

The University of Vermont Health Network Inc. and Subsidiaries

**Consolidated Financial Statements and
Supplemental Consolidating Information
September 30, 2020 and 2019**

The University of Vermont Health Network Inc. and Subsidiaries

Index

September 30, 2020 and 2019

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Report of Independent Auditors

To the Board of Trustees of
The University of Vermont Health Network, Inc.

We have audited the accompanying consolidated financial statements of The University of Vermont Health Network Inc. and its subsidiaries (the "Network"), which comprise the consolidated balance sheets as of September 30, 2020 and 2019, and the related consolidated statements of operations, of changes in net assets and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The University of Vermont Health Network Inc. and its subsidiaries as of September 30, 2020 and 2019, and the results of their operations, their changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Emphasis of Matter

As discussed in Note 3 to the consolidated financial statements, the Network changed the manner in which it accounts for leases in 2020. Our opinion is not modified with respect to this matter.

Other Matter

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

PricewaterhouseCoopers LLP

Boston, Massachusetts
January 28, 2021

The University of Vermont Health Network Inc. and Subsidiaries

Consolidated Balance Sheets

September 30, 2020 and 2019

<i>(in thousands)</i>	2020	2019
Assets		
Current assets		
Cash and cash equivalents	\$ 526,654	\$ 171,861
Short-term investments	15,085	29,979
Current portion of assets whose use is limited or restricted	9,831	6,403
Patient and other trade accounts receivable	256,607	257,588
Inventories	59,800	44,857
Receivables from third-party payers	13,059	11,820
Prepaid and other current assets	76,160	52,549
Total current assets	957,196	575,057
Assets whose use is limited or restricted		
Board-designated assets	645,676	659,416
Assets held by trustee under bond indenture agreements	4,265	3,974
Restricted assets	85,732	84,396
Donor-restricted assets for specific purposes	55,212	48,360
Donor-restricted assets for endowment	42,860	42,206
Total assets whose use is limited or restricted	833,745	838,352
Property and equipment, net	908,847	927,238
Operating lease right of use assets, net	70,389	-
Finance lease right of use assets, net	3,911	-
Other	54,354	43,201
Total assets	\$ 2,828,442	\$ 2,383,848
Liabilities and Net Assets		
Current liabilities		
Current installments of long-term debt	\$ 34,064	\$ 39,582
Accounts payable	41,760	50,901
Accrued expenses and other liabilities	61,889	53,259
Accrued payroll and related benefits	144,369	113,751
Current portion of third-party payer settlements	41,528	12,757
Incurred but not reported claims	23,425	18,486
Operating lease right of use obligations	14,317	-
Finance lease right of use obligations	1,916	-
Contract liabilities	109,277	-
Total current liabilities	472,545	288,736
Long-term liabilities		
Long-term debt - net of current installments	708,556	570,990
Malpractice and workers' compensation claims net of current portion	48,533	44,553
Pension and other postretirement benefit obligations	77,622	92,890
Third-party payer settlements, net of current portion	23,053	19,788
Operating lease right of use obligations, net of current portion	56,461	-
Finance lease right of use obligations, net of current portion	1,736	-
Other	36,698	33,370
Total long-term liabilities	952,659	761,591
Total liabilities	1,425,204	1,050,327
Net assets		
Without donor restrictions	1,290,532	1,229,029
With donor restrictions		
Time or purpose	65,816	58,385
Perpetual	46,890	46,107
Total with donor restrictions	112,706	104,492
Total net assets	1,403,238	1,333,521
Total liabilities and net assets	\$ 2,828,442	\$ 2,383,848

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, 2020 and 2019

<i>(in thousands)</i>	2020	2019
Revenue and other support without donor restrictions		
Net patient service revenue before Enhanced Medicaid Graduate		
Medical Education revenues	\$ 1,672,743	\$ 1,848,988
Enhanced Medicaid Graduate Medical Education revenues-Hospital	10,341	10,386
Enhanced Medicaid Graduate Medical Education revenues-Professional	19,659	19,614
Net patient service revenue	<u>1,702,743</u>	<u>1,878,988</u>
Fixed prospective payment revenue	231,031	201,773
Premium revenue	7,142	5,517
Outpatient and specialty pharmacy revenue	168,104	138,582
Net assets released from restrictions	142,227	5,427
Other revenue	<u>82,437</u>	<u>65,451</u>
Total revenue and other support without donor restrictions	<u>2,333,684</u>	<u>2,295,738</u>
Expenses		
Salaries, payroll taxes, and fringe benefits	1,422,981	1,374,587
Supplies and other	593,343	580,349
Purchased services	125,158	127,538
Provider tax	88,781	92,446
Depreciation and amortization	102,055	89,446
Interest expense	<u>23,333</u>	<u>19,661</u>
Total expenses	<u>2,355,651</u>	<u>2,284,027</u>
(Loss) income from operations	<u>(21,967)</u>	<u>11,711</u>
Nonoperating gains (losses)		
Investment income	44,524	26,554
Change in fair value of interest rate swap agreements	(4,001)	(9,367)
Other components of pension income	3,361	802
Net change in unrealized gains on investments	19,269	-
Other	<u>(189)</u>	<u>8,430</u>
Total nonoperating gains, net	<u>62,964</u>	<u>26,419</u>
Excess of revenue over expenses	40,997	38,130
Net change in unrealized gains on investments	-	20,454
Net assets released from restrictions for capital purchases	10,261	12,014
Pension related adjustments	1,666	(37,183)
Transfers and other adjustments	<u>8,579</u>	<u>(21)</u>
Increase in net assets without donor restrictions	<u>\$ 61,503</u>	<u>\$ 33,394</u>

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

The University of Vermont Health Network Inc. and Subsidiaries
Statements of Changes in Net Assets
Years Ended September 30, 2020 and 2019

<i>(in thousands)</i>	2020	2019
Changes in net assets without donor restrictions		
Excess of revenue over expenses	\$ 40,997	\$ 38,130
Net change in unrealized gains on investments	-	20,454
Net assets released from restrictions for capital purchases	10,261	12,014
Pension related adjustments	1,666	(37,183)
Transfers and other adjustments	8,579	(21)
Increase in net assets without donor restrictions	<u>61,503</u>	<u>33,394</u>
Changes in net assets with donor restrictions		
Gifts, grants, and bequests	157,292	12,389
Investment income	838	1,246
Net change in unrealized gains on investments	2,497	1,339
Net realized gains on investments	1,259	620
Net assets released from restrictions used in operations	(142,227)	(5,427)
Net assets released from restrictions used for nonoperating purposes	(334)	(251)
Net assets released from restrictions used for capital purchases	(10,261)	(12,014)
Change in beneficial interest in perpetual trusts	473	(221)
Transfer of net assets	(1,323)	(81)
Increase (decrease) in net assets with donor restrictions	<u>8,214</u>	<u>(2,400)</u>
Increase in net assets	69,717	30,994
Net assets		
Beginning of year	<u>1,333,521</u>	<u>1,302,527</u>
End of year	<u>\$ 1,403,238</u>	<u>\$ 1,333,521</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, 2020 and 2019

<i>(in thousands)</i>	2020	2019
Cash flows from operating activities		
Increase in net assets	\$ 69,717	\$ 30,994
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	102,055	89,446
Contributions restricted for long-term use	(262)	(105)
Pension related adjustments	(1,666)	37,183
Loss on disposal of property and equipment	776	325
Loss on interest rate swap agreements	4,001	9,367
Realized and unrealized gains on investments	(66,131)	(41,163)
Undistributed (gains) of affiliated companies	(9,418)	(2,853)
Change in beneficial interest in perpetual trusts	(473)	221
Payments on right of use lease obligations - operating	(16,294)	-
Amortization of right-of-use assets	16,979	-
Increase (decrease) in cash resulting from a change in		
Patient and other accounts receivable	981	(19,955)
Other current and noncurrent assets	(40,248)	(2,543)
Accounts payable and accrued expenses	1,226	(3,477)
Accrued payroll and related expenses	30,618	(9,465)
Other current and noncurrent liabilities	8,245	(1,504)
Estimated settlements with third-party payer settlements	30,797	(7,716)
Pension and other postretirement benefit obligations	(13,602)	(8,526)
Lease liabilities	(1,153)	-
Medicare accelerated and advance payments	109,277	-
Net cash provided by operating activities	225,425	70,229
Cash flows from investing activities		
Purchases of property and equipment	(89,826)	(161,355)
Proceeds from sale of property and equipment	1,198	-
Purchase of investments	(90,629)	(50,209)
Proceeds from sale of investments	172,721	87,268
Net cash used in investing activities	(6,536)	(124,296)
Cash flows from financing activities		
Proceeds from restricted contributions & restricted investment income	262	105
Payments on long-term debt	(29,157)	(27,142)
Proceeds from debt issuance	173,335	2,884
Payment of debt issuance costs	165	-
Borrowings on lines of credit	25,000	7,450
Repayments on lines of credit	(31,000)	(4,050)
Repayment of finance leases	(2,701)	-
Net cash provided by (used in) financing activities	135,904	(20,753)
Net increase (decrease) in cash and cash equivalents	354,793	(74,820)
Cash and cash equivalents		
Beginning of year	171,861	246,681
End of year	\$ 526,654	\$ 171,861
Supplemental cash flow information		
Cash paid during the year for interest	23,164	19,521
Capital expenditures included in accounts payable	5,899	6,791

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, 2020 and 2019

1. Organization

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

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

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

The University of Vermont Health Network Medical Group, Inc., (“UVMHN Medical Group”) is organized to serve as the governing organization for physicians who are employed to provide clinical services to affiliated, member hospitals of the UVM Health Network. The purpose of the UVMHN Medical Group is to advance the clinical care, education, and training missions of UVM Health Network and its affiliated member hospitals and the education, training, and research missions of the University of Vermont College of Medicine.

The University of Vermont Health Network - Central Vermont Medical Center, Inc. (“CVMC”) provides health care services under three distinct business units: Central Vermont Hospital, Woodridge Rehabilitation and Nursing (“Woodridge”), and the Central Vermont Medical Group Practice. CVMC works collaboratively to meet the needs and improve the health of the residents of central Vermont. As the sole community hospital, CVMC provides 24-hour emergency care, 122 acute care beds, and has a full spectrum of inpatient and outpatient services. Woodridge offers 153 beds for long-term and short-term rehabilitative care.

The University of Vermont Health Network Inc. and Subsidiaries

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The University of Vermont Health Network – Porter Medical Center, Inc. (“PMC”) was organized in 1986 to serve as a parent holding company for three subsidiaries: Porter Hospital, Inc. (“Porter Hospital”), Helen Porter Nursing Home, Inc. (“HPNH”) and Porter Real Estate Holdings, LLC (“PREH”). Porter Hospital operates a 40 licensed bed not-for-profit Critical Access Hospital. HPNH operates a 98-bed not-for-profit long-term community oriented skilled healthcare and rehabilitation center. PREH is a single-member LLC real estate holding company that is owned 100% by PMC. All of these companies are Vermont corporations and operate out of facilities in Middlebury, Vermont.

OCV is a 50/50 joint venture between UVM Medical Center and Dartmouth-Hitchcock Health and is a statewide accountable care organization that comprises an extensive network of providers across the full continuum of care, including hospitals in Vermont and New Hampshire, hundreds of primary and specialty care physicians, federally qualified health centers, designated agencies for mental health and substance use, skilled nursing facilities, home health agencies, and area agencies on aging. UVM Medical Center, CVMC and PMC participate in OCV risk-sharing contracts and in connection with their participation, paid participation fees to OCV totaling \$3,183,000 and \$6,573,000 for the years ending September 30, 2020 and 2019. Additionally, UVM Medical Center provides various administrative services to OCV, including the processing of payroll and accounts payable transactions. All employees of OCV are UVM Medical Center employees and are covered under UVM Medical Center’s insurance policies and employee benefit plans. OCV reimburses UVM Medical Center for all administrative and payroll-related costs, which totaled \$12,663,000 and \$12,595,000 for the years ending September 30, 2020 and 2019.

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

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

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

The University of Vermont Health Network – Elizabethtown Community Hospital (“ECH”), located in Elizabethtown, Essex County, New York, is a 25-bed hospital designated by Medicare and Medicaid as a Critical Access Hospital. ECH provides inpatient, outpatient, and emergency care services for residents in Essex County and admitting physicians are primarily practitioners in the local area. ECH is the sole corporate member of Moses Ludington Hospital, a 15-bed Critical Access Hospital located in Ticonderoga, New York.

