

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

**Consolidated Financial Statements
September 30, 2016 and 2015**

The University of Vermont Health Network Inc. and Subsidiaries
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September 30, 2016 and 2015

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Report of Independent Auditors

To the Board of Trustees of
The University of Vermont Health Network Inc. and its Subsidiaries

We have audited the accompanying consolidated financial statements of The University of Vermont Health Network Inc. and its Subsidiaries (the "Network"), which comprise the consolidated balance sheets as of September 30, 2016 and 2015, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Network's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Network's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The University of Vermont Health Network Inc. and its Subsidiaries as of September 30, 2016 and 2015, and the results of their operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The other financial information presented on pages 43–47 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 other financial information has been subjected to the auditing procedures applied in the audits 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 other financial information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The other financial information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, changes in net assets, and cash flows of the individual Network subsidiaries and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations, changes in net assets, and cash flows of the individual Network subsidiaries.

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

Boston, Massachusetts
December 12, 2016

The University of Vermont Health Network Inc. and Subsidiaries
Consolidated Balance Sheets
September 30, 2016 and 2015

<i>(in thousands)</i>	2016	2015
Assets		
Current assets		
Cash and cash equivalents	\$ 243,014	\$ 228,791
Patient and other trade accounts receivable - net of allowance for doubtful accounts of \$40,556 and \$33,979, respectively	220,430	193,634
Inventories	35,510	31,863
Current portion of assets whose use is limited or restricted	95,165	35,773
Receivables from third-party payers	5,900	6,812
Short-term investments	16,712	15,106
Prepaid and other current assets	35,185	30,450
Total current assets	<u>651,916</u>	<u>542,429</u>
Assets whose use is limited or restricted		
Board-designated assets	475,304	417,370
Assets held by trustee under bond indenture agreements	42,808	23,542
Restricted assets	15,034	20,452
Donor-restricted assets for specific purposes	34,581	31,482
Donor-restricted assets for permanent endowment	32,168	31,486
Total assets whose use is limited or restricted	<u>599,895</u>	<u>524,332</u>
Property and equipment, net	706,759	619,964
Other	37,076	22,564
Total assets	<u>\$ 1,995,646</u>	<u>\$ 1,709,289</u>
Liabilities and Net Assets		
Current liabilities		
Current installments of long-term debt	\$ 33,639	\$ 28,015
Accounts payable	59,877	37,220
Accrued expenses and other liabilities	52,578	50,841
Accrued payroll and related benefits	102,163	107,457
Third-party payer settlements	21,468	15,346
Incurred but not reported claims	26,834	28,444
Total current liabilities	<u>296,559</u>	<u>267,323</u>
Long-term liabilities		
Long-term debt - net of current installments	548,660	417,618
Malpractice and workers' compensation claims net of current portion	26,905	31,351
Pension and other postretirement benefit obligations	122,618	94,420
Other	44,727	35,102
Total long-term liabilities	<u>742,910</u>	<u>578,491</u>
Total liabilities	<u>1,039,469</u>	<u>845,814</u>
Commitments and contingent liabilities		
Net assets		
Unrestricted	878,222	792,549
Temporarily restricted	43,926	37,765
Permanently restricted	34,029	33,161
Total net assets	<u>956,177</u>	<u>863,475</u>
Total liabilities and net assets	<u>\$ 1,995,646</u>	<u>\$ 1,709,289</u>

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

The University of Vermont Health Network Inc. and Subsidiaries
Consolidated Statements of Operations
Years Ended September 30, 2016 and 2015

<i>(in thousands)</i>	2016	2015
Unrestricted revenue and other support		
Net patient service revenue	\$ 1,636,585	\$ 1,536,497
Less: Provision for bad debts	(41,753)	(35,429)
Net patient service revenue after provision for bad debts	1,594,832	1,501,068
Enhanced Medicaid Graduate Medical Education revenues-Hospital	10,714	11,511
Enhanced Medicaid Graduate Medical Education revenues-Professional	19,286	18,490
Net patient service revenue after provision for bad debts and Enhanced Medicaid Graduate Medical Education revenues	1,624,832	1,531,069
Premium revenue	9,897	11,571
Pharmacy revenue	60,741	44,340
Other revenue	53,093	59,391
Total unrestricted revenue and other support	1,748,563	1,646,371
Expenses		
Salaries, payroll taxes, and fringe benefits	1,051,259	982,631
Supplies and other	435,552	417,532
Purchased services	87,308	79,412
Depreciation and amortization	77,798	72,785
Interest expense	17,583	19,219
Total expenses	1,669,500	1,571,579
Income from operations	79,063	74,792
Nonoperating gains (losses)		
Investment income	10,070	9,445
Change in fair value of interest rate swap agreements	(4,865)	(5,642)
Loss on the extinguishment of debt	(22,696)	(346)
Contribution revenue from acquisition	23,774	-
Other	(591)	5,841
Total nonoperating gains, net	5,692	9,298
Excess of revenue over expenses	84,755	84,090
Net change in unrealized gains (losses) on investments	36,090	(12,875)
Net assets released from restrictions for capital purchases	2,515	3,386
Pension related adjustments	(37,471)	(37,780)
Other adjustments	(216)	465
Increase in unrestricted net assets	\$ 85,673	\$ 37,286

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

The University of Vermont Health Network Inc. and Subsidiaries
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2016 and 2015

<i>(in thousands)</i>	2016	2015
Unrestricted net assets		
Excess of revenue over expenses	\$ 84,755	\$ 84,090
Net change in unrealized gains (losses) on investments	36,090	(12,875)
Net assets released from restrictions for capital purchases	2,515	3,386
Pension related adjustments	(37,471)	(37,780)
Other adjustments	(216)	465
Increase in unrestricted net assets	<u>85,673</u>	<u>37,286</u>
Temporarily restricted net assets		
Gifts, grants, and bequests	9,545	6,018
Investment income	221	185
Net change in unrealized gains (losses) on investments	2,150	(1,606)
Net realized gains on investments	870	1,394
Net assets released from restrictions used in operations	(3,843)	(3,415)
Net assets released from restrictions used for nonoperating purposes	(169)	(198)
Net assets released from restrictions used for capital purchases	(2,515)	(3,386)
Transfer of net assets	(98)	(100)
Increase (decrease) in temporarily restricted net assets	<u>6,161</u>	<u>(1,108)</u>
Permanently restricted net assets		
Gifts, grants, and bequests	116	1,164
Change in beneficial interest in perpetual trusts	470	(1,097)
Transfer of net assets	98	100
Acquisition of permanently restricted net assets	184	-
Increase in permanently restricted net assets	<u>868</u>	<u>167</u>
Increase in net assets	<u>92,702</u>	<u>36,345</u>
Net assets		
Beginning of year	<u>863,475</u>	<u>827,130</u>
End of year	<u>\$ 956,177</u>	<u>\$ 863,475</u>

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

The University of Vermont Health Network Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended September 30, 2016 and 2015

<i>(in thousands)</i>	2016	2015
Cash flows from operating activities		
Increase in net assets	\$ 92,702	\$ 36,345
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	77,798	72,785
Provision for bad debts	41,753	35,429
Contribution revenue from acquisition	(23,958)	-
Pension related adjustments	37,471	37,780
Contributions restricted for long-term use	(381)	(1,392)
(Gain) loss on disposal of property and equipment	(50)	791
Loss on interest rate swap agreements	4,865	5,642
Realized and unrealized (gains) losses on investments	(42,874)	6,131
Undistributed (gains) losses of affiliated companies	(1,081)	1,769
Change in beneficial interest in perpetual trusts	(470)	1,097
Loss on extinguishment of debt	7,715	346
Increase (decrease) in cash resulting from a change in		
Patient and other accounts receivable	(59,424)	(26,881)
Other current and noncurrent assets	(19,390)	(3,062)
Accounts payable and accrued expenses	14,201	(11,564)
Accrued payroll and related expenses	(10,153)	11,238
Other current and noncurrent liabilities	(1,574)	2,052
Estimated third party payor settlements	8,650	(3,578)
Pension and other postretirement benefit obligations	(9,273)	(14,023)
Net cash provided by operating activities	<u>116,527</u>	<u>150,905</u>
Cash flows from investing activities		
Purchases of property and equipment	(107,600)	(86,830)
Proceeds from sale of property and equipment	7	32
Purchases of investments	(307,226)	(646,359)
Proceeds from sale of investments	193,000	564,290
Use of bond proceeds deposited with trustees	8,459	4,895
Cash received through acquisition	487	-
Net cash used in investing activities	<u>(212,873)</u>	<u>(163,972)</u>
Cash flows from financing activities		
Proceeds from restricted contributions & restricted investment income	381	1,392
Payments on long-term debt	(223,564)	(51,485)
Proceeds from debt issuance	317,567	23,840
Payment of debt issuance costs	(790)	(203)
Borrowings on lines of credit	27,667	17,967
Repayments on lines of credit	(25,673)	(17,869)
Cash paid on defeasance of debt	14,981	-
Net cash provided by (used in) financing activities	<u>110,569</u>	<u>(26,358)</u>
Net increase (decrease) in cash and cash equivalents	14,223	(39,425)
Cash and cash equivalents		
Beginning of year	228,791	268,216
End of year	<u>\$ 243,014</u>	<u>\$ 228,791</u>
Supplemental cash flow information		
Contribution from acquisition, net of cash received	\$ 23,471	\$ -
Cash paid during the year for interest	17,541	19,256
Capital expenditures included in accounts payable	5,106	5,808
Assets acquired under capital lease	5,665	5,674

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

The University of Vermont Health Network Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

1. Organization

The University of Vermont Health Network Inc. ("UVM Health Network"), established as of October 1, 2011, is a nonprofit, tax-exempt Vermont corporation and the sole corporate member of University of Vermont Medical Center, Inc., The University of Vermont Health Network - Central Vermont Medical Center, Inc., and Community Providers, Inc., doing business as University of Vermont Health Network – Adirondack Region ("UVM Health Network – Adirondack Region"). UVM Health Network's purpose is to establish an integrated regional health care system for the development of a highly coordinated health care network to improve the quality, increase the efficiencies, and lower the costs of health care delivery in the regions it serves.

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

UVM Medical Center is the sole member of the following subsidiaries: University of Vermont Medical Center Health Ventures, Inc.; University of Vermont Medical Group ("UVM Medical Group"); University of Vermont Health Network Specialty Care Transport, LLC; University of Vermont Medical Center Skilled Nursing, LLC; University of Vermont Medical Center Foundation, Inc.; University of Vermont Medical Center Executive Services, LLC; VMC Indemnity Company Ltd. ("VMCIC"); and 116 Realty, LLC. Vermont Managed Care, Inc. ("VMC") is a wholly owned subsidiary of UVM Medical Center Health Ventures. The following entities are partly owned or controlled by UVM Medical Center: Medical Education Center Condominium Association, Inc.; OB Net Services, LLC; Copley Woodlands, Inc.; University of Vermont Medical Group – New York, PLLC; and OneCare Vermont Accountable Care Organization, LLC ("OCV").

The University of Vermont Health Network - 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.

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

UVM Health Network – Adirondack Region includes The University of Vermont Health Network - Champlain Valley Physician Hospital ("CVPH"), Mediquest Corp., Emergency Medical Transport of CVPH, Inc., Champlain Valley Health Network, Inc. ("CVHN"), The University of Vermont Health Network – Elizabethtown Community Hospital ("ECH"), and The University of Vermont Health Network – Alice Hyde Medical Center, Inc ("AHMC") (See Note 4). CVPH is the sole member of The Foundation of CVPH, Champlain Valley Open MRI, LLC, and Valcour Imaging, Inc., and is a member in Adirondack Accountable Care Organization, LLC ("ADK ACO").

