

# **Fletcher Allen Partners, Inc. and Subsidiaries**

**Consolidated Financial Statements  
September 30, 2014 and 2013**

# Fletcher Allen Partners, Inc. and Subsidiaries

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September 30, 2014 and 2013

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## Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Fletcher Allen Partners, Inc. and Subsidiaries ("the Organization"), which comprise the consolidated balance sheets as of September 30, 2014 and 2013, and the related consolidated statements of operations, 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 financial statements of Community Providers, Inc. and Affiliates ("Community Providers, Inc."), 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. The financial statements of Community Providers, Inc. as of and for the year ended September 30, 2013 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. 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 with respect to the consolidated financial statements as of and for the year ended September 30, 2013, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fletcher Allen Partners, Inc. and Subsidiaries at September 30, 2014 and 2013, 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 Matters***

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*

December 23, 2014

**Fletcher Allen Partners, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**  
**September 30, 2014 and 2013**

(in thousands)

	2014	2013
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 268,216	\$ 248,852
Patient and other trade accounts receivable - net of allowance for doubtful accounts of \$38,300 and \$34,150, respectively	202,182	175,792
Inventories	29,766	29,654
Current portion of assets whose use is limited or restricted	27,876	20,845
Receivables from third-party payers	4,329	4,951
Prepaid, other current assets, and short-term investments	37,187	55,831
Total current assets	<u>569,556</u>	<u>535,925</u>
Assets whose use is limited or restricted		
Board-designated assets	349,054	317,715
Assets held by trustee under bond indenture agreements	28,405	26,013
Restricted assets	28,422	39,006
Donor-restricted assets for specific purposes	33,538	28,708
Donor-restricted assets for permanent endowment	31,373	29,775
Total assets whose use is limited or restricted	<u>470,792</u>	<u>441,217</u>
Property and equipment, net	599,973	608,519
Other	32,531	28,909
Total assets	<u>\$ 1,672,852</u>	<u>\$ 1,614,570</u>
<b>Liabilities and net assets</b>		
Current liabilities		
Current installments of long-term debt	\$ 28,233	\$ 27,688
Accounts payable	36,386	35,611
Accrued expenses and other liabilities	60,463	71,680
Accrued payroll and related benefits	96,219	90,903
Third-party payer settlements	16,441	20,926
Incurred but not reported claims	24,073	30,711
Total current liabilities	<u>261,815</u>	<u>277,519</u>
Long-term liabilities		
Long-term debt - net of current installments	450,114	470,721
Malpractice and workers' compensation claims net of current portion	32,459	29,463
Pension and other postretirement benefit obligations	70,663	66,300
Other	30,671	25,027
Total long-term liabilities	<u>583,907</u>	<u>591,511</u>
Total liabilities	<u>845,722</u>	<u>869,030</u>
Commitments and contingent liabilities		
Net assets		
Unrestricted	755,263	681,708
Temporarily restricted	38,873	32,500
Permanently restricted	32,994	31,332
Total net assets	<u>827,130</u>	<u>745,540</u>
	<u>\$ 1,672,852</u>	<u>\$ 1,614,570</u>

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, 2014 and 2013**

*(in thousands)*

	<b>2014</b>	<b>2013</b>
<b>Unrestricted revenue and other support</b>		
Net patient service revenue	\$ 1,455,153	\$ 1,285,667
Less: Provision for bad debts	(42,386)	(37,524)
Net patient service revenue after provision for bad debts	1,412,767	1,248,143
Enhanced Medicaid Graduate Medical Education revenues-Hospital	11,461	18,582
Enhanced Medicaid Graduate Medical Education revenues-Professional	18,818	48,639
Net patient service revenue after provision for bad debts and enhanced Medicaid Graduate Medical Education revenues	1,443,046	1,315,364
Premium revenue	42,925	120,303
Other revenue	81,580	66,963
Total unrestricted revenue and other support	1,567,551	1,502,630
<b>Expenses</b>		
Salaries, payroll taxes, and fringe benefits	929,559	845,394
Supplies and other	399,380	389,719
Purchased services	58,501	59,844
Depreciation and amortization	76,654	70,338
Interest expense	21,184	21,332
Underwriting expenses	9,902	12,025
Medical claims	12,350	60,197
Total expenses	1,507,530	1,458,849
Income from operations	60,021	43,781
<b>Nonoperating gains (losses)</b>		
Investment income	15,277	38,297
Loss on interest rate swap agreements	(2,058)	9,450
Loss on the extinguishment of debt	-	(1,142)
Contribution revenue from acquisition	-	45,479
Other	2,189	6,498
Total nonoperating gains	15,408	98,582
Excess of revenue over expenses	75,429	142,363
Net change in unrealized gains on investments	15,417	(20,805)
Net assets released from restrictions for capital purchases	3,281	7,195
Pension related adjustments	(19,238)	52,581
Other adjustments	(1,334)	-
Increase in unrestricted net assets	\$ 73,555	\$ 181,334

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, 2014 and 2013**

*(in thousands)*

	<b>2014</b>	<b>2013</b>
<b>Unrestricted net assets</b>		
Excess of revenue over expenses	\$ 75,429	\$ 142,363
Net change in unrealized gains on investments	15,417	(20,805)
Net assets released from restrictions for capital purchases	3,281	7,195
Pension related adjustments	(19,238)	52,581
Other adjustments	(1,334)	-
Increase in unrestricted net assets	<u>73,555</u>	<u>181,334</u>
<b>Temporarily restricted net assets</b>		
Gifts, grants, and bequests	9,390	9,773
Investment income	339	192
Net change in unrealized gains on investments	(281)	1,197
Net realized gains on investments	3,149	1,728
Net assets released from restrictions used in operations	(2,372)	(2,209)
Net assets released from restrictions used for nonoperating purposes	(188)	(1,150)
Net assets released from restrictions used for capital purchases	(3,281)	(7,195)
Transfer of net assets	(383)	(29)
Contribution of temporarily restricted net assets	-	2,954
Increase in temporarily restricted net assets	<u>6,373</u>	<u>5,261</u>
<b>Permanently restricted net assets</b>		
Gifts, grants, and bequests	63	75
Change in beneficial interest in perpetual trusts	1,216	506
Transfer of net assets	383	29
Contribution of permanently restricted net assets	-	1,557
Increase in permanently restricted net assets	<u>1,662</u>	<u>2,167</u>
Increase in net assets	<u>81,590</u>	<u>188,762</u>
<b>Net assets</b>		
Beginning of year	<u>745,540</u>	<u>556,778</u>
End of year	<u>\$ 827,130</u>	<u>\$ 745,540</u>

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, 2014 and 2013

(in thousands)

	2014	2013
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 81,590	\$ 188,762
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	76,654	70,338
Contribution revenue from acquisition	-	(49,990)
Provision for bad debts	42,386	37,524
Contributions and investment income restricted for long-term use	(3,104)	(5,478)
Pension related adjustments	19,238	(52,581)
Loss on extinguishment of debt	-	1,142
Gain on disposal of property and equipment	(2,396)	(264)
Loss (gain) on interest rate swap agreements	2,058	(9,450)
Realized and unrealized gains on investments	(29,649)	(13,301)
Undistributed (gains) losses of affiliated companies	(1,638)	1,293
Change in beneficial interest in perpetual trusts	(1,216)	(506)
Changes in operating assets and liabilities		
Increase in patient and other accounts receivable	(68,776)	(39,878)
Decrease (increase) in other current and noncurrent assets	6,142	(3,584)
Decrease in estimated receivables from third-party payers	622	1,189
(Decrease) increase in accounts payable and accrued expenses	(10,999)	17,249
Increase in accrued payroll and related expenses	5,316	5,658
Decrease in other current and noncurrent liabilities	(56)	(8,668)
Decrease in estimated settlements with third-party settlements	(4,485)	(6,434)
Decrease in pension and other postretirement benefit obligations	(14,875)	(10,559)
Net cash provided by operating activities	<u>96,812</u>	<u>122,462</u>
<b>Cash flows from investing activities</b>		
Acquisitions of property and equipment	(65,180)	(85,247)
Proceeds from sale of property and equipment	2,770	1,399
Purchase of investments	(232,403)	(295,904)
Proceeds from sale of investments	226,478	314,003
Proceeds from sale of affiliated company	-	397
Cash received through acquisition	-	30,073
Net cash used in investing activities	<u>(68,335)</u>	<u>(35,279)</u>
<b>Cash flows from financing activities</b>		
Contributions and investment income restricted for long-term use	3,104	5,478
Proceeds of debt issuance	9,903	36,419
Payment of long-term debt	(23,005)	(53,843)
Borrowings on line of credit	17,770	-
Repayments on line of credit	(16,885)	-
Debt issuance costs	-	(250)
Net cash used in financing activities	<u>(9,113)</u>	<u>(12,196)</u>
Net increase in cash and cash equivalents	19,364	74,987
<b>Cash and cash equivalents</b>		
Beginning of year	<u>248,852</u>	<u>173,865</u>
End of year	<u>\$ 268,216</u>	<u>\$ 248,852</u>
<b>Supplemental cash flow information</b>		
Cash paid during the year for interest	\$ 19,668	\$ 21,233
Capital expenditures included in accounts payable	5,322	4,765
Increase in fair value of assets acquired	-	2,634
Assets acquired under capital lease	2,165	-
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.



