



## **HELEN PORTER NURSING HOME, INC.**

### **FINANCIAL STATEMENTS**

**September 30, 2014 and 2013**

**With Independent Auditor's Report**



**HELEN PORTER NURSING HOME, INC.**

**September 30, 2014 and 2013**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Helen Porter Nursing Home, Inc.

We have audited the accompanying financial statements of Helen Porter Nursing Home, Inc. (Nursing Home), a subsidiary of Porter Medical Center, Inc., which comprise the balance sheets as of September 30, 2014 and 2013, and the related statements of operations, changes in net assets (deficit), and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Nursing Home as of September 30, 2014 and 2013, and the results of its operations, changes in its net deficit and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Board of Directors  
Helen Porter Nursing Home, Inc.

**Other Matter**

As discussed in Note 12 of the financial statements, the Nursing Home is dependent on its affiliates for continued financial support. Our opinion is not modified with respect to this matter.

*Berry Dunn McNeil & Parker, LLC*

Manchester, New Hampshire  
January 21, 2015  
Registration No. 92-0000278

HELEN PORTER NURSING HOME, INC.

Balance Sheets

September 30, 2014 and 2013

ASSETS

	<u>2014</u>	<u>2013</u>
Current assets		
Cash and cash equivalents	\$ 306,657	\$ 461,668
Assets limited as to use, trustee held funds under debt agreements	212,782	132,001
Accounts receivable, net of allowance of \$72,969 in 2014 and \$26,141 in 2013	1,203,809	1,236,076
Supplies	8,904	27,444
Prepaid expenses and other	100,643	98,739
Resident deposits	12,947	14,898
Due from affiliates	<u>64,629</u>	<u>11,299</u>
Total current assets	1,910,371	1,982,125
Property and equipment, net	1,346,761	1,370,149
Deferred financing costs, net	<u>81,049</u>	<u>93,997</u>
 Total assets	 <u>\$ 3,338,181</u>	 <u>\$ 3,446,271</u>

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

## LIABILITIES AND NET DEFICIT

	<u>2014</u>	<u>2013</u>
Current liabilities		
Current portion of long-term debt	\$ 147,419	\$ 123,652
Accounts payable and accrued expenses	154,923	155,750
Resident deposits	12,947	14,898
Accrued payroll and related liabilities	613,171	530,944
Estimated third-party settlements	157,935	40,286
Due to affiliates	<u>229,186</u>	<u>253,830</u>
Total current liabilities	1,315,581	1,119,360
Liability for pension benefits	647,055	514,249
Residual receipts note to affiliate	741,973	741,973
Long-term debt, excluding current portion	<u>3,299,613</u>	<u>3,355,000</u>
Total liabilities	<u>6,004,222</u>	<u>5,730,582</u>
Net assets (deficit)		
Unrestricted	(2,749,638)	(2,296,305)
Temporarily restricted	<u>83,597</u>	<u>11,994</u>
Total net deficit	<u>(2,666,041)</u>	<u>(2,284,311)</u>
Total liabilities and net deficit	<u>\$ 3,338,181</u>	<u>\$ 3,446,271</u>

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**HELEN PORTER NURSING HOME, INC.**