The University of Vermont Health Network Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of UVM Health Network and its subsidiaries for which it controls or serves as the sole corporate member. All significant intercompany balances and transactions have been eliminated in consolidation. The assets of members of the consolidated group may not be available to meet the obligations of another member of the group.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Significant estimates include the allowances for doubtful accounts and contractual allowances, receivables and accruals for estimated settlements with third-party payers, contingencies, self-insurance program liabilities, accrued medical claims, pension and postretirement costs, and the valuation of investments and interest rate swaps. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Most of UVM Health Network'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 UVM Health Network's policy to monitor these banks' financial strength on an ongoing basis.

Inventories

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

Prepaid and Other Current Assets

Prepaid and other current assets include miscellaneous nontrade receivables and prepaid expenses primarily related to software maintenance and other contracts. The carrying value of prepaid and other current assets is reviewed if the facts and circumstances suggest that it may be impaired.

Assets Whose Use is Limited or Restricted

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

Investments and Investment Income

Investments in equity securities and mutual funds with readily determinable fair market values and all investments in debt securities are recorded at fair value. Investments for which a market value is not readily determinable, including investments in common collective trusts and hedge funds, are either recorded at cost or at their reported fair value based on information provided by the fund manager, and are reviewed for reasonableness by management. Investment income or loss (including realized gains and losses on investments, interest, and dividends), to the extent not capitalized, is included in nonoperating gains (losses), unless the income or gain (loss) is restricted

The University of Vermont Health Network Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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by donor or law. Realized gains or losses on the sale of investments are determined by use of average costs. Unrealized gains and losses on investments carried at fair value are excluded from the excess of revenue over expenses and reported as an increase or decrease in net assets. Declines in fair value that are judged to be other-than-temporary are reported as realized losses.

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

UVM Health Network reviews its investments to identify those for which fair value is below cost. UVM Health Network then makes a determination as to whether the investment should be considered other-than-temporarily impaired. UVM Health Network recognized \$1,297,000 and \$7,686,000 in losses related to declines in value that were other-than-temporary in nature for the years ended September 30, 2016 and 2015, respectively.

Property and Equipment

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

Depreciation is calculated using the following estimated useful lives:

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

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.

The University of Vermont Health Network Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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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 \$1,514,000 and \$651,000 of interest was capitalized during the years ended September 30, 2016 and 2015, respectively. Net deferred financing costs totaled \$2,052,000 and \$9,449,000 at September 30, 2016 and 2015, respectively. Such amounts are reported as an offset to long term debt and are amortized over the period the related obligations are outstanding using the effective interest method. Accumulated amortization of deferred financing costs totaled \$668,000 and \$5,374,000 at September 30, 2016 and 2015, respectively.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by UVM Health Network has been limited by donors or law to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by UVM Health Network in perpetuity.

Consolidated Statement of Operations

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

Excess of Revenue Over Expenses

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

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts due from patients and third-party payers for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Under the terms of various agreements, regulations, and statutes, certain elements of third-party reimbursement are subject to negotiation, audit, and/or final determination by the third-party payers. In addition, laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Differences between amounts previously estimated for retroactive adjustments 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 \$2,891,000 and \$7,370,000 in the years ended September 30, 2016 and 2015, respectively.

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

Medicare

Inpatient acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient rehabilitation services are paid based on a prospective per discharge methodology. These rates vary according to a patient classification system based upon services provided, the patient's level of functionality and other factors. Outpatient services are paid based upon a prospective standard rate for procedures performed or services rendered. UVM Health Network is reimbursed for cost-reimbursable items at tentative rates, with final settlement determined after submission of annual cost reports by UVM Health Network and audits thereof by the Medicare Audit Contractor ("MAC"). Medicare reimbursement for professional billings is determined by a standard fee schedule that is determined by the Centers for Medicare and Medicaid Services of the U.S. Department of Health and Human Services. The percentage of net patient service revenue derived from the Medicare program was approximately 33% and 34% in the years ended September 30, 2016 and 2015, respectively.

Medicaid

Inpatient services rendered to Vermont Medicaid program beneficiaries are paid at prospectively determined rates per discharge. As with Medicare, reimbursement is based on a diagnosis-related group ("DRG") system that is based on clinical, diagnostic, and other factors. In Vermont, additional reimbursement for inpatient rehabilitation and neonatal cases is paid through a per diem add-on. In Vermont, additional reimbursement for inpatient psychiatric cases is based on a per diem rate calculation, including adjustments for diagnostic factors and length of stay. Outpatient services rendered to Vermont Medicaid beneficiaries are paid based upon a prospective standard rate. Certain laboratory, mammography, therapy, and dialysis services are paid on a fee schedule. Medicaid reimbursement for professional services is determined by a standard fee schedule. The Medicaid program accounts for approximately 9% and 8% of UVM Health Network's net revenue for the years ended September 30, 2016 and 2015.

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 48% and 49% of UVM Health Network's net revenues were derived from contracted insurers in the years ended September 30, 2016 and 2015. Approximately 10% and 9% of UVM Health Network's net revenues were derived from noncontracted insurers in the years ended September 30, 2016 and 2015, respectively.

Enhanced Medicaid Graduate Medical Education Revenues (Hospital and Professional)

Under an Amendment to the Vermont State Medicaid Plan TN#11-019 (the "State Plan Amendment"), UVM Medical Center received increased Vermont Medicaid payments to support graduate medical education ("GME") beginning in fiscal year 2013. The State Plan Amendment provided for enhanced Medicaid payments of GME through two funding mechanisms: (1) payments to "qualified teaching hospitals" and (2) payments to "qualified teaching physicians." Under the definitions contained in the State Plan Amendment, UVM Medical Center is a qualified teaching hospital and physicians employed by UVM Medical Group are qualified teaching physicians.

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September 30, 2016 and 2015

The nonfederal source of these payments was provided by payments from UVM from its governmental appropriations from the State of Vermont ("the State"). UVM has entered into a contract with the State to provide annual amounts during the State's fiscal year as the nonfederal share of GME payments for that year. UVM Medical Center expects that UVM will enter into similar contracts for subsequent years, though there is no assurance of this. UVM Medical Center entered into a contract with the State, by which UVM Medical Center agrees to assess and monitor program benefits to Medicaid beneficiaries and to report to the State annually on its performance on certain quality measures and improvement focus areas for Medicaid beneficiaries pertaining to UVM Medical Center's GME programs, and the State agrees to provide GME payments to UVM Medical Center during the State fiscal year. UVM Medical Center expects to enter into similar contracts with the State for future years, but these are subject to continued funding by UVM of the nonfederal source. The State, UVM Medical Center and UVM have also entered into a Memorandum of Understanding ("MOU"), dated June 10, 2013 that describes the State Plan Amendment and these funding arrangements.

UVM Medical Center recognized enhanced GME revenue under the State Plan Amendment totaling \$30,000,000 for the fiscal years ending September 30, 2016 and 2015. Under the MOU, both UVM and the State retain the right to discontinue GME payments at any time in the future.

Premium Revenue

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

Pharmacy Revenue

Pharmacy revenue consists of sales of pharmaceuticals and related products.

Other Revenue

Other revenue consists primarily of research revenue, nonpatient related contract revenues, cafeteria sales, parking garage income, net assets released from restrictions used for operations, and rental income.

Research Grants and Contracts

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

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

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

The University of Vermont Health Network Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

Income Taxes

Entities within the UVM Health Network, with the exception of entities specifically named below, are incorporated and recognized by the Internal Revenue Service ("IRS") as tax-exempt under Section 501(c)(3) of the Internal Revenue Code (the "Code"). Accordingly, the IRS has determined that these organizations are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. UVM Health Network Specialty Care Transport, UVM Medical Center Executive Services, 116 Realty, LLC, and UVM Medical Center Skilled Nursing are single-member limited liability corporations. As such, for tax purposes, these organizations are treated as divisions of UVM Medical Center. OCV, ADK ACO, and OB Net Services are limited liability companies and treated for tax purposes as partnerships. Earnings and losses are passed through to the owners, which are tax-exempt, and are treated in the same manner for tax purposes. No provision for federal income taxes has been recorded in the accompanying consolidated financial statements for these organizations.

University of Vermont Health Ventures, VMC, Mediquist and CVHN are for-profit subsidiaries subject to federal and state taxation. The tax provisions and related tax assets and liabilities for these entities are not material to the consolidated financial statements.

UVM Health Network accounts for recognition and measurement of uncertain tax positions in accordance with Accounting Standards Codification (ASC) 740 *Income Taxes*, which addresses how to account for and report the effects of taxes based on income. No provision for uncertain tax positions is recorded in the accompanying consolidated financial statements.

VMCIC is currently not a taxable entity under the provisions of the territory of Bermuda and, accordingly, no provision for taxes has been recorded by VMCIC. In the event that such taxes are levied, VMCIC has received an undertaking from the Bermuda Government exempting it from all such taxes until March 31, 2035.

Asset Retirement Obligations

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

The estimated future undiscounted value of the asset retirement obligation is approximately \$4,153,000 and \$4,002,000 at September 30, 2016 and 2015, respectively, substantially all of which relates to the estimated costs to remove asbestos that is contained within UVM Health Network's facilities. The initial asset retirement obligation was calculated using discount rates of 2.0%-6.0%. The recorded asset retirement obligation at September 30, 2016 and 2015 was approximately \$2,549,000 and \$2,406,000, respectively.

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Defined Benefit Pension and Other Postretirement Benefit Plans

UVM Health Network recognizes the overfunded or underfunded status of its defined benefit pension and other postretirement benefit plans (collectively, "postretirement benefit plans") in the consolidated balance sheets. Changes in the funded status of the plans are reported in the year in which the changes occur as a change in unrestricted net assets presented below the excess of revenue over expenses in the consolidated statements of operations and changes in net assets.

Fair Value Measurements

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

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

UVM Health Network uses the following fair value hierarchy to present its fair value disclosures:

- | | |
|---------|--|
| Level 1 | Quoted (unadjusted) prices for identical assets or liabilities in active markets. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. |
| Level 2 | Other observable inputs, either directly or indirectly, including: <ul style="list-style-type: none">• Quoted prices for identical or similar assets in nonactive markets (few transactions, limited information, noncurrent prices, high variability over time).• Inputs other than quoted prices that are observable for the asset (interest rates, yield curves, volatilities, default rates).• Inputs that are derived principally from or corroborated by other observable market data. |
| Level 3 | Pricing inputs are generally unobservable for the assets or liabilities and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. |

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

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

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

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

Debt Securities

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

Common Collective Trusts and Hedge Funds

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

Beneficial Interest in Perpetual Trusts

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

Interest Rate Swap Agreements

Interest rate swap agreements are valued at the present value of the estimated series of cash flows resulting from the exchange of fixed rate payments for floating rate payments from the counterparty over the remaining life of the contract from the balance sheet date. Each floating rate payment is calculated based on forward market rates at the valuation date for each respective payment date. The valuation based on the estimated series of cash flows is obtained from third parties and assessed by management for reasonableness. Because the inputs used to value the contract can generally be corroborated by market data, the fair value is categorized as Level 2.

Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation.

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3. New Accounting Guidance

UVM Health Network early adopted ASU 2015-03 *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* in fiscal year 2015, which required debt issuance costs to be recognized as a direct reduction to the carrying amount of the debt liability.

