") during fiscal year 2013. The State Plan Amendment was approved by the Centers for Medicare and Medicaid Services in May 2013 with an effective date of July 1, 2011, the date of submission by the State's Department of Vermont Health Access. 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, FAHC is a qualified teaching hospital and physicians employed by UVM Medical Group are qualified teaching physicians.

The nonfederal source of these payments was provided by payments from the University of Vermont ("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. FAHC expects that UVM will enter into similar contracts for subsequent years, though there is no assurance of this. FAHC entered into a contract with the State, by which FAHC 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 FAHC's GME programs, and the State agrees to provide GME payments to FAHC during the State fiscal year. FAHC 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, FAHC and UVM have also entered into a Memorandum of Understanding ("MOU"), dated June 10, 2013 that describes the State Plan Amendment and these funding arrangements.

In June 2013, FAHC received GME funding from the State under the State Plan Amendment totaling $67.2 million, of which approximately $59.6 million had been collected and $7.6 million remained outstanding at September 30, 2013. The $67.2 million includes reimbursement to FAHC as a qualified teaching hospital in an amount of $18.6 million and reimbursement to the UVM Medical Group as qualified teaching physicians in an amount of $48.6 million. Of the $67.2 million recorded in 2013, $37.2 million was for prior fiscal years, covering the period since the effective date of the State Plan Amendment. Under the MOU, both UVM and the State retain the right to discontinue GME payments at any time in the future.

Premium Revenue
VMC has agreements with various insurers to provide medical services through its provider network to subscribing participants. Under these agreements, VMC receives monthly capitation payments based on the number of each insurer's participants, regardless of services actually performed by VMC's network of providers.

Other Revenue
Other revenue consists primarily of research revenue, sales of pharmaceuticals and related products, cafeteria sales, meaningful use revenue under governmental Electronic Health Records Incentive programs, parking garage income, net assets released from restrictions used for operations, and rental income.

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

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

Income Taxes
FAP, FAHC, CVMC, UVM Medical Group, FAMG, FAHC Foundation, CVPH, EMT, ECH and CPI 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 FAP, FAHC, CVMC, UVM Medical Group, FAMG, FAHC Foundation, CVPH, EMT, ECH and CPI are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. FACT, FAES and FASN are single-member limited liability corporations. As such, for tax purposes, FACT, FAES, and FASN are treated as divisions of FAHC. OCV is a limited liability company taxed as a partnership. Earnings and losses are passed through to the owners, both of 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.

FAHV, VMC, Mediquest and CVHN are for-profit subsidiaries subject to federal and state taxation. The tax provisions and related tax assets and liabilities for these entities are not material to the consolidated financial statements.

FAP accounts for recognition and measurement of uncertain tax positions in accordance with ASC 740. 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.

Asset Retirement Obligations
FAP 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 FAP 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 $2,796,000 and $1,272,000 at September 30, 2013 and 2012, respectively, substantially all of which relates to the estimated costs to remove asbestos that is contained within FAP's facilities. The initial asset retirement obligation was calculated using a discount rate of 4.5%-6.0%. The recorded asset retirement obligation at September 30, 2013 and 2012 was approximately $1,616,000 and $1,082,000, respectively.

Defined Benefit Pension and Other Postretirement Benefit Plans
FAP recognizes the overfunded or underfunded status of its defined benefit pension and other postretirement benefit plans (collectively, "postretirement benefit plans") in the balance sheet. Changes in the funded status of the plans are reported in the year in which the changes occur as a change in unrestricted net assets presented below the excess of revenue over expenses in the consolidated statements of operations and changes in net assets.

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

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

FAP uses the following fair value hierarchy to present its fair value disclosures:

Level 1 Quoted (unadjusted) prices for identical assets or liabilities in active markets. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Other observable inputs, either directly or indirectly, including:

- Quoted prices for identical or similar assets in nonactive markets (few transactions, limited information, noncurrent prices, high variability over time).

- Inputs other than quoted prices that are observable for the asset (interest rates, yield curves, volatilities, default rates).

- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 Unobservable inputs that cannot be corroborated by observable market data.

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

Mutual Funds
The fair values of mutual funds are based on quoted market prices for identical assets in active markets.

Money Market Funds
The fair values of money market funds are based on quoted market prices.

Bonds and Notes
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 2 were classified as such due to the usage of observable market prices for similar securities that are traded in less active markets or when observable market prices for identical securities are not available. Marketable debt instruments are priced using: nonbinding market consensus prices that are corroborated with observable market data; quoted market prices for similar instruments; or pricing models, such as a discounted cash flow model, with all significant inputs derived from or corroborated with observable market data. These Level 2 debt securities primarily include corporate bonds, notes and other debt securities.

Common Collective Trusts and Hedge Funds
The estimated fair values of common collective trusts and hedge funds are determined based upon the net asset value ("NAV") provided by the fund managers and assessed for reasonableness by management. Such information is generally based on the pro-rata interest in the net assets of the underlying investments within the fund. There are no unfunded commitments or liquidity restrictions related to these common collective trusts at September 30, 2013. FAP is able to redeem its investment in hedge funds on a calendar quarter basis after providing 90 days notice.

Beneficial Interest in Perpetual Trusts
The estimated fair values of FAP's beneficial interests in perpetual trusts are determined based upon information provided by the trustees and assessed for reasonableness by management. Such information is generally based on the pro-rata interest in the net assets of the underlying investments within the trust, which approximates fair value.

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.

3. Community Providers, Inc. Affiliation

On January 1, 2013, FAP and CPI entered into an affiliation agreement whereby FAP became the sole member of CPI. In accordance with applicable accounting guidance on not-for-profit mergers and acquisitions, FAP recorded contribution income of $49,990,000 reflecting the fair value of the contributed net assets of CPI on the transaction date. Of this amount, $45,479,000 represents unrestricted net assets and is included as a nonoperating gain in the accompanying consolidated statement of operations. Temporarily restricted net assets and permanently restricted net assets of $2,954,000 and $1,557,000, respectively, were recorded as restricted contribution income in the accompanying consolidated statement of changes in net assets.

The consolidated statement of operations reflects the activity of CPI from the date of the transaction (January 1, 2013) to September 30, 2013. No consideration was exchanged for the net assets contributed. The fair value of assets, liabilities, and net assets contributed by CPI at January 1, 2013 were as follows:

(in thousands)

Assets		
Cash and cash equivalents	$	30,073
Assets limited as to use and investments		40,898
Patient accounts receivable, net		45,207
Property plant and equipment		122,376
Other assets		14,313
Total assets acquired	$	252,867
Liabilities		
Accounts payable and accrued expenses	$	25,612
Estimated amounts due to third party payers		10,444
Long-term debt and interest rate swaps		102,675
Accrued pension and post-retirement benefits		47,858
Other liabilities		16,288
Total liabilities assumed		202,877
Net Assets		
Unrestricted		45,479
Temporary restricted		2,954
Permanently restricted		1,557
Total net assets		49,990
	$	252,867

A summary of the financial results of CPI included in the consolidated statement of operations for the period from the date of acquisition, January 1, 2013, through September 30, 2013 is as follows:

(in thousands)	
Total operating revenues	$ 233,287
Total operating expenses	231,684
Operating income	1,603
Nonoperating gains	5,645
Excess of revenues over expenses	7,248
Net assets released from restriction used for capital purchases	5,734
Change in net unrealized gains on investments	985
Pension adjustment	22,793
Increase in unrestricted net assets	$ 36,760

A summary of the consolidated financial results of Fletcher Allen Partners for the years ended September 30, 2013 and 2012, as if the affiliation had occurred on October 1, 2011 is as follows (unaudited):

(in thousands)	**2013**	**2012**
Total operating revenues	$ 1,582,379	$ 1,451,141
Total operating expenses	1,537,630	1,426,985
Operating income	44,749	24,156
Nonoperating gains	103,107	79,338
Excess of revenues over expenses	147,856	103,494
Pension related changes	56,321	(35,070)
Other changes	(11,240)	32,653
Increase in unrestricted net assets	$ 192,937	$ 101,077

4. Charity Care and Community Service

FAP provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because FAP 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 FAP’s charity care policy aggregated approximately $36,666,000 and $27,685,000 for the years ended September 30, 2013 and 2012, respectively.