**Statements of Operations**

**Years Ended September 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Unrestricted revenues, gains and other support		
Resident service revenue (net of contractual allowances and discounts)	<b>\$ 10,014,648</b>	\$ 9,519,656
Less provision for bad debts	<u>101,103</u>	<u>75,833</u>
Net resident service revenue	<b>9,913,545</b>	9,443,823
Other operating revenue	<b>15,996</b>	41,597
Net assets released from restrictions used for operations	<u>13,887</u>	<u>26,158</u>
Total unrestricted revenues, gains and other support	<u><b>9,943,428</b></u>	<u>9,511,578</u>
Expenses		
Professional care of residents	<b>5,188,576</b>	4,783,016
Dietary services	<b>774,711</b>	759,001
General services	<b>991,748</b>	954,958
Administrative and fiscal services	<b>2,766,529</b>	2,413,703
Health care improvement tax	<b>516,551</b>	516,551
Depreciation and amortization	<b>261,786</b>	252,650
Interest	<u>79,520</u>	<u>79,792</u>
Total expenses	<u><b>10,579,421</b></u>	<u>9,759,671</u>
Operating loss	<u><b>(635,993)</b></u>	<u>(248,093)</u>
Nonoperating gains		
Lifeline	<u>35,382</u>	<u>22,465</u>
Deficiency of revenue, gains and other support over expenses and nonoperating gains	<b>(600,611)</b>	(225,628)
Net assets released from restrictions for capital acquisitions	<b>39,412</b>	129,556
Change in net assets to recognize funded status of pension plan	<b>(83,384)</b>	329,282
Transfer from affiliates	<u>191,250</u>	<u>159,056</u>
(Decrease) increase in unrestricted net assets	<u><b>\$ (453,333)</b></u>	<u>\$ 392,266</u>

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

**HELEN PORTER NURSING HOME, INC.**

**Statements of Changes in Net Assets (Deficit)**

**Years Ended September 30, 2014 and 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Balances, October 1, 2012	\$ <u>(2,688,571)</u>	\$ <u>91,020</u>	\$ <u>(2,597,551)</u>
Deficiency of revenue, gains and other support over expenses and nonoperating gains	(225,628)	-	(225,628)
Change in net assets to recognize funded status of pension plan	329,282	-	329,282
Contributions	-	76,688	76,688
Net assets released from restrictions used for operations	-	(26,158)	(26,158)
Net assets released from restrictions for capital acquisitions	129,556	(129,556)	-
Transfer from Affiliates	<u>159,056</u>	<u>-</u>	<u>159,056</u>
Net increase (decrease) in net assets	<u>392,266</u>	<u>(79,026)</u>	<u>313,240</u>
Balances, September 30, 2013	<u>(2,296,305)</u>	<u>11,994</u>	<u>(2,284,311)</u>
Deficiency of revenue, gains and other support over expenses and nonoperating gains	<b>(600,611)</b>	-	<b>(600,611)</b>
Change in net assets to recognize funded status of pension plan	<b>(83,384)</b>	-	<b>(83,384)</b>
Contributions	-	<b>124,902</b>	<b>124,902</b>
Net assets released from restrictions used for operations	-	<b>(13,887)</b>	<b>(13,887)</b>
Net assets released from restrictions for capital acquisitions	<b>39,412</b>	<b>(39,412)</b>	-
Transfer from affiliates	<u>191,250</u>	<u>-</u>	<u>191,250</u>
Net (decrease) increase in net assets	<u><b>(453,333)</b></u>	<u><b>71,603</b></u>	<u><b>(381,730)</b></u>
Balances, September 30, 2014	<u><b>\$ (2,749,638)</b></u>	<u><b>\$ 83,597</b></u>	<u><b>\$ (2,666,041)</b></u>

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



**HELEN PORTER NURSING HOME, INC.**

**Statements of Cash Flows**

**Years Ended September 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Change in net assets	\$ (381,730)	\$ 313,240
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities		
Depreciation and amortization	261,786	252,650
Provision for bad debts	101,103	75,833
Changes in net assets to recognize funded status of pension plan	83,384	(329,282)
Equity transfer from affiliate	(191,250)	(159,056)
Restricted contributions	(124,902)	(76,688)
(Increase) decrease in		
Accounts receivable, net	(68,836)	7,971
Due from affiliates	(53,330)	(9,602)
Supplies, prepaid expenses, and other current assets	16,636	(84,615)
Increase (decrease) in		
Due to affiliates	(24,644)	151,065
Accounts payable, accrued payroll and other current liabilities	<u>248,470</u>	<u>(1,105)</u>
Net cash (used) provided by operating activities	<u>(133,313)</u>	<u>140,411</u>
Cash flows from investing activities		
Purchase of property and equipment	(127,431)	(263,678)
Change in assets limited as to use	<u>(80,781)</u>	<u>78,204</u>
Net cash used by investing activities	<u>(208,212)</u>	<u>(185,474)</u>
Cash flows from financing activities		
Restricted contributions	124,902	76,688
Equity transfer from affiliate	191,250	159,056
Principal payments on long-term debt	<u>(129,638)</u>	<u>(114,541)</u>
Net cash provided by financing activities	<u>186,514</u>	<u>121,203</u>
(Decrease) increase in cash and cash equivalents	(155,011)	76,140
Cash and cash equivalents, beginning of year	<u>461,668</u>	<u>385,528</u>
Cash and cash equivalents, end of year	<u>\$ 306,657</u>	<u>\$ 461,668</u>
Supplemental cash flow information		
Interest paid	<u>\$ 79,520</u>	<u>\$ 79,792</u>
Property and equipment acquired through capital lease	<u>\$ 98,108</u>	<u>\$ -</u>