In September 2015, the FASB issued ASU No. 2015-16 *Simplifying the Accounting for Measurement-Period Adjustments* which is applicable to organizations that have had an acquisition and the accounting for which is not complete at the end of the reporting period and an adjustment was made in the next reporting period. The updated guidance requires an organization to present separately on the face of the statement of operations or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if an adjustment to the provisional amounts had been recognized. The revised guidance is effective for fiscal year 2018. We do not expect the adoption of this revised guidance to have a material impact on our consolidated financial statements.

In May 2015, the FASB issued ASU 2015-07, *Disclosures for Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using net asset value per share as the practical expedient. This guidance is effective in fiscal year 2017, however, early adoption is permitted. UVM Health Network elected to adopt the guidance early in fiscal year 2015, and the impact of the adoption of the new standard was limited to the notes to the financial statements.

In May 2014, the FASB issued a standard on *Revenue from Contracts with Customers*. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2017. UVM Health Network is evaluating the impact this will have on the consolidated financial statements upon adoption in fiscal year 2019.

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

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

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In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, which makes targeted changes to the not-for-profit financial reporting model. The new ASU marks the completion of the first phase of a larger project aimed at improving not-for-profit financial reporting. Under the new ASU, net asset reporting will be streamlined and clarified. The existing three category classification of net assets will be replaced with a simplified model that combines temporarily restricted and permanently restricted into a single category called "net assets with donor restrictions." The guidance for classifying deficiencies in endowment funds and on accounting for the lapsing of restrictions on gifts to acquire property, plant, and equipment have also been simplified and clarified. New disclosures will highlight restrictions on the use of resources that make otherwise liquid assets unavailable for meeting near-term financial requirements. The ASU also imposes several new requirements related to reporting expenses. The ASU is effective for fiscal years beginning after December 15, 2017 or fiscal year 2019 for UVM Health Network and early adoption is permitted. UVM Health Network is evaluating the impact of the new guidance on the consolidated financial statements.

4. Alice Hyde Medical Center, Inc. Affiliation

On May 1, 2016, UVM Health Network – Adirondack Region and AHMC entered into an affiliation agreement whereby UVM Health Network – Adirondack Region became the sole corporate member of AHMC. AHMC, located in Malone, New York, is tax-exempt under 501(c)(3) of the Internal Revenue Code, as amended and is comprised of a 76-bed acute care facility, a 135-bed long-term care facility, a 30 bed assisted living facility, four family health centers, a walk-in clinic, a cancer center, an orthopedic and rehabilitation center, a cardiac rehabilitation unit, a hemodialysis unit, and a dental center.

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No consideration was given for this transaction that was accounted for using the acquisition method of accounting, which requires all the assets and liabilities of AHMC to be revalued at their fair value as of the affiliation date. In connection with the affiliation, UVM Health Network received an inherent contribution of \$23,958,000 reflecting the fair value of the contributed net assets of AHMC on the transaction date, including an adjustment of \$5,119,000 to step-up certain tangible assets to their fair value on the date of acquisition. There were no intangible assets recorded as a result of this transaction. Of this amount, \$23,774,000 represents unrestricted net assets and is included as a nonoperating gain in the accompanying consolidated statement of operations. Permanently restricted net assets of \$184,000 were recorded as restricted contribution income in the accompanying consolidated statement of changes in net assets. The consolidated statement of operations and the consolidated statement of changes in net assets include AHMC's operating and nonoperating activities for the 5-month period May 1, 2016 to September 30, 2016, as follows:

(in thousands)

	2016
Unrestricted revenue and other support	
Net patient service revenue	\$ 34,253
Less: Provision for bad debts	(1,395)
Net patient service revenue after provision for bad debts	<u>32,858</u>
Pharmacy revenue	1,493
Other revenue	1,570
Total unrestricted revenue and other support	<u>35,921</u>
Expenses	
Salaries, payroll taxes, and fringe benefits	23,180
Supplies and other	6,926
Purchased services	3,864
Depreciation and amortization	1,869
Interest expense	385
Total expenses	<u>36,224</u>
Loss from operations	<u>(303)</u>
Nonoperating gains (losses)	
Investment income	7
Other	87
Total nonoperating gains, net	<u>94</u>
Deficit of revenue over expenses	<u>\$ (209)</u>

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The table below discloses the assets and liabilities at fair value as of May 1, 2016 for AHMC and the inherent contribution received from this transaction:

(in thousands)

Current assets	
Cash and cash equivalents	\$ 487
Patient accounts receivable, net	9,125
Receivables from third-party payers	1,616
Inventories	736
Prepaid and other current assets	1,397
Total current assets	13,361
Assets whose use is limited	2,703
Property, plant and equipment	52,581
Other	18
Total assets	<u>\$ 68,663</u>
Current liabilities	
Current installments of long-term debt	\$ 2,529
Accounts payable and accrued expenses	10,895
Accrued payroll and related benefits	4,859
Total current liabilities	18,283
Long-term liabilities	
Long term debt - net of current installments	26,144
Other	278
Total liabilities	<u>44,705</u>
Unrestricted net assets	23,774
Permanently restricted net assets	184
Total net assets	<u>23,958</u>
Total liabilities and net assets	<u>\$ 68,663</u>

A summary of the consolidated financial results of UVM Health Network for the years ended September 30, 2016 and 2015 as if the transaction had occurred on October 1, 2014 is as follows (unaudited):

(in thousands)

	2016	2015
Total unrestricted revenue and other support	\$ 1,793,495	\$ 1,725,111
Total expenses	<u>1,722,252</u>	<u>1,649,717</u>
Income from operations	71,243	75,394
Nonoperating (losses) gains	<u>(18,055)</u>	<u>9,512</u>
Excess of revenue over expenses	53,188	84,906
Net assets released from restriction for capital purchases	2,741	3,664
Other adjustments	40,601	(12,835)
Pension related adjustments	<u>(37,471)</u>	<u>(37,780)</u>
Increase in unrestricted net assets	<u>\$ 59,059</u>	<u>\$ 37,955</u>

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5. Charity Care and Community Service

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

The amount of charges foregone for services and supplies furnished under UVM Health Network's charity care policy aggregated approximately \$18,975,000 and \$17,102,000 for the years ended September 30, 2016 and 2015, respectively.

Approximately \$7,391,000 and \$6,928,000 of UVM Health Network's total expenses for the years ended September 30, 2016 and 2015 arose from providing services to charity patients. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on UVM Health Network's total expenses divided by gross patient service revenue. For the years ended September 30, 2016 and 2015, respectively, UVM Health Network used \$911,000 and \$178,000 in charitable endowment earnings to help defray the costs of indigent care.

6. Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted at September 30, 2016 and 2015 consisted of the following:

<i>(in thousands)</i>	2016	2015
Equities	\$ 26,487	\$ 22,288
Mutual funds	136,738	117,933
Money market funds	114,954	45,824
Bonds and notes	53,599	54,887
Common collective trusts		
Bond funds	164,025	149,352
U.S. treasury obligation funds	45,654	43,907
International equity funds	62,628	68,993
Domestic equity funds	13,688	3,186
Commodity funds	26,191	17,770
Real estate funds	30,711	17,315
Total common collective trusts	<u>342,897</u>	<u>300,523</u>
Beneficial interest in perpetual trusts	13,445	12,975
Hedge funds	6,423	5,297
Real estate	517	378
	<u>695,060</u>	<u>560,105</u>
Less: Current portion	<u>(95,165)</u>	<u>(35,773)</u>
	<u>\$ 599,895</u>	<u>\$ 524,332</u>

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Investment income and gains (losses) for the years ended September 30, 2016 and 2015 consisted of the following:

<i>(in thousands)</i>	2016	2015
Nonoperating revenue and expenses		
Investment income	\$ 6,734	\$ 2,489
Net realized gains on investments	<u>3,336</u>	<u>6,956</u>
Investment income recorded in nonoperating gains	<u>10,070</u>	<u>9,445</u>
Net change in unrealized gains (losses) on investments	<u>36,090</u>	<u>(12,875)</u>
Changes in temporarily restricted net assets		
Investment income	221	185
Net change in unrealized gains (losses) on investments	2,150	(1,606)
Net realized gains on investments	<u>870</u>	<u>1,394</u>
	<u>3,241</u>	<u>(27)</u>
Changes in permanently restricted net assets		
Change in beneficial interest in perpetual trusts	<u>470</u>	<u>(1,097)</u>
	<u>\$ 49,871</u>	<u>\$ (4,554)</u>

The cost and estimated fair value of securities classified as available-for-sale by the organization, which excludes beneficial interest in perpetual trusts of \$13,445,000 and \$12,975,000, and includes short-term investments of \$16,712,000 and \$15,106,000 as of September 30, 2016 and 2015, respectively, and long-term investments of \$4,099,000 and \$3,924,000 as of September 30, 2016 and 2015, respectively, is as follows:

<i>(in thousands)</i>	2016		
	Cost	Gross Unrealized Gains/(Losses)	Estimated Fair Value
Equities	\$ 32,098	\$ 3,625	\$ 35,723
Mutual funds	132,686	12,279	144,965
Money market funds	116,066	(199)	115,867
Bonds and notes	54,615	706	55,321
Common collective trusts	295,005	47,892	342,897
Hedge funds	6,396	469	6,865
Real estate	<u>696</u>	<u>92</u>	<u>788</u>
	<u>\$ 637,562</u>	<u>\$ 64,864</u>	<u>\$ 702,426</u>

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(in thousands)	2015		
	Cost	Gross Unrealized Gains/(Losses)	Estimated Fair Value
Equities	\$ 31,080	\$ (1,183)	\$ 29,897
Mutual funds	121,576	4,347	125,923
Money market funds	46,604	(133)	46,471
Bonds and notes	57,292	(550)	56,742
Common collective trusts	275,988	24,626	300,614
Hedge funds	5,378	422	5,800
Real estate	728	(15)	713
	<u>\$ 538,646</u>	<u>\$ 27,514</u>	<u>\$ 566,160</u>

The following tables present information as of September 30, 2016 and 2015, about UVM Health Network's financial assets and liabilities that are measured at fair value on a recurring basis:

(in thousands)	2016				
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	NAV as Practical Expedient	Fair Value
Equities	\$ 35,723	\$ -	\$ -	\$ -	\$ 35,723
Mutual Funds	144,965	-	-	-	144,965
Money market funds	115,867	-	-	-	115,867
Bonds and notes	11,704	43,617	-	-	55,321
Common collective trusts	-	-	-	342,897	342,897
Beneficial interest in perpetual trusts	-	-	13,445	-	13,445
Hedge funds	-	-	-	6,865	6,865
Real estate	788	-	-	-	788
	<u>\$ 309,047</u>	<u>\$ 43,617</u>	<u>\$ 13,445</u>	<u>\$ 349,762</u>	<u>\$ 715,871</u>
Interest rate swap agreements	<u>\$ -</u>	<u>\$ 29,627</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,627</u>

(in thousands)	2015				
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	NAV as Practical Expedient	Fair Value
Equities	\$ 29,897	\$ -	\$ -	\$ -	\$ 29,897
Mutual funds	125,923	-	-	-	125,923
Money market funds	46,471	-	-	-	46,471
Bonds and notes	19,069	37,673	-	-	56,742
Common collective trusts	-	-	-	300,614	300,614
Beneficial interest in perpetual trusts	-	-	12,975	-	12,975
Hedge funds	-	-	-	5,800	5,800
Real estate	713	-	-	-	713
	<u>\$ 222,073</u>	<u>\$ 37,673</u>	<u>\$ 12,975</u>	<u>\$ 306,414</u>	<u>\$ 579,135</u>
Interest rate swap agreements	<u>\$ -</u>	<u>\$ 24,762</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,762</u>

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The table below summarizes the fair value measurements of the investments in certain entities that calculate net asset value per share as of September 30, 2016 and 2015.