Approximately $15,215,000 and $11,640,000 of FAP's total expenses for the years ended September 30, 2013 and 2012 arose from providing services to charity patients. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on FAP's total expenses divided by gross patient service revenue. For the years ended September 30, 2013 and 2012, respectively, FAP used $240,000 and $285,000 in charitable endowment earnings to help defray the costs of indigent care.

5. Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted at September 30, 2013 and 2012 consisted of the following:

(in thousands)	**2013**	**2012**
Equities	$ 14,746	$ 1,247
Mutual funds	79,044	98,922
Money market funds	21,948	22,006
Bonds and notes	37,981	41,865
Common collective trusts		
Bond funds	137,619	74,125
U.S. treasury obligation funds	37,634	45,630
International equity funds	53,127	34,861
Domestic equity funds	25,121	58,749
Commodity funds	26,448	20,392
Real estate funds	14,908	19,876
Total common collective trusts	294,857	253,633
Beneficial interest in perpetual trusts	10,599	10,093
Hedge funds	2,416	2,229
Real estate	471	300
	462,062	430,295
Less: Current portion	(20,845)	(13,132)
	$ 441,217	$ 417,163

Investment income and gains (losses) for the years ended September 30, 2013 and 2012 consisted of the following:

(in thousands)	2013	2012
Nonoperating revenue and expenses		
Investment income	$ 7,116	$ 7,386
Net realized gains	31,181	14,282
	38,297	21,668
Net (decrease) increase in unrealized gains on investments	(20,805)	30,945
Changes in temporarily restricted net assets		
Investment income	192	180
Net increase in unrealized gains on investments	1,197	3,099
Net realized gains on investments	1,728	617
	3,117	3,896
Changes in permanently restricted net assets		
Change in beneficial interest in perpetual trusts	506	941
	$ 21,115	$ 57,450

As a result of the recognition of $1,047,000 and $778,000 in losses related to declines in value that were other-than-temporary in nature during the years ended September 30, 2013 and 2012, respectively, there were no investments that had a fair value less than cost at September 30, 2013 and 2012, respectively.

The cost and estimated fair value of securities classified as available-for-sale by the organization, which excludes beneficial interest in perpetual trusts of $10,599,000 and $10,093,000, and includes short-term investments of $5,568,000 and $1,932,000 as of September 30, 2013 and 2012, respectively, and long-term investments of $4,002,000 as of September 30, 2013, is as follows:

	2013		
(in thousands)	Cost	Gross Unrealized Gains (Losses)	Estimated Fair Value
Mutual funds	$ 73,369	$ 10,077	$ 83,446
Equities	16,382	3,016	19,398
Real estate	294	177	471
Hedge funds	2,142	274	2,416
Money market funds	22,087	-	22,087
Bonds and notes	38,724	(366)	38,358
Common collective trusts	279,813	15,044	294,857
	$ 432,811	$ 28,222	$ 461,033

(in thousands)	2012 Cost	2012 Gross Unrealized Gains	2012 Estimated Fair Value
Mutual funds	$ 91,027	$ 9,827	$ 100,854
Equities	1,073	174	1,247
Real estate	165	135	300
Hedge funds	2,143	86	2,229
Money market funds	22,006	-	22,006
Bonds and notes	41,439	426	41,865
Common collective trusts	218,061	35,572	253,633
	$ 375,914	$ 46,220	$ 422,134

The following table presents information as of September 30, 2013 and 2012, about FAP's financial assets and liabilities that are measured at fair value on a recurring basis:

(in thousands)	2013 Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Fair Value
Mutual funds	$ 63,284	$ 20,162	$ -	$ 83,446
Equities	19,398	-	-	19,398
Money market funds	22,087	-	-	22,087
Hedge funds	-	-	2,416	2,416
Bonds and notes	12,921	25,437	-	38,358
Common collective trusts	-	294,857	-	294,857
Beneficial interest in perpetual trusts	-	-	10,599	10,599
Real estate	-	471	-	471
	$ 117,690	$ 340,927	$ 13,015	$ 471,632
Interest rate swap agreements	$ -	$ 17,062	$ -	$ 17,062

	2012			
(in thousands)	**Quoted Prices in Active Markets (Level 1)**	**Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**	**Fair Value**
Mutual funds	$ 72,319	$ 28,535	$ -	$ 100,854
Equities	1,247	-	-	1,247
Money market funds	22,006	-	-	22,006
Hedge funds	-	-	2,229	2,229
Bonds and notes	7,731	34,134	-	41,865
Common collective trusts	-	253,633	-	253,633
Beneficial interest in perpetual trusts	-	-	10,093	10,093
Real estate	-	300	-	300
	$ 103,303	$ 316,602	$ 12,322	$ 432,227
Interest rate swap agreements	$ -	$ 14,342	$ -	$ 14,342

A roll forward of Level 3 fair value measurements (defined above) for the years ended September 30, 2013 and 2012, is as follows:

	2013		
(in thousands)	**Beneficial Interest in Perpetual Trusts**	**Hedge Funds**	**Total Level 3 Assets**
Beginning of year	$ 10,093	$ 2,229	$ 12,322
Unrealized gains	506	187	693
End of the year	$ 10,599	$ 2,416	$ 13,015
Increase in fair value of Level 3 investments held at September 30, 2013 included in the statement of changes in net assets	$ 506	$ 187	$ 693

	2012		
(in thousands)	**Beneficial Interest in Perpetual Trusts**	**Hedge Funds**	**Total Level 3 Assets**
Beginning of year	$ 9,152	$ -	$ 9,152
Purchases	-	2,254	2,254
Sales	-	(111)	(111)
Unrealized gains	952	86	1,038
Unrealized losses	(11)	-	(11)
End of the year	$ 10,093	$ 2,229	$ 12,322
Increase in fair value of Level 3 investments held at September 30, 2012 included in the statement of changes in net assets	$ 941	$ 86	$ 1,027

6. Property and Equipment

A summary of property and equipment at September 30, 2013 and 2012 is as follows:

(in thousands)	**2013**	**2012**
Land	$ 20,234	$ 13,526
Land improvements	17,062	14,119
Leasehold improvements	44,204	40,236
Buildings	664,949	568,057
Equipment, furniture, and fixtures	383,061	295,786
	1,129,510	931,724
Less: Accumulated depreciation	(538,876)	(472,163)
	590,634	459,561
Construction–in–progress	17,885	11,503
	$ 608,519	$ 471,064

FAP wrote off approximately $3,266,000 and $3,683,000 in assets in the years ended September 30, 2013 and 2012, respectively. In conjunction with these write offs, a gain on disposal of property and equipment of $264,000 and $218,000 was recorded in the years ending September 30, 2013 and 2012, respectively, and is included in supplies and other expense. At September 30, 2013 and 2012, FAP had commitments to purchase approximately $4,765,000 and $3,460,000, respectively, of property and equipment.

FAP recorded depreciation expense of $69,672,000 and $56,436,000 for the years ended September 30, 2013 and 2012, respectively.