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

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

The University of Vermont Health Network Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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VMCIC was incorporated in Vermont on April 18, 2018 as a wholly-owned subsidiary of UVM Health Network. VMCIC provides claims made coverage for physician and hospital medical professional liability and general liability risks of the UVM Health Network.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of UVM Health Network and its subsidiaries for which it controls or serves as the sole corporate member. Intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

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

Cash and Cash Equivalents

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

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

UVM Health Network has elected to treat all cash equivalents within investments as short term investments.

Inventories

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

Prepaid and Other Current Assets

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

Assets Whose Use is Limited or Restricted

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

The University of Vermont Health Network Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

Investments and Investment Income

The UVM Health Network, excluding HH&H and PMC, consolidates all nonpension investment assets into a pooled/unitized structure to gain efficiencies in managing the various investment portfolios, simplify the trading process, and reduce trading and investment manager fees. Assets are separated into five asset class pools: cash, domestic equity, international equity, fixed income and liquid alternative investments. Each participating entity owns a percentage share of each asset class pool depending on its unique asset allocation. Trading is executed at the asset class pool level and allocated to each investment portfolio based on their pro-rata ownership of each pool. Fair value of the asset class pools is determined by aggregating the fair value of the underlying investments within each pool.

Investments in equity securities and mutual funds with readily determinable fair values and all investments in debt securities are recorded at fair value. Investment income or loss (including realized gains and losses on investments, interest, dividends, and unrealized gains and losses on equity securities), to the extent not capitalized, is included in nonoperating gains (losses), net of direct investment expenses, unless the income or gain (loss) is restricted by donor or law. Realized gains or losses on the sale of investments are determined by use of average costs. Unrealized gains and losses on debt securities are excluded from the excess of revenue over expenses. Declines in fair value of debt securities 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 marketable securities annually to identify those for which fair value is below cost, then makes a determination as to whether the investment should be considered other-than-temporarily impaired. UVM Health Network recognized \$2,644,000 and \$1,978,000 in losses related to declines in value that were other-than-temporary in nature for the years ended September 30, 2020 and 2019, respectively, which is included as an offset to investment income in the statements of operations.

Property and Equipment

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

Depreciation is calculated using the following estimated useful lives:

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

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

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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.

Leases

The UVM Health Network recognizes a right-of-use asset representing the right to use the underlying leased asset and a lease liability representing its obligation to make lease payments at the commencement date of the lease. The right-of-use asset is measured at its cost less subsequent accumulated depreciation and accumulated impairment loss with adjustments arising from remeasurements of the lease liability. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis from the commencement date of the lease and is classified as operating lease right of use assets, net or finance lease right of use assets, net in the consolidated financial statements.

At the commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date. When measuring the present value, the lease payments are discounted using the interest rate implicit in the lease. If such implicit rate cannot be readily determined, the risk free rate is used. The lease liability is subsequently increased by the amount of interest expense recognized on the lease liability and reduced by the lease payments made. Lease liabilities are remeasured when the future lease payments are changed due to the following:

- Changes in an index or a rate
- Changes in amounts expected to be payable by the lessee under residual value guarantees
- Changes in the assessment of whether a purchase option or an option to renew is reasonably certain to be exercised, or
- Changes in the assessment of whether it is reasonably certain that an option to terminate the lease will not be exercised.

Lease liabilities are classified as operating lease right of use obligations or finance lease right of use obligations and classified as current and/or long-term, as applicable.

The UVM Health Network elected not to apply the requirements to short-term leases (i.e., a lease term of 12 months or less at the commencement date). Lease payments on short-term leases are charged to profit or loss on a straight-line basis over the period of lease as a practical expedient. Additionally, UVM Health Network elected the package of practical expedients which allowed an entity not to reassess whether any expired or existing contracts are or contain leases, the lease classification for any expired or existing leases, and initial direct costs for any existing leases.

Impairment of Long-Lived Assets

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

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets, net of investment income on borrowed assets held by trustees, is capitalized as a component of the cost of acquiring those assets. Approximately \$845,000 and \$4,688,000 of interest was capitalized during the years ended September 30, 2020 and 2019, respectively. Net deferred financing costs totaled \$2,321,000 and \$2,530,000 at September 30, 2020 and 2019, respectively. Such amounts

The University of Vermont Health Network Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

are reported as an offset to long-term debt and are amortized over the period the related obligations are outstanding using the effective interest method. Accumulated amortization of deferred financing costs totaled \$1,538,000 and \$1,329,000 at September 30, 2020 and 2019, respectively.

Net Assets with Donor Restriction

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

Consolidated Statements of Operations

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

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

Excess of Revenue Over Expenses

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

Enhanced Medicaid Graduate Medical Education Revenues (Hospital and Professional)

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

The nonfederal source of these payments was provided by payments from UVM from its governmental appropriations from the State of Vermont ("the State"). UVM has entered into a contract with the State to provide annual amounts during the State's fiscal year as the nonfederal share of GME payments for that year. UVM Medical Center expects that UVM will enter into similar contracts for subsequent years, though there is no assurance of this. UVM Medical Center entered into a contract with the State, by which UVM Medical Center agrees to assess and monitor program benefits to Medicaid beneficiaries and to report to the State annually on its performance on certain quality measures and improvement focus areas for Medicaid beneficiaries pertaining to UVM Medical Center's GME programs, and the State agrees to provide GME payments to UVM Medical Center during the State fiscal year. UVM Medical Center expects to enter into similar contracts with the State for future years, but these are subject to continued funding by UVM of the nonfederal source. The State, UVM Medical Center and UVM have also entered into a Memorandum of Understanding ("MOU"), dated July 1, 2017 through June 30, 2021 that describes the State Plan Amendment and these funding arrangements.

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UVM Medical Center recognized enhanced GME revenue under the State Plan Amendment totaling \$30,000,000 for each of the fiscal years ended September 30, 2020 and 2019. Under the MOU, both UVM and the State retain the right to discontinue GME payments at any time in the future.

Premium Revenue

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

Outpatient and Specialty Pharmacy Revenue

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

Other Revenue

In addition to patient service revenue, the UVM Health Network also recognizes revenue related to other, nonpatient related transactions. These transactions consist primarily of nonpatient related contract revenues, cafeteria sales, parking garage income, net assets released from restrictions used for operations, and rental income. Revenue from these transactions is recognized when obligations under the terms of the respective contracts are satisfied. Revenue from these transactions is measured as the amount of consideration the UVM Health Network expects to receive from those services.

Research Grants and Contracts

UVM Health Network receives sponsored support from governmental and private sources. Certain sponsored arrangements are considered exchange arrangements, and revenue under these agreements is recognized based on UVM Health Network’s fulfillment of the contract, which is typically based on costs incurred or the achievement of milestones. Federal grants and other sponsored research are considered nonexchange transactions in accordance with ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, and is recognized when any donor-imposed conditions (if any) have been met. Expirations of donor restrictions on net assets are reported as reclassifications from net assets with donor restrictions to net assets without donor restrictions and appear as “Net assets released from restrictions” and “Non-operating net assets released from restrictions” in the Statements of Operations. UVM Health Network had \$11,925,000 and \$14,794,000 awarded but not yet expended contributions related to sponsored programs where the condition had not yet been met as of September 30, 2020 and 2019, respectively. This is subject to federal appropriations. There were no funds received in advance of September 30, 2020 or 2019 that required a reclassification to deferred revenue.

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 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

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liabilities are actuarially reviewed on an annual basis and any adjustments required are reflected in estimated incurred but not reported medical claims.

Income Taxes

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

For tax years beginning after December 31, 2017, the Tax Cuts & Jobs Act provided for an excise tax on the sum of remuneration in excess of one million dollars paid to a covered employee. The tax provisions and related liabilities for these items are not material to the consolidated financial statements for the fiscal years ended September 30, 2020 and 2019, respectively.

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

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

Asset Retirement Obligations

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

The estimated future undiscounted value of the asset retirement obligation is approximately \$3,673,000 and \$3,553,000 at September 30, 2020 and 2019, 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, 2020 and 2019 was approximately \$2,612,000 and \$2,394,000, 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 net assets without donor restrictions presented below the excess of revenue over expenses in the consolidated statements of operations and changes in net assets.

Fair Value Measurements

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

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

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

- Level 1 Quoted (unadjusted) prices for identical assets or liabilities in active markets. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 Other observable inputs, either directly or indirectly, including:
- Quoted prices for identical or similar assets in 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.

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

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

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

Debt Securities

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

Beneficial Interest in Perpetual Trusts

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

Hedge Funds

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

Interest Rate Swap Agreements

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

Provider Tax Payments

The states of Vermont and New York operate provider tax programs related to certain patient service revenues and operating cash receipts, respectively, collectively referred to as provider tax expenses.

Reclassifications

Certain amounts in the 2019 financial statements have been reclassified to conform to the 2020 presentation.

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3. Current and Upcoming Accounting Guidance

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. UVM Health Network has adopted ASU 2016-01 for fiscal year 2020. In accordance with the guidance, unrealized gains and losses on equity securities are now included in the performance indicator on a prospective basis.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees are required to recognize the following for all leases (with the exception of leases with a term of twelve months or less) at the commencement date: (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Leases are classified as either operating or finance. Operating leases result in straight-line expense in the statement of operations (similar to previous operating leases), while finance leases result in more expense being recognized in the earlier years of the lease term (similar to previous capital leases). The Network adopted the new standard on October 1, 2019 using a modified retrospective approach. The Network elected the transition method that allows for application of the standard at the adoption date rather than at the beginning of the earliest comparative period presented in the consolidated financial statements. The UVM Health Network also elected available practical expedients. Upon adoption, the Network recognized \$75,987,000 in operating lease right-of-use assets with corresponding operating lease obligations in the consolidated balance sheet.

On October 1, 2019, UVM Health Network adopted ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* that changes the presentation of restricted cash and cash equivalents in the statements of cash flows. Restricted cash and restricted cash equivalents will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows. Under the new guidance the Network must identify all cash, cash equivalents, and amounts generally described as restricted cash or cash equivalents in the beginning and ending totals in the statement of cash flows. UVM Health Network has elected to treat all cash equivalents within investments as short term investments.

On October 1, 2019, UVM Health Network retroactively adopted ASU 2017-07, *Compensation – Retirement Benefits (Topic 705): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This guidance requires the service cost component of net periodic benefit cost for pension and other postretirement benefits to be presented as a component part of employee benefit expense. The other components of net periodic benefit cost, such as interest, expected return on plan assets, and amortization of other actuarially determined amounts, are required to be presented as a nonoperating change in net assets without restrictions. The impact to the fiscal year ending September 30, 2020 and 2019 for the UVM Health Network was a movement of \$3,361,000 and \$802,000 in net periodic pension income from operating expenses to non-operating gains (losses), respectively.

On October 1, 2018, UVM Health Network adopted, using the full retrospective approach, ASU 2014-09 and ASU 2016-08, *Revenue from Contracts with Customers (Topic 606)* and *Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, respectively, which provide guidance for revenue recognition. These standards core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The most significant change from the adoption of the new standards relates to the presentation of implicit price concessions. Under the previous standards,

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

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

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

In September 2015, the FASB issued ASU 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments* which is applicable to organizations that have had an acquisition and the accounting for which is not complete at the end of the reporting period and an adjustment was made in the next reporting period. The updated guidance requires an organization to present separately on the face of the statement of operations or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if an adjustment to the provisional amounts had been recognized. The revised guidance is effective for fiscal year 2019. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In August of 2018 the FASB issued ASU 2018-13, *Fair Value Measurement (Topic) 820: Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which simplifies fair value measurement disclosures through the removal and modification of a number of investment related disclosure requirements. Certain disclosures are no longer required including amount of and reasons for transfers between Levels 1 and 2; policy for timing of transfers between levels and valuation processes for Level 3 investments. The amendments in this Update for the UVM Health Network are effective for the year ending September 30, 2021.

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4. Patient Service Revenue

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

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

Under the provisions of Topic 606, amounts related to services provided to patients that have not billed and that do not meet the conditions of unconditional right to payment at the end of the reporting period are contract assets. Contract assets consist primarily of services that have been provided to patients who are still receiving inpatient care in our facilities at the end of the reporting period. Contract assets are included in patient and other trade accounts receivable in the accompanying consolidated balance sheet at September 30, 2020 and 2019. Contract assets are as follows: \$14,043,000 and \$11,576,000 as of September 30, 2020 and 2019, respectively.