# **Fletcher Allen Partners, Inc. and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **September 30, 2014 and 2013**

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#### **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"); OneCare Vermont Accountable Care Organization, LLC ("OCV"); and Adirondack Accountable Care Organization, LLC ("ADK ACO").

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., and is a partner with FAHC in ADK ACO.

# **Fletcher Allen Partners, Inc. and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **September 30, 2014 and 2013**

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On November 12, 2014, FAP changed its name to The University of Vermont Health Network ("UVM Health Network"). The UVM Health Network name better reflects the connection to The University of Vermont College of Medicine and College of Nursing and Health Sciences, and reminds those in its service delivery areas that nationally recognized health care is available right in their communities. As a result of this branding campaign, FAHC became The University of Vermont Medical Center, and the other hospitals in the network were branded as The UVM Health Network, with their traditional hospital names remaining in place. Other subsidiaries within the FAHC structure were renamed to reflect The University of Vermont Medical Center changes.

## **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.

### **Reclassifications**

Certain amounts for the year ended September 30, 2013 have been reclassified to conform to the current year presentation.

### **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 multiple regional 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.

# **Fletcher Allen Partners, Inc. and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **September 30, 2014 and 2013**

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#### **Assets Whose Use is Limited or Restricted**

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

#### **Investments and Investment Income**

Investments in equity securities and mutual funds with readily determinable fair market values, common collective trusts, hedge funds 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 \$828,000 and \$1,047,000 in losses related to declines in value that were other-than-temporary in nature in the years ended September 30, 2014 and 2013, respectively.

#### **Property and Equipment**

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

Depreciation is calculated using the following estimated useful lives:

Land improvements	2 - 25 years
Buildings and improvements	5 - 40 years
Fixed equipment	5 - 20 years
Major moveable equipment	2 - 20 years
Automobiles	4 - 15 years
Building service equipment	5 - 30 years
Leasehold improvements	2 - 30 years

# **Fletcher Allen Partners, Inc. and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **September 30, 2014 and 2013**

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

#### **Impairment of Long-Lived Assets**

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

#### **Costs of Borrowing**

Interest cost incurred on borrowed funds during the period of construction of capital assets, net of investment income on borrowed assets held by trustees, is capitalized as a component of the cost of acquiring those assets. Approximately \$411,000 and \$358,000 of interest was capitalized during the years ended September 30, 2014 and 2013, respectively. Net deferred financing costs totaled \$11,063,000 and \$11,735,000 at September 30, 2014 and 2013, 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 \$6,461,000 and \$5,789,000 at September 30, 2014 and 2013, 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 statements of operations include the excess of revenue over expenses. Changes in unrestricted net assets which are excluded from the excess of revenue over expenses, consistent with industry practice, primarily include unrealized gains and losses on investments (other than those on which other-than-temporary losses are recognized), contributions of long-lived assets (including assets acquired using contributions restricted by donors for acquiring such assets), and pension related adjustments.

# **Fletcher Allen Partners, Inc. and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **September 30, 2014 and 2013**

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#### **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 \$2,377,000 and \$3,202,000 in the years ended September 30, 2014 and 2013, 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% in each of the years ended September 30, 2014 and 2013.

#### **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. In Vermont additional reimbursement 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 12% and 11% of FAP's net revenue for the years ended September 30, 2014 and 2013, respectively.

# **Fletcher Allen Partners, Inc. and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **September 30, 2014 and 2013**

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#### ***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 49% and 44% of FAP's net revenues were derived from contracted insurers in the years ended September 30, 2014 and 2013, respectively. Approximately 8% and 9% of FAP's net revenues were derived from noncontracted insurers in the years ended September 30, 2014 and 2013, respectively.

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. In April of 2014, VMC operations shifted from actively managing monthly capitation payments to providing contract run-out services for its last two payer partnerships. The final settlement of the last two contracts will occur in fiscal year 2015.

#### **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") beginning in 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.

FAHC received GME funding from the State under the State Plan Amendment totaling \$30.3 million for the fiscal year ending September 30, 2014. The \$30.3 million includes reimbursement to FAHC as a qualified teaching hospital in an amount of \$11.5 million and reimbursement to the UVM Medical Group as qualified teaching physicians in an amount of \$18.8 million. In 2013, FAHC received GME funding from the State under the State Plan Amendment totaling \$67.2 million, which included retroactive amounts back to the effective date of July 1, 2011. Under the MOU, both UVM and the State retain the right to discontinue GME payments at any time in the future.

# **Fletcher Allen Partners, Inc. and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **September 30, 2014 and 2013**

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#### **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. The remaining two payer contracts under these agreements ended by the second quarter of fiscal year 2014. No additional payer contracts are anticipated in the near future under the VMC risk-arrangement model.

#### **Other Revenue**

Other revenue consists primarily of research revenue, non-patient related contract revenues, 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.

# **Fletcher Allen Partners, Inc. and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **September 30, 2014 and 2013**

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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 \$3,103,000 and \$2,796,000 at September 30, 2014 and 2013, 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, 2014 and 2013 was approximately \$1,665,000 and \$1,616,000, 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).



# Fletcher Allen Partners, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

### September 30, 2014 and 2013

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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, 2014. FAP is able to redeem its investment in hedge funds on a calendar quarter basis after providing 90 days notice.

# **Fletcher Allen Partners, Inc. and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **September 30, 2014 and 2013**

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#### ***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. 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 \$27,777,000 and \$36,666,000 for the years ended September 30, 2014 and 2013, respectively.

Approximately \$10,763,000 and \$15,215,000 of FAP's total expenses for the years ended September 30, 2014 and 2013 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, 2014 and 2013, respectively, FAP used \$250,000 and \$240,000 in charitable endowment earnings to help defray the costs of indigent care.