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

# HELEN PORTER NURSING HOME, INC.

## Notes to Financial Statements

September 30, 2014 and 2013

### **Nature of Operations**

Helen Porter Nursing Home, Inc. (HPNH or Nursing Home) is a not-for-profit corporation which operates a skilled nursing facility. Porter Medical Center, Inc. (PMC) is the parent holding company of HPNH and, as such, it has the right to approve major HPNH expenditures and long-term borrowings. As a subsidiary of PMC, HPNH is related to Porter Hospital, Inc. (PH), Porter Management Services, Inc. (PMS), and Porter Real Estate Holdings, LLC (PREH). The respective Board of Directors of PMS and PMC voted to merge PMS and PMC, with PMC remaining as the surviving entity effective October 1, 2013.

### **1. Summary of Significant Accounting Policies**

#### **Basis of Presentation**

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-For-Profit Entities*. Under FASB ASC 958, all not-for-profit organizations are required to provide a balance sheet, a statement of operations, and a statement of cash flows. ASC 958 requires reporting amounts for an organization's total assets, liabilities, and net assets in a balance sheet; reporting the change in an organization's net assets in a statement of operations; and reporting the change in its cash and cash equivalents in a statement of cash flows.

#### **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Cash and Cash Equivalents**

Cash and cash equivalents include all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2014 and 2013, cash equivalents consisted primarily of money market accounts.

#### **Assets Limited as to Use**

Assets limited as to use are assets held by trustees under indenture agreements and are comprised of cash and short-term investments at September 30, 2014 and 2013.

# HELEN PORTER NURSING HOME, INC.

## Notes to Financial Statements

September 30, 2014 and 2013

### Accounts Receivable

Accounts receivable are stated at the amount management expects to collect for services rendered from third-party payors, residents and others. Management provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts are considered delinquent and subsequently written off as uncollectible based on individual credit evaluation and specific circumstances of the account.

In evaluating the collectibility of accounts receivable, HPNH analyzes past results and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with self-pay residents (which include both residents without insurance and residents with deductible and copayment balances due for which third-party coverage exists for part of the bill), the HPNH records a provision for bad debts in the period service based on past experience, which indicates that many residents are unable or unwilling to pay amounts for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or eligible) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

### Supplies

Inventories of supplies are carried at the lower of cost, determined using the first-in, first-out method, or market.

### Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on a straight-line basis. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the asset's estimated useful life. Such amortization is included in depreciation and amortization in the financial statements.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

### Land Lease

HPNH leases the land upon which the facility is located from Middlebury College under an operating lease agreement. The term of the lease is for 46 years and 7 months expiring in 2048. After the initial term of the lease, the lease is cancelable with 90 days notice and includes no cost to HPNH other than executory costs.

# HELEN PORTER NURSING HOME, INC.

## Notes to Financial Statements

September 30, 2014 and 2013

### **Deferred Financing Costs**

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

### **Temporarily Restricted Net Assets**

Temporarily restricted net assets are those whose use by HPNH has been limited by donors to a specific time period or purpose.

### **Net Resident Service Revenue**

HPNH records its revenue based on its standard charge for resident services rendered. HPNH has contractual arrangements with the Centers for Medicare and Medicaid Services (CMS), and the Vermont Department of Health and Human Services (DHHS) to render services to qualifying residents under certain cost-based and fee-for-service reimbursement programs, which may result in HPNH receiving payments for such services which differ from the standard charge. Any differences of this nature are recorded as contractual adjustments.