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

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

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

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Medicare

Inpatient acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient rehabilitation services are paid based on a prospective per discharge methodology. These rates vary according to a patient classification system based upon services provided, the patient's level of functionality and other factors. Outpatient services are paid based upon a prospective standard rate for procedures performed or services rendered. UVM Health Network is reimbursed for cost-reimbursable items at tentative rates, with final settlement determined after submission of annual cost reports by UVM Health Network and audits thereof by the Medicare Audit Contractor. Medicare reimbursement for professional billings is determined by a standard fee schedule that is determined by the Centers for Medicare and Medicaid Services of the U.S. Department of Health and Human Services.

Medicaid

Inpatient services rendered to Vermont Medicaid program beneficiaries are paid at prospectively determined rates per discharge. As with Medicare, reimbursement is based on a diagnosis-related group ("DRG") system that is based on clinical, diagnostic, and other factors. In Vermont, additional reimbursement for inpatient rehabilitation and neonatal cases is paid through a per diem add-on. In Vermont, additional reimbursement for inpatient psychiatric cases is based on a per diem rate calculation, including adjustments for diagnostic factors and length of stay. Outpatient services rendered to Vermont Medicaid beneficiaries are paid based upon a prospective standard rate. Certain laboratory, mammography, therapy, and dialysis services are paid on a fee schedule. Outpatient services rendered to New York Medicaid beneficiaries are paid under an Ambulatory Patient Group ("APG"). Ancillaries (i.e. lab) ordered by an Article 28 provider get bundled into the clinic visit and are paid under an APG. Medicaid reimbursement for professional services is determined by a standard fee schedule.

Managed Care and Commercial Insurers

Services rendered to patients with commercial insurance are generally reimbursed at standard charges, less a negotiated discount or according to DRG or negotiated fee schedules.

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

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Settlements with third-party payers for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer and the UVM Health Network's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Changes in prior-year estimates decreased patient service revenue by approximately \$7,522,000 and \$3,130,000 in the years ended September 30, 2020 and 2019, respectively.

Generally, patients who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. The UVM Health Network also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The UVM Health Network estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended September 30, 2020 and 2019, revenue recognized due to changes in the UVM Health Network's estimates of implicit price concessions for performance obligations satisfied in prior years was not significant. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended September 30, 2020 and 2019 was not significant.

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

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

UVM Medical Center, CVMC and PMC receive monthly fixed prospective payments for services provided by hospitals (and hospital-owned practices) participating in the Vermont Medicaid Next Generation Accountable Care Organization ("Medicaid ACO") Pilot Program and the CMS Vermont Modified Next Generation ACO Model ("Medicare ACO"). Under these arrangements, monthly, per member payments are received in advance of the services being performed and recognized as revenue in the month to which they relate. Medicaid and Medicare fee-for-service payments continue for all other nonhospital providers in the ACO, for all providers who are not a part of the ACO, and for all services that are not included in the fixed prospective payment. UVM Health Network is responsible for both the cost and quality of care for each attributed member. This is true whether that person uses little or no care or whether they require services consistently throughout the year. UVM Medical Center, CVMC and PMC recognize their share of annual contract settlements, which include shared savings or losses and quality incentives as an increase

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or decrease to fixed prospective payment revenue. UVM Medical Center, CVMC and PMC also participate in an accountable care program with BlueCross BlueShield of Vermont, under which they continue to be paid on a fee-for-service basis. Quality incentives and shared savings or losses under this contract are recorded as increases or decreases to patient service revenue.

CVPH, through the Adirondack Regional Medical Home Pilot, which was established as a joint venture initiative of medical providers and public and private insurers to transform healthcare delivery in the rural, upstate New York region, receives monthly fixed prospective payments for the provision of care management services. This is a monthly, per member payment received in advance of the services being performed and recognized as revenue in the month to which it relates.

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

	2020			2019		
	Total	FFS	FPP	Total	FFS	FPP
Medicare	34 %	26 %	8 %	34 %	27 %	7 %
Medicaid	11 %	7 %	4 %	10 %	8 %	2 %
Contracted Commercial	47 %	47 %	0 %	47 %	47 %	0 %
Noncontracted Insurers	8 %	8 %	0 %	8 %	8 %	0 %
Patients	0 %	0 %	0 %	1 %	1 %	0 %

5. Financial Assets and Liquidity Resources

As of September 30, 2020 and 2019, respectively, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, consisted of the following:

<i>(in thousands)</i>	2020	2019
Liquidity and Availability		
Cash and cash equivalents	\$ 526,654	\$ 171,861
Short-term investments	15,085	29,979
Current portion of assets whose use is limited or restricted	9,831	6,403
Patient and other trade accounts receivable, net	256,607	257,588
Receivables from third-party payers	13,059	11,820
Financial assets available at year end for current use	<u>\$ 821,236</u>	<u>\$ 477,651</u>

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

To manage liquidity, UVM Health Network maintains sufficient cash and cash equivalent balances to support daily operations throughout the year. Cash and cash equivalents include bank deposits, CDs, money market funds, and other similar vehicles that generate a return on cash and provide daily liquidity to the UVM Health Network. Short-term investments without donor restriction are also utilized to generate a higher yield on balances versus cash and cash equivalents, and to provide the UVM Health Network with an additional layer of liquidity for daily operations if needed. As of September 30, 2020 and 2019, the balances held in cash and cash equivalents and short-term investments were \$541,739,000 and \$201,840,000, respectively. The UVM Health Network also maintains a line of credit in the amount of \$50,000,000 for use by UVM Health Network entities

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that are part of the UVM Medical Center Obligated Group. As of September 30, 2020 and 2019, the amount outstanding under this line of credit was \$4,500,000 and \$7,500,000, respectively. CPI had an outstanding line of credit of \$3,000,000 at September 30, 2019. Additionally, AHMC and HH&H have lines of credit of \$1,500,000 each of which had no amounts outstanding at September 30, 2020 and 2019, respectively. Each of these lines of credit can be used to support short-term cash and/or working capital needs. In addition, the UVM Health Network has designated assets without donor restriction that can be utilized at the discretion of management to help fund both operational needs and/or capital projects. As of September 30, 2020 and 2019, the balance in board designated assets were \$645,676,000 and \$659,416,000, respectively.

6. Charity Care and Community Service

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

The amount of charges foregone for services and supplies furnished under UVM Health Network's charity care policy aggregated approximately \$30,353,000 and \$31,839,000 for the years ended September 30, 2020 and 2019, respectively.

Approximately \$14,891,000 and \$14,643,000 of UVM Health Network's total expenses for the years ended September 30, 2020 and 2019, respectively, arose from providing services to charity care patients. The estimated costs of providing charity care services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on UVM Health Network's total expenses divided by gross patient service revenue. For the years ended September 30, 2020 and 2019, respectively, UVM Health Network used \$374,000 and \$412,000 in charitable endowment earnings to help defray the costs of indigent care.

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

Assets whose use is limited or restricted at September 30, 2020 and 2019 consisted of the following:

<i>(in thousands)</i>	2020	2019
Equities	<u>\$ 50,722</u>	<u>\$ 48,731</u>
Mutual funds		
Bond funds	373,623	367,725
U.S. treasury obligation funds	7,486	1,947
International equity funds	162,379	169,823
Domestic equity funds	179,668	172,969
Real estate funds	<u>25,485</u>	<u>41,771</u>
Total mutual funds	748,641	754,235
Money market funds	8,437	9,166
U.S Treasury	3,026	10,981
Bonds and notes	19,722	16,618
Beneficial interest in perpetual trusts	18,268	17,795
Hedge funds	4,290	4,173
Venture capital and partnerships	<u>1,813</u>	<u>662</u>
	854,919	862,361
Less: Current portion	(9,831)	(6,403)
Less: Other pooled investments	<u>(11,343)</u>	<u>(17,606)</u>
	<u>\$ 833,745</u>	<u>\$ 838,352</u>

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The following tables present information as of September 30, 2020 and 2019, about UVM Health Network's financial assets and liabilities that are measured at fair value on a recurring basis:

<i>(in thousands)</i>	2020				Fair Value
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	NAV as Practical Expedient	
Equities	\$ 51,152	\$ -	\$ -	\$ -	\$ 51,152
Mutual funds					
Bond funds	375,194	-	-	-	375,194
International equity funds	162,667	-	-	-	162,667
Domestic equity funds	179,958	-	-	-	179,958
Commodity funds	2,747	-	-	-	2,747
Real estate funds	25,512	-	-	-	25,512
Total mutual funds	746,078	-	-	-	746,078
Money market funds	8,752	-	-	-	8,752
U.S Treasury	8,808	-	-	-	8,808
Bonds and notes	-	19,722	-	-	19,722
Beneficial interest in perpetual trusts	-	-	18,268	-	18,268
Hedge funds	-	-	-	4,290	4,290
Venture capital and partnerships	-	-	-	1,813	1,813
	<u>\$ 814,790</u>	<u>\$ 19,722</u>	<u>\$ 18,268</u>	<u>\$ 6,103</u>	<u>\$ 858,883</u>
Interest rate swap agreements	\$ -	\$ 26,990	\$ -	\$ -	\$ 26,990

<i>(in thousands)</i>	2019				Fair Value
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	NAV as Practical Expedient	
Equities	\$ 49,062	\$ -	\$ -	\$ -	\$ 49,062
Mutual funds					
Bond funds	369,314	-	-	-	369,314
International equity funds	170,493	-	-	-	170,493
Domestic equity funds	172,594	-	-	-	172,594
Commodity funds	2,972	-	-	-	2,972
Real estate funds	41,799	-	-	-	41,799
Total mutual funds	757,172	-	-	-	757,172
Money market funds	18,270	-	-	-	18,270
U.S treasuries	11,297	-	-	-	11,297
Bonds and notes	-	16,303	-	-	16,303
Beneficial interest in perpetual trusts	-	-	17,795	-	17,795
Hedge funds	-	-	-	4,173	4,173
Venture capital and partnerships	-	-	-	662	662
	<u>\$ 835,801</u>	<u>\$ 16,303</u>	<u>\$ 17,795</u>	<u>\$ 4,835</u>	<u>\$ 874,734</u>
Interest rate swap agreements	\$ -	\$ 22,989	\$ -	\$ -	\$ 22,989

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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, 2020 and 2019. There were no transfers between levels as of September 30, 2020 and 2019.

Category of Investment	2020						
	Fair Value	Unfunded Commitments	Remaining Life, if Applicable	Redemption Terms, if Currently Eligible	Redemption Restrictions and Terms	Redemption Restrictions and Terms in Place at Year End	
Hedge Funds	\$ 4,290	\$ -	Not applicable	Ranges from 60 - 95 days notice, quarterly	100% of these funds are either not under lock or have a lock of one year or less.	None	
Venture Capital and Partnerships	\$ 1,813	\$ 1,855	8 years	None	None	None	

Category of Investment	2019						
	Fair Value	Unfunded Commitments	Remaining Life, if Applicable	Redemption Terms, if Currently Eligible	Redemption Restrictions and Terms	Redemption Restrictions and Terms in Place at Year End	
Hedge funds	\$ 4,173	\$ -	Not applicable	Ranges from 60 - 95 days notice, quarterly	100% of these funds are either not under lock or have a lock of one year or less.	None	
Venture capital and partnerships	\$ 662	\$ 2,870	9 years	None	None	None	

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. Distributions from the investments held at Middlebury College (“the College”) are to be made by a disbursement from the College to the UVM Health Network, based on the value of the fund after providing the College with thirty (30) days written notice. The investments held at the College shall thereafter be valued as of the end of the calendar month following such notice and distributed as soon as is practicable but in no event later than sixty (60) days after such notice. At least 20% of the value of the investments held at the College will be made available to the UVM Health Network within thirty (30) days of College’s receipt of the notice for a distribution up to that amount. As of September 30, 2019 these investments were distributed to PMC.

A roll forward of the Level 3 fair value measurements (defined above) for the years ended September 30, 2020 and 2019, is as follows:

	2020
	Beneficial Interest in Perpetual Trusts
<i>(in thousands)</i>	
Beginning of year	\$ 17,795
Withdrawals	-
Change in beneficial interest in perpetual trusts	473
Realized gains	-
End of the year	\$ 18,268

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

8. Property and Equipment

A summary of property and equipment at September 30, 2020 and 2019 is as follows:

<i>(in thousands)</i>	2020	2019
Land	\$ 38,795	\$ 38,795
Land improvements	27,354	26,182
Leasehold improvements	75,330	71,615
Buildings	1,111,584	1,084,906
Equipment, furniture, and fixtures	<u>679,506</u>	<u>601,809</u>
	1,932,569	1,823,307
Less: Accumulated depreciation	<u>(1,070,877)</u>	<u>(986,033)</u>
	861,692	837,274
Construction-in-progress	<u>47,155</u>	<u>89,964</u>
	<u>\$ 908,847</u>	<u>\$ 927,238</u>

UVM Health Network sold, traded-in or wrote off approximately \$10,241,000 and \$7,336,000 in gross property and equipment in the years ended September 30, 2020 and 2019, respectively. In conjunction with these sales, trade-ins or disposals, a loss of \$776,000 and \$325,000 was recorded in the years ended September 30, 2020 and 2019, respectively. At September 30, 2020, UVM Health Network had commitments to purchase approximately \$39,592,000 of property and equipment, which are primarily composed of the following: \$15,944,000 related to the EPIC project and \$23,648,000 related to other projects. Anticipated future cash flows related to these commitments are \$39,109,000 and \$483,000 for the years ending September 30, 2021 and 2022, respectively.