**Fletcher Allen Partners, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2014 and 2013**

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

Assets whose use is limited or restricted at September 30, 2014 and 2013 consisted of the following:

<i>(in thousands)</i>	<b>2014</b>	<b>2013</b>
Equities	\$ 14,450	\$ 13,323
Mutual funds	88,687	79,044
Money market funds	21,153	21,900
Bonds and notes	39,861	37,536
Common collective trusts		
Bond funds	130,588	137,619
U.S. treasury obligation funds	38,507	37,634
International equity funds	68,149	53,127
Domestic equity funds	29,805	25,121
Commodity funds	23,155	26,448
Real estate funds	27,672	14,908
Total common collective trusts	<u>317,876</u>	<u>294,857</u>
Beneficial interest in perpetual trusts	14,072	12,856
Hedge funds	2,569	2,416
Real estate	-	130
	<u>498,668</u>	<u>462,062</u>
Less: Current portion	<u>(27,876)</u>	<u>(20,845)</u>
	<u><u>\$ 470,792</u></u>	<u><u>\$ 441,217</u></u>

Investment income and gains (losses) for the years ended September 30, 2014 and 2013 consisted of the following:

<i>(in thousands)</i>	<b>2014</b>	<b>2013</b>
<b>Nonoperating gains (losses)</b>		
Investment income	\$ 3,913	\$ 7,116
Net realized gains on investments	<u>11,364</u>	<u>31,181</u>
Investment income recorded in nonoperating gains (losses)	<u>15,277</u>	<u>38,297</u>
Net change in unrealized gains on investments	<u>15,417</u>	<u>(20,805)</u>
<b>Changes in temporarily restricted net assets</b>		
Investment income	339	192
Net change in unrealized gains on investments	(281)	1,197
Net realized gains on investments	<u>3,149</u>	<u>1,728</u>
	<u>3,207</u>	<u>3,117</u>
<b>Changes in permanently restricted net assets</b>		
Change in beneficial interest in perpetual trusts	<u>1,216</u>	<u>506</u>
	<u><u>\$ 35,117</u></u>	<u><u>\$ 21,115</u></u>

**Fletcher Allen Partners, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2014 and 2013**

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FAP recognized \$828,000 and \$1,047,000 in losses related to declines in value that were other-than-temporary in nature during the years ended September 30, 2014 and 2013, 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 \$14,072,000 and \$12,856,000, and includes short-term investments of \$6,205,000 and \$5,568,000 as of September 30, 2014 and 2013, respectively, and long-term investments of \$4,222,000 and \$4,002,000 as of September 30, 2014 and 2013, respectively, is as follows:

<b>2014</b>			
<b>Gross</b>			
<b>Unrealized</b>			
<b>Gains</b>			
<b>Estimated</b>			
<b>Fair Value</b>			
<i>(in thousands)</i>	<b>Cost</b>		
Mutual funds	\$ 80,845	\$ 11,788	\$ 92,633
Equities	16,531	2,364	18,895
Real estate	192	13	205
Hedge funds	2,597	431	3,028
Money market funds	21,670	131	21,801
Bonds and notes	40,546	(233)	40,313
Common collective trusts	289,418	28,730	318,148
	<u>\$ 451,799</u>	<u>\$ 43,224</u>	<u>\$ 495,023</u>
<b>2013</b>			
<b>Gross</b>			
<b>Unrealized</b>			
<b>Gains</b>			
<b>Estimated</b>			
<b>Fair Value</b>			
<i>(in thousands)</i>	<b>Cost</b>		
Mutual funds	\$ 73,369	\$ 10,077	\$ 83,446
Equities	15,298	2,677	17,975
Real estate	129	1	130
Hedge funds	2,142	274	2,416
Money market funds	22,039	-	22,039
Bonds and notes	38,279	(366)	37,913
Common collective trusts	279,813	15,044	294,857
	<u>\$ 431,069</u>	<u>\$ 27,707</u>	<u>\$ 458,776</u>

**Fletcher Allen Partners, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2014 and 2013**

The following table presents information as of September 30, 2014 and 2013, about FAP's financial assets and liabilities that are measured at fair value on a recurring basis:

<b>2014</b>				
<i>(in thousands)</i>	<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Other Observable Inputs (Level 2)</b>	<b>Unobservable Inputs (Level 3)</b>	<b>Fair Value</b>
Mutual funds	\$ 92,633	\$ -	\$ -	\$ 92,633
Equities	18,895	-	-	18,895
Money market funds	21,801	-	-	21,801
Hedge funds	-	459	2,569	3,028
Bonds and notes	30,468	9,845	-	40,313
Common collective trusts	-	318,148	-	318,148
Beneficial interest in perpetual trusts	-	-	14,072	14,072
Real estate	-	205	-	205
	<u>\$ 163,797</u>	<u>\$ 328,657</u>	<u>\$ 16,641</u>	<u>\$ 509,095</u>
Interest rate swap agreements	<u>\$ -</u>	<u>\$ 19,120</u>	<u>\$ -</u>	<u>\$ 19,120</u>

  

<b>2013</b>				
<i>(in thousands)</i>	<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Other Observable Inputs (Level 2)</b>	<b>Unobservable Inputs (Level 3)</b>	<b>Fair Value</b>
Mutual funds	\$ 82,693	\$ 753	\$ -	\$ 83,446
Equities	17,975	-	-	17,975
Money market funds	22,039	-	-	22,039
Hedge funds	-	-	2,416	2,416
Bonds and notes	12,476	25,437	-	37,913
Common collective trusts	-	294,857	-	294,857
Beneficial interest in perpetual trusts	-	-	12,856	12,856
Real estate	-	130	-	130
	<u>\$ 135,183</u>	<u>\$ 321,177</u>	<u>\$ 15,272</u>	<u>\$ 471,632</u>
Interest rate swap agreements	<u>\$ -</u>	<u>\$ 17,062</u>	<u>\$ -</u>	<u>\$ 17,062</u>

The table above has been revised from the previous presentation in FAP's consolidated financial statements to correctly present \$2,257,000 of equities, money market funds, bonds and notes, and real estate investments previously disclosed as Level 1 or Level 2 investments to Level 3 beneficial interest in perpetual trusts as of September 30, 2013. The table has also been revised to correctly present \$19,409,000 of mutual funds previously disclosed as Level 2 investments to Level 1 investments as of September 30, 2013. FAP has concluded that these revisions do not have a material impact to the prior period financial statements.

**Fletcher Allen Partners, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2014 and 2013**

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A roll forward of Level 3 fair value measurements (defined above) for the years ended September 30, 2014 and 2013, is as follows:

	<b>2014</b>		
	<b>Beneficial Interest in Perpetual Trusts</b>	<b>Hedge Funds</b>	<b>Total Level 3 Assets</b>
<i>(in thousands)</i>			
<b>Beginning of year</b>	\$ 12,856	\$ 2,416	\$ 15,272
Purchases	-	-	-
Sales	-	-	-
Unrealized gains	1,216	153	1,369
Unrealized losses	-	-	-
<b>End of the year</b>	<u>\$ 14,072</u>	<u>\$ 2,569</u>	<u>\$ 16,641</u>
Increase in fair value of Level 3 investments held at September 30, included in the statement of changes in net assets	<u>\$ 1,216</u>	<u>\$ 153</u>	<u>\$ 1,369</u>
<b>2013</b>			
	<b>Beneficial Interest in Perpetual Trusts</b>	<b>Hedge Funds</b>	<b>Total Level 3 Assets</b>
<i>(in thousands)</i>			
<b>Beginning of year</b>	\$ 12,350	\$ 2,229	\$ 14,579
Purchases	-	-	-
Sales	-	-	-
Unrealized gains	506	187	693
Unrealized losses	-	-	-
<b>End of the year</b>	<u>\$ 12,856</u>	<u>\$ 2,416</u>	<u>\$ 15,272</u>
Increase in fair value of Level 3 investments held at September 30, included in the statement of changes in net assets	<u>\$ 506</u>	<u>\$ 187</u>	<u>\$ 693</u>

**Fletcher Allen Partners, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
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**5. Property and Equipment**

A summary of property and equipment at September 30, 2014 and 2013 is as follows:

<i>(in thousands)</i>	<b>2014</b>	<b>2013</b>
Land	\$ 20,461	\$ 20,234
Land improvements	17,125	17,062
Leasehold improvements	45,786	44,204
Buildings	694,424	664,949
Equipment, furniture, and fixtures	414,939	383,061
	<u>1,192,735</u>	<u>1,129,510</u>
Less: Accumulated depreciation	<u>(608,611)</u>	<u>(538,876)</u>
	584,124	590,634
Construction-in-progress	<u>15,849</u>	<u>17,885</u>
	<u>\$ 599,973</u>	<u>\$ 608,519</u>

FAP wrote off approximately \$3,035,000 and \$3,266,000 in gross property and equipment in the years ended September 30, 2014 and 2013, respectively. FAP received \$2,770,000 and \$1,399,000 in proceeds for these assets for the years ended September 30, 2014 and 2013, respectively, and recorded a gain on disposal of property and equipment of \$2,396,000 and \$264,000 in the years ended September 30, 2014 and 2013, respectively. These gains are included in supplies and other expense. At September 30, 2014 and 2013, FAP had commitments to purchase approximately \$19,397,000 and \$4,765,000, respectively, of property and equipment.