7. Long-Term Debt

Long-term debt at September 30, 2013 and 2012 consisted of the following:

(in thousands)	**2013**	**2012**
Vermont Educational and Health Buildings Financing Agency Hospital Revenue Bonds		
Series 2009A loan, fixed rate (5.08% to 7.23%), payable through 2024	$ 11,841	$ 12,642
Series 2008A Bonds, variable rate (0.07% at September 30, 2013), payable through 2030	54,705	54,705
Series 2007A Bonds, fixed rate (4.00% to 4.75%), payable through 2037 (including unamortized premium of $90 and $93 at September 30, 2013 and 2012, respectively)	55,945	56,098
Series 2004B Bonds, fixed rate (4.00% to 5.50%), payable through 2035 (including unamortized premium of $125 and $130 at September 30, 2013 and 2012, respectively)	147,100	149,580
Series 2004A Bonds, fixed rate (3.00% to 5.00%), payable through 2025 (including unamortized premium of $1,000 and $1,098 at September 30, 2013 and 2012, respectively)	33,535	35,513
Series 2000A Bonds, fixed rate (5.50% to 6.25%), payable through 2028 (including unamortized discount of $0 and $174 at September 30, 2013 and 2012, respectively)	-	32,376
Series 2013A Bonds, fixed rate (2.60%) payable through 2027	29,337	-
Series 1996 loan, fixed rate (4.23%), payable through 2021	9,889	11,052
Select Auction Variable-Rate Securities ("SAVRS") 1994 Bonds, variable rate maturing 2013 (including unamortized discount of $35 at September 30, 2013)	-	2,915
County of Clinton Industrial Development Agency Hospital Revenue Bonds		
Series 2006A & 2006B Bonds, variable rate (0.15% at September 30, 2013), payable through 2017	5,375	-
Series 2007B Bonds, variable rate (0.15% at September 30, 2013), payable through 2042	11,595	-
Essex County Capital Resource Corporation Hospital Revenue Bonds		
Series 2011 Bonds, variable rate (1.67% at September 30, 2013), payable through 2032	5,810	-
Other long-term debt		
Series 2002A Key Bank Bonds, variable rate (1.65% at September 30, 2013), payable through 2024	6,450	-
Series 2007A Key Bank Bonds, variable rate (1.65% at September 30, 2013), payable through 2042	18,195	-
Associates in Radiology of Plattsburg, LLC Note Payable, fixed rate (3.00%), payable through 2017	4,218	-
Community Bank Loan Payable, fixed rate (3.50%), payable through 2017	16,555	-
Capital Lease, fixed rate (0.22% to 19.51%), payable through 2017	10,940	-
KeyBank loan, variable rate (1.68% at September 30, 2013), payable through 2023	5,000	-
KeyBank loan, fixed rate (3.49%), payable through 2023	51,870	53,110
People's United loan, variable rate (1.23% at September 30, 2013), payable through 2028	9,903	-
Other Debt	10,146	7,331
	498,409	415,322
Less: Current portion	(27,688)	(13,489)
Long–term debt	$ 470,721	$ 401,833

Obligated Group

Fletcher Allen Health Care and Central Vermont Medical Center presently are the sole members of the Fletcher Allen Obligated Group ("FA Obligated Group").

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.

No obligated group exists for the CPI entities.

Revenue Bonds

On May 21, 2008, FAHC 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 FAHC's debt service reserve funds. The Series 2004B bonds require FAHC to maintain a debt service reserve fund. As of September 30, 2013 and 2012, the reserve fund balances were approximately $14,497,000 and $13,924,000, respectively.

Also on May 21, 2008, FAHC in connection with the Vermont Educational and Health Buildings Financing Agency (the "Agency"), issued $54,705,000 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 $54,705,000 and interest of $629,000), which expires in 2016. The interest rate on the Series 2008A bonds is set weekly. Series 2008A bondholders have the option to put the bonds back to FAHC. Such bonds would be subject to remarketing efforts by FAHC'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, 2016.

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.

FAHC and certain of its subsidiaries are obligated under various other revenue bonds, capital leases, and notes payable. Various trustee-held funds are required under the terms of the loan agreements. Under one of the loan agreements, a reserve fund is required only upon the failure to meet certain financial ratios. As of September 30, 2013 and 2012, no funding has been required under this agreement.

FAHC 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.

Series 1996 Bond Refinancing

In November 2011, the Series 1996 Bonds were redeemed with the proceeds of a term loan made to CVMC by People's United Bank in the amount of $11,600,000. The term loan has a fixed rate of interest of 4.23% and matures November 1, 2021. Interest payments are made monthly and principal payments in the amount of $582,000 are made semi-annually each May and November, beginning May 1, 2012 and ending on November 1, 2021. The term loan is collateralized with assets, mortgage, and all other collateral securing repayment of the Obligation as defined in the Master Trust Indenture of the Obligated Group.

Series 2002A Bonds
The Series 2002A bonds are bank qualified bonds held by Key Bank, payable in annual installments ranging from $500,000 to $700,000, plus interest at one month LIBOR times 0.6501 plus 153 basis points (1.65% at September 30, 2013) through July 2024.

Series 2006A & 2006B Bonds
The Series 2006A and 2006B bonds are County of Clinton Industrial Development Agency, Variable Rate Demand Civic Facility Revenue Bonds, Series 2006A (tax-exempt) of $12,650,000 and Series 2006B (taxable) of $100,000, payable in annual installments ranging from $1,210,000 to $1,430,000 plus interest. Interest is payable semi-annually at a variable rate reset weekly by a remarketing agent (0.15% at September 30, 2013) from July 1, 2007 through July 1, 2017. 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 8% per annum for the term of the bonds.

Series 2007A Bonds
The Series 2007A bonds are bank qualified bonds held by Key Bank, payable in annual installments ranging from $285,000 to $1,125,000, plus interest at one month LIBOR times 0.6501 plus 153 basis points (1.65% at September 30, 2013) through July 2042.

Series 2007B Bonds
The Series 2007B bonds are County of Clinton Industrial Development Agency, Variable Rate Demand Civic Facility Revenue Bonds, Series 2007B (tax-exempt), payable in annual installments ranging from $150,000 to $700,000, plus interest at one month LIBOR times 0.68 (0.15% at September 30, 2013) through July 2042.

Series 2011 Bonds
On December 1, 2011, ECH issued Essex County Capital Resource Corporation Revenue Bonds, Series 2011 in the amount of $6,160,000. The Series 2011 bonds were purchased by Key Bank, N.A. under a bond purchase agreement. As part of the agreement, the Series 2011 bonds are subject to mandatory redemption and are subject to optional tender by the bank for purchase by ECH at a price equal to the principal plus accrued and unpaid interest beginning on June 1, 2017. The Series 2011 bonds are collateralized by a mortgage that Key Bank holds with ECH. The Series 2011 bonds carry a variable interest rate of 65% of 1-month LIBOR plus 155 basis points (1.67% at September 30, 2013) due in quarterly installments through March 1, 2032.

Series 2013A Bonds
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. Bond issuance costs of $250,000 are recorded as deferred financing costs, net and will be amortized over the life of the loan. The 2013 refunding resulted in a loss on extinguishment of debt of $1,142,000.

People's United Loan
On September 30, 2013, FAHC 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 (1.23% at September 30, 2013). The proceeds of this mortgage were not received as of September 30, 2013, and a receivable was recorded in the amount of $9,903,000 and is included in other current assets. The mortgage proceeds were received on October 1, 2013. Concurrent with the issuance of the Holly Court mortgage payable, an interest rate swap was entered into whereby FAHC pays a fixed rate of 2.67% and receives a variable rate of one month LIBOR.

