



PORTER MEDICAL CENTER INC. AND SUBSIDIARIES

**d/b/a THE UNIVERSITY OF VERMONT HEALTH NETWORK -
PORTER MEDICAL CENTER, INC.**

CONSOLIDATED FINANCIAL STATEMENTS

with

SUPPLEMENTARY INFORMATION

September 30, 2018

With Independent Auditor's Report

**PORTER MEDICAL CENTER, INC. AND SUBSIDIARIES D/B/A THE UNIVERSITY
OF VERMONT HEALTH NETWORK - PORTER MEDICAL CENTER, INC.**

September 30, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors

Porter Medical Center, Inc. and Subsidiaries d/b/a The University of Vermont Health Network - Porter Medical Center, Inc.

We have audited the accompanying consolidated financial statements of Porter Medical Center, Inc. and Subsidiaries d/b/a The University of Vermont Health Network - Porter Medical Center, Inc. (Medical Center), which comprise the consolidated balance sheet as of September 30, 2018, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 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 the auditor's 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, the auditor considers internal control relevant to the Medical Center'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 Medical Center'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 Porter Medical Center, Inc. and Subsidiaries d/b/a The University of Vermont Health Network - Porter Medical Center, Inc. as of September 30, 2018, and the results of their operations, changes in their net assets and their cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

Board of Directors
Porter Medical Center, Inc. and Subsidiaries d/b/a The University of Vermont Health Network - Porter
Medical Center, Inc.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary consolidating information is presented for purposes of additional analysis and is not a required part of the financial statements. Such 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 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 U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
December 7, 2018
Registration No. 92-0000278

**PORTER MEDICAL CENTER, INC. AND SUBSIDIARIES D/B/A THE UNIVERSITY
OF VERMONT HEALTH NETWORK - PORTER MEDICAL CENTER, INC.**

Consolidated Balance Sheet

September 30, 2018

ASSETS

Current assets	
Cash and cash equivalents	\$ 24,067,700
Assets limited as to use	247,250
Patient accounts receivable, net	12,821,868
Other receivables, net	2,100,179
Supplies	1,777,069
Prepaid expenses and other	707,090
Resident deposits	<u>23,527</u>
Total current assets	41,744,683
Assets limited as to use, deferred compensation plan assets	1,413,701
Long-term investments	6,555,318
Property and equipment, net	21,604,783
Beneficial interest in perpetual trusts	<u>3,683,951</u>
Total assets	<u>\$ 75,002,436</u>

LIABILITIES AND NET ASSETS

Current liabilities	
Current portion of long-term debt	\$ 821,872
Accounts payable and accrued expenses	4,412,987
Resident deposits	23,527
Accrued payroll and related liabilities	4,482,726
Accrued compensated absences	3,087,183
Estimated third-party settlements	1,846,295
Due to affiliates	<u>404,636</u>
Total current liabilities	15,079,226
Liability for pension benefits	4,275,179
Deferred compensation	1,413,028
Long-term third-party settlements, net of current portion	1,053,096
Long-term debt, net of current portion	<u>13,248,691</u>
Total liabilities	<u>35,069,220</u>
Net assets	
Without donor restrictions (Note 9)	35,677,114
With donor restrictions (Note 9)	<u>4,256,102</u>
Total net assets	<u>39,933,216</u>
Total liabilities and net assets	<u>\$ 75,002,436</u>

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

**PORTER MEDICAL CENTER, INC. AND SUBSIDIARIES D/B/A THE UNIVERSITY
OF VERMONT HEALTH NETWORK - PORTER MEDICAL CENTER, INC.**

Consolidated Statement of Operations

Year Ended September 30, 2018

Revenues without donor restrictions, gains and other support	
Patient service revenue (net of contractual allowances and discounts)	\$ 82,575,598
Less provision for bad debts	<u>4,278,046</u>
Net patient service revenue	78,297,552
Fixed prospective revenue	10,480,607
Other operating income	3,725,015
Net assets released from restrictions used for operations	<u>2,397</u>
Total revenues without donor restrictions, gains and other support	<u>92,505,571</u>
Expenses	
Professional care of patients	51,783,139
General services	5,052,170
Administrative and fiscal services	27,177,028
Health care improvement tax	5,219,899
Depreciation	3,096,885
Interest	<u>430,061</u>
Total expenses	<u>92,759,182</u>
Operating loss	<u>(253,611)</u>
Nonoperating gains	
Contributions	319,233
Investment return	471,614
Other program income, net	<u>3,101,529</u>
Nonoperating gains, net	<u>3,892,376</u>
Excess of revenues, gains, other support and nonoperating gains over expenses	3,638,765
Net assets released from restrictions used for purchase of property and equipment	426,501
Change in net assets to recognize funded status of pension plan	1,458,083
Transfer from University of Vermont Medical Center, Inc.	<u>550,036</u>
Increase in net assets without donor restrictions	<u>\$ 6,073,385</u>