### **Contributions**

Unconditional promises to give cash and other assets are accrued at estimated fair value at the date each promise is received. Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Conditional contributions are reported as liabilities until the condition is met or the contributed assets are returned to the donor.

### **Deficiency of Revenues, Gains and Other Support Over Expenses and Nonoperating Gains**

The statements of operations include deficiency of revenues, gains and other support over expenses and nonoperating gains. Changes in unrestricted net assets, which are excluded from this measure consistent with industry practice, include defined benefit pension plan adjustments, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

### **Income Taxes**

HPNH has been recognized as a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income.

HELEN PORTER NURSING HOME, INC.

Notes to Financial Statements

September 30, 2014 and 2013

**Subsequent Events**

For purposes of the preparation of these financial statements in conformity with U.S. GAAP, the HPNH has considered transactions or events occurring through January 21, 2015, which was the date the financial statements were issued.

**2. Net Resident Service Revenue**

Net resident service revenue consisted of the following for the years ended September 30:

	<u>2014</u>	<u>2013</u>
Resident services		
Room and board	<b>\$ 10,856,580</b>	\$ 10,733,977
Medical supplies	<b>283,951</b>	249,801
Physical therapy	<b>1,165,665</b>	938,065
Speech therapy	<b>14,885</b>	11,590
Occupational therapy	<b>824,540</b>	651,380
Pharmacy	<b><u>245,015</u></b>	<u>187,712</u>
	<b>13,390,636</b>	12,772,525
Less contractual allowances	<b><u>3,375,988</u></b>	<u>3,252,869</u>
Resident service revenue (net of contractual allowances and discounts)	<b>10,014,648</b>	9,519,656
Less provision for bad debts	<b><u>101,103</u></b>	<u>75,833</u>
Net resident service revenue	<b><u>\$ 9,913,545</u></b>	<b><u>\$ 9,443,823</u></b>

HPNH has agreements with third-party payors that provide for payments to the Nursing Home at amounts different from its established rates. These payment arrangements include:

**Medicare**

HPNH is paid under a prospective payment system for Medicare Part A services. Under the prospective payment system, there is no additional settlement on the difference between the interim rates paid and actual costs. HPNH is paid on a fee schedule basis for Medicare Part B therapy services; therefore, there will be no additional settlement on the difference between payments received and actual costs for Part B therapy services.

**Medicaid**

HPNH is reimbursed for services rendered to Title XIX Medicaid residents on the basis of prospectively determined per diem rates, subject to a quarterly case mix index adjustment established by the State of Vermont. The reimbursement plan is on a prospective basis and, subject to certain limitations, no additional settlement will be made on the difference between the estimated per diem rates paid and actual costs.

# HELEN PORTER NURSING HOME, INC.

## Notes to Financial Statements

September 30, 2014 and 2013

Approximately 91% and 87% of net resident service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2014 and 2013, respectively. Due to the large concentration of residents who receive benefits from the Medicaid and Medicare reimbursement programs, HPNH is highly dependent upon regulatory authorities establishing reimbursement rates that are adequate to sustain HPNH's operations.

### 3. Property and Equipment

The major categories of property and equipment are as follows at September 30:

	<u>2014</u>	<u>2013</u>
Land improvements	\$ 198,182	\$ 179,807
Building and improvements	4,625,551	4,582,426
Equipment	<u>1,017,278</u>	<u>871,366</u>
	5,841,011	5,633,599
Less accumulated depreciation	<u>4,494,250</u>	<u>4,263,450</u>
Net property and equipment	<u>\$ 1,346,761</u>	<u>\$ 1,370,149</u>

### 4. Borrowings

Long-term debt consisted of the following as of September 30:

	<u>2014</u>	<u>2013</u>
Vermont Educational and Health Buildings Financing Agency Variable Rate Demand Revenue Bonds: Series 2000A bonds with variable interest (.04% at September 30, 2014), payable in annual installments ranging from \$120,000 to \$295,000 through October 2030; secured by gross receipts of HPNH.	\$ 3,355,000	\$ 3,475,000
Capital lease obligations with an imputed interest rates between 6.67% and 11.75% with ending dates ranging from August 2017 and April 2019; collateralized by certain equipment.	<u>92,032</u>	<u>3,652</u>
	3,447,032	3,478,652
Less current portion	<u>147,419</u>	<u>123,652</u>
	<u>\$ 3,299,613</u>	<u>\$ 3,355,000</u>

HELEN PORTER NURSING HOME, INC.