Scheduled Maturities of Long-Term Debt
As of September 30, 2013, scheduled maturities of long-term debt, not including a net unamortized premium of $1,215,000, for the next five years and thereafter are as follows:

(in thousands)

Years ending September 30,		
2014	$	27,688
2015		21,866
2016		20,422
2017		20,603
2018		30,997
Thereafter		375,618
	$	497,194

Loan Covenants
Under the terms of the master indenture agreement, FA Obligated Group is required to meet certain covenant requirements, as are CVPH and ECH for their respective long-term debt. In addition, the indenture provides for restrictions on, among other things, additional indebtedness and dispositions of property of the FA Obligated Group.

Letter of Credit
The 2008A letter of credit was not drawn upon as of September 30, 2013, and the scheduled maturities of long-term debt assumes the Series 2008A bonds are not put back to FA 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 $12,353,000 in the final year.

Line of Credit
CVMC has a bank line of credit that exists with a maximum borrowing of $2,000,000 at September 30, 2013. The line matures on May 31, 2014, and bears interest at the Wall Street Journal prime rate adjusted daily with a floor of 3.25%, with advances collateralized by a portion of board designated funds. There was no outstanding balance drawn on this line of credit at September 30, 2013.

CPI has an uncollateralized line of credit in the amount of $1,000,000 at September 30, 2013. The interest rate is set at a floating rate equal to LIBOR plus 150 basis points (1.68% at September 30, 2013). There was no outstanding balance on the line of credit at September 30, 2013.

CVPH has an available uncollateralized line of credit in the amount of $5,000,000 at September 30, 2013. The interest rate is set at a floating rate equal to LIBOR plus 150 basis points (1.68% at September 30, 2013). At September 30, 2013, CVPH had borrowings under the line of credit of $5,000,000.

Long-Term Debt

The estimated fair value of FAP's long-term debt is based on current traded value for public debt and current outstanding par amount for private placement debt and property loans. Such amounts at September 30, 2013 and 2012 are approximately $501,679,000 and $355,212,000, respectively.

8. 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 FAP's swap agreements. None of the swap agreements require collateral posting. Both FAP 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 FAP or the counterparty may be required to make a termination payment to the other.

Bond Series	Notional Amount September 30, 2013 ($ in 000's)	Notional Amount September 30, 2012 ($ in 000's)	Counterparty	Expiration Date	Pay Fixed	Receive Floating
2008A	$ 27,595	$ 27,595	Citibank, NA	December 1, 2034	3.76 %	66.5% of LIBOR + 32bps
2008A	27,595	27,595	Citibank, NA	December 1, 2034	3.76 %	66.5% of LIBOR + 32bps
SAVRS 1994	-	2,950	Lehman Bros. Special Financing, Inc.	September 12, 2013	4.93 %	Variable SIFMA
Holly Court Loan	9,902	-	Peoples United Bank	September 30, 2028	3.72 %	LIBOR + Swap Rate
Series 2006A	5,375	5,375	Key Bank	July 1, 2017	3.50 %	69.0% of LIBOR
Series 2007B	11,595	11,595	Key Bank	July 1, 2042	4.06 %	68.0% of LIBOR
Series 2007A	18,195	18,195	Key Bank	July 1, 2042	4.00 %	65.0% of LIBOR
Series 2011	5,205	5,205	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)	Fair Value 2013	Fair Value 2012
1994 Swap	$ -	$ (128)
2008A Swaps	(8,566)	(14,214)
Holly Court Swap	(155)	-
2006A Swap	(385)	-
2007B Swap	(2,789)	-
2007A Swap	(4,499)	-
2011 Swap	(668)	-
	$ (17,062)	$ (14,342)

The effect of interest rate swap agreements on the consolidated statement of operations and changes in net assets for 2013 and 2012 are as follows:

(in thousands)	**Location of Gain/Loss Recognized in Statement of Operations**	**Amount of Gain (Loss) Recognized in Statement of Operations** 2013	2012
1994 Swap	Gain (loss) on interest rate swap agreements	$ 128	$ 234
2008A Swaps	Gain (loss) on interest rate swap agreements	5,648	(1,500)
Holly Court Swap	Gain (loss) on interest rate swap agreements	(155)	-
2006A Swap	Gain (loss) on interest rate swap agreements	166	N/A
2007B Swap	Gain (loss) on interest rate swap agreements	1,335	N/A
2007A Swap	Gain (loss) on interest rate swap agreements	2,051	N/A
2011 Swap	Gain (loss) on interest rate swap agreements	277	N/A
		$ 9,450	$ (1,266)

9. Operating Leases

FAP 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 $15,840,000 and $12,654,000 for the year ended September 30, 2013 and 2012, respectively.

Minimum future lease payments required under noncancelable operating leases at September 30, 2013, were as follows:

(in thousands)

Years ending September 30,	
2014	$ 9,231
2015	8,354
2016	7,087
2017	5,037
2018	2,869
Thereafter	4,434
	$ 37,012

10. Net Assets

Temporarily Restricted Net Assets

At September 30, 2013 and 2012, temporarily restricted net assets are available for the following purposes:

(in thousands)	2013	2012
Indigent care	$ 1,037	$ 1,005
Education and research	11,791	10,951
Children's programs	3,141	2,437
Capital projects	2,047	710
Other health care services	12,604	10,501
Long-term care services at Woodridge	1,880	1,635
	$ 32,500	$ 27,239

At September 30, 2013 and 2012, temporarily restricted net assets include approximately $17,656,000 and $16,126,000, respectively, of accumulated gains on permanently restricted net assets, which are subject to board appropriation in accordance with state law.

Permanently Restricted Net Assets

At September 30, 2013 and 2012, income earned on permanently restricted net assets is restricted to:

(in thousands)	2013	2012
Indigent care	$ 4,705	$ 4,143
Education and research	7,094	6,902
Other health care services	18,804	17,391
Long-term care services	729	729
	$ 31,332	$ 29,165

Endowment Funds

FAP's endowment consists of approximately 92 funds established for a variety of purposes. FAP does not currently have any unrestricted funds designated by the Board of Trustees (the "Board") to function as endowment. Accordingly, for the purposes of this disclosure, endowment funds include only donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

FAP has interpreted relevant state laws for the states in which it operates as requiring realized and unrealized gains of permanently restricted net assets to be retained in a temporarily restricted net asset classification until appropriated by the Board and expended. These state laws allow the Board to appropriate the net appreciation of permanently restricted net assets as is prudent considering FAP'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, 2013 and 2012, $1,116,000 and $751,000, respectively, was appropriated.

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

Endowment Net Asset Composition and Changes in Endowment Net Assets

The following is a summary of the endowment net asset composition by type of fund at September 30, 2013 and 2012, and the changes therein for the years then ended:

Endowment Net Asset Composition by Type of Fund

	2013			
(in thousands)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
September 30, 2013				
Donor-restricted endowment funds	$ -	$ 17,656	$ 20,733	$ 38,389
	$ -	$ 17,656	$ 20,733	$ 38,389

	2012			
(in thousands)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
September 30, 2012				
Donor-restricted endowment funds	$ -	$ 16,126	$ 19,072	$ 35,198
Adjustments for funds with deficiencies	(44)	44	-	-
	$ (44)	$ 16,170	$ 19,072	$ 35,198

Changes in endowment net assets.