UVM Health Network recorded depreciation expense of \$100,473,000 and \$90,595,000 for the years ended September 30, 2020 and 2019, respectively.

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9. Long-Term Debt

Long-term debt at September 30, 2020 and 2019 consisted of the following:

<i>(in thousands)</i>	2020	2019
Vermont Educational and Health Buildings Financing Agency		
Hospital Revenue Bonds		
Series 2008A Bonds, variable rate (1.43% and 1.50% at September 2019 and 2018, respectively), payable through 2030	\$ 54,706	\$ 54,706
Series 2013A Bonds, fixed rate (2.60%), payable through 2027	27,063	27,388
Series 1996 Loan, fixed rate (3.50%), payable through 2021	1,703	2,866
Series 2015A Bonds, fixed rate (2.27%), payable through 2023	13,375	15,580
Series 2016A Bonds, fixed rate (3.00% to 5.00%), payable through 2036 (including unamortized premium of \$20,574 and \$21,784 at September 30, 2020 and 2019, respectively)	183,094	187,574
Series 2016B Bonds, fixed rate (3.13% to 5.00%), payable through 2046 (including unamortized premium of \$10,200 and \$10,590 at September 30, 2020 and 2019, respectively)	99,200	99,590
Series 2015A Bonds, fixed rate (2.85%), payable through 2025	12,553	13,219
Essex County Capital Resource Corporation Hospital Revenue Bonds		
Series 2011 Bonds, variable rate, (1.65% and 3.17% at September 30, 2020 and 2019), payable through 2032	4,135	4,390
Other long-term debt		
Bank of America Loan, fixed rate (2.90%), payable through April 1, 2030	75,000	-
TD Bank Loan, fixed rate (2.09%), payable through June 1, 2035	74,945	-
Bank of America Loan, fixed rate (2.92%), payable through 2027	32,924	37,922
KeyBank Loan, fixed rate (3.49%), payable through 2023	18,785	24,155
Series 2016A Bonds, variable rate (1.25% and 2.48% at September 30, 2020 and 2019, respectively), payable through 2042	12,210	12,750
Series 2016B Bonds, variable rate (.84% and 2.16% at September 30, 2020 and 2019, respectively), payable through 2042	14,915	15,580
Community Bank Loan, fixed rate (3.38%), payable through 2027	12,589	13,162
Series 2013A variable rate bonds (0.15% and 1.60% at September 30, 2020 and 2019, respectively), payable through 2038, (including unamortized discount of \$348K at September 30, 2020)	22,410	24,040
Capital leases, fixed rate (0.68% to 24.8%), payable through 2024	-	4,826
TD Bank fixed rate loan at 3.59%, interest only payment through April 2020, payable through April 2030	9,582	10,000
TD Bank, fixed rate (3.73%), payable through 2025	2,201	2,579
TD Bank fixed rate loan at 3.87% at September 30, 2019, payable through 2033	16,462	17,413
TD Bank Loan - fixed rate (2.44%), payable through 2030	15,068	-
Lines of Credit	4,500	10,500
Other debt	37,521	34,862
	<u>744,941</u>	<u>613,102</u>
Less: Current portion	(34,064)	(39,582)
Less: Unamortized discount and debt issuance costs	(2,321)	(2,530)
Long-term debt	<u>\$ 708,556</u>	<u>\$ 570,990</u>

Obligated Group

UVM Medical Center, UVM Health Network, CVMC, CVPH and ECH are the members of the UVM Medical Center Obligated Group (“Obligated Group”) at September 30, 2020 and 2019.

The Master Trust Indenture contains provisions permitting the addition, withdrawal or consolidation of members of the Obligated Group under certain conditions. The Master Trust Indenture constitutes joint and several obligations of the members of the Obligated Group.

As of September 30, 2020, an obligated group does not exist for AHMC, HH&H, or PMC.

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Series 2008A Bonds (UVM Medical Center)

On May 21, 2008, UVM Medical Center in connection with the Vermont Educational and Health Buildings Financing Agency (“VEHBFA”), issued \$54,706,000 of tax-exempt variable-rate hospital revenue bonds (“Series 2008A”), the proceeds of which were used to refund its Series 2000B bonds in the amount of \$50,000,000, pay an early termination payment in the amount of \$3,128,000 on a related interest rate swap, and pay issuance costs in the amount of \$1,577,000. The Series 2008A bonds are collateralized by an irrevocable letter of credit from a bank in the amount of \$55,334,000 (covers principal of \$54,706,000 and interest of \$628,000), which expires in 2026. 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. The 2008A letter of credit was not drawn upon as of September 30, 2020. 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, 2026. 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.

UVM Medical Center and certain subsidiaries are obligated under various other revenue bonds, capital leases, and notes payable. Various trustee-held funds are required under the terms of the loan agreements. Under one of the loan agreements, a reserve fund is required only upon the failure to meet certain financial ratios. As of September 30, 2020 and 2019, 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.

Series 2011 Bonds (ECH)

On December 1, 2011, ECH issued Essex County Capital Resource Corporation Revenue Bonds, Series 2011 in the amount of \$6,160,000. The Series 2011 bonds were purchased by Key Bank, N.A. under a bond purchase agreement. As part of the agreement, the Series 2011 bonds are subject to mandatory redemption and are subject to optional tender by the bank for purchase by ECH at a price equal to the principal plus accrued and unpaid interest beginning on June 1, 2017. As of September 30, 2020, Key Bank informed ECH that they have no intention of tendering the bonds back to ECH. The Series 2011 bonds were originally collateralized by a mortgage that Key Bank held with ECH. On October 1, 2017, ECH joined the Obligated Group, at which time Key Bank released the mortgage as collateral, and a joint and several obligation of the UVMHC Obligated Group replaced the mortgage as collateral for the Bonds. The Series 2011 bonds carry a variable interest rate of 65% of 1-Month LIBOR plus 155 basis points (1.65% at September 30, 2020) 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. As part of the agreement, the series 2013A bonds are subject to an optional tender by the bank for purchase by UVM Medical Center in whole or in part, at a redemption price equal to the principal amount tendered plus accrued and unpaid interest beginning March 1, 2023 and on any date thereafter. The Series 2013A bonds carry a fixed interest rate of 2.60%.

Series 2013A Bonds (AHMC)

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

The Revenue Bonds consist of variable interest rate, term bonds, requiring annual sinking fund payments ranging from \$765,000 to \$1,645,000 through October 2037, with a \$1,715,000 principal amount maturing on October 1, 2038 to be paid at maturity. Interest rates are variable and are reset weekly by the remarketing agent. The interest rate as of September 30, 2020 was 0.73%. Interest payments are due monthly. In addition to interest to bondholders, interest is paid to HSBC Bank at a rate of 2.50% on the outstanding balance. Interest is paid to HSBC Bank quarterly. The bonds are collateralized by a direct pay letter of credit with a bank aggregating the outstanding principal amount plus 35 days interest at an assumed rate of 12% per annum for the term of the bonds. Any outstanding balance put to the letter of credit would be repaid in accordance with the payment schedule of the 2013A Revenue Bonds and must be repaid prior to the letter of credit expiring on October 1, 2021. The Revenue Bonds are administered by the provisions of a Master Trust Indenture (Indenture) between the AHMC and bond trustee.

Series 2015A Bonds (UVM Medical Center)

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

Series 2016A Bonds (UVM Medical Center)

The remaining \$192,965,000 par of the initial aggregate principal amount of the Series 2004B and 2007A Bonds, with maturities between December 2016 and December 2036, were advance refunded in February 2016 and replaced with a tax-exempt public bond issue (the 2016A bonds), in the aggregate principal amount of \$176,375,000 with a final maturity date in December 2036. The Series 2016A bonds carry fixed interest rates ranging between 3.00% - 5.00%. The premium on the 2016A bonds was \$27,500,000. Bond issuance costs of \$660,000 will be amortized over the life of the loan.

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Series 2016B Bonds (UVM Medical Center)

On July 28, 2016, UVM Medical Center, in connection with the VEHBFA, issued \$89,000,000 of tax-exempt fixed rate hospital revenue bonds ("Series 2016B"), the proceeds of which were used to partially fund the Miller Building Project on the UVM Medical Center's main campus, fund a capitalized interest account in the amount of \$12,278,224, and pay issuance costs in the amount of \$1,205,400. The Series 2016B bonds carry fixed interest rates ranging from 3.13% - 5.00%, with an average coupon of 4.54%, bonds mature on December 31, 2046. The premium on the 2016B bonds was \$12,600,000. Bond issuance costs of \$398,000 will be amortized over the life of the loan. The Series 2016B Bonds were labeled "Green Bonds" as a result of their usage to finance the Miller Building Project for which UVM Medical Center obtained Silver LEED-certified status. The purpose of the "Green Bonds" label was to allow investors to invest directly in an environmentally beneficial project.

Series 2015A Bonds (PMC)

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

Series 2016A and 2016B Bonds (CVPH)

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

People's United Loan (UVM Medical Center)

On September 30, 2013, UVM Medical Center entered into a mortgage for property ("Holly Court") in the amount of \$9,903,000. The mortgage is payable through September 2028, and bears interest at a variable rate equal to one-Month LIBOR plus 105 basis points (1.21% at September 30, 2020). Concurrent with the issuance of the Holly Court mortgage, an interest rate swap was entered into whereby UVM Medical Center pays a fixed rate of 2.67% a variable rate of one-Month LIBOR, (Note 10).

TD Bank Loan (CVMC)

On December 20, 2019, CVMC borrowed \$16,000,000 from TD Bank. The loan is a taxable fixed rate private bank placement that is payable through December 20, 2029 and carries an interest rate of 2.44%. The loan is secured by a joint and several obligation of the UVMC Obligated Group and was used to reimburse CVMC for previous capital projects that were paid for with cash.

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Bank of America Loan (UVM Health Network)

On April 27, 2020, UVM Health Network borrowed \$75,000,000 from Bank of America. The loan is a taxable fixed rate private bank placement that is payable through April 1, 2030 and carries an interest rate of 2.90%. The loan is secured by a joint and several obligation of the UVMHC Obligated Group and is to be used for future capital projects and/or working capital needs across the network.

TD Bank Loan (UVM Health Network)

On June 26, 2020, UVM Health Network borrowed \$75,000,000 from TD Bank. The loan is a taxable fixed rate private bank placement that is payable through June 1, 2035 and carries an interest rate of 2.09%. The loan is secured by a joint and several obligation of the UVMHC Obligated Group and is to be used for future capital projects and/or working capital needs across the UVM Health Network

Scheduled Maturities of Long-Term Debt

As of September 30, 2020, scheduled maturities of long-term debt, not including a net unamortized premium of \$31,122,000 for the next five years and thereafter are as follows:

(in thousands)

Years Ending September 30,	
2021	\$ 34,064
2022	33,693
2023	35,968
2024	39,537
2025	36,023
Thereafter	<u>534,534</u>
	<u>\$ 713,819</u>

Loan Covenants

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

Lines of Credit

AHMC has an uncollateralized line of credit in the amount of \$1,500,000 at September 30, 2020. The interest rate is set at a floating rate equal to prime plus 100 basis points (4.25% at September 30, 2020). At September 30, 2020, AHMC had no borrowings under the line of credit. The revolving line of credit is interest only payments with accrued interest and principal due upon maturity. The maturity date for the line of credit is October 31, 2021.

HH&H has a revolving \$1,500,000 line of credit payable on demand with a Community Bank N.A., collateralized by the HH&H personal property (accounts receivable, machinery, equipment, furniture and fixtures), with a variable interest rate equal to the prime rate with a 4.75% floor. There is no outstanding balance of September 30, 2020. The maturity date for the line of credit is February 28, 2023.