FAP recorded depreciation expense of \$76,074,000 and \$69,672,000 for the years ended September 30, 2014 and 2013, respectively.

# Fletcher Allen Partners, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

### September 30, 2014 and 2013

#### 6. Long-Term Debt

Long-term debt at September 30, 2014 and 2013 consisted of the following:

<i>(in thousands)</i>	2014	2013
<b>Vermont Educational and Health Buildings Financing Agency</b>		
<b>Hospital Revenue Bonds</b>		
Series 2009A loan, fixed rate (5.08% to 7.23%), payable through 2024	\$ 10,999	\$ 11,841
Series 2008A Bonds, variable rate (0.04% at September 30, 2014), payable through 2030	54,705	54,705
Series 2007A Bonds, fixed rate (4.00% to 4.75%), payable through 2037 (including unamortized premium of \$86 and \$90 at September 30, 2014 and 2013, respectively)	55,791	55,945
Series 2004B Bonds, fixed rate (4.00% to 5.50%), payable through 2035 (including unamortized premium of \$119 and \$125 at September 30, 2014 and 2013, respectively)	143,843	147,100
Series 2004A Bonds, fixed rate (3.00% to 5.00%), payable through 2025 (including unamortized premium of \$903 and \$1,000 at September 30, 2014 and 2013, respectively)	31,383	33,535
Series 2013A Bonds, fixed rate (2.597%) payable through 2027	29,012	29,337
Series 1996 loan, fixed rate (4.23%), payable through 2021	8,683	9,889
<b>County of Clinton Industrial Development Agency</b>		
<b>Hospital Revenue Bonds</b>		
Series 2006A & 2006B Bonds, variable rate (3.65% at September 30, 2014), payable through 2017	4,115	5,375
Series 2007B Bonds, variable rate (0.11% at September 30, 2014), payable through 2042	11,395	11,595
<b>Essex County Capital Resource Corporation</b>		
<b>Hospital Revenue Bonds</b>		
Series 2011 Bonds, variable rate (1.67% at September 30, 2014), payable through 2032	5,590	5,810
<b>Other long-term debt</b>		
Series 2002A Key Bank Bonds, variable rate (1.65% at September 30, 2014), payable through 2024	5,950	6,450
Series 2007A Key Bank Bonds, variable rate (4.10% at September 30, 2014), payable through 2042	17,895	18,195
Associates in Radiology of Plattsburg, LLC Note Payable, fixed rate (3.00%), payable through 2017	3,334	4,218
Community Bank Loan Payable, fixed rate (3.50%), payable through 2017	15,944	16,555
Capital lease, fixed rate (0.30% to 19.51%), payable through 2020	8,489	10,940
KeyBank loan, variable rate (2.00% at September 30, 2014), payable through 2023	4,885	5,000
KeyBank loan, fixed rate (3.49%), payable through 2023	48,310	51,870
People's United loan, fixed rate (2.67%) payable through 2028	9,446	9,903
Other debt	8,578	10,146
	478,347	498,409
Less: Current portion	(28,233)	(27,688)
Long-term debt	<u>\$ 450,114</u>	<u>\$ 470,721</u>

#### 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.

An obligated group does not exist for the CPI entities.



# **Fletcher Allen Partners, Inc. and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **September 30, 2014 and 2013**

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#### **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, 2014 and 2013, the reserve fund balances were approximately \$15,031,000 and \$14,497,000, 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, 2014 and 2013, 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.

# **Fletcher Allen Partners, Inc. and Subsidiaries**

## **Notes to Consolidated Financial Statements**

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#### **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, 2014) 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 (3.65% at September 30, 2014) 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 (4.10% at September 30, 2014) 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 (0.11% at September 30, 2014) through July 2042. 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 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, 2014) 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.

# Fletcher Allen Partners, Inc. and Subsidiaries

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#### 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 (1.21% at September 30, 2014). 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, 2014, scheduled maturities of long-term debt, not including a net unamortized premium of \$1,108,000 for the next five years and thereafter are as follows:

*(in thousands)*

Years Ending September 30,	
2015	\$ 28,233
2016	21,021
2017	20,945
2018	31,078
2019	16,950
Thereafter	359,012
	<u>\$ 477,239</u>

#### Loan Covenants

Under the terms of the master indenture agreement, the 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, 2014, and the scheduled maturities of long-term debt assumes the Series 2008A bonds are not put back to the 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.

The 2007B letter of credit was not drawn upon as of September 30, 2014, and the scheduled maturities of long-term debt assumes the Series 2007B bonds are not put back to the borrower. If the letter of credit was drawn upon and the bond is not remarketed for 180 days, such bond shall be subject to mandatory redemption on the first business day of each month, commencing with the first such business day of the first full month after the bond redemption commencement date over 60 consecutive months in equal principal amounts plus accrued interest at the bank rate. Subsequent to year-end, but prior to the issuance of the financial statements, CVPH's letter of credit was extended through March 2, 2016.

The 2006A letter of credit was not drawn upon as of September 30, 2014, and the scheduled maturities of long-term debt assumes the Series 2006A bonds are not put back to the borrower. If the letter of credit was drawn upon, the repayment term would continue to follow the original amortization schedule of the bonds to be repaid not later than the scheduled payments described in the original bond agreement.

# Fletcher Allen Partners, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

### September 30, 2014 and 2013

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#### Line of Credit

CVMC has a bank line of credit that exists with a maximum borrowing of \$2,000,000 at September 30, 2014. The line matured 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, 2014.

CPI has an uncollateralized line of credit in the amount of \$1,000,000 at September 30, 2014. The interest rate is set at a floating rate equal to LIBOR plus 150 basis points (1.63% at September 30, 2014). At September 30, 2014 CPI had borrowings under the line of credit of \$1,000,000. This revolving line of credit is interest only payments with accrued interest and principal due upon maturity. The maturity date for the line of credit is July 31, 2015.

CVPH has an available uncollateralized line of credit in the amount of \$4,885,000 at September 30, 2014. The interest rate is set at a floating rate equal to LIBOR plus 150 basis points (2.00% at September 30, 2014). At September 30, 2014, CVPH had borrowings under the line of credit of \$4,885,000. The maturity date for the line of credit is July 31, 2015.

#### Long-Term Debt

The estimated fair value of FAP's long-term debt is based on the recently traded value for debt for which a public market exists, and an estimate of the exit price for debt in which no public market exists. The estimate of the exit price includes the observable inputs related to the interest rates of comparable U.S. Treasury securities. Such amounts at September 30, 2014 and 2013, are approximately \$482,351,000 and \$501,679,000, respectively. The fair value of debt is considered a level 2 measurement.

## 7. 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.

Swap	Bond Series	Notional Amount 09/30/2014 (\$ in 000's)	Notional Amount 09/30/2013 (\$ in 000's)	Counterparty	Expiration Date	Pay Fixed	Receive Floating
LIBOR Swap (Series B-1)	2008A	\$ 27,595	\$ 27,595	Citibank, NA	December 1, 2034	3.76%	66.5% of LIBOR + 32bps
LIBOR Swap (Series B-2)	2008A	\$ 27,595	\$ 27,595	Citibank, NA	December 1, 2034	3.76%	66.5% of LIBOR + 32bps
LIBOR Swap	Holly Court Loan	\$ 9,446	\$ 9,902	Peoples United Bank	September 30, 2028	2.67%	LIBOR + Swap Rate
LIBOR Swap	Series 2006A	\$ 4,115	\$ 5,375	Key Bank	July 1, 2017	3.50%	69.0% of LIBOR
LIBOR Swap	Series 2007B	\$ 11,395	\$ 11,595	Key Bank	July 1, 2042	4.06%	68.0% of LIBOR
LIBOR Swap	Series 2007A	\$ 17,895	\$ 18,195	Key Bank	July 1, 2042	4.00%	65.0% of LIBOR
SIFMA Swap	Series 2011	\$ 5,120	\$ 5,205	Key Bank	December 1, 2021	3.24%	65.0% of LIBOR