(in thousands)	2013 Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at September 30, 2012	$ (44)	$ 16,170	$ 19,072	$ 35,198
Acquired endowment net assets at October 1, 2012	-	14	1,557	1,571
Investment return				
Investment income	-	298	-	298
Net appreciation	-	2,422	-	2,422
Total investment return	-	2,720	-	2,720
Appropriations of endowment assets for expenditure	-	(1,116)	-	(1,116)
Adjustment for funds with deficiencies	44	(44)	-	-
Other	-	(88)	104	16
Endowment net assets at September 30, 2013	$ -	$ 17,656	$ 20,733	$ 38,389

(in thousands)	2012 Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at September 30, 2011	$ -	$ 8,891	$ 15,839	$ 24,730
Acquired endowment net assets at October 1, 2011	(163)	4,408	3,101	7,346
Investment return				
Investment income	-	251	-	251
Net appreciation	-	3,555	-	3,555
Total investment return	-	3,806	-	3,806
Appropriations of endowment assets for expenditure	-	(751)	-	(751)
Adjustment for funds with deficiencies	119	(119)	-	-
Other	-	(65)	132	67
Endowment net assets at September 30, 2012	$ (44)	$ 16,170	$ 19,072	$ 35,198

Beneficial Interest in Perpetual Trusts

The above amounts exclude FAP's beneficial interest in perpetual trusts, which are not within management's investment control. Such beneficial interests totaled $10,599,000 and $10,093,000 at September 30, 2013 and 2012, respectively.

Charitable Remainder Trust

FAP has received an irrevocable charitable remainder trust, for which FAP does not serve as trustee. For this trust, FAP recorded its beneficial interest in those assets as contributions revenue and pledges receivable at the present value of the expected future cash inflows. Trusts are recorded at the date FAP 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 either temporarily or permanently restricted net assets.

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 FAP to retain as a fund of perpetual duration. There were no deficiencies at September 30, 2013, and the deficiency at September 30, 2012 was $44,000, associated with one permanently restricted endowment fund which is managed by a trustee outside of the control of FAP management.

Investment Return Objectives and Spending Policy

FAP 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, FAP targets a diversified asset allocation that provides for a balanced portfolio.

11. Malpractice and Other Contingencies

Malpractice and Workers' Compensation

FAHC and CVMC are 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 retainage amount of $5,000,000 per claim for Professional Liability and $2,000,000 per claim for Commercial General Liability, with a $20,000,000 aggregate for Professional Liability and $10,000,000 for Commercial General Liability, with limits on such reinsurance. VMCIC provides claims-made coverage to certain affiliates of FAHC for periods prior to the merger that created FAHC.

CVPH self-insures for professional and general liability claims. A revocable trust has been established for the purpose of setting aside assets based on actuarial funding recommendations. The self-insurance liability reserves and the corresponding charges to operating expenses are based on estimates of asserted and currently identifiable unasserted claims, if any, and related legal expenses, and a provision for unknown incidents. The professional and general liability reserves are reported at their estimated undiscounted value. CVPH maintains excess commercial professional liability insurance policies which provide for self-insured retention limits of $2,000,000 per claim and $4,000,000 in the aggregate per policy year.

ECH is insured for malpractice claims under a claims-made policy. Coverage under this plan is limited to $2,000,000 per incident and $6,000,000 in the aggregate.

FAP, excluding ECH (discussed below), is also self-insured for workers' compensation claims, and maintains an excess insurance policy to limit its exposure on claims up to $1,000,000 per occurrence in the year ended September 30, 2013, with a $25,000,000 aggregate limit.

Prior to 2010, ECH provided for workers' compensation insurance through participation in the Healthcare of New York Workers Compensation Trust ("Trust"); a group self-insured trust regulated by the New York State Workers' Compensation Board ("WCB"). Participation in the Trust subjects ECH to joint and several liability. Should the Trust's assets be insufficient to cover its debts, each Trust member would be subject to a proportional premium assessment to fund the shortage. The Trust uses reinsurance agreements to reduce its exposure to large losses on both an individual and aggregate claim basis. On December 31, 2011, the Trust was voluntarily terminated. ECH has not been notified of any assessment resulting from participation in the Trust. In addition, management of ECH monitors the financial stability of the Trust on an ongoing basis in order to mitigate the risk of joint and several liability. Effective January 2010, ECH terminated the agreement with the self-insured trust and is covered under an indemnity plan with an insurance company. However, ECH remains liable for any claims during the period they were participating in the Trust, including any future assessments of the Trust.

The reserves for outstanding losses at FAHC and CVMC have been discounted at a rate of 2.9% and 3.0% at September 30, 2013 and 2012, resulting in a reduction in the reserve for professional liability of approximately $870,000 and $1,810,000 at September 30, 2013 and 2012, respectively, and a reduction in the reserve for workers' compensation of approximately $437,000 and $310,000 at September 30, 2013 and 2012, respectively.

As a result of changes in estimates of incurred events in prior years, primarily professional liability, the estimate of incurred losses increased by approximately $7,394,000 and $7,852,000 for the years ended September 30, 2013 and 2012, respectively.

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 cumulative claims between $100,000 and $175,000 per member per year in the year ended September 30, 2013, with a per-year benefit maximum equal to the amount of premiums paid under the policy. In addition to the self-insurance plan, FAHC maintained a commercial policy to limit its exposure on cumulative claims exceeding $225,000 per member per year for the years ended September 30, 2013 and 2012, respectively. FAHC and CVMC maintain a self-insured plan for employee dental.

Effective January 1, 2013, CVPH became self-insured for employee health insurance. Under the terms of the plan, employees and their dependents are eligible for participation and, as such, CVPH is responsible for the administration of the plan and any resultant liability incurred. CVPH maintained a specific stop-loss insurance policy to limit its exposure on cumulative claims exceeding $250,000 per member per year during the nine-month period ended September 30, 2013. Included in accounts payable and accrued expenses is a health insurance claims reserve of $700,000 related to claims incurred but not paid as of September 30, 2013.

Other Contingencies
FAP 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 FAP's consolidated financial position or results of operations.

12. Statutory Capital and Surplus

VMCIC is registered under the Bermuda Insurance Act of 1978 and related regulations (the "Act") and is obligated to comply with various provisions of the Act regarding minimum levels of solvency and liquidity. Statutory capital and surplus at September 30, 2013 and 2012, was $14,372,000 and $17,182,000, respectively. The required minimum statutory capital at September 30, 2013 and 2012 was $2,332,000 and $3,264,000, respectively. The required minimum surplus as of September 30, 2013 and 2012 was $1,332,000 and $2,264,000, respectively. In addition, a minimum liquidity ratio must be maintained whereby liquid assets, as defined by the Act, must exceed 75% of defined liabilities. The required minimum level of liquid assets was $17,511,000 and $24,617,000 at September 30, 2013 and 2012, respectively. The measurement of the required minimum level of liquid assets this at September 30, 2013 and 2012 is $37,213,000 and

$50,005,000, respectively. FAP reports all of VMCIC's investments in marketable securities as restricted assets in the accompanying consolidated balance sheets.

13. Pension Plans

Substantially all employees of Fletcher Allen Partners are covered under various noncontributory defined benefit pension plans, various defined contribution pension plans, or combination thereof. Total expense for these plans consists of the following:

	For the Years Ending September 30,	
(in thousands)	**2013**	**2012**
Defined benefit plans	$ 7,282	$ 8,467
Defined contribution plans	29,803	21,786
	$ 37,085	$ 30,253

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 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.

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.

Information regarding FAP benefit obligations, plan assets, funded status, expected cash flows and net periodic benefit cost follows within this footnote.

Benefit Obligations.