Category of Investment	Fair Value	Unfunded Commitments	Remaining Life, if Applicable	2016		
				Redemption Terms, if Currently Eligible	Redemption Restrictions and Terms	Redemption Restrictions and Terms in Place at Year End
Common Collective Trusts	\$ 342,897	-	Not applicable	Daily	Not applicable	Not applicable
Hedge Funds	\$ 6,865	-	Not applicable	Ranges from 60 - 95 days notice, quarterly	100% of these funds are either not under lock or have a lock of one year or less.	None

Category of Investment	Fair Value	Unfunded Commitments	Remaining Life, if Applicable	2015		
				Redemption Terms, if Currently Eligible	Redemption Restrictions and Terms	Redemption Restrictions and Terms in Place at Year End
Common Collective Trusts	\$ 300,614	-	Not applicable	Daily	Not applicable	Not applicable
Hedge Funds	\$ 5,800	-	Not applicable	Ranges from 60 - 95 days notice, quarterly	100% of these funds are either not under lock or have a lock of one year or less.	None

As of and for the years ended September 30, 2016 and 2015, the fair value of the assets and change in the value of the assets measured using significant unobservable inputs (Level 3) were related to beneficial interests in perpetual trusts.

7. Property and Equipment

A summary of property and equipment at September 30, 2016 and 2015 is as follows:

<i>(in thousands)</i>	2016	2015
Land	\$ 32,734	\$ 24,262
Land improvements	20,153	17,647
Leasehold improvements	60,376	50,176
Buildings	781,163	715,687
Equipment, furniture, and fixtures	514,258	463,484
	<u>1,408,684</u>	<u>1,271,256</u>
Less: Accumulated depreciation	<u>(739,917)</u>	<u>(669,729)</u>
	668,767	601,527
Construction-in-progress	37,992	18,437
	<u>\$ 706,759</u>	<u>\$ 619,964</u>

UVM Health Network sold, traded-in or wrote off approximately \$7,958,000 and \$12,766,000 in gross property and equipment in the years ended September 30, 2016 and 2015, respectively. In conjunction with these sales, trade-ins or disposals, a gain of \$50,000 and a loss of \$791,000 was recorded in the years ended September 30, 2016 and 2015, respectively. These gains and losses are included in supplies and other expense. At September 30, 2016 and 2015, UVM Health Network had commitments to purchase approximately \$117,175,000 and \$4,510,000, respectively, of property and equipment. Of the \$117,175,000 committed purchases, \$108,864,000 is related to the Inpatient Bed replacement project (the "Miller Building Project"). Anticipated future cash flows related to this commitment are \$52,333,000, \$36,519,000 and \$20,012,000 for the years ended September 30, 2017, 2018 and 2019, respectively.

UVM Health Network recorded depreciation expense of \$78,392,000 and \$72,176,000 for the years ended September 30, 2016 and 2015, respectively.

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8. Long-Term Debt

Long-term debt at September 30, 2016 and 2015 consisted of the following:

<i>(in thousands)</i>	2016	2015
Vermont Educational and Health Buildings Financing Agency		
Hospital Revenue Bonds		
Series 2009A loan, fixed rate (5.08%), payable through 2024	\$ 1,662	\$ 10,113
Series 2008A Bonds, variable rate (0.84% at September 30, 2016), payable through 2030	54,706	54,706
Series 2007A Bonds, fixed rate (4.00% to 4.75%), paid in full (including unamortized premium of \$0 and \$82 at September 30, 2016 and 2015, respectively)	-	55,347
Series 2004B Bonds, fixed rate (4.00% to 5.50%), paid in full (including unamortized premium of \$0 and \$113 at September 30, 2016 and 2015, respectively)	-	141,088
Series 2013A Bonds (UVMHC), fixed rate (2.60%) payable through 2027	28,363	28,687
Series 1996 loan, fixed rate (3.50%), payable through 2021	6,356	7,519
Series 2015A Bonds, fixed rate (2.27%), payable through 2023	21,835	23,840
Series 2016A Bonds (UVMHC), fixed rate (3.00% to 5.00%), payable through 2036 (including unamortized premium of \$25,415 at September 30, 2016)	201,790	-
Series 2016B Bonds (UVMHC), fixed rate (3.13% to 5.00%), payable through 2046 (including unamortized premium of \$11,759 at September 30, 2016)	100,759	-
County of Clinton Industrial Development Agency		
Hospital Revenue Bonds		
Series 2006A & 2006B Bonds, variable rate (0.91% at September 30, 2016), payable through 2017	1,430	2,800
Series 2007B Bonds, variable rate (0.91% at September 30, 2016), payable through 2042	10,970	11,185
Essex County Capital Resource Corporation		
Hospital Revenue Bonds		
Series 2011 Bonds, variable rate (1.89% at September 30, 2016), payable through 2032	5,120	5,360
Other long-term debt		
KeyBank Loan, fixed rate (3.13%), payable through 2023	39,130	43,810
Series 2007A Key Bank Bonds, variable rate (1.87% at September 30, 2016), payable through 2042	17,250	17,580
Community Bank Loan Payable, fixed rate (1.87%), payable through 2017	14,658	15,312
Series 2002A Key Bank Bonds, variable rate (3.91% at September 30, 2016), payable through 2024	4,950	5,450
Series 2013A Bonds (AHMC), variable rate (2.60% at September 30, 2016), payable through 2038	26,070	-
Capital Lease, fixed rate (2.54% to 8.27%), payable through 2020	10,356	8,993
Peoples United Loan Payable, fixed rate (2.20%), payable through 2026	4,988	-
KeyBank Line of Credit, variable rate (2.00% at September 30, 2016)	4,978	4,983
People's United Loan, variable rate (1.54% at September 30, 2016) payable through 2028	8,392	8,928
Bank of America Loan, fixed rate (2.26%), payable through 2024	7,916	-
Other debt	12,672	9,381
	<u>584,351</u>	<u>455,082</u>
Less: Current portion	(33,639)	(28,015)
Less: Unamortized debt issuance costs	(2,052)	(9,449)
Long-term debt	<u>\$ 548,660</u>	<u>\$ 417,618</u>

Obligated Group

UVM Medical Center and CVMC presently are the sole members of the UVM Health Network 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 UVM Health Network – Adirondack Region entities.

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Series 2004B and 2008A Bonds

On May 21, 2008, UVM Medical Center converted the Series 2004B auction rate bonds from 35-day variable-rate bonds to fixed-rate bonds through a mandatory tender of the bonds as provided for under the original bond agreement. The tender was financed through the reissuance of \$160,525,000 of Series 2004B bonds as tax-exempt fixed-rate bonds, and a payment of \$2,700,000 from UVM Medical Center's debt service reserve funds. The Series 2004B bonds required UVM Medical Center to maintain a debt service reserve fund. As of September 30, 2016 and 2015, the reserve fund balances were approximately \$0 and \$15,527,000, respectively. The 2004B bonds were refunded in 2016 as part of the Series 2016A bond issuance.

Also on May 21, 2008, UVM Medical Center in connection with the Vermont Educational and Health Buildings Financing Agency, issued \$54,706,000 of tax-exempt variable-rate hospital revenue bonds ("Series 2008A"), the proceeds of which were used to refund its Series 2000B bonds in the amount of \$50,000,000, pay an early termination payment in the amount of \$3,128,000 on a related interest rate swap, and pay issuance costs in the amount of \$1,577,000. The Series 2008A bonds are collateralized by an irrevocable letter of credit from a bank in the amount of \$55,334,000 (covers principal of \$54,706,000 and interest of \$629,000), which expires in 2021. The interest rate on the Series 2008A bonds is set weekly. Series 2008A bondholders have the option to put the bonds back to UVM Medical Center. Such bonds would be subject to remarketing efforts by UVM Medical Center's remarketing agent. To the extent that such remarketing efforts were unsuccessful, the nonmarketable bonds would be purchased from the proceeds of the letter of credit. Monthly payments of principal on the letter of credit borrowings would commence on the first calendar day of the first month that commences more than one year after the borrowing. Repayment in full of the letter of credit would be required by the earlier of four years from the date of the borrowing under the letter of credit or the stated expiration date, currently, April 30, 2021.

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

UVM Medical Center and certain of its subsidiaries are obligated under various other revenue bonds, capital leases, and notes payable. Various trustee-held funds are required under the terms of the loan agreements. Under one of the loan agreements, a reserve fund is required only upon the failure to meet certain financial ratios. As of September 30, 2016 and 2015, no funding has been required under this agreement.

UVM Medical Center has granted a mortgage on substantially all of its property and an interest in its gross receipts, as defined in connection with the issuance of its long-term debt.

The 2008A letter of credit was not drawn upon as of September 30, 2016, and the scheduled maturities of long-term debt assume the Series 2008A bonds are not put back to the UVM Health Network Obligated Group. If the letter of credit was drawn upon, the repayment would begin one year and one day from the date of the letter of credit being drawn upon. The repayment schedule would occur over the remaining three years of the letter of credit term. The repayment of principal would be as follows: \$21,176,000 in year two, \$21,176,000 in year three and \$12,354,000 in the final year.

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Series 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 3.50% and matures November 1, 2021. Interest payments are made monthly and principal payments in the amount of \$582,000 are made semi-annually each May and November, beginning May 1, 2012 and ending on November 1, 2021. The term loan is collateralized with assets, mortgage, and all other collateral securing repayment of the Obligation as defined in the Master Trust Indenture of the Obligated Group.

Series 2002A Bonds

The Series 2002A bonds are bank qualified bonds held by Key Bank, payable in annual installments ranging from \$500,000 to \$700,000, plus interest at one month LIBOR times 0.6501 plus 153 basis points (3.91% at September 30, 2016) through July 2024. The 2002A bonds were refunded in fiscal year 2017 as part of the CVPB Series 2016A and 2016B bond issuance (See Note 19).

Series 2006A & 2006B Bonds

The Series 2006A and 2006B bonds are County of Clinton Industrial Development Agency, Variable Rate Demand Civic Facility Revenue Bonds, Series 2006A (tax-exempt) of \$12,650,000 and Series 2006B (taxable) of \$100,000, payable in annual installments ranging from \$1,210,000 to \$1,430,000 plus interest. Interest is payable semi-annually at a variable rate reset weekly by a remarketing agent (0.35% at September 30, 2016) 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. The 2006A bonds were repaid in fiscal year 2017 (See Note 19).

Series 2007A Bonds

The Series 2007A bonds are bank qualified bonds held by Key Bank, payable in annual installments ranging from \$285,000 to \$1,125,000, plus interest at one month LIBOR times 0.6501 plus 153 basis points (1.75% at September 30, 2016) through July 2042. The 2007A bonds were refunded in fiscal year 2017 as part of the CVPB Series 2016A and 2016B bond issuance (See Note 19).

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 (0.37% at September 30, 2016) 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. The 2007A bonds were refunded in fiscal year 2017 as part of the CVPB Series 2016A and 2016B bond issuance (See Note 19).

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 (1.87% at September 30, 2016) due in quarterly installments through March 1, 2032.