Notes to Financial Statements

September 30, 2014 and 2013

Aggregate annual maturities of long-term debt at September 30, 2014 are:

	Long-Term Debt (Excluding Capital Lease Obligations)	Capital Lease Obligations
2015	\$ 120,000	\$ 33,417
2016	150,000	33,417
2017	145,000	28,856
2018	155,000	5,874
2019	165,000	2,889
Thereafter	<u>2,620,000</u>	<u>-</u>
	<u>\$ 3,355,000</u>	104,453
Less amount representing interest		<u>(12,421)</u>
		<u>\$ 92,032</u>

**Letter of Credit**

As part of its bond agreements, HPNH is required to maintain a letter of credit. The letter of credit is issued by the bank in the amount of the outstanding principal balance plus 45 days of interest calculated at 10%. The letter of credit is secured by the gross receipts of HPNH. The current letter of credit expires June 30, 2015. PMC is a co-obligor on the letter of credit. In connection with the letter of credit securing the 2000A bonds, PMC and HPNH are required to maintain a debt service coverage ratio of not less than 1.5 to 1.0. HPNH and PMC were in compliance with this requirement at September 30, 2014. HPNH is also required to maintain a minimum level of occupancy of equal to or greater than 90% of capacity. HPNH was in compliance with this requirement at September 30, 2014.

The Trust Agreement associated with the bond issue has mandatory tender provisions should the letter of credit expire and not be replaced with a substitute credit facility. These provisions are outlined in section 3.11 of the Trust Agreement.

HELEN PORTER NURSING HOME, INC.

Notes to Financial Statements

September 30, 2014 and 2013

5. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the provision of health care services. During 2014 and 2013, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes in the amounts of \$53,299 and \$155,714, respectively.

6. Functional Expenses

HPNH provides health care services primarily to residents within its geographic area. Expenses related to providing these services are as follows:

	<u>2014</u>	<u>2013</u>
Health care services	\$ 7,971,997	\$ 7,890,728
General and administrative	<u>2,607,424</u>	<u>1,868,943</u>
	<u>\$10,579,421</u>	<u>\$ 9,759,671</u>

7. Concentration of Credit Risk

HPNH grants credit without collateral to its residents, most of whom are area residents and are insured under third-party payor agreements. The mix of receivables from residents and third-party payors at September 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Medicare	16 %	15 %
Medicaid	48	38
Self-pay	31	42
Other third-party payors	<u>5</u>	<u>5</u>
	<u>100 %</u>	<u>100 %</u>

HPNH maintains its cash and cash equivalents in bank accounts which at times may exceed federally insured limits. HPNH has not experienced any losses on such accounts. HPNH believes it is not exposed to any significant risk on cash and cash equivalents.



# HELEN PORTER NURSING HOME, INC.

## Notes to Financial Statements

September 30, 2014 and 2013

### 8. Commitments and Contingencies

#### Medical Malpractice Claims

HPNH carries malpractice insurance coverage under a claims-made policy. HPNH is subject to complaints, claims and litigation due to potential claims which arise in the normal course of business. U.S. GAAP requires HPNH to accrue the ultimate cost of malpractice claims when the incident that gives rise to the claim occurs, without consideration of insurance recoveries. Expected recoveries are presented as a separate asset. HPNH has evaluated its exposure to losses arising from potential claims and determined that no such accrual is necessary for the year ended September 30, 2014.