(in thousands)	2013	2012
Changes in benefit obligations		
Projected benefit obligations - beginning of year	$ (278,923)	$ (231,950)
Impact of affiliation	(139,177)	-
Service cost	(4,999)	(4,457)
Interest cost	(15,503)	(12,136)
Benefits paid	13,118	9,696
Actuarial gain (loss)	46,512	(40,790)
Administrative expenses paid	1,014	714
Projected benefit obligation - end of year	(377,958)	(278,923)
Accumulated benefit obligation	(372,332)	(270,156)
Changes in plan assets		
Fair value of plan assets - beginning of year	197,341	161,313
Impact of affiliation	91,319	-
Actual gain on plan assets	22,970	30,422
Contributions	14,160	16,016
Benefits paid	(13,118)	(9,696)
Administrative expenses paid	(1,014)	(714)
Fair value of plan assets - end of year	311,658	197,341
Funded status of the plan (long-term)	$ (66,300)	$ (81,582)

Unrestricted net assets at September 30, 2013 and 2012 include unrecognized actuarial losses of $27,244,000 and $105,271,000, respectively, related to the defined benefit plan. Of this amount, $2,112,000 and $3,599,000 was recognized in net periodic pension costs in the years ended September 30, 2013 and 2012, respectively. The reconciliation of the unrecognized actuarial losses for the years ended September 30, 2013 and 2012 is as follows:

(in thousands)	2013	2012
Unrecognized actuarial losses at beginning of year	$ 105,271	$ 86,764
Impact of affiliation	(25,459)	-
Net loss amortized during year	(2,112)	(3,492)
Net prior service cost amortized during year	-	(107)
Net loss (gain) during year	(50,456)	22,106
Unrecognized actuarial losses at end of year	$ 27,244	$ 105,271

The cost components of the net periodic benefit cost for the year ended September 30, 2013 and 2012 are as follows:

(in thousands)	2013	2012
Service cost	$ 4,999	$ 4,457
Interest cost	15,503	12,136
Expected return on plan assets	(19,026)	(11,737)
Amortization of unrecognized net loss	2,112	3,492
Amortization of prior service cost	-	107
Net periodic benefit cost	$ 3,588	$ 8,455

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

	2013	2012
Weighted-average assumptions used to determine the benefit liability		
Discount rates	5.0% - 5.2%	4.0% - 4.2%
Rates of increase in future compensation levels	3.0% - 3.5%	3.5% - 3.8%
Weighted-average assumptions used to determine expense		
Discount rates	4.0% - 4.2%	5.0% - 5.4%
Rates of increase in future compensation levels	3.5% - 3.8%	3.5% - 3.8%
Expected long-term rate of return on plan assets	6.5% - 8.0%	7.0% - 8.0%

The expected long-term rate of return for the FAP 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, FAP expects that the plans' asset managers will provide a modest (0.5% to 1.0% per annum) premium to their respective market benchmark indices.

Plan Assets

FAP's pension plan weighted-average asset allocations as of September 30, 2013 and 2012, by asset category, are as follows:

	2013	2012
Asset category		
Money market	- %	1 %
Bonds	17	15
Equities	24	14
Real estate	2	3
Mutual funds	16	12
Common collective trusts	41	55
	100 %	100 %

The following table presents information, as of September 30, 2013 and 2012, about FAHC's pension assets that are measured at fair value on a recurring basis:

	2013			
(in thousands)	**Quoted Prices in Active Markets (Level 1)**	**Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**	**Fair Value**
Money market	$ 1,112	$ -	$ -	$ 1,112
Bonds	39,665	13,031	-	52,696
Equities	70,130	4,375	-	74,505
Real estate	5,465	-	-	5,465
Mutual funds	51,114	-	-	51,114
Common collective trusts	-	126,766	-	126,766
	$ 167,486	$ 144,172	$ -	$ 311,658

	2012			
(in thousands)	**Quoted Prices in Active Markets (Level 1)**	**Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**	**Fair Value**
Money market	$ 1,063	$ -	$ -	$ 1,063
Bonds	17,502	11,770	-	29,272
Equities	23,436	4,687	-	28,123
Real estate	5,750	-	-	5,750
Mutual funds	24,215	-	-	24,215
Common collective trusts	-	108,918	-	108,918
	$ 71,966	$ 125,375	$ -	$ 197,341

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.

There was no Level 3 activity for the years ended September 30, 2013 and 2012.

Cash Flows - Contributions
FAP expects to contribute $16,010,000 to its pension plan in the year ending September 30, 2014.

Cash Flows - Estimated Future Benefit Payments
The following benefit payments, which reflect expected future service as appropriate, are expected to be paid:

(in thousands)

Years ending September 30,		
2014	$	16,841
2015		17,932
2016		19,303
2017		20,874
2018		22,177
2019–2022		128,045

Multiemployer Defined Benefit Plan
CVPH contributes to a multiemployer defined benefit pension plan under the terms of their collective-bargaining agreement that covers its SEIU 1199 union-represented employees. Pension expense for the nine months ended September 30, 2013 was approximately $3,694,000, and reflects increased funding requirements as a result of pension underfunding issues. CVPH may be liable for its share of unfunded vested benefits, if any, related to the union plan. Information from the union plan's administrator is not available to permit CVPH to estimate its share, if any, of unfunded vested benefits.

The risk of participating in this multiemployer plan is different from single-employer plans in the following aspects:

a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

b. If a participating employer stops contributing to the plan, the unfunded obligations of the Plan may be borne by the remaining participating employers.

c. If CVPH chooses to stop participating in the multiemployer plan, CVPH may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

CVPH's participation in the plan for the nine months ended September 30, 2013, is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number ("EIN") and the three digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act ("PPA") zone status available in 2013 is for the plan's year-end at December 31, 2012. The zone status is based on information that CVPH received from the Plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented. The last column lists the expiration date(s) of the collective-bargaining agreement to which the plan is subject.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending/ Implemented	Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
		9/30/13	12/31/12			
1199 SEIU Health Care Employees Pension Fund	13-3604862-001	not available	Green	June 26, 2009	No	April 30, 2014

CVPH was not listed on the Plans' Forms 5500 as providing more than 5 percent of the total contributions. At the date the consolidated FAP financial statements were issued, Form 5500 was not available.

14. Concentrations of Credit Risk

FAP 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, 2013 and 2012 is as follows:

	2013	2012
Medicare	27 %	23 %
Medicaid	10	10
Blue cross	17	15
Other third-party payers	25	31
Patients	21	21
	100 %	100 %

15. Transactions With UVM

FAHC has an Affiliation Agreement with UVM that was most recently renewed as of August 1, 2010, for a five year term. The Agreement automatically renews for subsequent five-year terms unless either party gives written notice of nonrenewal at least one year prior to the end of a five-year term. The Affiliation Agreement expresses the shared goals of UVM and FAHC for teaching, clinical care and research, documents the many points of close collaboration between the two organizations, provides the underpinnings for FAHC's status as an academic medical center, and obligates FAHC to provide substantial, annual financial support to UVM. The current Affiliation Agreement provides for four components of financial support to UVM: (1) payments by FAHC, 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) as a result of a Second Amendment to the Affiliation Agreement in 2013, 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 FAHC; (3) a Dean's Tax paid by UVM Medical Group; and (4) reimbursement by FAHC of certain UVM expenses for joint functions. The amounts of the commitment approximated $54,389,000 and $20,235,000 in the years ended September 30, 2013 and 2012, respectively. In addition, FAHC reimburses UVM for equipment rental, research, and certain other administrative expenses through the commitment. In addition to the commitment, FAHC made academic support payments to UVM in monthly installments. The amount of the academic support payment was $4,935,000 and $4,837,000 in the years ended September 30, 2013 and 2012, respectively. Under the Affiliation Agreement, the Dean's Tax is paid to UVM by FAHC in an amount equal to the greater of 2.3% of the Medical Group's net patient service revenues exclusive of all Medicaid revenues for that fiscal year, or $4,600,000. The amount of the Dean's Tax approximated $4,717,000 and $4,624,000 in the years ended September 30, 2013 and 2012, respectively.