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Series 2013A Bonds (UVM Medical Center)

The 2000A Bonds were partially refunded in 2011. The remaining \$32,550,000 balance of the initial aggregate principal amount of the Series 2000A Bonds with maturities between December 2025 and December 2027 were refunded in March 2013 and replaced with a tax-exempt direct bank private placement with TD Bank (the 2013A bonds), in the aggregate principal amount of \$29,500,000 with a final maturity date in December 2027. The Series 2013A bonds carry a fixed interest rate of 2.60%.

Series 2013A Bonds (AHMC)

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

The Revenue Bonds consist of variable interest rate, term bonds, requiring annual sinking fund payments ranging from \$765,000 to \$1,645,000 through October 2037, with a \$1,715,000 principal amount maturing on October 1, 2038 to be paid at maturity. Interest rates are variable and are re-set weekly by the remarketing agent. The interest rate as of September 30, 2016 was 2.60%. Interest payments are due monthly. In addition to interest to bondholders, interest is paid to HSBC Bank at a rate of 2.50% on the outstanding balance. Interest is paid to HSBC Bank quarterly. The bonds are collateralized by a direct pay letter of credit with a bank aggregating the outstanding principle amount plus 35 days interest at an assumed rate 12% per annum for the term of the bonds. Any outstanding balance put to the letter of credit would be repaid in accordance with the payment schedule of the 2013A Revenue Bonds and must be repaid prior to the letter of credit expiring on October 31, 2018. The Revenue Bonds are administered by the provisions of a Master Trust Indenture (Indenture) between the AHMC and bond trustee. The indenture requires AHMC to meet certain covenants annually.

Series 2015A Bonds (UVM Medical Center)

The remaining \$30,480,000 par of the initial aggregate principal amount of the Series 2004A Bonds, with maturities between December 2015 and December 2023, were refunded in January 2015 and replaced with a tax-exempt direct bank private placement with Key Government Finance (the 2015A bonds), in the aggregate principal amount of \$23,840,000 with a final maturity date in December 2023. Debt service reserve fund proceeds of \$6,640,000 were used to buy down the par amount of the new bonds. The Series 2015A bonds carry a fixed interest rate of 2.27%. The 2015 refunding resulted in a loss on extinguishment of debt of \$346,000.

Series 2016A Bonds (UVM Medical Center)

The remaining \$192,965,000 par of the initial aggregate principal amount of the Series 2004B and 2007A Bonds, with maturities between December 2016 and December 2036, were advance refunded in February 2016 and replaced with a tax-exempt public bond issue (the 2016A bonds), in the aggregate principal amount of \$176,375,000 with a final maturity date in December 2036. The Series 2016A bonds carry fixed interest rates ranging between 3.00% - 5.00%. The premium on the 2016A bonds was \$27,500,000. Bond issuance costs of \$680,423 were recorded as deferred financing costs, net in September 30, 2016 and will be amortized over the life of the loan. The 2016 refunding resulted in a loss on extinguishment of debt of \$22,320,000.

Series 2016B Bonds (UVM Medical Center)

On July 28, 2016, UVM Medical Center, in connection with the Vermont Educational and Health Buildings Financing Agency, issued \$89,000,000 of tax-exempt fixed rate hospital revenue bonds ("Series 2016B"), the proceeds of which are being used to partially fund the Miller Building Project on the UVM Medical Center's main campus, fund a capitalized interest account in the amount of

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\$12,278,224, and pay issuance costs in the amount of \$1,205,400. The Series 2016B bonds carry fixed interest rates ranging from 3.13% - 5.00%, with an average coupon of 4.54%, and the bonds mature on September 30, 2047. The premium on the 2016B bonds was \$12,600,000. The Series 2016B Bonds were labeled "Green Bonds" as a result of their usage to finance the Miller Building Project for which UVM Medical Center expects to obtain Silver LEED-certified status. The purpose of the "Green Bonds" label was to allow investors to invest directly in an environmentally beneficial project. However, there is no guarantee that UVM Medical Center will obtain Silver LEED-certified status.

People's United Loan

On September 30, 2013, UVM Medical Center entered into a mortgage for property ("Holly Court") in the amount of \$9,903,000. The mortgage is payable through September 2028, and bears interest at a variable rate equal to one month LIBOR plus 105 basis points (1.54% at September 30, 2016). Concurrent with the issuance of the Holly Court mortgage, an interest rate swap was entered into whereby UVM Medical Center pays a fixed rate of 2.67% and receives a variable rate of one month LIBOR.

Scheduled Maturities of Long-Term Debt

As of September 30, 2016, scheduled maturities of long-term debt, not including a net unamortized premium of \$37,174,000 for the next five years and thereafter are as follows:

(in thousands)

Years Ending September 30

2017	\$	33,639
2018		34,668
2019		19,787
2020		18,743
2021		18,996
Thereafter		421,344
	\$	<u>547,177</u>

Loan Covenants

Under the terms of the master indenture agreement, the UVM Health Network Obligated Group is required to meet certain covenant requirements, as are CVPH, AHMC 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 UVM Health Network Obligated Group. CVPH was not in compliance with its required covenants as of September 30, 2016, and has obtained waivers from the financial institutions. CVPH is not part of the Obligated Group.

Lines of Credit

CVMC has a bank line of credit that exists with a maximum borrowing of \$2,000,000 at September 30, 2016. The line was renewed for a two-year period on May 31, 2015, and bears interest at the Wall Street Journal prime rate adjusted daily with a floor of 3.25%, with advances collateralized. At September 30, 2016, CVMC did not have any outstanding borrowings under the line of credit.

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UVM Health Network – Adirondack Region has an uncollateralized line of credit in the amount of \$3,000,000 at September 30, 2016. The interest rate is set at a floating rate equal to LIBOR plus 150 basis points (2.00% at September 30, 2016). At September 30, 2016 UVM Health Network – Adirondack Region had outstanding borrowings under the line of credit of \$3,000,000. This revolving line of credit is interest only payments with accrued interest and principal due upon maturity. The maturity date for the line of credit is July 31, 2017.

CVPH has an available uncollateralized line of credit in the amount of \$4,978,000 at September 30, 2016. The interest rate is set at a floating rate equal to LIBOR plus 150 basis points (2.00% at September 30, 2016). At September 30, 2016, CVPH had outstanding borrowings under the line of credit of \$4,978,000. The maturity date for the line of credit is July 31, 2017.

AHMC has an uncollateralized line of credit in the amount of \$1,500,000 at September 30, 2016. The interest rate is set at a floating rate equal to prime plus 100 basis points (4.50% at September 30, 2016). At September 30, 2016, AHMC had borrowings under the line of credit of \$1,484,000. The revolving line of credit is interest only payments with accrued interest and principal due upon maturity. The maturity date of the line of credit is October 31, 2018.

9. Interest Rate Swap Agreements

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

Swap	Bond Series	Notional Amount		Counterparty	Expiration Date	Pay Fixed	Receive Floating
		September 30 2016 (\$ in 000's)	September 30 2015 (\$ in 000's)				
LIBOR Swap (Series B-1)	2008A	\$ 27,595	\$ 27,595	Citibank, NA	October 28, 2032	3.76 %	66.5% of LIBOR + 32bps
LIBOR Swap (Series B-2)	2008A	27,595	27,595	Citibank, NA	November 4, 2032	3.76 %	66.5% of LIBOR + 32bps
LIBOR Swap	Holly Court Loan	8,392	8,928	Peoples United Bank	October 2, 2028	2.67 %	1 Month LIBOR
LIBOR Swap	Series 2006A	1,430	2,800	Key Bank	July 1, 2017	3.50 %	69.0% of LIBOR
LIBOR Swap	Series 2007B	10,970	11,185	Key Bank	July 1, 2042	4.06 %	68.0% of LIBOR
LIBOR Swap	Series 2007A	17,250	17,580	Key Bank	July 1, 2042	4.00 %	65.0% of LIBOR
SIFMA Swap	Series 2011	4,960	5,120	Key Bank	December 1, 2021	3.24 %	65.0% of LIBOR

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

(in thousands)	Fair Value	
	2016	2015
2008A Swaps	(16,078)	\$ (13,209)
Holly Court Loan	(762)	(571)
2006A Swap	(36)	(118)
2007B Swap	(4,708)	(3,943)
2007A Swaps	(7,430)	(6,261)
2011 Swap	(613)	(660)
	<u>\$ (29,627)</u>	<u>\$ (24,762)</u>

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The effect of interest rate swap agreements on the consolidated statement of operations and changes in net assets for 2016 and 2015 are as follows:

<i>(in thousands)</i>	Amount of Gain (Loss) Recognized in Statement of Operations	
	2016	2015
2008A Swaps	\$ (2,869)	\$ (3,295)
Holly Court Loan	(191)	(341)
2006A Swap	82	106
2007B Swap	(765)	(813)
2007A Swaps	(1,169)	(1,245)
2011 Swap	47	(54)
	<u>\$ (4,865)</u>	<u>\$ (5,642)</u>

UVM Health Network also made payments on the interest rate swap agreements of \$3,156,000 and \$3,385,000 for the years ended September 30, 2016 and 2015, which are included in interest expense on the statement of operations.

10. Operating Leases

UVM Health Network has entered into certain operating lease agreements for the rental of building space and equipment. Rental expense, inclusive of common area maintenance charges, amounted to \$16,757,000 and \$17,100,000 for the years ended September 30, 2016 and 2015, respectively.

Minimum future lease payments required under noncancelable operating leases at September 30, 2016, were as follows:

<i>(in thousands)</i>	
Years Ending September 30,	
2017	\$ 13,325
2018	10,531
2019	9,345
2020	6,311
2021	4,944
Thereafter	8,444
	<u>\$ 52,900</u>

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11. Net Assets

Temporarily Restricted Net Assets

At September 30, 2016 and 2015, temporarily restricted net assets are available for the following purposes:

<i>(in thousands)</i>	2016	2015
Indigent care	\$ 471	\$ 1,174
Education and research	13,782	12,836
Children's programs	4,651	3,958
Capital projects and other health care services	23,480	18,336
Long-term care services at Woodridge	1,542	1,461
	<u>\$ 43,926</u>	<u>\$ 37,765</u>

At September 30, 2016 and 2015, temporarily restricted net assets include approximately \$20,315,000 and \$19,310,000, 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, 2016 and 2015, income earned on permanently restricted net assets is restricted to:

<i>(in thousands)</i>	2016	2015
Indigent care	\$ 4,825	\$ 4,554
Education and research	5,872	7,699
Other health care services	22,353	19,984
Long-term care services at Woodridge	979	924
	<u>\$ 34,029</u>	<u>\$ 33,161</u>

Endowment Funds

UVM Health Network's endowment consists of 133 funds established for a variety of purposes. UVM Health Network does not currently have any unrestricted funds designated by the Board of Trustees (the "Board") to function as endowment. Accordingly, for the purposes of this disclosure, endowment funds include only donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

UVM Health Network has interpreted relevant state laws for the states in which it operates as requiring realized and unrealized gains of permanently restricted net assets to be retained in a temporarily restricted net asset classification until appropriated by the Board and expended. These state laws allow the Board to appropriate the net appreciation of permanently restricted net assets as is prudent considering UVM Health Network's long and short-term needs, present and anticipated financial requirements, and expected total return on its investments, price level trends, and general economic conditions. In the years ended September 30, 2016 and 2015, \$986,000 and \$649,000, respectively, was appropriated.