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

<i>(in thousands)</i>	<b>Balance Sheet Location</b>	<b>Fair Value</b>	
		<b>2014</b>	<b>2013</b>
2008A Swaps	Other long-term liabilities	\$ (9,914)	\$ (8,566)
Holly Court Loan	Other long-term liabilities	(230)	(155)
2006A Swap	Other long-term liabilities	(224)	(385)
2007B Swap	Other long-term liabilities	(3,130)	(2,789)
2007A Swaps	Other long-term liabilities	(5,016)	(4,499)
2011 Swap	Other long-term liabilities	(606)	(668)
		<u>\$ (19,120)</u>	<u>\$ (17,062)</u>

The effect of interest rate swap agreements on the consolidated statement of operations and changes in net assets for 2014 and 2013 are as follows:

<i>(in thousands)</i>	<b>Location of Gain/(Loss) Recognized in Statement of Operations</b>	<b>Amount of Gain/Loss Recognized in Statement of Operations</b>	
		<b>2014</b>	<b>2013</b>
1994 Swap	Gain/(Loss) on interest rate swap contracts	\$ -	\$ 128
2008A Swaps	Gain/(Loss) on interest rate swap contracts	(1,348)	5,648
Holly Swap	Gain/(Loss) on interest rate swap contracts	(75)	(155)
2006A Swap	Gain/(Loss) on interest rate swap contracts	161	166
2007B Swap	Gain/(Loss) on interest rate swap contracts	(341)	1,335
2007A Swaps	Gain/(Loss) on interest rate swap contracts	(517)	2,051
2011 Swap	Gain/(Loss) on interest rate swap contracts	62	277
		<u>\$ (2,058)</u>	<u>\$ 9,450</u>

**8. 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 \$16,239,000 and \$15,840,000 for the year ended September 30, 2014 and 2013, respectively.

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Minimum future lease payments required under noncancelable operating leases at September 30, 2014, were as follows:

*(in thousands)*

<b>Years Ending September 30,</b>	
2015	\$ 9,268
2016	8,116
2017	5,995
2018	3,470
2019	1,649
Thereafter	3,317
	<u>\$ 31,815</u>

**9. Net Assets**

**Temporarily Restricted Net Assets**

At September 30, 2014 and 2013, temporarily restricted net assets are available for the following purposes:

*(in thousands)*

	<b>2014</b>	<b>2013</b>
Indigent care	\$ 1,179	\$ 1,037
Education and research	13,178	11,791
Children's programs	3,581	3,141
Capital projects	1,951	2,047
Other health care services	17,459	12,604
Long-term care services at Woodridge	1,525	1,880
	<u>\$ 38,873</u>	<u>\$ 32,500</u>

At September 30, 2014 and 2013, temporarily restricted net assets include approximately \$19,573,000 and \$17,656,000, 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, 2014 and 2013, income earned on permanently restricted net assets is restricted to:

*(in thousands)*

	<b>2014</b>	<b>2013</b>
Indigent care	\$ 4,802	\$ 4,705
Education and research	7,243	7,094
Other health care services	19,975	18,804
Long-term care services	974	729
	<u>\$ 32,994</u>	<u>\$ 31,332</u>

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**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, 2014 and 2013, \$630,000 and \$1,116,000, 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, 2014 and 2013, and the changes therein for the years then ended:

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

	2014		
	Temporarily Restricted	Permanently Restricted	Total
<i>(in thousands)</i>			
<b>September 30, 2014</b>			
Donor-restricted endowment funds	\$ 19,573	\$ 21,367	\$ 40,940
Total	\$ 19,573	\$ 21,367	\$ 40,940

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(in thousands)	2013		
	Temporarily Restricted	Permanently Restricted	Total
<b>September 30, 2013</b>			
Donor-restricted endowment funds	\$ 17,656	\$ 20,733	\$ 38,389
Total	\$ 17,656	\$ 20,733	\$ 38,389

**Changes in Endowment Net Assets**

(in thousands)	2014		
	Temporarily Restricted	Permanently Restricted	Total
<b>Endowment net assets at September 30, 2013</b>	\$ 17,656	\$ 20,733	\$ 38,389
Investment return			
Investment income	697	-	697
Net appreciation	2,480	-	2,480
Total investment return	3,177	-	3,177
Appropriations of endowment assets for expenditure	(630)	-	(630)
Other	(630)	634	4
<b>Endowment net assets at September 30, 2014</b>	\$ 19,573	\$ 21,367	\$ 40,940

(in thousands)	Unrestricted	2013		Total
		Temporarily Restricted	Permanently Restricted	
<b>Endowment net assets at September 30, 2012</b>	\$ (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
<b>Endowment net assets at September 30, 2013</b>	\$ -	\$ 17,656	\$ 20,733	\$ 38,389

**Beneficial Interest in Perpetual Trusts**

The above amounts exclude FAHC's beneficial interest in perpetual trusts, which are not within management's investment control. Such beneficial interests totaled \$11,627,000 and \$10,599,000 at September 30, 2014 and 2013, 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.



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#### ***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, 2014 and 2013.

#### ***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.

### **10. 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, 2014, 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

# **Fletcher Allen Partners, Inc. and Subsidiaries**

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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 2.7% and 2.9% at September 30, 2014 and 2013, resulting in a reduction in the reserve for professional liability of approximately \$857,000 and \$870,000 at September 30, 2014 and 2013, respectively, and a reduction in the reserve for workers' compensation of approximately \$471,000 and \$437,000 at September 30, 2014 and 2013, respectively. CVPH does not discount their reserve for professional liability, they are booked at nominal value.

As a result of changes in estimates of incurred events in prior years, primarily professional liability, the estimate of incurred losses increased by approximately \$3,273,000 and \$7,394,000 for the years ended September 30, 2014 and 2013, 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 paying claims and third party administrator costs. FAHC maintained a stop-loss insurance policy for its medical plan to limit its exposure on non-domestic claims above \$550,000 per member per plan year ending December 31, 2014. 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 year ended September 30, 2014. Included in accounts payable and accrued expenses is a health insurance claims reserve of \$1,275,000 related to claims incurred but not paid as of September 30, 2014.

#### **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.

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**11. 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, 2014 and 2013, was \$15,601,000 and \$14,372,000, respectively. The required minimum statutory capital at September 30, 2014 and 2013 was \$2,599,000 and \$2,332,000, 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 \$19,529,000 and \$17,511,000 at September 30, 2014 and 2013, respectively. The measurement of the required minimum level of liquid assets at September 30, 2014 and 2013 is \$40,927,000 and \$37,213,000, respectively. FAP reports all of VMCIC’s investments in marketable securities as restricted assets in the accompanying consolidated balance sheets.

**12. Pension Plans**

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

	<b>For the Years Ending</b>	
	<b>September 30,</b>	
<i>(in thousands)</i>	<b>2014</b>	<b>2013</b>
Defined benefit plans	\$ 2,230	\$ 7,282
Defined contribution plans	31,161	29,803
	<u>\$ 33,391</u>	<u>\$ 37,085</u>

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.