### 9. Benefit Plans

#### Defined Contribution Plan

PMC has a 403(b) defined contribution plan covering substantially all HPNH employees. PMC makes an employer contribution to the plan. In order to receive the contribution, employees must meet certain eligibility requirements. PMC will make contributions between 3% and 6% of the covered payroll based on the employees' years of service and the employees' ages as of January 1, 2013.

HPNH has estimated a liability of approximately \$145,300 and \$138,400 at September 30, 2014 and 2013, respectively, related to the 403(b) plan. This amount has been included in other accrued expenses. Contributions are calculated on a calendar year basis, and are paid following the end of the calendar year. Contributions to the plan were approximately \$155,000 and \$165,000 for calendar years 2013 and 2012, respectively.

#### Defined Benefit Plan

PMC has a noncontributory defined benefit pension plan covering all HPNH employees who meet the eligibility requirements. PMC's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the PMC may determine to be appropriate from time to time. PMC does not expect to contribute to the plan in 2015.

PMC has adopted FASB ASC 958-715, *Compensation-Retirement Benefits*. The defined benefit pension plan has been frozen since April 2007, therefore, the adoption of these provisions had no effect on the balance sheets and statements of operations and changes in net assets of PMC.

HPNH's share of the net pension accrual was a pension liability of \$647,055 and \$514,249 at September 30, 2014 and 2013, respectively. HPNH's share of the pension expense was \$50,224 and \$43,557 for the years ending September 30, 2014 and 2013, respectively, and HPNH contributed \$0 and \$59,000 to the plan in 2014 and 2013, respectively. Pension expenses are allocated from PMC based on total salaries.

**HELEN PORTER NURSING HOME, INC.**

**Notes to Financial Statements**

**September 30, 2014 and 2013**

PMC uses a September 30, 2014 measurement date for the plan. Significant balances, costs and assumptions for the plan as a whole are:

	<u>2014</u>	<u>2013</u>
Benefit obligation	\$ (14,919,052)	\$ (13,501,286)
Fair value of plan assets	<u>10,324,258</u>	<u>9,831,467</u>
Funded status	\$ <u>(4,594,794)</u>	\$ <u>(3,669,819)</u>

The tables below present details about the Plan, including its funded status, components of net periodic benefit cost, and certain assumptions used in determining the funded status and cost:

	<u>2014</u>	<u>2013</u>
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 13,501,286	\$ 14,202,606
Interest cost	642,168	594,225
Actuarial loss (gain)	1,178,468	(926,953)
Benefits paid	<u>(402,870)</u>	<u>(368,592)</u>
Benefit obligation at end of year	\$ <u>14,919,052</u>	\$ <u>13,501,286</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 9,831,467	\$ 9,206,866
Actual return on plan assets	895,661	571,981
Employer contributions	-	421,212
Benefits paid	<u>(402,870)</u>	<u>(368,592)</u>
Fair value of plan assets at end of year	\$ <u>10,324,258</u>	\$ <u>9,831,467</u>
Components of net periodic benefit cost		
Interest cost	\$ 642,168	\$ 594,225
Expected return on plan assets	(547,092)	(624,543)
Amortization of net loss	<u>252,627</u>	<u>341,153</u>
Net periodic benefit cost	\$ <u>347,703</u>	\$ <u>310,835</u>

	<u>2014</u>	<u>2013</u>
Weighted average assumptions used to determine benefit obligation		
Discount rate	4.26 %	4.84 %
Weighted average assumptions used to determine benefit cost		
Discount rate	4.84	4.25
Expected return on assets	5.70	6.85

**HELEN PORTER NURSING HOME, INC.**

**Notes to Financial Statements**

**September 30, 2014 and 2013**

PMC has estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

The following benefit payments are expected to be paid by the plan for all entities as of September 30, 2014:

2015	\$ 533,729
2016	558,144
2017	584,440
2018	605,227
2019	667,230
2020 - 2024	4,095,507

Plan assets are held by a bank-administered trust fund, which invests the plan assets in accordance with the provisions of the plan agreement. The plan agreement permits investment in common stocks, corporate bonds and debentures, U.S. government securities, certain insurance contracts, real estate and other specified investments, based on certain target allocation percentages.