As of September 30, 2020, UVM Health Network has two available lines of credit in the amounts of \$20,000,000, and \$30,000,000. The \$20,000,000 line is with TD Bank and is less the face value of all Letters of Credit that may be issued by the lender for the benefit of the health network. The Line

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of Credit is available to each member of the Obligated Group. The Line of Credit is collateralized by a joint and several obligation of the UVM Health Network and each Member of the Obligated Group. The interest rate is set at a floating rate equal to 1 Month LIBOR plus 40 Basis Points (0.55% at September 30, 2020) adjusting monthly. At September 30, 2020, CVPH had borrowings of \$4,500,000. The maturity date for the line of credit is October 1, 2023. The \$30,000,000 line of credit is with Bank of America and is available to each member of the Obligated Group. The Line of Credit is collateralized by a joint and several obligation of the UVM Health Network and each Member of the Obligated Group. The interest rate is set at a floating rate equal to 1 Month LIBOR plus 30 Basis Points (0.45% at September 30, 2020), adjusting monthly. As of September 30, 2020 there were no advances on the line of credit. The line also carries an unused fee of 0.05% per annum, payable quarterly in arrears, and the maturity date is October 15, 2021.

Guarantor

As of September 30, 2020, UVM Medical Center is the guarantor of the letter of credit at AHMC for the Series 2013A bonds, the 2018 TD Bank loan at AHMC, and 50% guarantor of a line of credit between OneCare Vermont and TD Bank.

10. Interest Rate Swap Agreements

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

Swap	Bond Series	Notional Amount September 30, 2020 (\$ in 000's)	Notional Amount September 30, 2019 (\$ in 000's)	Counterparty	Expiration Date	Pay Fixed	Receive Floating
LIBOR Swap (Series B-1)	2008A	\$ 27,595	\$ 27,595	Citibank, NA	October 28, 2032	3.76 %	66.5% of LIBOR + 32bps
LIBOR Swap (Series B-2)	2008A	27,595	27,595	Citibank, NA	November 4, 2032	3.76 %	66.5% of LIBOR + 32bps
LIBOR Swap	Holly Court Loan	6,028	6,653	Peoples United Bank	October 2, 2028	2.67 %	1 Month LIBOR
LIBOR Swap	Series 2007B	9,990	10,250	Key Bank	July 1, 2042	4.06 %	68.0% of LIBOR
LIBOR Swap	Series 2007A	15,765	16,165	Key Bank	July 1, 2042	4.00 %	65.0% of LIBOR
SIFMA Swap	Series 2011	4,135	4,390	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)	2020	2019
2008A Swaps	\$ (15,085)	\$ (12,828)
Holly Court Loan	(592)	(382)
2007B Swap	(4,343)	(3,720)
2007A Swaps	(6,810)	(5,847)
2011 Swap	(160)	(212)
	<u>\$ (26,990)</u>	<u>\$ (22,989)</u>

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The effect of interest rate swap agreements on the consolidated statements of operations and changes in net assets for 2020 and 2019 are as follows:

<i>(in thousands)</i>	Amount of Gain/(Loss) Recognized in Statements of Operations	
	2020	2019
2008A Swaps	\$ (2,257)	\$ (5,434)
Holly Court Loan	(210)	(462)
2007B Swap	(623)	(1,354)
2007A Swaps	(963)	(2,093)
2011 Swap	52	(24)
	<u>\$ (4,001)</u>	<u>\$ (9,367)</u>

UVM Health Network also made payments on the interest rate swap agreements of \$2,460,000 and \$1,764,000 for the years ended September 30, 2020 and 2019, which are included in interest expense on the statements of operations.

11. Leases

As discussed in Note 3, on October 1, 2019, the UVM Health Network adopted new guidance for the accounting and reporting of leases. The UVM Health Network has operating and finance leases primarily for real estate, including medical office buildings, corporate and other administrative offices, as well as medical and office equipment. The UVM Health Network determines if an arrangement is a lease at inception of the contract. When evaluating contracts for embedded leases, the UVM Health Network exercises judgment to determine if there is an explicit or implicit identified asset in the contract and if the UVM Health Network controls the use of that asset. As permitted under the transition guidance in ASC 842, the UVM Health Network elected a package of practical expedients which, among other provisions, allowed the UVM Health Network to carry forward historical lease classifications. As a practical expedient, the UVM Health Network has made an accounting policy election for all asset classes not to separate lease components from nonlease components in the event that the agreement contains both. Additionally, UVM Health Network elected the package of practical expedients which allowed an entity not to reassess whether any expired or existing contracts are or contain leases, the lease classification for any expired or existing leases, and initial direct costs for any existing leases.

Under ASC 842 transition guidance, the UVM Health Network elected the hindsight practical expedient to determine the lease term for existing leases, which permits companies to consider available information prior to the effective date of the new guidance as to the actual or likely exercise of options to extend or terminate the lease. Certain real estate leases have renewal options and the lease term includes options to extend or terminate the lease when it is reasonably certain that the UVM Health Network will exercise that option. Real estate lease agreements typically have initial terms of five to ten years, and equipment lease agreements typically have initial terms of three years.

Lease expense for operating lease payments is recognized on a straight-line basis over the term of the lease. Operating right-of-use assets and lease liabilities are recognized based on the present value of lease payments over the remaining lease term. Since the UVM Health Network's leases do not have a readily determinable implicit discount rate, the UVM Health Network uses the risk free rate as it elected to apply the expedient available to nonpublic business entities to calculate the

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present value of lease payments. The UVM Health Network includes both the lease and nonlease components for purposes of calculating the right-of-use asset and related lease liability (if the nonlease components are fixed). For finance leases, interest expense on the lease liability is recognized using the effective interest method and amortization of the right-to-use asset is recognized on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term. The UVM Health Network elected not to apply the requirements of ASC 842 to short-term leases (i.e., a lease term of 12 months or less at the commencement date). In these cases, lease payments are charged to profit or loss.

The table below presents certain information related to the lease costs for finance and operating leases:

	2020
Operating lease cost	\$ 16,979
Finance lease cost:	
Amortization of right-of-use assets	2,505
Interest on lease liabilities	131
Total finance lease cost	<u>2,636</u>
Short term lease cost	618
Variable lease cost	4,674
Total lease cost	<u>\$ 24,907</u>

Prior to the adoption of the new lease standard, operating lease rent expense, inclusive of common area maintenance charges was \$19,412,000 for the year ended September 30, 2019.

Supplemental consolidated balance sheet information related to operating and finance leases at September 30, 2020 is as follows:

	Classification on the Consolidated Balance Sheet	2020
Assets		
Operating lease assets	Operating lease right of use assets, net	\$ 70,389
Finance lease assets	Finance lease right of use assets, net	3,911
Total lease assets		<u>\$ 74,300</u>
Liabilities		
Current		
Operating	Operating lease liabilities obligations	\$ 14,317
Finance	Finance lease liabilities obligations	1,916
Noncurrent		
Operating	Operating lease liabilities obligations, net of current portion	56,461
Finance	Finance lease liabilities obligations, net of current portion	1,736
Total lease liabilities		<u>\$ 74,430</u>
Weighted-average remaining lease term		
Operating leases		7.44
Finance leases		2.92
Weighted-average discount rate		
Operating leases		0.98 %
Finance leases		2.17 %

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The table below presents supplemental cash flow information related to leases:

	2020
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows for operating leases	\$ 16,294
Operating cash flows for finance leases	131
Financing cash flows for finance leases	2,701
Right-of-use assets recorded in exchange for operating lease liabilities	\$ 85,082
Right-of-use assets recorded in exchange for finance lease liabilities	655

Of the right-of-use assets recorded in exchange for operating lease liabilities reported above, \$75,987,000 were leases the Network entered into prior to October 1, 2019, and recognized as part of the adoption of ASC 842.

Future minimum lease payments at September 30, 2020 is as follows:

	Finance	Operating	Total
2021	\$ 1,987	\$ 15,189	\$ 17,176
2022	712	11,789	12,501
2023	521	10,174	10,695
2024	489	8,964	9,453
2025	75	6,997	7,072
Thereafter	-	23,891	23,891
Total minimum lease payments	<u>3,784</u>	<u>77,004</u>	<u>80,788</u>
Less: Imputed interest	132	6,226	6,358
Total lease liabilities	<u>\$ 3,652</u>	<u>\$ 70,778</u>	<u>\$ 74,430</u>

As of September 30, 2019, prior to the adoption of ASC 842, the minimum aggregate lease commitments under noncancelable leases were as follows:

	Capital	Operating	Total
2020	\$ 2,704	\$ 18,992	\$ 21,696
2021	1,745	14,607	16,352
2022	562	10,669	11,231
2023	393	8,567	8,960
2024	374	7,269	7,643
Thereafter	30	18,553	18,583
Total minimum lease payments	<u>\$ 5,808</u>	<u>\$ 78,657</u>	<u>\$ 84,465</u>

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12. Net Assets

Net Assets with Donor Restrictions

At September 30, 2020 and 2019, net assets with donor restrictions are available for the following purposes:

<i>(in thousands)</i>	2020	2019
Indigent care	\$ 19,166	\$ 17,623
Education and research	30,851	26,500
Children's programs	8,975	8,533
Capital projects and other health care services	52,073	50,208
Long-term care services at Woodridge	1,641	1,628
	<u>\$ 112,706</u>	<u>\$ 104,492</u>

At September 30, 2020 and 2019, net assets with donor restrictions include approximately \$27,410,000 and \$25,583,000, respectively, of accumulated gains, which are subject to Board appropriation in accordance with state law.

Endowment Funds

UVM Health Network's endowment funds consist of 151 funds established for a variety of purposes. UVM Health Network does not currently have any unrestricted funds designated by the Board to function as endowment. Accordingly, for the purposes of this disclosure, endowment funds include only donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

UVM Health Network has interpreted relevant state laws for the states in which it operates as requiring realized and unrealized gains of net assets with donor restrictions to be retained in a with donor restrictions net asset classification until appropriated by the Board and expended. These state laws allow the Board to appropriate the net appreciation of net assets with donor restrictions as is prudent considering UVM Health Network's long and short-term needs, present and anticipated financial requirements, and expected total return on its investments, price level trends, and general economic conditions. In the years ended September 30, 2020 and 2019, \$2,098,000 and \$1,250,000, respectively, was appropriated.

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

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Endowment Net Asset Composition and Changes in Endowment Net Assets

The following is a summary of the endowment net asset composition at September 30, 2020 and 2019, and the changes therein for the years then ended:

<i>(in thousands)</i>	2020	2019
Changes in the fair value of endowment investments		
Investment returns, net	\$ 3,784	\$ 2,876
Appropriations of endowment assets for expenditure	(2,098)	(1,250)
Other	423	114
	<u>2,109</u>	<u>1,740</u>
Net change in endowment investments	2,109	1,740
Endowment investments at		
Beginning of year	<u>60,202</u>	<u>58,462</u>
End of year	<u>\$ 62,311</u>	<u>\$ 60,202</u>

Beneficial Interest in Perpetual Trusts

The above amounts exclude UVM Health Network's beneficial interest in perpetual trusts, which are not within management's investment control. Such beneficial interests totaled \$18,268,000 and \$17,795,000 at September 30, 2020 and 2019, respectively.

Charitable Remainder Trust

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

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires UVM Health Network to retain as a fund of perpetual duration. The UVM Health Network has a policy that does not allow the spending from underwater endowments. At September 30, 2020 and 2019, there were no funds with deficiencies.

Investment Return Objectives and Spending Policy

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

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13. Malpractice and Other Contingencies

UVM Health Network is insured against malpractice losses under a claims-made insurance policy with VMCIC, its wholly owned subsidiary. VMCIC has reinsurance with commercial carriers for coverage above a self-insured per claim retainage amount of:

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

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

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

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

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

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

UVM Health Network, excluding AHMC, PMC, and HH&H (discussed below), is also self-insured for workers' compensation claims, and maintains an excess insurance policy to limit its exposure on claims up to \$1,000,000 and \$750,000 per occurrence for UVM Medical Center and CVPH, respectively, in the year ended September 30, 2020, with a \$50,000,000 aggregate limit for UVM Medical Center. CVPH's workers' compensation claim reserve is secured by a letter of credit and reimbursement agreement in the amount of \$10,358,000 which has an expiration date of November 1, 2021.

The workers compensation insurance policy year for AHMC is from September 1 – September 1 each year. AHMC's potential workers' compensation exposure covers the period between September 1, 2012 and September 30, 2020. A related liability of approximately \$764,000 has been recorded as of September 30, 2020 and 2019, respectively.