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**Benefit Obligations**

*(in thousands)*

	<b>2014</b>	<b>2013</b>
<b>Changes in benefit obligations</b>		
Projected benefit obligations - beginning of year	\$ (377,958)	\$ (278,923)
Effect of affiliation with CPI	-	(139,177)
Service cost	(4,495)	(4,999)
Interest cost	(18,824)	(15,503)
Benefits paid	15,282	13,118
Actuarial loss	(32,509)	46,512
Administrative expenses paid	875	1,014
Projected benefit obligation - end of year	<u>(417,629)</u>	<u>(377,958)</u>
Accumulated benefit obligation	<u>(412,279)</u>	<u>(372,332)</u>
<b>Changes in plan assets</b>		
Fair value of plan assets - beginning of year	311,658	197,341
Effect of affiliation with CPI	-	91,319
Actual gain on plan assets	34,355	22,970
Contributions	17,110	14,160
Benefits paid	(15,282)	(13,118)
Administrative expenses paid	(875)	(1,014)
Fair value of plan assets - end of year	<u>346,966</u>	<u>311,658</u>
Funded status of the plan (long-term)	<u>\$ (70,663)</u>	<u>\$ (66,300)</u>

Unrestricted net assets at September 30, 2014 and 2013 include unrecognized actuarial losses of \$46,482,000 and \$27,244,000, respectively, related to the defined benefit plan. Of this amount, \$1,312,000 and \$2,112,000 was recognized in net periodic pension costs in the years ended September 30, 2014 and 2013, respectively. The expected amortization of the unrecognized losses to be recognized in net periodic pension costs in the year ended September 30, 2015, is \$1,770,000. The reconciliation of the unrecognized actuarial losses for the years ended September 30, 2014 and 2013 is as follows:

*(in thousands)*

	<b>2014</b>	<b>2013</b>
Unrecognized actuarial losses - beginning of year	\$ 27,244	\$ 105,271
Effect of affiliation with CPI	-	(25,459)
Net loss amortized during year	(1,312)	(2,112)
Net Net prior service cost amortized during year	-	-
Net loss during year	<u>20,550</u>	<u>(50,456)</u>
Unrecognized actuarial losses - end of year	<u>\$ 46,482</u>	<u>\$ 27,244</u>

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The cost components of the net periodic benefit cost for the years ended September 30, 2014 and 2013 are as follows:

<i>(in thousands)</i>	<b>2014</b>	<b>2013</b>
Service cost	\$ 4,495	\$ 4,999
Interest cost	18,824	15,503
Expected return on plan assets	(22,401)	(19,026)
Amortization of unrecognized net loss	1,312	2,112
Net periodic benefit cost	<u>\$ 2,230</u>	<u>\$ 3,588</u>

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

	<b>2014</b>	<b>2013</b>
Weighted-average assumptions used to determine the benefit liability		
Discount rates	4.4% - 4.5%	5.0% - 5.2%
Rates of increase in future compensation levels	3.0% - 3.5%	3.0% - 3.5%
Weighted-average assumptions used to determine expense		
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%
Expected long-term rate of return on plan assets	6.5% - 7.5%	6.5% - 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 plans weighted-average asset allocations as of September 30, 2014 and 2013, by asset category, are as follows:

	<b>2014</b>	<b>2013</b>
<b>Asset Category</b>		
Money market	- %	- %
Bonds	17	17
Equities	24	24
Real estate	2	2
Mutual funds	16	16
Common collective trusts	41	41
	<u>100 %</u>	<u>100 %</u>

**Fletcher Allen Partners, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2014 and 2013**

The following table presents information, as of September 30, 2014 and 2013, about FAHC's pension assets that are measured at fair value on a recurring basis:

<b>2014</b>				
<i>(in thousands)</i>	<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Other Observable Inputs (Level 2)</b>	<b>Unobservable Inputs (Level 3)</b>	<b>Fair Value</b>
Money market	\$ 949	\$ -	\$ -	\$ 949
Bonds	46,797	12,027	-	58,824
Equities	78,839	5,377	-	84,216
Mutual funds	61,748	-	-	61,748
Common collective trusts	-	141,229	-	141,229
<b>Total</b>	<b>\$ 188,333</b>	<b>\$ 158,633</b>	<b>\$ -</b>	<b>\$ 346,966</b>

  

<b>2013</b>				
<i>(in thousands)</i>	<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Other Observable Inputs (Level 2)</b>	<b>Unobservable Inputs (Level 3)</b>	<b>Fair Value</b>
Money market	\$ 1,112	\$ -	\$ -	\$ 1,112
Bonds	39,665	13,031	-	52,696
Equities	70,130	4,375	-	74,505
Mutual funds	56,579	-	-	56,579
Common collective trusts	-	126,766	-	126,766
<b>Total</b>	<b>\$ 167,486</b>	<b>\$ 144,172</b>	<b>\$ -</b>	<b>\$ 311,658</b>

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, 2014 and 2013.

**Cash Flows - Contributions**

FAP expects to contribute \$15,610,000 to its pension plans in the year ending September 30, 2015.

# Fletcher Allen Partners, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

### September 30, 2014 and 2013

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#### **Cash Flows - Estimated Future Benefit Payments**

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

*(in thousands)*

#### **Years Ending September 30,**

2015	\$	17,648
2016		18,986
2017		20,555
2018		21,923
2019		23,275
2020–2023		132,902

#### **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 years ended September 30, 2014 and 2013 were approximately \$4,886,000 and \$3,694,000, respectively, 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.

**Fletcher Allen Partners, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2014 and 2013**

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CVPH's participation in the plan for the year ended September 30, 2014, 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 2014 is for the plan's year-end at December 31, 2013. 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	Zone Status		FIP/RP Status Pending/Implemented	Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
		Pension Protection Act 9/30/2014	12/31/2013			
1199 SEIU Health Care Employees Pension Fund	13-3604862-001	not available	Green	June 26, 2009	No	April 30, 2016

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.

**13. 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, 2014 and 2013 is as follows:

	2014	2013
Medicare	27 %	27 %
Medicaid	8	10
Blue cross	19	17
Other third-party payers	26	25
Patients	20	21
	<u>100 %</u>	<u>100 %</u>



**Fletcher Allen Partners, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2014 and 2013**

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**14. Transactions With UVM**

FAHC's Affiliation Agreement with UVM was renewed as of June 19, 2014, for a five year term. The Affiliation Agreement expresses the shared goals of UVM and 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 three 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) 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 and, (3) a Dean's Tax paid by UVM Medical Group. The amounts of the commitment approximated \$36,528,000 and \$54,389,000 in the years ended September 30, 2014 and 2013, 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 \$4,972,000 and \$4,935,000 in the years ended September 30, 2014 and 2013, respectively. Under the Affiliation Agreement, the Dean's Tax is paid to UVM by FAHC in an amount equal to 2.3% of the Medical Group's net patient service revenues exclusive of all Medicaid revenues for that fiscal year. The amount of the Dean's Tax approximated \$5,146,000 and \$4,717,000 in the years ended September 30, 2014 and 2013, respectively.

Under the current affiliation agreement, the base payments for the academic support payments increase to \$7,500,000 in fiscal year 2015, with an inflationary increase in the years thereafter.

**15. 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, 2014 and 2013, are as follows:

<i>(in thousands)</i>	<b>2014</b>	<b>2013</b>
Education and research	\$ 1,951	\$ 2,786
Health care services	1,235,262	1,131,565
Management and general	<u>272,042</u>	<u>327,045</u>
Total functional expenses	1,509,255	1,461,396
Less: Nonoperating expenses	<u>1,725</u>	<u>2,547</u>
Total operating expenses	<u>\$ 1,507,530</u>	<u>\$ 1,458,849</u>

**16. 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.

**Fletcher Allen Partners, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2014 and 2013**

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Accounts receivable, prior to adjustment for doubtful accounts, is summarized as follows at September 30, 2014 and 2013:

<i>(in thousands)</i>	<b>2014</b>	<b>2013</b>
<b>Receivables</b>		
Patients	\$ 61,974	\$ 55,188
Third-party payers	<u>178,508</u>	<u>154,754</u>
	<u>\$ 240,482</u>	<u>\$ 209,942</u>

The allowance for doubtful accounts is summarized as follows at September 30, 2014 and 2013:

<i>(in thousands)</i>	<b>2014</b>	<b>2013</b>
<b>Allowance for doubtful accounts</b>		
Patients	\$ 25,765	\$ 24,638
Third-party payers	<u>12,535</u>	<u>9,512</u>
	<u>\$ 38,300</u>	<u>\$ 34,150</u>

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

Net patient service revenue before the provision for bad debts and enhanced Medicaid graduate medical education revenues for the years ended September 30, 2014 and 2013, is summarized as follows:

<i>(in thousands)</i>	<b>2014</b>	<b>2013</b>
<b>Net patient service revenue</b>		
Patients	\$ 33,913	\$ 58,851
Third-party payers	<u>1,421,240</u>	<u>1,226,816</u>
	<u>\$ 1,455,153</u>	<u>\$ 1,285,667</u>