16. Functional Expenses

FAP provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended September 30, 2013 and 2012, are as follows:

(in thousands)	2013	2012
Education and research	$ 2,786	$ 1,788
Health care services	1,131,565	888,360
Management and general	327,045	226,961
Total functional expenses	1,461,396	1,117,109
Less: Nonoperating expenses	2,547	1,626
Total operating expenses	$ 1,458,849	$ 1,115,483

17. Allowance for Doubtful Accounts

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, FAP analyzes its past history and identifies trends for each of its major categories of revenue (inpatient, outpatient, and professional) to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major categories of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

Accounts receivable, prior to adjustment for doubtful accounts, is summarized as follows at September 30, 2013 and 2012:

(in thousands)	2013	2012
Receivables		
Patients	$ 55,188	$ 34,034
Third-party payers	154,754	125,477
	$ 209,942	$ 159,511

The allowance for doubtful accounts is summarized as follows at September 30, 2013 and 2012:

(in thousands)	2013	2012
Allowance for doubtful accounts		
Patients	$ 24,638	$ 16,332
Third-party payers	9,512	10,240
	$ 34,150	$ 26,572

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

Net patient service revenue before the provision for bad debts and enhanced Medicaid graduate medical education revenues for the years ended September 30, 2013 and 2012, is summarized as follows:

(in thousands)	2013	2012
Net patient service revenue		
Patients	$ 58,851	$ 38,817
Third-party payers	1,238,661	998,442
	$ 1,297,512	$ 1,037,259

18. Subsequent Events

FAP has evaluated subsequent events through February 7, 2014, which is the date the financial statements were issued and has concluded that, there were no such events that require adjustments to the consolidated financial statements or disclosure in the notes to the consolidated financial statements.

Other Financial Information

Fletcher Allen Obligated Group
Obligated Group Balance Sheets
September 30, 2013 and 2012

(in thousands)	**2013**	**2012**
Assets		
Current assets		
Cash and cash equivalents	$ 197,318	$ 158,808
Patient and other trade accounts receivable - net of allowance for doubtful accounts of $25,932 and $26,572, respectively	129,983	131,606
Due from related parties	-	560
Inventories	24,120	23,861
Receivables from third-party payers	4,951	6,140
Prepaid, other current assets, and short-term investments	35,450	16,271
Total current assets	391,822	337,246
Assets whose use is limited or restricted		
Board-designated assets	304,174	294,100
Assets held by trustee under bond indenture agreements	25,883	31,228
Restricted assets	754	615
Donor restricted assets for specific purposes	28,008	25,351
Donor restricted assets for permanent endowment	29,775	29,165
Total assets whose use is limited or restricted	388,594	380,459
Property and equipment, net	483,539	470,469
Other assets		
Deferred financing costs, net	11,735	13,150
Notes receivable and other assets	5,017	9,823
Investment in affiliated companies	23,166	25,355
Pledges receivable	756	584
Total other assets	40,674	48,912
Total assets	$ 1,304,629	$ 1,237,086
Liabilities and Net Assets		
Current liabilities		
Current installments of long-term debt	$ 14,009	$ 13,489
Accounts payable	23,346	25,582
Accrued expenses and other liabilities	43,464	32,210
Accrued payroll and related benefits	75,394	72,191
Third-party payer settlements	16,778	16,916
Due to related parties	5,060	2,396
Current portion of incurred but not reported claims	15,584	13,050
Total current liabilities	193,635	175,834
Long-term liabilities		
Long-term debt, net of current installments	398,250	401,833
Pension and other postretirement benefit obligations	42,338	81,582
Other	11,049	20,998
Total long-term liabilities	451,637	504,413
Total liabilities	645,272	680,247
Net assets		
Unrestricted	600,250	500,435
Temporarily restricted	29,332	27,239
Permanently restricted	29,775	29,165
Total net assets	659,357	556,839
Total liabilities and net assets	$ 1,304,629	$ 1,237,086

Fletcher Allen Obligated Group
Obligated Group Statements of Operations
Years Ended September 30, 2013 and 2012

(in thousands)	2013	2012
Unrestricted revenue and other support		
Net patient service revenue	$ 1,105,729	$ 1,078,052
Less: Provision for bad debts	(31,376)	(35,717)
Net Patient service revenue after provision for bad debt	1,074,353	1,042,335
Enhanced Medicaid Graduate Medical Education revenues – Hospital	18,582	-
Enhanced Medicaid Graduate Medical Education revenues – Professional	48,639	-
Net patient service revenue after provision for bad debts and enhanced Medicaid Graduate Education revenues	1,141,574	1,042,335
Premium revenue	12,792	12,521
Other revenue	43,400	34,078
Total unrestricted revenue and other support	1,197,766	1,088,934
Expenses		
Salaries, payroll taxes, and fringe benefits	700,421	659,845
Supplies and other	325,428	271,617
Purchased services	54,009	41,977
Depreciation and amortization	55,977	56,961
Interest expense	18,384	19,951
Total expenses	1,154,219	1,050,351
Income from operations	43,547	38,583
Nonoperating gains (losses)		
Investment income	34,744	19,172
Gain (loss) on interest rate swap contracts	5,621	(1,266)
Loss on extinguishment of debt	(1,142)	(2,834)
Other gains (losses)	7,623	(1,077)
Total nonoperating gains	46,846	13,995
Excess of revenue over expenses	90,393	52,578
Net (decrease) increase in unrealized gains on investments	(21,827)	30,945
Net assets released from restrictions for capital purchases	1,461	334
Transfer of net assets	-	52,453
Pension related adjustments	29,788	(18,343)
Increase in unrestricted net assets	$ 99,815	$ 117,967

Fletcher Allen Obligated Group
Obligated Group Statements of Changes in Net Assets
Years Ended September 30, 2013 and 2012

(in thousands)	2013	2012
Unrestricted net assets		
Excess of revenue over expenses	$ 90,393	$ 52,578
Net (decrease) increase in unrealized gains on investments	(21,827)	30,945
Net assets released from restrictions for capital purchases	1,461	334
Pension related adjustments	29,788	(18,343)
Transfer of net assets	-	52,453
Increase in unrestricted net assets	99,815	117,967
Temporarily restricted net assets		
Gifts, grants, and bequests	4,041	2,908
Investment income	192	180
Net increase in unrealized gains on investments	1,197	3,099
Net realized gains on investments	1,512	617
Net assets released from restrictions used in operations	(2,209)	(1,522)
Net assets released from restrictions used for nonoperating purposes	(1,150)	(306)
Net assets released from restrictions used for capital purchases	(1,461)	(334)
Transfer of net assets	(29)	(64)
Contribution of temporarily restricted net assets	-	6,035
Increase in temporarily restricted net assets	2,093	10,613
Permanently restricted net assets		
Gifts, grants, and bequests	75	67
Change in beneficial interest in perpetual trusts	506	941
Transfer of net assets	29	64
Contribution of permanently restricted net assets	-	3,101
Increase in permanently restricted net assets	610	4,173
Increase in net assets	102,518	132,753
Net assets		
Beginning of year	556,839	424,086
End of year	$ 659,357	$ 556,839

Fletcher Allen Obligated Group
Consolidating Obligated Group Balance Sheet
September 30, 2013