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

HH&H insures its medical malpractice risks on a claims-made basis. There were no known malpractice claims outstanding at September 30, 2020, nor were there any unasserted claims or incidents which require loss accrual. HH&H intends to renew coverage on a claims-made basis and anticipates that such coverage will be available.

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

The reserves for outstanding losses at UVM Medical Center, CVMC, CVPH and ECH have been discounted at a rate of 3.0% and 1.75% at September 30, 2020 and 2019, resulting in a decrease in the reserve for professional liability of approximately \$2,890,000 and \$2,770,000 at September 30, 2020 and 2019, respectively, and a decrease in the reserve for workers' compensation of approximately \$260,000 and \$315,000 at September 30, 2020 and 2019, 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 \$1,876,000 and \$2,273,000 for the years ended September 30, 2020 and 2019, respectively.

Employee Health and Dental Insurance

UVM Medical Center, CVPH, CVMC, and PMC maintain self-insured plans for employee health insurance. Under the terms of the plans, employees and their dependents are eligible for participation and, as such, UVM Medical Center, CVPH, CVMC, and PMC are responsible for paying claims and third party administrator costs. UVM Medical Center, CVPH, and CVMC maintained a stop-loss insurance policy for its medical plan to limit its exposure on nondomestic claims to the first \$650,000, \$400,000, and \$400,000, respectively, per member per plan year ending September 30, 2020, of which \$100,000 of each entity's exposure is covered by VMCI. PMC maintained a stop-loss insurance policy for its medical plan to limit its exposure on all claims to the first \$175,000 per member per plan year. In addition, UVM Medical Center, CVMC and PMC maintain self-insured plans for employee dental.

Other Contingencies

UVM Health Network and its subsidiaries are parties in various legal proceedings and potential claims arising in the ordinary course of business. In addition, the health care industry as a whole is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to government review and interpretation, as well as regulatory actions, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue from patient services.

Management does not believe that these matters will have a material adverse effect on UVM Health Network's consolidated balance sheet or results of operations.

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14. Pension Plans

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

<i>(in thousands)</i>	Years Ending September 30,	
	2020	2019
Defined benefit plans	\$ (1,363)	\$ 2,628
Defined contribution plans	42,686	43,311
	<u>\$ 41,323</u>	<u>\$ 45,939</u>

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

Benefit Obligations

<i>(in thousands)</i>	2020	2019
Changes in benefit obligations		
Projected benefit obligations - beginning of year	\$ (449,678)	\$ (397,645)
Service cost	(1,998)	(3,430)
Interest cost	(14,211)	(17,022)
Benefits paid	20,694	19,227
Actuarial loss	(17,356)	(52,831)
Administrative expenses paid	891	2,023
Projected benefit obligation - end of year	<u>(461,658)</u>	<u>(449,678)</u>
Accumulated benefit obligation	<u>(345,154)</u>	<u>(447,480)</u>
Changes in plan assets		
Fair value of plan assets - beginning of year	356,788	334,788
Actual gain on plan assets	36,617	33,471
Contributions	12,216	9,779
Benefits paid	(20,694)	(19,227)
Administrative expenses paid	(891)	(2,023)
Fair value of plan assets - end of year	<u>384,036</u>	<u>356,788</u>
Funded status of the plan (long-term)	<u>(77,622)</u>	<u>(92,890)</u>

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The reconciliation of the unrecognized actuarial losses for the years ended September 30, 2020 and 2019 is as follows:

<i>(in thousands)</i>	2020	2019
Unrecognized actuarial losses - beginning of year	\$ 84,944	\$ 47,761
Net gain amortized during year	(5,958)	(1,740)
Net prior service cost amortized during year	(165)	21
Net (gain)/loss during year	4,457	38,902
Unrecognized actuarial losses - end of year	\$ 83,278	\$ 84,944

The components of the net periodic benefit cost for the years ended September 30, 2020 and 2019 are as follows:

<i>(in thousands)</i>	2020	2019
Service cost	\$ 1,998	\$ 3,430
Interest cost	14,211	17,022
Expected return on plan assets	(20,065)	(19,544)
Amortization of unrecognized net loss	2,493	1,720
Net periodic benefit cost	\$ (1,363)	\$ 2,628

The expected net periodic benefit income to be recognized in fiscal year 2021 is \$4,219,000.

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

	2020	2019
Weighted-average assumptions used to determine the benefit liability		
Discount rates	2.0% - 2.8%	3.2% - 3.3%
Rates of increase in future compensation levels	3.0% - 3.5%	3.0% - 3.5%
Weighted-average assumptions used to determine expense		
Discount rates	3.2% - 3.3%	4.40 %
Rates of increase in future compensation levels	3.0% - 3.5%	3.0% - 3.5%
Expected long-term rate of return on plan assets	5.5% - 7.3%	5.5% - 7.3%

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

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Plan Assets

UVM Health Network's pension plans weighted-average asset allocations as of September 30, 2020 and 2019, by asset category, are as follows:

	2020	2019
Asset category		
Money market	4 %	3 %
Mutual funds		
Bond funds	9 %	9 %
International equity funds	19 %	19 %
Domestic equity funds	23 %	23 %
Real estate funds	3 %	3 %
Total mutual funds	54 %	54 %
U.S. treasury obligation funds	7 %	12 %
Bonds and notes	35 %	31 %
	100 %	100 %

The following table presents information, as of September 30, 2020 and 2019, about UVM Health Network's pension assets that are measured at fair value on a recurring basis:

	2020		
<i>(in thousands)</i>	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Fair Value
Money market	\$ 12,125	\$ -	\$ 12,125
Mutual funds			
Bond funds	35,353	-	35,353
International equity funds	73,394	-	73,394
Domestic equity funds	90,108	-	90,108
Real estate funds	11,477	-	11,477
Total mutual funds	210,332	-	210,332
U.S. Treasury	26,837	-	26,837
Bonds and notes	-	134,742	134,742
	\$ 249,294	\$ 134,742	\$ 384,036

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<i>(in thousands)</i>	2019		Fair Value
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	
Money market	\$ 8,786	\$ -	\$ 8,786
Mutual funds			
Bond funds	33,912	-	33,912
U.S. treasury obligation funds	1,577	-	1,577
International equity funds	67,446	-	67,446
Domestic equity funds	83,250	-	83,250
Real estate funds	12,340	-	12,340
Total mutual funds	198,525	-	198,525
U.S. Treasury	39,934		39,934
Bonds and notes	-	109,543	109,543
	\$ 247,245	\$ 109,543	\$ 356,788

As of September 30, 2020 and 2019, there were no Level 3 investments. There were no transfers between levels for the years ended September 30, 2020 and 2019.

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

Cash Flows - Contributions

UVM Health Network expects to contribute \$9,900,000 to its pension plans in the year ending September 30, 2021.

Cash Flows - Estimated Future Benefit Payments

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

Years Ending September 30,

2021	\$ 23,814
2022	15,895
2023	16,614
2024	17,374
2025	18,091
2026–2030	95,181

Multi-Employer Defined Benefit Plan

UVM Health Network participates in multi-employer defined benefit pension plans. UVM Health Network makes cash contributions to these plans under the terms of collective-bargaining agreements that cover its union employees based on a fixed rate and hours of service per week worked by the covered employees. The risks of participating in these multi-employer plans are

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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.

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

UVM Health Network has contributed cash and recorded expenses of \$7,476,000 and \$7,416,000 for the multi-employer defined benefit plans for the years ended September 30, 2020 and 2019, respectively.

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

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

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

Postretirement Health Benefits

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

As of September 30, 2020 and 2019, the premiums paid by retirees did not exceed the costs and an accumulated postretirement benefit obligation of \$0, respectively, was recorded. The plan does not have any assets as of September 30, 2020 and 2019. Net assets without donor restrictions at September 30, 2020 and 2019 include unrecognized actuarial (gain)/loss of \$0 and (\$5,128,000), respectively. The expected amortization of the unrecognized gains to be recognized in postretirement benefit obligation expenses in the year ending September 30, 2021 is \$263,000. Assumptions used in accounting for the plan include a discount rate of 3.15%, a current health care cost trend rate of 6.50%, an ultimate health care cost trend rate of 4.75%, the year of ultimate trend rate of 2026, and census data as of January 1, 2020.

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15. Concentrations of Credit Risk

UVM Health Network grants credit without collateral to its patients, most of whom are local residents and are insured under third-party agreements. The mix of net receivables from patients and third-party payers at September 30, 2020 and 2019 is as follows:

	2020	2019
Medicare	25 %	27 %
Medicaid	8	9
Contracted Commercial	40	39
Noncontracted Insurers	16	15
Patients	11	10
	<u>100 %</u>	<u>100 %</u>

16. Transactions With UVM

UVM Medical Center's Affiliation Agreement with UVM was renewed as of December 2018, and extends through June 30, 2021. The Affiliation Agreement expresses the shared goals of UVM and UVM Medical Center for teaching, clinical care and research, documents the many points of close collaboration between the two organizations, provides the underpinnings for UVM Medical Center's status as an academic medical center, and obligates UVM Medical Center to provide substantial, annual financial support to UVM. The current Affiliation Agreement provides for three components of financial support to UVM: (1) payments by UVM Medical Center, known as the "commitment," to fund two costs: (a) a portion of the salary, benefits and related expenses paid through UVM to physician-faculty who are jointly employed by both UVM and UVM Medical Group and, (b) a portion of the cost of UVM facilities, utilities and other campus operating expenses that are not paid or reimbursed by any form of federal funding; (2) an academic support payment paid by UVM Medical Center and, (3) a Dean's Tax paid by UVM Medical Group. The amounts of the commitment approximated \$45,512,000 and \$46,198,000 in the years ended September 30, 2020 and 2019, respectively. In addition, UVM Medical Center reimburses UVM for equipment rental, research, and certain other administrative expenses through the commitment.

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

Under the Affiliation Agreement, the Dean's Tax is paid to UVM by UVM Medical Center in an amount equal to 2.3% of the Medical Group's net patient service revenues exclusive of all Medicaid revenues for that fiscal year. The amount of the Dean's Tax approximated \$4,573,000 and \$4,552,000 in the years ended September 30, 2020 and 2019, respectively. A guaranteed payment of \$1,000,000 in Dean's Taxes on UVM Medical Group patient service revenues of community-based physicians was recorded in the years ended September 30, 2020 and 2019.

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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, 2020 and 2019, are as follows:

	2020		
	Healthcare Service	Administrative Support	Total
Salary, payroll taxes and fringe benefits	\$ 1,203,401	\$ 219,580	\$ 1,422,981
Supplies and other	465,672	127,671	593,343
Purchased services	74,970	50,188	125,158
Provider Tax	88,781	-	88,781
Depreciation and amortization	70,205	31,850	102,055
Interest expense	13,352	9,981	23,333
	<u>1,916,381</u>	<u>439,270</u>	<u>2,355,651</u>
Other components of pension income	-	(3,361)	(3,361)
	<u>\$ 1,916,381</u>	<u>\$ 435,909</u>	<u>\$ 2,352,290</u>

	2019		
	Healthcare Service	Administrative Support	Total
Salary, payroll taxes and fringe benefits	\$ 1,163,170	\$ 211,417	\$ 1,374,587
Supplies and other	456,631	123,718	580,349
Purchased services	70,936	56,602	127,538
Provider Tax	92,446	-	92,446
Depreciation and amortization	64,010	25,436	89,446
Interest expense	12,189	7,472	19,661
	<u>1,859,382</u>	<u>424,645</u>	<u>2,284,027</u>
Other components of pension income	-	(802)	(802)
	<u>\$ 1,859,382</u>	<u>\$ 423,843</u>	<u>\$ 2,283,225</u>

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

18. COVID-19

In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic and the United States federal government declared COVID-19 a national emergency. The UVM Health Network quickly developed and implemented an emergency response to the situation to ensure the safety of its patients and staff across the Network. A key decision was made to postpone elective

The University of Vermont Health Network Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

and non-urgent care in mid-March. Several factors drove that decision, including efforts to reduce the spread of COVID-19; conservation of personal protective equipment (“PPE”), and at the urging of the CDC and U.S. Surgeon General who in March urged all hospitals to reduce the number of elective procedures and visits.

On March 27, 2020, the President of the United States signed into law the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) to provide economic assistance to a wide array of industries to ease the financial impact of COVID-19. As part of the CARES Act, the Centers for Medicare and Medicaid Services (“CMS”) expanded its Accelerated and Advance Payment Program which allows participants to receive expedited payments during periods of national emergencies.