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

Endowment Net Asset Composition and Changes in Endowment Net Assets

The following is a summary of the endowment net asset composition by type of fund at September 30, 2016 and 2015, and the changes therein for the years then ended:

Endowment Net Asset Composition by Type of Fund

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

	September 30, 2015		
	Temporarily Restricted	Permanently Restricted	Total
<i>(in thousands)</i>			
Donor-restricted endowment funds	\$ 19,283	\$ 20,186	\$ 39,469
Adjustments for funds with deficiencies	27	-	27
	<u>\$ 19,310</u>	<u>\$ 20,186</u>	<u>\$ 39,496</u>

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Changes in Endowment Net Assets

<i>(in thousands)</i>	2016		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at September 30, 2015	\$ 19,310	\$ 20,186	39,496
Investment return			
Investment income	265	-	265
Net appreciation	1,851	-	1,851
Total investment return	2,116	-	2,116
Appropriations of endowment assets for expenditure	(986)	-	(986)
Adjustment for funds with deficiencies	(27)	27	-
Other	(98)	371	273
Endowment net assets at September 30, 2016	\$ 20,315	\$ 20,584	\$ 40,899

<i>(in thousands)</i>	2015		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at September 30, 2014	\$ 19,573	\$ 18,929	\$ 38,502
Investment return			
Investment income	228	-	228
Net appreciation	97	-	97
Total investment return	325	-	325
Appropriations of endowment assets for expenditure	(649)	-	(649)
Adjustment for funds with deficiencies	27	-	27
Other	34	1,257	1,291
Endowment net assets at September 30, 2015	\$ 19,310	\$ 20,186	\$ 39,496

Beneficial Interest in Perpetual Trusts

The above amounts exclude UVM Health Network beneficial interest in perpetual trusts, which are not within management's investment control. Such beneficial interests totaled \$13,445,000 and \$12,975,000 at September 30, 2016 and 2015, respectively.

Charitable Remainder Trust

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

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires UVM Health Network to retain as a fund of perpetual duration. There were no deficiencies and \$27,000 in deficiencies at September 30, 2016 and 2015, respectively.

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Investment Return Objectives and Spending Policy

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

12. Malpractice and Other Contingencies

Malpractice and Workers' Compensation

UVM Health Network is insured against malpractice losses under a claims-made insurance policy with VMCIC, its wholly owned subsidiary. VMCIC has reinsurance with commercial carriers for coverage above a self-insured per claim retainer amount of \$5,000,000, \$1,000,000, \$2,000,000 and \$2,000,000 for UVM Medical Center, CVMC, CVPH and ECH, respectively, for Professional Liability, and per claim retainer amount of \$2,000,000, \$1,000,000, \$1,000,000 and \$1,000,000 for UVM, CVMC, CVPH and ECH, respectively, for Commercial General Liability with a \$20,000,000 aggregate for Professional Liability and \$10,000,000 for Commercial General Liability, with limits on such reinsurance. VMCIC provides claims-made coverage to certain affiliates of UVM Medical Center for periods prior to the merger that created UVM Medical Center.

UVM Health Network, excluding ECH and AHMC (discussed below), are also self-insured for workers' compensation claims, and maintains an excess insurance policy to limit its exposure on claims up to \$1,000,000 per occurrence in the year ended September 30, 2016, with a \$25,000,000 aggregate limit.

Since September 1, 2012 AHMC has participated in a retrospectively rated insurance arrangement for workers compensation insurance. The policy year is from September 1 – September 1 each year. AHMC's potential workers compensation exposure covers the period between September 1, 2012 and September 30, 2016. A related liability of approximately \$1,111,000 has been recorded as of September 30, 2016.

The reserves for outstanding losses at UVM Medical Center, CVMC, CVPH and ECH, have been discounted at a rate of 2.3% and 2.5% at September 30, 2016 and 2015, respectively, resulting in a decrease in the reserve for professional liability of approximately \$2,516,000 at September 30, 2016 and an increase of \$3,372,000 at September 30, 2015, and a reduction in the reserve for workers' compensation of approximately \$316,000 and \$397,000 at September 30, 2016 and 2015, respectively.

As a result of changes in estimates of incurred events in prior years, primarily professional liability, the estimate of incurred losses decreased by approximately \$9,077,000 and increased by \$3,046,000 for the years ended September 30, 2016 and 2015, respectively.

Employee Health and Dental Insurance

UVM Medical Center, CVPH, and CVMC maintain self-insured plans for employee health insurance. Under the terms of the plans, employees and their dependents are eligible for participation and, as such, UVM Medical Center, CVPH, and CVMC are responsible for paying claims and third party administrator costs. UVM Medical Center and CVPH maintained a stop-loss insurance policy for its medical plan to limit its exposure on nondomestic claims to the first

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\$650,000 and \$300,000, respectively, per member per plan year ending September 30, 2016, of which, \$100,000 of each entities exposure is 100% covered by VMCIC. CVMC maintains a stop-loss insurance policy for its medical plan to limit its exposure on all claims to the first \$300,000 per member, per plan year ending September 30, 2016, of which, \$100,000 of exposure is 100% covered by VMCIC. In addition, UVM Medical Center and CVMC maintain self-insured plans for employee dental.

Other Contingencies

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

13. Statutory Capital and Surplus

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, 2016 and 2015, was \$24,134,000 and \$11,514,000, respectively. The required minimum statutory capital at September 30, 2016 and 2015 was \$3,396,000 and \$3,947,000, respectively. In addition, a minimum liquidity ratio must be maintained whereby liquid assets, as defined by the Act, must exceed 75% of defined liabilities. The required minimum level of liquid assets was \$25,525,000 and \$29,620,000 at September 30, 2016 and 2015, respectively. The measurement of liquid assets at September 30, 2016 and 2015 is \$58,167,000 and \$51,008,000, respectively. UVM Health Network reports all of VMCIC's investments in marketable securities as restricted assets in the accompanying consolidated balance sheets.

14. Pension Plans

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

<i>(in thousands)</i>	Years Ending September 30	
	2016	2015
Defined benefit plans	\$ 7,722	\$ 637
Defined contribution plans	36,959	33,847
	<u>\$ 44,681</u>	<u>\$ 34,484</u>

Information regarding UVM Health Network benefit obligations, plan assets, funded status, expected cash flows and net periodic benefit cost for the pension plan follows within this footnote.

The University of Vermont Health Network Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2016 and 2015

Benefit Obligations

(in thousands)

	2016	2015
Changes in benefit obligations		
Projected benefit obligations - beginning of year	\$ (436,062)	\$ (417,629)
Service cost	(5,164)	(4,899)
Plan change cost	464	-
Interest cost	(20,048)	(18,149)
Benefits paid	17,565	16,495
Settlements	8,940	-
Actuarial loss	(59,574)	(13,835)
Administrative expenses paid	2,108	1,955
Projected benefit obligation - end of year	<u>(491,771)</u>	<u>(436,062)</u>
Accumulated benefit obligation	<u>(486,933)</u>	<u>(430,252)</u>
Changes in plan assets		
Fair value of plan assets - beginning of year	341,642	346,966
Actual gain on plan assets	39,129	(1,694)
Contributions	16,995	14,820
Benefits paid	(17,565)	(16,495)
Settlements	(8,940)	-
Administrative expenses paid	(2,108)	(1,955)
Fair value of plan assets - end of year	<u>369,153</u>	<u>341,642</u>
Funded status of the plan (long-term)	<u>\$ (122,618)</u>	<u>\$ (94,420)</u>

The reconciliation of the unrecognized actuarial losses for the years ended September 30, 2016 and 2015 is as follows:

(in thousands)

	2016	2015
Unrecognized actuarial losses - beginning of year	\$ 84,262	\$ 46,482
Net loss amortized during year	(1,960)	(1,740)
Settlements	(3,725)	-
New net prior service cost during year	(464)	-
Net loss during year	<u>42,005</u>	<u>39,520</u>
Unrecognized actuarial losses - end of year	<u>\$ 120,118</u>	<u>\$ 84,262</u>

The University of Vermont Health Network Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

The cost components of the net periodic benefit cost for the years ended September 30, 2016 and 2015 are as follows:

<i>(in thousands)</i>	2016	2015
Service cost	\$ 5,164	\$ 4,899
Interest cost	20,048	18,149
Settlements	3,725	-
Expected return on plan assets	(23,175)	(24,151)
Amortization of unrecognized net loss	1,960	1,740
Net periodic benefit cost	<u>\$ 7,722</u>	<u>\$ 637</u>

The expected net periodic benefit cost to be recognized in fiscal year 2017 is \$5,406,000.

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

	2016	2015
Weighted-average assumptions used to determine the benefit liability		
Discount rates	3.6% - 3.7%	4.6% - 4.7%
Rates of increase in future compensation levels	3.0% - 3.5%	3.0% - 3.5%
Weighted-average assumptions used to determine expense		
Discount rates	4.6% - 4.7%	4.4% - 4.5%
Rates of increase in future compensation levels	3.0% - 3.5%	3.0% - 7.5%
Expected long-term rate of return on plan assets	6.5% - 7.3%	6.5% - 7.5%

The expected long-term rate of return for the UVM Health Network Plans' total assets is based on the expected return of each of its asset categories, weighted based on the median of the allocation for each class. Equity securities are expected to return 9% to 11% over the long-term, while cash and fixed income is expected to return between 5% and 6%. Based on historical experience, UVM Health Network expects that the plans' asset managers will provide a modest (0.5% to 1.0% per annum) premium to their respective market benchmark indices.

Plan Assets

UVM Health Network's pension plans weighted-average asset allocations as of September 30, 2016 and 2015, by asset category, are as follows:

	2016	2015
Asset category		
Money market	2 %	2 %
Bonds	3	2
Equities	14	13
Mutual funds	38	38
Common collective trusts	43	45
	<u>100 %</u>	<u>100 %</u>

The University of Vermont Health Network Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2016 and 2015

The following table presents information, as of September 30, 2016 and 2015, about UVM Health Network's pension assets that are measured at fair value on a recurring basis:

	2016			
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	NAV as Practical Expedient NAV	Fair Value
<i>(in thousands)</i>				
Money market	\$ 6,308	\$ -	\$ -	\$ 6,308
Bonds	-	10,031	-	10,031
Equities	51,049	-	-	51,049
Mutual funds	138,542	-	-	138,542
Common collective trusts	-	-	163,223	163,223
	<u>\$ 195,899</u>	<u>\$ 10,031</u>	<u>\$ 163,223</u>	<u>\$ 369,153</u>

	2015			
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	NAV as Practical Expedient NAV	Fair Value
<i>(in thousands)</i>				
Money market	\$ 5,952	\$ -	\$ -	\$ 5,952
Bonds	-	7,893	-	7,893
Equities	44,440	-	-	44,440
Mutual funds	130,019	-	-	130,019
Common collective trusts	-	-	153,338	153,338
	<u>\$ 180,411</u>	<u>\$ 7,893</u>	<u>\$ 153,338</u>	<u>\$ 341,642</u>

As of September 30, 2016 and 2015 there were no Level 3 investments.

The investment strategy established for pension plan assets is to meet present and future benefit obligations to all participants and beneficiaries, cover reasonable expenses incurred to provide such benefits, and provide a total return that maximizes the ratio of assets to liabilities by maximizing investment return at the appropriate level of risk.

There was no Level 3 activity for the years ended September 30, 2016 and 2015.

Cash Flows - Contributions

UVM Health Network expects to contribute \$10,325,000 to its pension plans in the year ending September 30, 2017.

The University of Vermont Health Network Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

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,

2017	\$	28,301
2018		23,894
2019		24,526
2020		25,662
2021		26,377
2022–2026		140,493

Multiemployer Defined Benefit Plan

UVM Health Network participates in multi-employer defined benefit pension plans. UVM Health Network makes cash contributions to these plans under the terms of collective-bargaining agreements that cover its union employees based on a fixed rate and hours of service per week worked by the covered employees. The risks of participating in these multi-employer plans are different from other single-employer plans in the following aspects: (1) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers; (2) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and (3) if UVM Health Network chooses to stop participating in some of its multi-employer plans, UVM Health Network may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability. The measurement dates for the following plans are as of June 30 and December 31, as applicable.