(in thousands)	Central Vermont Hospital and Medical Group Practice	Woodridge Rehabilitation and Nursing	Total CVMC	FAHC (Hospital)	Eliminations	Total Fletcher Allen Obligated Group	Other Entities	Total Fletcher Allen Partners
Assets								
Current assets								
Cash and cash equivalents	$ 5,793	$ 138	$ 5,931	$ 191,387	$ -	$ 197,318	$ 51,534	$ 248,852
Patient accounts receivable, net	14,226	1,436	15,662	114,321	-	129,983	45,809	175,792
Due from related parties	12,346	(12,595)	(249)	-	249	-	-	-
Inventories	2,620	-	2,620	21,500	-	24,120	5,534	29,654
Receivables from third-party payors	43	-	43	4,908	-	4,951	-	4,951
Current portion of assets whose use is limited or restricted	-	-	-	-	-	-	20,845	20,845
Prepaid, other current assets, and short-term investments	3,288	-	3,288	32,162	-	35,450	20,381	55,831
Total current assets	38,316	(11,021)	27,295	364,278	249	391,822	144,103	535,925
Assets whose use is limited or restricted								
Board-designated assets	32,397	6,192	38,589	265,585	-	304,174	13,541	317,715
Assets held by trustee under bond indenture agreements	-	-	-	25,883	-	25,883	130	26,013
Restricted assets	-	-	-	754	-	754	38,252	39,006
Donor-restricted assets for specific purposes	6,672	-	6,672	21,336	-	28,008	700	28,708
Donor-restricted assets for permanent endowment	3,101	-	3,101	26,674	-	29,775	-	29,775
Total assets whose use is limited or restricted	42,170	6,192	48,362	340,232	-	388,594	52,623	441,217
Property and equipment, net	66,392	3,965	70,357	413,182	-	483,539	124,980	608,519
Other assets								
Deferred financing costs, net	-	-	-	11,735	-	11,735	186	11,921
Notes receivable and other assets	1,503	-	1,503	3,514	-	5,017	6,607	11,624
Investment in affiliated companies	-	-	-	23,166	-	23,166	(19,328)	3,838
Pledges receivable	71	-	71	685	-	756	770	1,526
Total other assets	1,574	-	1,574	39,100	-	40,674	(11,765)	28,909
Total assets	$ 148,452	$ (864)	$ 147,588	$ 1,156,792	$ 249	$ 1,304,629	$ 309,941	$ 1,614,570

Fletcher Allen Obligated Group
Consolidating Obligated Group Balance Sheet
September 30, 2013

(in thousands)	Central Vermont Hospital and Medical Group Practice	Woodridge Rehabilitation and Nursing	Total CVMC	FAHC (Hospital)	Eliminations	Total Fletcher Allen Obligated Group	Other Entities	Total Fletcher Allen Partners
Liabilities and Net Assets								
Current liabilities								
Current installments of long-term debt	$ 3,721	$ 755	$ 4,476	$ 9,533	$ -	$ 14,009	$ 13,679	$ 27,688
Accounts payable	2,285	11	2,296	21,050	-	23,346	67	23,413
Accrued expenses and other liabilities	2,097	374	2,471	40,744	249	43,464	40,414	83,878
Accrued payroll and related benefits	7,521	635	8,156	67,238	-	75,394	15,509	90,903
Third-party payer settlements	2,286	-	2,286	14,492	-	16,778	4,148	20,926
Due to related parties	-	-	-	5,060	-	5,060	(5,060)	-
Incurred but not reported claims	904	376	1,280	14,304	-	15,584	16,407	31,991
Total current liabilities	18,814	2,151	20,965	172,421	249	193,635	85,164	278,799
Long-term debt, net of current installments	16,671	3,523	20,194	378,056	-	398,250	72,471	470,721
Pension and other postretirement benefit obligations	23,173	-	23,173	19,165	-	42,338	23,962	66,300
Other	779	-	779	10,270	-	11,049	42,161	53,210
Total liabilities	59,437	5,674	65,111	579,912	249	645,272	223,758	869,030
Net assets								
Unrestricted	79,242	(6,538)	72,704	527,546	-	600,250	81,458	681,708
Temporarily restricted	6,672	-	6,672	22,660	-	29,332	3,168	32,500
Permanently restricted	3,101	-	3,101	26,674	-	29,775	1,557	31,332
Total net assets	89,015	(6,538)	82,477	576,880	-	659,357	86,183	745,540
Total liabilities and net assets	$ 148,452	$ (864)	$ 147,588	$ 1,156,792	$ 249	$ 1,304,629	$ 309,941	$ 1,614,570

Fletcher Allen Obligated Group
Consolidating Obligated Group Statement of Operations
Year Ended September 30, 2013

(in thousands)	Central Vermont Hospital and Medical Group Practice	Woodridge Rehabilitation and Nursing	Total CVMC	FAHC (Hospital)	Eliminations	Total Fletcher Allen Obligated Group	Other Entities	Total Fletcher Allen Partners
Unrestricted revenue and other support								
Net patient service revenue	$ 136,487	$ 14,185	$ 150,672	$ 955,057	$ -	$ 1,105,729	$ 191,783	$ 1,297,512
Less: Provision for bad debt	(4,716)	(110)	(4,826)	(26,550)	-	(31,376)	(6,148)	(37,524)
Net patient service revenue after provision for bad debts	131,771	14,075	145,846	928,507	-	1,074,353	185,635	1,259,988
Enhanced Medicaid Graduate Medical Education revenues – Hospital	-	-	-	18,582	-	18,582	-	18,582
Enhanced Medicaid Graduate Medical Education revenues – Professional	-	-	-	48,639	-	48,639	-	48,639
Net patient service revenue after provision for bad debts and enhanced Graduate Medical Education revenues	131,771	14,075	145,846	995,728	-	1,141,574	185,635	1,327,209
Premium revenue	1,762	-	1,762	11,030	-	12,792	107,511	120,303
Other revenue	7,540	197	7,737	36,455	(792)	43,400	11,718	55,118
Total unrestricted revenue and other support	141,073	14,272	155,345	1,043,213	(792)	1,197,766	304,864	1,502,630
Expenses								
Salary, payroll taxes and fringe benefits	91,274	10,683	101,957	598,139	325	700,421	144,973	845,394
Supplies and other	29,015	3,167	32,182	293,528	(282)	325,428	64,291	389,719
Purchased services	9,196	492	9,688	45,156	(835)	54,009	5,835	59,844
Depreciation and amortization	8,656	650	9,306	46,671	-	55,977	14,361	70,338
Interest expense	1,207	192	1,399	16,985	-	18,384	2,948	21,332
Underwriting expenses	-	-	-	-	-	-	12,025	12,025
Medical Claims	-	-	-	-	-	-	60,197	60,197
Total expenses	139,348	15,184	154,532	1,000,479	(792)	1,154,219	304,630	1,458,849
Income (loss) from operations	1,725	(912)	813	42,734	-	43,547	234	43,781
Nonoperating gains (losses)								
Investment income	849	128	977	33,767	-	34,744	3,553	38,297
Gain on interest rate swap agreements	-	-	-	5,621	-	5,621	3,829	9,450
Loss on extinguishment of debt	-	-	-	(1,142)	-	(1,142)	-	(1,142)
Contribution revenue from acquisition	-	-	-	-	-	-	45,479	45,479
Other	542	2	544	7,079	-	7,623	(1,125)	6,498
Total nonoperating gains	1,391	130	1,521	45,325	-	46,846	51,736	98,582
Excess (deficit) of revenue over expenses	3,116	(782)	2,334	88,059	-	90,393	51,970	142,363
Net increase (decrease) in unrealized gains on investments	1,993	(124)	1,869	(23,696)	-	(21,827)	1,022	(20,805)
Net assets released from restrictions for capital purchases	-	-	-	1,461	-	1,461	5,734	7,195
Pension related adjustments	18,179	-	18,179	11,609	-	29,788	22,793	52,581
Increase (decrease) in unrestricted net assets	$ 23,288	$ (906)	$ 22,382	$ 77,433	$ -	$ 99,815	$ 81,519	$ 181,334