As of September 30, 2020, the UVM Health Network has received approximately \$151,600,000 in governmental assistance including funding under the CARES Act. This includes recognition of approximately \$99,400,000 of stimulus revenue recorded as a component of net assets released from restriction in the consolidated statements of operations and changes in net assets as a result of satisfying the conditions of general and targeted grant funding under the Provider Relief Fund established by the CARES Act. The UVM Health Network recognized revenue related to the CARES Act provider relief funding based on information contained in laws and regulations, as well as interpretations issued by the HHS, governing the funding that was publicly available as of September 30, 2020. The UVM Health Network recorded approximately \$107,063,000 attributable to the Medicare Accelerated and Advance Payment Program representing working capital financing to be repaid through the provision of future services. These funds are recorded as a contract liability as a payment received before performing services in fiscal year 2021 and 2022. This amount is reported as a contract liability in the consolidated balance sheet as of September 30, 2020.

Subsequent to September 30, 2020, the UVM Health Network received additional Medicare Accelerated payments of \$46,374,000.

Additionally, the CARES Act provides for payroll tax relief, including employee retention tax credits and the deferral of all employer Social Security tax payments to help employers in the face of economic hardship related to the COVID-19 pandemic. As of September 30, 2020, the UVM Health Network deferred approximately \$22,984,000 attributable to the employer portion of Social Security taxes and \$630,000 of employee retention tax credits. UVM Health Network Leadership has also taken advantage of additional Federal and State programs including the Front-Line Employees Hazard Pay Grant Program and FEMA funding to help offset some of the incremental costs being incurred to provide comprehensive and safe care during the pandemic.

19. Subsequent Events

The UVM Health Network has assessed the impact of subsequent events through January 28, 2021, 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 financial statements other than noted below.

In September 2020, HHS issued a change to its initial reporting methodology for the CARES Act provider relief funding. Since then, HHS has issued frequent clarifications to the reporting requirements.

As of the date of this report, the most current guidance from HHS requires CARES act funding recipients to first identify healthcare related expenses attributable to the COVID-19 pandemic that another source has not reimbursed. If those expenses do not exceed the funding received,

The University of Vermont Health Network Inc. and Subsidiaries

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recipients will need to demonstrate that the remaining provider relief funds were used for a negative change in calendar year 2020 patient care operating revenue either compared to calendar year 2019 or budget approved prior to March 2020. HHS is entitled to recoup amounts in excess of these amounts. Due to the expectation of continued refinements to the reporting requirements and the potential changes to HHS regulations, there is at least a reasonable possibility that the amounts recorded under the CARES Act provider relief fund by the UVM Health Network may change in future periods.

There also has been additional guidance issued by HHS regarding payments received from the Medicare Accelerated and Advance Payment Program. As of the date of this report, the most current guidance calls for repayment of the accelerated funding to begin one year after receipt of the payments. Repayments are expected to occur by withholding a certain percentage of Medicare claim amounts that would otherwise be due. The current guidance calls for a maximum recoupment period of 29 months from receipt of the accelerated payments, at which time any remaining funds will be subject to a 4% annual interest assessment.

On October 28, 2020, the UVM Health Network experienced an information technology security incident. As a result of this cyberattack, UVM Health Network suspended user access to our information technology applications. While our information technology applications were offline, patient care was delivered safely and effectively utilizing established back-up processes, including offline documentation methods. Since that time, most of our information technology applications have been restored, thereby re-establishing connections to major systems and applications, including electronic medical records. We have worked diligently to restore our information technology infrastructure and business operations as quickly as possible. In parallel, we immediately began investigating the nature and potential impact of the security incident and engaged third-party information technology and forensic vendors to assist. Although the investigation remains ongoing, no evidence of unauthorized access, copying or misuse of any patient or employee data has been identified to date. Although we are unable to quantify the ultimate impact of this information technology incident, it could have an adverse effect on our future results of operations.

Supplemental Consolidating Information

The University of Vermont Health Network Inc. and Subsidiaries

Notes to Supplemental Consolidating Information

September 30, 2020 and 2019

1. Basis of Presentation

The following supplemental consolidating information includes the consolidating balance sheets and the consolidating statements of operations of the individual consolidated subsidiaries of UVM Health Network Inc. as of and for the fiscal year ended September 30, 2020. All intercompany accounts and transactions between subsidiaries have been eliminated. The consolidating information presented has been prepared in accordance with accounting principles generally accepted in the United States of America consistent with the consolidated financial statements. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements and is not required as part of the basic financial statements.

The following supplemental information also includes the consolidating balance sheet and statement of operations of the University of Vermont Medical Center Obligated Group as of and for the fiscal year ended September 30, 2020. The University of Vermont Medical Center Obligated Group consists of UVM Health Network, UVM Medical Center, CVMC, CVPH, and ECH. All intercompany accounts and transactions between these subsidiaries have been eliminated. The consolidating information presented has been prepared in accordance with accounting principles generally accepted in the United States of America consistent with the consolidated financial statements. The consolidating information of the University of Vermont Medical Center Obligated Group is presented for purposes of additional analysis of the consolidated financial statements and is not required as part of the basic financial statements.

The University of Vermont Medical Center Obligated Group

Consolidating Balance Sheet

September 30, 2020

<i>(in thousands)</i>	Central Vermont Hospital and Medical Group Practice	Woodridge Rehabilitation and Nursing	CVMC Eliminations	Total CVMC	UVM Medical Center	Champlain Valley Physicians Hospital	Elizabethtown Community Hospital	UVM Health Network	Obligated Group Eliminations	Total UVM Medical Center Obligated Group
Assets										
Current assets										
Cash and cash equivalents	\$ 27,956	\$ 1	\$ -	\$ 27,957	\$ 194,792	\$ 18,853	\$ 26,679	\$ 176,747	\$ -	\$ 445,028
Short-term investments	-	-	-	-	2,594	8,965	236	-	-	11,795
Current portion of assets whose use is limited or restricted	-	-	-	-	180	-	-	-	-	180
Patient and other trade accounts receivable, net	21,139	1,241	-	22,380	162,105	43,634	4,234	-	-	232,353
Due from related parties	6,390	-	(6,390)	-	38,452	-	-	15,572	(39,176)	14,848
Inventories	5,082	-	-	5,082	44,401	6,387	649	-	-	56,519
Receivables from third-party payers	-	-	-	-	11,007	-	-	-	-	11,007
Prepaid and other current assets	6,007	-	-	6,007	51,238	6,134	3,256	-	325	66,960
Total current assets	66,574	1,242	(6,390)	61,426	504,769	83,973	35,054	192,319	(38,851)	838,690
Assets whose use is limited or restricted										
Board-designated assets	50,952	3,214	-	54,166	544,279	29,094	3,156	-	-	630,695
Assets held by trustee under bond indenture agreements	-	-	-	-	403	14	-	-	-	417
Restricted assets	-	-	-	-	1,051	5,141	-	701,331	(691,312)	16,211
Donor-restricted assets for specific purposes	4,635	-	-	4,635	39,916	-	1,315	-	-	45,866
Donor-restricted assets for permanent endowment	3,332	-	-	3,332	30,873	1,344	344	-	-	35,893
Total assets whose use is limited or restricted	58,919	3,214	-	62,133	616,522	35,593	4,815	701,331	(691,312)	729,082
Property and equipment, net	64,461	3,638	-	68,099	640,123	93,738	38,351	-	-	840,311
Operating Lease Right of Use Assets, net	9,872	52	-	9,924	31,617	23,243	2,937	-	-	67,721
Finance Lease Right of Use Assets, net	-	-	-	-	1,048	2,863	-	-	-	3,911
Other	519	-	-	519	32,894	3,814	164	53,462	-	90,853
Total assets	\$ 200,345	\$ 8,146	\$ (6,390)	\$ 202,101	\$ 1,826,973	\$ 243,224	\$ 81,321	\$ 947,112	\$ (730,163)	\$ 2,570,568
Liabilities and Net Assets										
Current liabilities										
Current installments of long-term debt	\$ 4,329	\$ 503	\$ -	\$ 4,832	\$ 19,784	\$ 7,138	\$ 796	\$ -	\$ -	\$ 32,550
Accounts payable	3,687	46	-	3,733	27,780	2,416	1,663	-	-	35,592
Accrued expenses and other liabilities	3,313	-	-	3,313	45,044	4,647	2,685	-	-	55,689
Accrued payroll and related benefits	15,782	1,268	-	17,050	87,993	19,699	2,685	-	-	127,427
Current portion of third-party payer settlements	12,100	-	-	12,100	19,231	4,491	2,269	-	-	38,091
Due to related parties	5,337	6,392	(6,390)	5,339	798	28,272	224	3,037	(36,853)	817
Incurred but not reported claims	1,852	580	-	2,432	9,290	1,018	-	-	-	12,740
Operating Lease	1,838	14	-	1,852	7,549	3,270	608	-	-	13,279
Finance Lease	-	-	-	-	607	1,309	-	-	-	1,916
Contract Liabilities	9,627	-	-	9,627	76,061	-	7,870	-	-	93,558
Total current liabilities	57,865	8,803	(6,390)	60,278	294,137	72,260	18,800	3,037	(36,853)	411,659
Long-term debt, net of current installments	19,511	233	-	19,744	438,669	43,426	14,048	149,945	-	665,832
Malpractice and workers' compensation claims, net of current portion	-	-	-	-	6,898	7,564	-	-	-	14,462
Pension and other postretirement benefit obligations	20,897	-	-	20,897	5,596	45,604	-	-	-	72,097
Third-party payer settlements, net of current portion	-	-	-	-	16,610	-	3,662	-	-	20,272
Due to related parties, long term	-	-	-	-	-	1,998	-	-	(1,998)	-
Operating Lease	8,034	38	-	8,072	24,431	19,991	2,330	-	-	54,824
Finance Lease	-	-	-	-	391	1,345	-	-	-	1,736
Other	-	-	-	-	17,760	16,553	454	-	-	34,767
Total long-term liabilities	48,442	271	-	48,713	510,355	136,481	20,494	149,945	(1,998)	863,990
Total liabilities	106,307	9,074	(6,390)	108,991	804,492	208,741	39,294	152,982	(38,851)	1,275,649
Net assets										
Without donor restriction	85,864	(971)	-	84,893	942,748	31,063	40,368	794,130	(691,312)	1,201,890
With donor restriction	-	-	-	-	-	-	-	-	-	-
Time or purpose	4,842	43	-	4,885	48,860	2,076	1,315	-	-	57,136
Perpetual	3,332	-	-	3,332	30,873	1,344	344	-	-	35,893
Total net assets	94,038	(928)	-	93,110	1,022,481	34,483	42,027	794,130	(691,312)	1,294,919
Total liabilities and net assets	\$ 200,345	\$ 8,146	\$ (6,390)	\$ 202,101	\$ 1,826,973	\$ 243,224	\$ 81,321	\$ 947,112	\$ (730,163)	\$ 2,570,568

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

The University of Vermont Health Network Inc. and Subsidiaries
Consolidating Balance Sheet
Year Ended September 30, 2020