UVM Health Network has contributed cash and recorded expenses of \$5,070,000 and \$4,522,000 for the following multi-employer defined benefit plans for the years ended September 30, 2016 and 2015, respectively.

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

Pension Fund	EIN/Pension Plan Number	Zone Status Pension Protection Act		FIP/RP Status Pending/ Implemented	Surcharge Imposed	Expiration Date of Collective- Bargaining Agreement
		September 30, 2016	September 30, 2015			
1199 SEIU Health Care Employees Pension Fund (CVPH)	13-3604862-001	not available	Green	June 26, 2009	No	April 30, 2020
1199 SEIU Regional Pension Fund (AHMC)	16-1112391	not available	Green	N/A	No	June 30, 2018

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

The University of Vermont Health Network Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

Postretirement Health Benefits

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

As of September 30, 2015 the premiums paid by retirees participating in the UVM Medical Center postretirement health care plan ("the plan") exceeded the costs covered by UVM Medical Center. As of September 30, 2016 the premiums paid by retirees did not exceed the costs and a \$2,371,000 accumulated postretirement benefit obligation was recorded. The plan does not have any assets as of September 30, 2016 and 2015. Unrestricted net assets at September 30, 2016 and 2015 include unrecognized actuarial losses of \$2,371,000 and \$0, respectively. The expected amortization of the unrecognized losses to be recognized in postretirement benefit obligation expenses in the year ending September 30, 2017 is \$202,000. Assumptions used in accounting for the plan include a discount rate of 3.81%, a current health care cost trend rate of 7.25%, an ultimate health care cost trend rate of 4.75%, the year of ultimate trend rate of 2023, and census data as of January 1, 2016. The accumulated postretirement benefit obligation is highly sensitive to the health care cost trend rates; as such, the effect of a 1% increase in the trend rate would increase the accumulated postretirement benefit obligation by \$5,121,000 or 216%, and the effect of a 1% decrease in the trend rate would decrease the accumulated postretirement benefit obligation by \$2,371,000 or 100%.

15. Concentrations of Credit Risk

UVM Health Network grants credit without collateral to its patients, most of whom are local residents and are insured under third-party agreements. The mix of net receivables from patients and third-party payers at September 30, 2016 and 2015 is as follows:

	2016	2015
Medicare	28 %	28 %
Medicaid	12	11
Contracted Commercial	28	30
Noncontracted Insurers	15	17
Patients	17	14
	<u>100 %</u>	<u>100 %</u>

16. Transactions With UVM

UVM Medical Center's Affiliation Agreement with UVM was renewed as of June 19, 2014, for a five year term. The Affiliation Agreement expresses the shared goals of UVM and UVM Medical Center for teaching, clinical care and research, documents the many points of close collaboration between the two organizations, provides the underpinnings for UVM Medical Center's status as an academic medical center, and obligates UVM Medical Center to provide substantial, annual financial support to UVM. The current Affiliation Agreement provides for three components of financial support to UVM: (1) payments by UVM Medical Center, known as the "commitment," to fund two costs: (a) a portion of the salary, benefits and related expenses paid through UVM to physician-faculty who are jointly employed by both UVM and UVM Medical Group and, (b) a portion of the cost of UVM

The University of Vermont Health Network Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2016 and 2015

facilities, utilities and other campus operating expenses that are not paid or reimbursed by any form of federal funding; (2) an academic support payment paid by UVM Medical Center and, (3) a Dean's Tax paid by UVM Medical Group. The amounts of the commitment approximated \$38,546,000 and \$36,544,000 in the years ended September 30, 2016 and 2015, respectively. In addition, UVM Medical Center reimburses UVM for equipment rental, research, and certain other administrative expenses through the commitment. In addition to the commitment, UVM Medical Center made academic support payments to UVM in monthly installments. The amount of the academic support payment was \$7,650,000 and \$7,500,000 in the years ended September 30, 2016 and 2015, respectively. Under the Affiliation Agreement, the Dean's Tax is paid to UVM by UVM Medical Center in an amount equal to 2.3% of the Medical Group's net patient service revenues exclusive of all Medicaid revenues for that fiscal year. The amount of the Dean's Tax approximated \$6,214,000 and \$6,130,000 in the years ended September 30, 2016 and 2015, respectively.

Under the current affiliation agreement, the base payments for the academic support payments increased to \$7,818,000 in fiscal year 2017, with an inflationary increase in the years thereafter.

17. Functional Expenses

UVM Health Network provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended September 30, 2016 and 2015, are as follows:

<i>(in thousands)</i>	2016	2015
Education and research	\$ 2,333	\$ 2,699
Health care services	1,379,718	1,291,204
Management and general	289,995	280,194
Total functional expenses	1,672,046	1,574,097
Less: Nonoperating expenses	2,546	2,518
Total operating expenses	<u>\$ 1,669,500</u>	<u>\$ 1,571,579</u>

18. Allowance for Doubtful Accounts

Accounts receivable are reduced by an allowance for doubtful accounts. UVM Health Network analyzes its past history for patients with self-pay balances, either after third party insurance payment (deductible and copayment balances) or those without insurance. UVM Health Network records an allowance for doubtful accounts in the period of service based on past experience of patients unwilling to pay a portion of their bill for which they are financially responsible.

Accounts receivable, prior to adjustment for doubtful accounts, is summarized as follows at September 30, 2016 and 2015:

<i>(in thousands)</i>	2016	2015
Receivables		
Patients	\$ 54,097	\$ 43,652
Third-party payers	206,889	183,961
	<u>\$ 260,986</u>	<u>\$ 227,613</u>

The University of Vermont Health Network Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2016 and 2015

The allowance for doubtful accounts is summarized as follows at September 30, 2016 and 2015:

<i>(in thousands)</i>	2016	2015
Allowance for doubtful accounts		
Patients	\$ 25,065	\$ 16,205
Third-party payers	15,491	17,774
	<u>\$ 40,556</u>	<u>\$ 33,979</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, 2016 and 2015, is summarized as follows:

<i>(in thousands)</i>	2016	2015
Net patient service revenue		
Patients	\$ 31,486	\$ 21,608
Third-party payers	1,605,099	1,514,889
	<u>\$ 1,636,585</u>	<u>\$ 1,536,497</u>

19. Subsequent Events

The network has assessed the impact of subsequent events through December 12, 2016, the date the audited consolidated financial statements were issued, and has concluded that there were no such events that require adjustment to the audited consolidated financial statements or disclosure in the notes to the audited consolidated financial statements other than as noted below.

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

On October 31, 2016, CVPH utilized cash reserves to prepay the remaining principal balance for the Series 2006A bonds in the amount of \$1,430,000.

Other Financial Information

The following supplemental information includes the consolidated balance sheet and statements of operations and changes in net assets of the University of Vermont Health Network Obligated Group as of and for the fiscal years ended September 30, 2016 and 2015. The University of Vermont Health Network Obligated Group consists of UVM Medical Center and Central Vermont Medical Center. All intercompany accounts and transactions between these subsidiaries have been eliminated. The consolidated information presented is prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America consistent with the consolidated financial statements. The supplemental information is presented for purposes of additional analysis of the consolidated financial statements and is not required as part of the basic financial statements.

The following supplemental consolidating information includes the consolidating balance sheets and the consolidating statement of operations of the individual consolidated subsidiaries of UVM Health Network Inc. as of and for the fiscal year ended September 30, 2016. All intercompany accounts and transactions between subsidiaries have been eliminated. The consolidating information presented is prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America consistent with the consolidated financial statements. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements and is not required as part of the basic financial statements.

The University of Vermont Health Network Obligated Group
Obligated Group Balance Sheets
September 30, 2016 and 2015

<i>(in thousands)</i>	2016	2015
Assets		
Current assets		
Cash and cash equivalents	\$ 204,950	\$ 195,000
Patient and other trade accounts receivable - net of allowance for doubtful accounts of \$30,587 and \$26,387, respectively	169,089	145,195
Due from related parties	-	184
Inventories	29,006	26,549
Current portion of assets whose use is limited or restricted	52,333	-
Receivables from third-party payers	5,900	6,812
Short-term investments	2,303	2,088
Prepaid and other current assets	21,168	19,460
Total current assets	<u>484,749</u>	<u>395,288</u>
Assets whose use is limited or restricted		
Board-designated assets	449,713	396,913
Assets held by trustee under bond indenture agreements	40,791	21,597
Restricted assets	659	718
Donor restricted assets for specific purposes	33,877	30,766
Donor restricted assets for permanent endowment	32,168	31,486
Total assets whose use is limited or restricted	<u>557,208</u>	<u>481,480</u>
Property and equipment, net	527,922	499,438
Other	56,395	35,318
	<u>\$ 1,626,274</u>	<u>\$ 1,411,524</u>
Liabilities and Net Assets		
Current liabilities		
Current installments of long-term debt	\$ 14,535	\$ 13,995
Accounts payable	34,847	26,947
Accrued expenses and other liabilities	50,116	48,745
Accrued payroll and related benefits	83,845	89,652
Third-party payer settlements	21,435	15,913
Due to related parties	1,138	-
Incurred but not reported claims	11,413	11,833
Total current liabilities	<u>217,329</u>	<u>207,085</u>
Long-term liabilities		
Long-term debt - net of current installments	459,843	355,963
Malpractice and workers' compensation claims, net of current portion	1,864	1,579
Pension and other postretirement benefit obligations	54,272	46,434
Other	21,317	16,822
Total long-term liabilities	<u>537,296</u>	<u>420,798</u>
Total liabilities	<u>754,625</u>	<u>627,883</u>
Commitments and contingent liabilities		
Net assets		
Unrestricted	799,180	717,970
Temporarily restricted	40,302	34,185
Permanently restricted	32,167	31,486
Total net assets	<u>871,649</u>	<u>783,641</u>
Total liabilities and net assets	<u>\$ 1,626,274</u>	<u>\$ 1,411,524</u>

The University of Vermont Health Network Obligated Group
Obligated Group Statements of Operations
Years Ended September 30, 2016 and 2015

<i>(in thousands)</i>	2016	2015
Unrestricted revenue and other support		
Net patient service revenue	\$ 1,271,774	\$ 1,213,088
Less: Provision for bad debts	<u>(27,801)</u>	<u>(23,882)</u>
Net patient service revenue after provision for bad debts	1,243,973	1,189,206
Enhanced Medicaid Graduate Medical Education revenues-Hospital	10,714	11,511
Enhanced Medicaid Graduate Medical Education revenues-Professional	<u>19,286</u>	<u>18,490</u>
Net patient service revenue after provision for bad debts and Enhanced Medicaid Graduate Medical Education revenues	1,273,973	1,219,207
Premium revenue	9,895	11,272
Pharmacy revenue	52,796	44,340
Other revenue	<u>37,809</u>	<u>43,223</u>
Total unrestricted revenue and other support	<u>1,374,473</u>	<u>1,318,042</u>
Expenses		
Salaries, payroll taxes and fringe benefits	808,333	774,065
Supplies and other	356,212	330,329
Purchased services	61,921	61,906
Depreciation and amortization	57,567	54,614
Interest expense	<u>13,971</u>	<u>15,869</u>
Total expenses	<u>1,298,004</u>	<u>1,236,783</u>
Income from operations	<u>76,469</u>	<u>81,259</u>
Nonoperating gains (losses)		
Investment income	9,274	5,988
Change in fair value of interest rate swap agreements	(3,060)	(3,636)
Loss on extinguishment of debt	(22,696)	(346)
Other	<u>7,323</u>	<u>(169)</u>
Total nonoperating (losses) gains	<u>(9,159)</u>	<u>1,837</u>
Excess of revenue over expenses	67,310	83,096
Net change in unrealized gains (losses) on investments	32,430	(7,330)
Net assets released from restrictions for capital purchases	989	2,726
Pension related adjustments	(15,891)	(18,824)
Other adjustments	<u>(3,628)</u>	<u>(15,940)</u>
Increase in unrestricted net assets	<u>\$ 81,210</u>	<u>\$ 43,728</u>