Asset allocation is primarily based on a strategy to provide stable earnings while still permitting the plans to recognize potentially higher returns through a limited investment in equity securities. Plan assets are rebalanced quarterly. At September 30, 2014 and 2013, plan assets by category are as follows:

	<u>2014</u>	<u>2013</u>
Equity funds	46.5 %	49.2 %
Debt funds	50.3	48.5
Cash and cash equivalents	<u>3.2</u>	<u>2.3</u>
	<u>100.0 %</u>	<u>100.0 %</u>

In the next year \$291,460 is expected to be recognized as components of net periodic benefit cost related to items previously recognized in unrestricted net assets. No plan assets are expected to be returned to PMC in 2015.

# HELEN PORTER NURSING HOME, INC.

## Notes to Financial Statements

September 30, 2014 and 2013

### Risks

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported.

### Fair Value

**Level 1:** Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

**Level 2:** Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

**Level 3:** Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

PMC plan assets measured at fair value on a recurring basis are summarized below. Fair value of all plan assets are based on Level 1 inputs.

	<u>2014</u>	<u>2013</u>
Pension Assets:		
Investments		
Cash and short-term investments	\$ 325,426	\$ 224,321
Mutual funds		
Growth funds	1,422,414	1,468,647
Equity funds	3,375,833	3,357,272
Bond funds	<u>5,188,552</u>	<u>4,766,477</u>
Total mutual funds	<u>9,986,799</u>	<u>9,592,396</u>
Accrued interest	<u>12,033</u>	<u>14,750</u>
Total assets	<u>\$ 10,324,258</u>	<u>\$ 9,831,467</u>

**HELEN PORTER NURSING HOME, INC.**

**Notes to Financial Statements**

**September 30, 2014 and 2013**

**10. Related Party Transactions**

***Revenues and Expenses***

HPNH contracts for services and provides services to related parties. A description of the services provided and amounts recorded as revenue (expense) by HPNH is as follows during the years ended September 30:

	<u>2014</u>	<u>2013</u>
PH		
Medical director	\$ (26,004)	\$ (15,444)
Speech therapy services	-	3,303
Employee physicals	(26,463)	(16,512)
Resident medical testing	(45,569)	(51,455)
PMC		
Maintenance services	(32,292)	-
Fiscal services	(95,236)	(48,334)
Administrative services	(258,472)	(135,153)

***Accounts Receivable***

Accounts receivable from related parties were as follows as of September 30:

	<u>2014</u>	<u>2013</u>
PH	\$ 37,571	\$ 11,010
PMC	27,058	-
PMS	-	289
	<u>\$ 64,629</u>	<u>\$ 11,299</u>

***Accounts Payable***

Accounts payable to related parties were as follows as of September 30:

	<u>2014</u>	<u>2013</u>
PH	\$ 158,510	\$ 196,778
PMS	-	55,552
PMC	70,676	1,500
	<u>\$ 229,186</u>	<u>\$ 253,830</u>

***Residual Receipts Note***

In addition, HPNH has an outstanding residual receipts note payable to PMC of \$741,973 at September 30, 2014 and 2013, with no stated maturity. HPNH does not expect to pay any of this amount owed during 2015, therefore it is considered a long-term liability.

# HELEN PORTER NURSING HOME, INC.

## Notes to Financial Statements

September 30, 2014 and 2013

### 11. Fair Value of Financial Instruments

FASB ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Assets limited as to use are U.S. Treasury Obligations which are considered Level 1 investments. The standard defines Level 1 as quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

HPNH's financial instruments consist of cash and cash equivalents, trade accounts receivable and payable, estimated third-party settlements and long-term debt. The carrying values of all financial instruments approximate their fair values using Level 1 inputs.

### 12. Economic Dependency

HPNH receives financial support from PMC in the form of working capital advances. The future existence of HPNH is dependent upon continued financial support of this type. PMC has indicated its commitment to continue its financial support of HPNH due to the vital role HPNH's services play in the community. PMC does not expect payment on the Residual receipts note in the next 12 months.