<i>(in thousands)</i>	Total UVM Medical Center Obligated Group (1)	Alice Hyde Medical Center	PH	HPNH	PMC/ PREH	PMC Eliminations	Total PMC	UVM Health Network Home Health & Hospice	Other Entities	Total Eliminations	Total UVM Health Network
Assets											
Current assets											
Cash and cash equivalents	\$ 445,028	\$ 31,222	\$ 37,965	\$ 289	\$ 2,870	\$ -	\$ 41,124	\$ 4,742	\$ 4,538	\$ -	\$ 526,654
Short-term investments	11,795	-	-	-	-	-	-	-	3,290	-	15,085
Current portion of assets whose use is limited or restricted	180	-	159	47	11	-	217	-	9,434	-	9,831
Patient and other trade accounts receivable, net	232,353	6,489	12,709	991	-	-	13,700	3,407	658	-	256,607
Due from related parties	14,848	-	931	17	173	(1,121)	-	36	(22)	(14,862)	-
Inventories	56,519	874	2,090	16	-	-	2,106	-	301	-	59,800
Receivables from third-party payers	11,007	-	2,052	-	-	-	2,052	-	-	-	13,059
Prepaid and other current assets	66,960	2,125	1,373	52	29	-	1,454	1,099	4,522	-	76,160
Total current assets	838,690	40,710	57,279	1,412	3,083	(1,121)	60,653	9,284	22,721	(14,862)	957,196
Assets whose use is limited or restricted											
Board-designated assets	630,695	3,456	-	-	940	-	940	10,585	-	-	645,676
Assets held by trustee under bond indenture agreements	417	-	3,848	-	-	-	3,848	-	-	-	4,265
Restricted assets	16,211	323	1,567	-	-	-	1,567	-	77,650	(10,019)	85,732
Donor-restricted assets for specific purposes	45,866	-	349	693	-	-	1,042	4,816	3,488	-	55,212
Donor-restricted assets for permanent endowment	35,893	-	118	-	-	-	118	6,503	346	-	42,860
Total assets whose use is limited or restricted	729,082	3,779	5,882	693	940	-	7,515	21,904	81,484	(10,019)	833,745
Property and equipment, net	840,311	39,992	16,732	1,983	552	(58)	19,209	7,155	2,180	-	908,847
Operating Lease Right of Use Assets, net	67,721	1,110	1,558	-	-	-	1,558	-	-	-	70,389
Finance Lease Right of Use Assets, net	3,911	-	-	-	-	-	-	-	-	-	3,911
Other	90,853	741	-	-	2,048	(2,048)	-	197	10,501	(47,938)	54,354
Total assets	\$ 2,570,568	\$ 86,332	\$ 81,451	\$ 4,088	\$ 6,623	\$ (3,227)	\$ 88,935	\$ 38,540	\$ 116,886	\$ (72,819)	\$ 2,828,442
Liabilities and Net Assets											
Current liabilities											
Current installments of long-term debt	\$ 32,550	\$ 787	\$ 550	\$ 135	\$ -	\$ -	\$ 685	\$ -	\$ 42	\$ -	\$ 34,064
Accounts payable	35,592	1,199	3,653	342	59	-	4,054	599	316	-	41,760
Accrued expenses and other liabilities	56,689	3,694	-	-	-	-	-	794	108	1,604	61,889
Accrued payroll and related benefits	127,427	7,207	5,722	902	457	-	7,081	2,782	309	(437)	144,369
Current portion of third-party payer settlements	38,091	2,512	925	-	-	-	925	-	-	-	41,528
Due to related parties	817	1,389	1,187	607	389	(1,121)	1,062	-	15,195	(18,463)	-
Incurred but not reported claims	12,740	-	920	247	83	-	1,250	-	9,435	-	23,425
Operating Lease	13,279	676	362	-	-	-	362	-	-	-	14,317
Finance Lease	1,916	-	-	-	-	-	-	-	-	-	1,916
Contract Liabilities	93,558	7,269	5,000	-	-	-	5,000	3,450	-	-	109,277
Total current liabilities	411,659	24,733	18,319	2,233	988	(1,121)	20,419	7,625	25,405	(17,296)	472,545
Long-term debt, net of current installments	665,832	30,856	9,532	2,336	-	-	11,868	-	-	-	708,556
Malpractice and workers' compensation claims, net of current portion	14,462	-	-	-	-	-	-	-	34,071	-	48,533
Pension and other postretirement benefit obligations	72,097	-	4,570	779	176	-	5,525	-	-	-	77,622
Third-party payer settlements, net of current portion	20,272	-	2,781	-	-	-	2,781	-	-	-	23,053
Due to related parties, long term	-	2,200	-	-	-	-	-	-	1,175	(3,375)	-
Operating Lease	54,824	434	1,204	-	-	-	1,204	-	(1)	-	56,461
Finance Lease	1,736	-	-	-	-	-	-	-	-	-	1,736
Other	34,767	1,344	-	742	-	(742)	-	416	171	-	36,698
Total long-term liabilities	863,990	34,834	18,087	3,857	176	(742)	21,378	416	35,416	(3,375)	952,659
Total liabilities	1,275,649	59,567	36,406	6,090	1,164	(1,863)	41,797	8,041	60,821	(20,671)	1,425,204
Net assets											
Without donor restriction	1,201,890	25,815	40,287	(2,695)	5,459	(1,364)	41,687	19,180	54,108	(52,148)	1,290,532
With donor restriction	-	-	-	-	-	-	-	-	-	-	-
Time or purpose	57,136	766	794	693	-	-	1,487	4,816	1,611	-	65,816
Perpetual	35,893	184	3,964	-	-	-	3,964	6,503	346	-	46,890
Total net assets	1,294,919	26,765	45,045	(2,002)	5,459	(1,364)	47,138	30,499	56,065	(52,148)	1,403,238
Total liabilities and net assets	\$ 2,570,568	\$ 86,332	\$ 81,451	\$ 4,088	\$ 6,623	\$ (3,227)	\$ 88,935	\$ 38,540	\$ 116,886	\$ (72,819)	\$ 2,828,442

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

The University of Vermont Medical Center Obligated Group
Consolidating Statement of Operations
Year Ended September 30, 2020

<i>(in thousands)</i>	Central Vermont Hospital and Medical Group Practice	Woodridge Rehabilitation and Nursing	Total CVMC	UVM Medical Center	Champlain Valley Physicians Hospital	Elizabethtown Community Hospital	UVM Health Network	Obligated Group Eliminations	Total UVM Medical Center Obligated Group
Unrestricted revenue and other support									
Net patient service revenue	\$ 133,197	\$ 15,166	\$ 148,363	\$ 1,003,439	\$ 308,991	\$ 37,186	\$ -	\$ 355	\$ 1,498,334
Enhanced Medicaid Graduate Medical Education revenues – Hospital	-	-	-	10,341	-	-	-	-	10,341
Enhanced Medicaid Graduate Medical Education revenues – Professional	-	-	-	19,659	-	-	-	-	19,659
Net patient service revenue after provision for bad debts and enhanced Graduate Medical Education revenues	133,197	15,166	148,363	1,033,439	308,991	37,186	-	355	1,528,334
Fixed prospective revenue	43,535	1,922	45,457	166,290	1,397	-	-	-	213,144
Premium revenue	1,636	-	1,636	5,506	-	-	-	-	7,142
Outpatient and specialty pharmacy revenue	10,117	-	10,117	132,500	13,123	3,066	-	-	158,806
Net assets released from restrictions	23,926	715	24,641	64,821	31,277	2,652	-	-	123,391
Other revenue	3,847	467	4,314	55,540	8,195	2,774	-	(1,331)	69,492
Total revenue and other support without donor restriction	216,258	18,270	234,528	1,458,096	362,983	45,678	-	(976)	2,100,309
Expenses									
Salary, payroll taxes and fringe benefits	133,629	14,543	148,172	834,852	248,547	27,809	38	2,114	1,261,532
Supplies and other	54,032	2,509	56,541	406,216	85,295	11,355	-	(1,579)	557,828
Purchased services	10,632	453	11,085	68,936	18,607	-	3,611	(1,537)	100,702
Provider tax	10,604	753	11,357	68,693	1,327	125	-	-	81,502
Depreciation and amortization	7,469	613	8,082	65,902	15,263	3,600	-	-	92,847
Interest expense	601	10	611	17,502	2,350	552	1,052	-	22,067
Total expenses	216,967	18,881	235,848	1,462,101	371,389	43,441	4,701	(1,002)	2,116,478
Income (loss) from operations	(709)	(611)	(1,320)	(4,005)	(8,406)	2,237	(4,701)	26	(16,169)
Nonoperating gains (losses)									
Investment income	1,391	1	1,392	1,791	60	(42)	32,669	(4,609)	31,261
Change in interest in investment pool	119	241	360	45,886	3,481	255	-	(49,982)	-
Change in fair value of interest rate swap agreements	-	-	-	(2,466)	(1,587)	51	-	-	(4,002)
Other components of pension expense	1,843	238	2,081	442	1,271	-	-	-	3,794
Net change in unrealized gains (losses) on investments	1,818	-	1,818	1,352	82	-	19,972	(3,898)	19,326
Other	1,325	-	1,325	(7,503)	143	29	12,286	(379)	5,901
Total nonoperating gains (losses)	6,496	480	6,976	39,502	3,450	293	64,927	(58,868)	56,280
Excess (deficit) of revenue over expenses	5,787	(131)	5,656	35,497	(4,956)	2,530	60,226	(58,842)	40,111
Net assets released from restrictions for capital purchases	196	13	209	1,142	2,961	5,817	-	-	10,129
Pension related adjustments	3,837	-	3,837	(3,519)	706	-	-	-	1,024
Transfers and other adjustments	1,468	-	1,468	(50,859)	(5)	73	(27,798)	76,087	(1,034)
Increase in net assets without donor restrictions	\$ 11,288	\$ (118)	\$ 11,170	\$ (17,739)	\$ (1,294)	\$ 8,420	\$ 32,428	\$ 17,245	\$ 50,230

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

The University of Vermont Health Network Inc. and Subsidiaries
Consolidating Statement of Operations
Year Ended September 30, 2020

<i>(in thousands)</i>	Total UVM Medical Center Obligated Group (1)	Alice Hyde Medical Center	PH	HPNH	PMC/ PREH	PMC Eliminations	Total PMC	UVM Health Network Home Health & Hospice	Other Entities	Total Eliminations	Total UVM Health Network
Unrestricted revenue and other support											
Net patient service revenue	\$ 1,498,334	\$ 75,412	\$ 59,272	\$ 10,231	\$ -	\$ (61)	\$ 69,442	\$ 25,997	\$ 3,009	\$ 549	\$ 1,672,743
Enhanced Medicaid Graduate Medical Education revenues – Hospital	10,341	-	-	-	-	-	-	-	-	-	10,341
Enhanced Medicaid Graduate Medical Education revenues – Professional	19,659	-	-	-	-	-	-	-	-	-	19,659
Net patient service revenue after provision for bad debts and enhanced Graduate Medical Education revenues	1,528,334	75,412	59,272	10,231	-	(61)	69,442	25,997	3,009	549	1,702,743
Fixed prospective revenue	213,144	-	17,737	-	-	-	17,737	-	150	-	231,031
Premium revenue	7,142	-	-	-	-	-	-	-	-	-	7,142
Outpatient and specialty pharmacy revenue	158,806	5,771	3,527	-	-	-	3,527	-	-	-	168,104
Net assets released from restrictions	123,391	10,732	6,577	676	-	-	7,253	320	531	-	142,227
Other revenue	69,492	4,605	2,732	8	4,848	(4,643)	2,945	2,201	11,077	(7,883)	82,437
Total revenue and other support without donor restriction	2,100,309	96,520	89,845	10,915	4,848	(4,704)	100,904	28,518	14,767	(7,334)	2,333,684
Expenses											
Salary, payroll taxes and fringe benefits	1,261,532	61,392	53,153	8,559	3,826	(53)	65,485	23,372	9,564	1,636	1,422,981
Supplies and other	557,828	19,158	11,131	1,215	129	(8)	12,467	3,872	8,094	(8,076)	593,343
Purchased services	100,702	9,489	14,190	1,100	537	(4,605)	11,222	2,439	2,200	(894)	125,158
Provider tax	81,502	1,274	4,437	482	-	-	4,919	1,086	-	-	88,781
Depreciation and amortization	92,847	4,407	2,956	267	26	-	3,249	750	802	-	102,055
Interest expense	22,067	798	306	73	-	-	379	-	89	-	23,333
Total expenses	2,116,478	96,518	86,173	11,696	4,518	(4,666)	97,721	31,519	20,749	(7,334)	2,355,651
Income (loss) from operations	(16,169)	2	3,672	(781)	330	(38)	3,183	(3,001)	(5,982)	-	(21,967)
Nonoperating gains (losses)											
Investment income	31,261	129	359	4	11	-	374	220	12,583	(43)	44,524
Change in interest in investment pool	-	204	-	-	-	-	-	-	207	(411)	-
Change in fair value of interest rate swap agreements	(4,002)	-	-	-	-	-	-	-	1	-	(4,001)
Other components of pension expense	3,794	-	(355)	(53)	(25)	-	(433)	-	-	-	3,361
Net change in unrealized gains (losses) on investments	19,326	-	-	-	-	-	-	383	(16,213)	15,773	19,269
Other	5,901	589	212	2	282	(54)	442	2,106	(2,332)	(6,895)	(189)
Total nonoperating gains (losses)	56,280	922	216	(47)	268	(54)	383	2,709	(5,754)	8,424	62,964
Excess (deficit) of revenue over expenses	40,111	924	3,888	(828)	598	(92)	3,566	(292)	(11,736)	8,424	40,997
Net assets released from restrictions for capital purchases	10,129	-	132	-	-	-	132	-	-	-	10,261
Pension related adjustments	1,024	-	525	80	37	-	642	-	-	-	1,666
Transfers and other adjustments	(1,034)	106	300	-	-	-	300	800	13,253	(4,846)	8,579
Increase in net assets without donor restrictions	\$ 50,230	\$ 1,030	\$ 4,845	\$ (748)	\$ 635	\$ (92)	\$ 4,640	\$ 508	\$ 1,517	\$ 3,578	\$ 61,503

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