**17. Subsequent Events**

FAP has evaluated subsequent events through December 23, 2014, which is the date the consolidated 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, 2014 and 2013**

(in thousands)

	2014	2013
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 220,185	\$ 197,318
Patient and other trade accounts receivable-net of allowance for doubtful accounts of \$26,697 and \$25,932, respectively	140,625	129,983
Due from related parties	30,827	-
Inventories	24,822	24,120
Estimated receivable from third - party payers	4,329	4,951
Prepaid, other current assets, and short-term investments	18,672	35,450
Total current assets	439,460	391,822
Assets whose use is limited or restricted		
Board-designated assets	328,291	304,174
Assets held by trustee under bond indenture agreements	26,454	25,883
Restricted assets	732	754
Donor restricted assets for specific purposes	32,866	28,008
Donor restricted assets for permanent endowment	31,373	29,775
Total assets whose use is limited or restricted	419,716	388,594
Property and equipment-net	479,437	483,539
Other assets		
Deferred financing costs-net	11,063	11,735
Notes receivable and other assets	6,418	5,017
Investment in affiliated companies	25,658	23,166
Pledges receivable	364	756
Total other assets	43,503	40,674
	<u>\$ 1,382,116</u>	<u>\$ 1,304,629</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Current installments of long-term debt	\$ 13,730	\$ 14,009
Accounts payable	24,367	23,346
Accrued expenses and other liabilities	58,568	42,184
Accrued payroll and related benefits	79,388	75,394
Third-party payer settlements	13,077	16,778
Due to related parties	-	5,060
Incurred but not reported claims	11,490	15,584
Total current liabilities	200,620	192,355
Long-term liabilities		
Long-term debt-excluding current installments	384,854	398,250
Malpractice and workers' compensation claims	1,827	1,280
Pension and other postretirement benefit obligations	38,276	42,338
Other	15,123	11,049
Total long-term liabilities	440,080	452,917
Total liabilities	640,700	645,272
Commitments and contingent liabilities		
Net assets		
Unrestricted	674,242	600,250
Temporarily restricted	35,801	29,332
Permanently restricted	31,373	29,775
Total net assets	741,416	659,357
Total liabilities and net assets	<u>\$ 1,382,116</u>	<u>\$ 1,304,629</u>

**Fletcher Allen Obligated Group**  
**Obligated Group Statements of Operations**  
**Years Ended September 30, 2014 and 2013**

(in thousands)

	2014	2013
<b>Unrestricted revenue and other support</b>		
Net patient service revenue	\$ 1,152,804	\$ 1,093,884
Less: Provision for bad debts	<u>(32,800)</u>	<u>(31,376)</u>
Net Patient service revenue after provision for bad debt	1,120,004	1,062,508
Enhanced Medicaid Graduate Medical Education revenues-Hospital	11,461	18,582
Enhanced Medicaid Graduate Medical Education revenues-Professional	<u>18,818</u>	<u>48,639</u>
Net patient service revenue after provision for bad debts and enhanced Medicaid Graduate Medical Education	1,150,283	1,129,729
Premium revenue	12,507	12,792
Other revenue	<u>65,757</u>	<u>55,245</u>
Total unrestricted revenue and other support	<u>1,228,547</u>	<u>1,197,766</u>
<b>Expenses</b>		
Salaries, payroll taxes, and fringe benefits	730,166	700,421
Supplies and other	309,903	325,428
Purchased services	56,564	54,009
Depreciation and amortization	57,776	55,977
Interest expense	<u>17,519</u>	<u>18,384</u>
Total expenses	<u>1,171,928</u>	<u>1,154,219</u>
Income from operations	<u>56,619</u>	<u>43,547</u>
<b>Nonoperating gains (losses)</b>		
Investment income	11,233	34,744
Loss on interest rate swap contracts	(1,423)	5,621
Loss on extinguishment of debt	-	(1,142)
Other	<u>(2,409)</u>	<u>7,623</u>
Total nonoperating gains	<u>7,401</u>	<u>46,846</u>
Excess of revenue over expenses	64,020	90,393
Net change in unrealized losses on investments	15,823	(21,827)
Assets released from restrictions for capital purchases	937	1,461
Pension related adjustments	(6,312)	29,788
Other adjustments	<u>(476)</u>	<u>-</u>
Increase in unrestricted net assets	<u>\$ 73,992</u>	<u>\$ 99,815</u>

**Fletcher Allen Obligated Group**  
**Obligated Group Statements of Changes in Net Assets**  
**Years Ended September 30, 2014 and 2013**

*(in thousands)*

	2014	2013
<b>Unrestricted net assets</b>		
Excess of revenues over expenses	\$ 64,020	\$ 90,393
Net change in unrealized losses on investments	15,823	(21,827)
Assets released from restrictions for capital purchases	937	1,461
Pension-related adjustments	(6,312)	29,788
Other adjustments	(476)	-
Increase in unrestricted net assets	<u>73,992</u>	<u>99,815</u>
<b>Temporarily restricted net assets</b>		
Gifts, grants, and bequests	7,288	4,041
Investment income	139	192
Net unrealized gains (losses) on investments	(281)	1,197
Net realized gains on investments	3,147	1,512
Net assets released from restrictions used in operations	(2,372)	(2,209)
Net assets released from restrictions used for nonoperating purposes	(188)	(1,150)
Net assets released from restrictions used for capital purchases	(937)	(1,461)
Transfer of net assets	(327)	(29)
Increase in temporarily restricted net assets	<u>6,469</u>	<u>2,093</u>
<b>Permanently restricted net assets</b>		
Gifts, grants, and bequests	55	75
Change in beneficial interest in perpetual trusts	1,216	506
Transfer of net assets	327	29
Increase (decrease) in permanently restricted net assets	<u>1,598</u>	<u>610</u>
Increase in net assets	<u>82,059</u>	<u>102,518</u>
<b>Net assets</b>		
Beginning of year	<u>659,357</u>	<u>556,839</u>
End of year	<u>\$ 741,416</u>	<u>\$ 659,357</u>

# Fletcher Allen Obligated Group

## Consolidating Balance Sheet

### September 30, 2014

	Central Vermont Hospital and Medical Group Practice	Woodridge Rehabilitation and Nursing	Total CVMC	FAHC (Hospital)	Obligated Group Eliminations	Total Fletcher Allen Obligated Group	Community Providers, Inc	Other Entities	Eliminations	Total Fletcher Allen Partners
<i>(in thousands)</i>										
<b>Assets</b>										
Current assets										
Cash and cash equivalents	\$ 5,993	\$ 1,302	\$ 7,295	\$ 212,890	\$ -	\$ 220,185	\$ 27,998	\$ 20,033	\$ -	\$ 268,216
Patient accounts receivable, net	14,333	1,580	15,913	124,712	-	140,625	59,374	2,183	-	202,182
Due from related parties	-	-	-	32,337	(1,510)	30,827	147	2,230	(33,204)	-
Inventories	2,850	-	2,850	21,972	-	24,822	4,944	-	-	29,766
Receivables from third-party payors	-	-	-	4,329	-	4,329	-	-	-	4,329
Current portion of assets whose use is limited or restricted	-	-	-	-	-	-	1,000	26,876	-	27,876
Prepaid, other current assets, and short-term investments	3,280	-	3,280	15,392	-	18,672	9,020	9,495	-	37,187
Total current assets	26,456	2,882	29,338	411,632	(1,510)	439,460	102,483	60,817	(33,204)	569,556
Assets whose use is limited or restricted										
Board-designated assets	38,105	6,897	45,002	283,289	-	328,291	20,765	(2)	-	349,054
Assets held by trustee under bond indenture agreements	-	-	-	26,454	-	26,454	1,951	-	-	28,405
Restricted assets	-	-	-	732	-	732	13,811	13,879	-	28,422
Donor-restricted assets for specific purposes	6,230	-	6,230	26,636	-	32,866	672	-	-	33,538
Donor-restricted assets for permanent endowment	3,547	-	3,547	27,826	-	31,373	-	-	-	31,373
Total assets whose use is limited or restricted	47,882	6,897	54,779	364,937	-	419,716	37,199	13,877	-	470,792
Property and equipment, net	66,140	3,931	70,071	409,366	-	479,437	119,544	992	-	599,973
Other assets										
Deferred financing costs, net	-	-	-	11,063	-	11,063	-	-	-	11,063
Long Term Investments	-	-	-	-	-	-	4,222	-	-	4,222
Notes receivable and other assets	1,539	-	1,539	4,879	-	6,418	4,082	250	-	10,750
Investment in affiliated companies	-	-	-	25,658	-	25,658	-	4,918	(25,100)	5,476
Pledges receivable	10	-	10	354	-	364	656	-	-	1,020
Total other assets	1,549	-	1,549	41,954	-	43,503	8,960	5,168	(25,100)	32,531
Total assets	\$ 142,027	\$ 13,710	\$ 155,737	\$ 1,227,889	\$ (1,510)	\$ 1,382,116	\$ 268,186	\$ 80,854	\$ (58,304)	\$ 1,672,852