The University of Vermont Health Network Obligated Group
Obligated Group Statements of Changes in Net Assets
Years Ended September 30, 2016 and 2015

(in thousands)

	2016	2015
Unrestricted net assets		
Excess of revenues over expenses	\$ 67,310	\$ 83,096
Net change in unrealized gains (losses) on investments	32,430	(7,330)
Net assets released from restrictions for capital purchases	989	2,726
Pension related adjustments	(15,891)	(18,824)
Other adjustments	(3,628)	(15,940)
Increase in unrestricted net assets	81,210	43,728
Temporarily restricted net assets		
Gifts, grants, and bequests	7,753	4,271
Investment income	171	142
Net change in unrealized gains (losses) on investments	1,880	(1,310)
Net realized gains (losses) on investments	855	1,309
Net assets released from restrictions used in operations	(3,286)	(3,004)
Net assets released from restrictions used for nonoperating purposes	(169)	(198)
Net assets released from restrictions used for capital purchases	(989)	(2,726)
Transfer of net assets	(98)	(100)
Increase (Decrease) in temporarily restricted net assets	6,117	(1,616)
Permanently restricted net assets		
Gifts, grants, and bequests	113	1,110
Change in beneficial interest in perpetual trusts	470	(1,097)
Transfer of net assets	98	100
Increase in permanently restricted net assets	681	113
Increase in net assets	88,008	42,225
Net assets		
Beginning of year	783,641	741,416
End of year	\$ 871,649	\$ 783,641

The University of Vermont Health Network

Consolidating Balance Sheet

September 30, 2016

(in thousands)	Central Vermont Hospital and Medical Group Practice	Woodridge Rehabilitation and Nursing	CVMC Eliminations	Total CVMC	UVMHC (Hospital)	Obligated Group Eliminations	Total UVMHC Obligated Group	UVM Health Network Adirondack Region	Other Entities	Eliminations	Total UVM Health Network
Assets											
Current assets											
Cash and cash equivalents	\$ 6,339	\$ 403	\$ -	\$ 6,742	\$ 198,208	\$ -	\$ 204,950	\$ 36,907	\$ 1,157	\$ -	\$ 243,014
Patient and other trade accounts receivable, net	21,627	959	-	22,586	146,503	-	169,089	51,152	189	-	220,430
Due from related parties	6,538	-	(6,538)	-	3,783	(3,783)	-	-	12,149	(12,149)	-
Inventories	4,065	-	-	4,065	24,941	-	29,006	6,504	-	-	35,510
Current portion of assets whose use is limited or restricted	-	-	-	-	52,333	-	52,333	1,000	41,832	-	95,165
Receivables from third-party payers	-	-	-	-	5,900	-	5,900	-	-	-	5,900
Short-term investments	-	-	-	-	2,303	-	2,303	14,408	1	-	16,712
Prepaid and other current assets	2,665	-	-	2,665	18,503	-	21,168	10,820	2,712	485	35,185
Total current assets	41,234	1,362	(6,538)	36,058	452,474	(3,783)	484,749	120,791	58,040	(11,664)	651,916
Assets whose use is limited or restricted											
Board-designated assets	37,607	7,511	-	45,118	404,595	-	449,713	25,587	4	-	475,304
Assets held by trustee under bond indenture agreements	-	-	-	-	40,791	-	40,791	2,017	-	-	42,808
Restricted assets	-	-	-	-	659	-	659	6,678	7,697	-	15,034
Donor-restricted assets for specific purposes	5,805	-	-	5,805	28,072	-	33,877	704	-	-	34,581
Donor-restricted assets for permanent endowment	3,437	-	-	3,437	28,731	-	32,168	-	-	-	32,168
Total assets whose use is limited or restricted	46,849	7,511	-	54,360	502,848	-	557,208	34,986	7,701	-	599,895
Property and equipment, net	69,347	5,277	-	74,624	453,298	-	527,922	178,183	654	-	706,759
Other	1,901	-	-	1,901	54,494	-	56,395	9,513	4,406	(33,238)	37,076
Total assets	\$ 159,331	\$ 14,150	\$ (6,538)	\$ 166,943	\$ 1,463,114	\$ (3,783)	\$ 1,626,274	\$ 343,473	\$ 70,801	\$ (44,902)	\$ 1,995,646
Liabilities and Net Assets											
Current liabilities											
Current installments of long-term debt	\$ 2,389	\$ 500	\$ -	\$ 2,889	\$ 11,646	\$ -	\$ 14,535	\$ 19,104	\$ -	\$ -	\$ 33,639
Accounts payable	2,607	-	-	2,607	32,240	-	34,847	24,946	84	-	59,877
Accrued expenses and other liabilities	6,077	13	-	6,090	44,026	-	50,116	2,280	381	(199)	52,578
Accrued payroll and related benefits	9,964	762	-	10,726	73,119	-	83,845	18,443	312	(437)	102,163
Third-party payer settlements	3,837	-	-	3,837	17,598	-	21,435	33	-	-	21,468
Due to related parties	4,921	6,538	(6,538)	4,921	-	(3,783)	1,138	7,329	2,706	(11,173)	-
Incurred but not reported claims	-	-	-	-	11,413	-	11,413	950	14,471	-	26,834
Total current liabilities	29,795	7,813	(6,538)	31,070	190,042	(3,783)	217,329	73,085	17,954	(11,809)	296,559
Long-term liabilities											
Long-term debt - net of current installments	12,631	2,268	-	14,899	444,944	-	459,843	88,817	-	-	548,660
Malpractice and workers' compensation claims	1,528	336	-	1,864	-	-	1,864	5,451	19,590	-	26,905
Pension and other postretirement benefit obligations	42,903	-	-	42,903	11,369	-	54,272	68,346	-	-	122,618
Other	1,417	-	-	1,417	19,900	-	21,317	23,410	-	-	44,727
Total long-term liabilities	58,479	2,604	-	61,083	476,213	-	537,296	186,024	19,590	-	742,910
Total liabilities	88,274	10,417	(6,538)	92,153	666,255	(3,783)	754,625	259,109	37,544	(11,809)	1,039,469
Net assets											
Unrestricted	61,815	3,733	-	65,548	733,632	-	799,180	78,878	33,257	(33,093)	878,222
Temporarily restricted	5,805	-	-	5,805	34,497	-	40,302	3,624	-	-	43,926
Permanently restricted	3,437	-	-	3,437	28,730	-	32,167	1,862	-	-	34,029
Total net assets	71,057	3,733	-	74,790	796,859	-	871,649	84,364	33,257	(33,093)	956,177

The University of Vermont Health Network

Consolidating Statement of Operations

Year Ended September 30, 2016

(in thousands)

	Central Vermont Hospital and Medical Group Practice	Woodridge Rehabilitation and Nursing	Total CVMC	UVMHC (Hospital)	Obligated Group Eliminations	Total UVMHC Obligated Group	UVM Health Network Adirondack Region	Other Entities	Eliminations	Total UVM Health Network
Unrestricted revenue and other support										
Net patient service revenue	\$ 173,539	\$ 13,516	\$ 187,055	\$ 1,085,026	\$ (307)	\$ 1,271,774	\$ 364,226	\$ 1,548	\$ (963)	\$ 1,636,585
Less: Provision for bad debts	(5,191)	-	(5,191)	(22,610)	-	(27,801)	(13,866)	(86)	-	(41,753)
Net patient service revenue after provision for bad debts	168,348	13,516	181,864	1,062,416	(307)	1,243,973	350,360	1,462	(963)	1,594,832
Enhanced Medicaid Graduate Medical Education revenues – Hospital	-	-	-	10,714	-	10,714	-	-	-	10,714
Enhanced Medicaid Graduate Medical Education revenues – Professional	-	-	-	19,286	-	19,286	-	-	-	19,286
Net patient service revenue after provision for bad debts and enhanced Graduate Medical Education revenues	168,348	13,516	181,864	1,092,416	(307)	1,273,973	350,360	1,462	(963)	1,624,832
Premium revenue	1,561	-	1,561	8,334	-	9,895	-	2	-	9,897
Pharmacy revenue	4,886	-	4,886	47,910	-	52,796	7,945	-	-	60,741
Other revenue	5,801	231	6,032	33,062	(1,285)	37,809	15,791	3,329	(3,836)	53,093
Total unrestricted revenue and other support	180,596	13,747	194,343	1,181,722	(1,592)	1,374,473	374,096	4,793	(4,799)	1,748,563
Expenses										
Salary, payroll taxes and fringe benefits	119,466	12,558	132,024	676,309	-	808,333	240,569	2,357	-	1,051,259
Supplies and other	37,127	3,295	40,422	316,683	(893)	356,212	90,918	(7,475)	(4,103)	435,552
Purchased services	8,824	554	9,378	53,613	(1,070)	61,921	24,260	2,197	(1,070)	87,308
Depreciation and amortization	8,928	787	9,715	47,852	-	57,567	20,001	230	-	77,798
Interest expense	648	105	753	13,218	-	13,971	3,612	-	-	17,583
Total expenses	174,993	17,299	192,292	1,107,675	(1,963)	1,298,004	379,360	(2,691)	(5,173)	1,669,500
Income (loss) from operations	5,603	(3,552)	2,051	74,047	371	76,469	(5,264)	7,484	374	79,063
Nonoperating gains (losses)										
Investment income	140	173	313	8,961	-	9,274	295	501	-	10,070
Change in fair value of interest rate swap agreements	-	-	-	(3,060)	-	(3,060)	(1,805)	-	-	(4,865)
Loss on the extinguishment of debt	(376)	-	(376)	(22,320)	-	(22,696)	-	-	-	(22,696)
Contribution revenue from acquisition	-	-	-	-	-	-	23,774	-	-	23,774
Other	1,285	165	1,450	6,244	(371)	7,323	(258)	(7,282)	(374)	(591)
Total nonoperating gains (losses)	1,049	338	1,387	(10,175)	(371)	(9,159)	22,006	(6,781)	(374)	5,692
Excess (deficit) of revenue over expenses	6,652	(3,214)	3,438	63,872	-	67,310	16,742	703	-	84,755
Net change in unrealized gains (losses) on investments	2,577	250	2,827	29,603	-	32,430	3,661	(1)	-	36,090
Net assets released from restrictions for capital purchases	430	-	430	559	-	989	1,526	-	-	2,515
Pension related adjustments	(10,762)	-	(10,762)	(5,129)	-	(15,891)	(21,580)	-	-	(37,471)
Other adjustments	168	-	168	(3,796)	-	(3,628)	3,412	-	-	(216)
Increase (decrease) in unrestricted net assets	\$ (935)	\$ (2,964)	\$ (3,899)	\$ 85,109	\$ -	\$ 81,210	\$ 3,761	\$ 702	\$ -	\$ 85,673