# Fletcher Allen Obligated Group

## Consolidating Balance Sheet

### September 30, 2014

(in thousands)

	Central Vermont Hospital and Medical Group Practice	Woodridge Rehabilitation and Nursing	Total CVMC	FAHC (Hospital)	Obligated Group Eliminations	Total Fletcher Allen Obligated Group	Community Providers, Inc	Other Entities	Eliminations	Total Fletcher Allen Partners
<b>Liabilities and Net Assets</b>										
Current liabilities										
Current installments of long-term debt	\$ 2,084	\$ 500	\$ 2,584	\$ 11,146	\$ -	\$ 13,730	\$ 14,503	\$ -	\$ -	\$ 28,233
Accounts payable	4,510	-	4,510	19,857	-	24,367	11,308	711	-	36,386
Accrued expenses and other liabilities	1,499	330	1,829	56,730	9	58,568	1,564	1,107	(776)	60,463
Accrued payroll and related benefits	8,125	616	8,741	70,647	-	79,388	17,148	120	(437)	96,219
Third-party payer settlements	2,685	-	2,685	10,392	-	13,077	3,364	-	-	16,441
Due to related parties	1,519	-	1,519	-	(1,519)	-	7,400	25,702	(33,102)	-
Incurred but not reported claims	-	-	-	11,490	-	11,490	1,275	11,308	-	24,073
Total current liabilities	20,422	1,446	21,868	180,262	(1,510)	200,620	56,562	38,948	(34,315)	261,815
Long-term debt, net of current installments	15,535	3,274	18,809	366,045	-	384,854	65,260	-	-	450,114
Malpractice and workers' compensation claims	1,827	-	1,827	-	-	1,827	13,821	16,811	-	32,459
Pension and other postretirement benefit obligations	24,820	-	24,820	13,456	-	38,276	32,387	-	-	70,663
Other	995	-	995	14,128	-	15,123	15,298	250	-	30,671
Total liabilities	63,599	4,720	68,319	573,891	(1,510)	640,700	183,328	56,009	(34,315)	845,722
Net assets										
Unrestricted	68,651	8,990	77,641	596,601	-	674,242	80,165	7,755	(6,899)	755,263
Temporarily restricted	6,230	-	6,230	29,571	-	35,801	3,072	-	-	38,873
Permanently restricted	3,547	-	3,547	27,826	-	31,373	1,621	17,090	(17,090)	32,994
Total net assets	78,428	8,990	87,418	653,998	-	741,416	84,858	24,845	(23,989)	827,130
Total liabilities and net assets	\$ 142,027	\$ 13,710	\$ 155,737	\$ 1,227,889	\$ (1,510)	\$ 1,382,116	\$ 268,186	\$ 80,854	\$ (58,304)	\$ 1,672,852



# Fletcher Allen Obligated Group

## Consolidating Statement of Operations

### Year Ended September 30, 2014

(in thousands)

	Central Vermont Hospital and Medical Group Practice	Woodridge Rehabilitation and Nursing	Total CVMC	FAHC (Hospital)	Obligated Group Eliminations	Total Fletcher Allen Obligated Group	Community Providers, Inc	Other Entities	Eliminations	Total Fletcher Allen Partners
<b>Unrestricted revenue and other support</b>										
Net patient service revenue	\$ 144,316	\$ 14,786	\$ 159,102	\$ 993,702	\$ -	\$ 1,152,804	\$ 317,026	\$ 1,866	\$ (16,543)	\$ 1,455,153
Less: Provision for bad debt	(5,793)	(289)	(6,082)	(26,718)	-	(32,800)	(9,607)	21	-	(42,386)
Net patient service revenue after provision for bad debts	138,523	14,497	153,020	966,984	-	1,120,004	307,419	1,887	(16,543)	1,412,767
Enhanced Medicaid Graduate Medical Education revenues - Hospital	-	-	-	11,461	-	11,461	-	-	-	11,461
Enhanced Medicaid Graduate Medical Education revenues - Professional	-	-	-	18,818	-	18,818	-	-	-	18,818
Net patient service revenue after provision for bad debts and enhanced Graduate Medical Education revenues	138,523	14,497	153,020	997,263	-	1,150,283	307,419	1,887	(16,543)	1,443,046
Premium revenue	2,197	-	2,197	10,310	-	12,507	-	30,445	(27)	42,925
Other revenue	8,386	236	8,622	58,054	(919)	65,757	13,923	12,376	(10,476)	81,580
Total unrestricted revenue and other support	149,106	14,733	163,839	1,065,627	(919)	1,228,547	321,342	44,708	(27,046)	1,567,551
<b>Expenses</b>										
Salary, payroll taxes and fringe benefits	96,532	11,220	107,752	622,414	-	730,166	194,249	5,039	105	929,559
Supplies and other	28,727	3,224	31,951	278,389	(437)	309,903	99,570	428	(10,521)	399,380
Purchased services	8,297	408	8,705	48,341	(482)	56,564	-	1,997	(60)	58,501
Depreciation and amortization	8,687	694	9,381	48,395	-	57,776	18,592	286	-	76,654
Interest expense	1,030	146	1,176	16,343	-	17,519	3,665	-	-	21,184
Underwriting expenses	-	-	-	-	-	-	-	9,902	-	9,902
Medical claims	-	-	-	-	-	-	-	28,920	(16,570)	12,350
Total expenses	143,273	15,692	158,965	1,013,882	(919)	1,171,928	316,076	46,572	(27,046)	1,507,530
Income (loss) from operations	5,833	(959)	4,874	51,745	-	56,619	5,266	(1,864)	-	60,021
<b>Nonoperating gains (losses)</b>										
Investment income	803	115	918	10,315	-	11,233	3,088	956	-	15,277
Change in fair value of interest rate swap agreements	-	-	-	(1,423)	-	(1,423)	(635)	-	-	(2,058)
Loss on extinguishment of debt	-	-	-	-	-	-	-	-	-	-
Contribution revenue from acquisition	-	-	-	-	-	-	-	-	-	-
Other	2,784	46	2,830	(5,239)	-	(2,409)	2,055	2,543	-	2,189
Total nonoperating gains	3,587	161	3,748	3,653	-	7,401	4,508	3,499	-	15,408
Excess (deficit) of revenue over expenses	9,420	(798)	8,622	55,398	-	64,020	9,774	1,635	-	75,429
Net increase (decrease) in unrealized gains on investments	1,311	32	1,343	14,480	-	15,823	(406)	-	-	15,417
Net assets released from restrictions for capital purchases	650	-	650	287	-	937	2,344	-	-	3,281
Pension related adjustments	(5,678)	-	(5,678)	(634)	-	(6,312)	(12,926)	-	-	(19,238)
Other adjustments	-	-	-	(476)	-	(476)	(858)	-	-	(1,334)
Increase (decrease) in unrestricted net assets	\$ 5,703	\$ (766)	\$ 4,937	\$ 69,055	\$ -	\$ 73,992	\$ (2,072)	\$ 1,635	\$ -	\$ 73,555