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

**PORTER MEDICAL CENTER, INC. AND SUBSIDIARIES D/B/A THE UNIVERSITY
OF VERMONT HEALTH NETWORK - PORTER MEDICAL CENTER, INC.**

Consolidated Statement of Changes in Net Assets

Year Ended September 30, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balances, October 1, 2017	\$ <u>29,603,729</u>	\$ <u>4,098,717</u>	\$ <u>33,702,446</u>
Excess of revenues, gains, other support and nonoperating gains over expenses	3,638,765	-	3,638,765
Net assets released from restrictions used for operations	-	(2,397)	(2,397)
Net assets released from restrictions used for purchase of property and equipment	426,501	(426,501)	-
Change in net assets to recognize funded status of pension plan	1,458,083	-	1,458,083
Transfer from affiliate	550,036	-	550,036
Contributions	-	470,219	470,219
Change in beneficial interest in perpetual trusts	-	<u>116,064</u>	<u>116,064</u>
Net increase in net assets	<u>6,073,385</u>	<u>157,385</u>	<u>6,230,770</u>
Balances, September 30, 2018	\$ <u><u>35,677,114</u></u>	\$ <u><u>4,256,102</u></u>	\$ <u><u>39,933,216</u></u>

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

**PORTER MEDICAL CENTER, INC. AND SUBSIDIARIES D/B/A THE UNIVERSITY
OF VERMONT HEALTH NETWORK - PORTER MEDICAL CENTER, INC.**

Consolidated Statement of Cash Flows

Year Ended September 30, 2018

Cash flows from operating activities	
Change in net assets	\$ 6,230,770
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Loss on disposal of property and equipment	150,995
Depreciation	3,096,885
Provision for bad debts	4,278,046
Change in net assets to recognize funded status of pension plan	(1,458,083)
Change in beneficial interest in perpetual trusts	(116,064)
Transfer from affiliate	(550,036)
(Increase) decrease in	
Patient accounts receivable, net	(5,553,155)
Assets limited as to use	(91,281)
Supplies, prepaids and other current assets	(925,439)
Increase (decrease) in	
Accounts payable and accrued expenses	1,220,100
Accrued payroll and related liabilities	131,637
Deferred compensation	(100,543)
Estimated third-party settlements	801,837
Due to affiliates	<u>253,531</u>
Net cash provided by operating activities	<u>7,369,200</u>
Cash flows from investing activities	
Purchase of investments	(359,085)
Proceeds from sale of investments	433,688
Change in investments held at Middlebury College	(196,756)
Purchase of property and equipment	<u>(3,402,176)</u>
Net cash used by investing activities	<u>(3,524,329)</u>
Cash flows from financing activities	
Principal payments on long-term debt	<u>(924,682)</u>
Net cash used by financing activities	<u>(924,682)</u>
Net increase in cash and cash equivalents	2,920,189
Cash and cash equivalents, beginning of year	<u>21,147,511</u>
Cash and cash equivalents, end of year	<u>\$ 24,067,700</u>
Supplemental cash flows information	
Interest paid	<u>\$ 430,061</u>

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

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Notes to Consolidated Financial Statements

September 30, 2018

Nature of Operations, Reporting Entity and Principles of Consolidation

Porter Medical Center, Inc. and Subsidiaries d/b/a 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. (Hospital), Helen Porter Nursing Home, Inc. (HPNH) and Porter Real Estate Holdings, LLC (PREH). The Hospital operates a 25-bed not-for-profit critical access hospital. HPNH operates a 105-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.

On April 1, 2017, The University of Vermont Health Network, Inc. (UVM Health Network) entered into an affiliation agreement whereby UVM Health Network became the sole corporate member of PMC.

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

The consolidated financial statements include the accounts of PMC, Hospital, HPNH, and PREH (collectively, Medical Center). Significant intercompany accounts and transactions have been eliminated in consolidation.

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 Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic (ASC) 958, *Not-For-Profit Entities*. Under FASB ASC 958 and FASB ASC 954, *Health Care Entities*, all not-for-profit healthcare organizations are required to provide a balance sheet, a statement of operations, a statement of changes in net assets, and a statement of cash flows. FASB ASC 954 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 statements of operations and changes in net assets; and reporting the change in its cash and cash equivalents in a statement of cash flows.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Medical center. These net assets may be used at the discretion of the Medical Center's management and the board of directors.

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Net assets without donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Medical Center or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of operations.

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, other than deferred compensation plan investments and long-term investments, to be cash equivalents. At September 30, 2018, cash equivalents consisted primarily of money market accounts with brokers.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and all investments in debt securities are measured at fair value in the balance sheet. Investment return or loss (including realized gains and losses on investments, interest and dividends) is included in nonoperating gains unless the income or loss is restricted by donor or law.

Investments 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 balance sheet.

Assets Limited as to Use

Assets limited as to use are HPNH restricted donations and assets held by trustees under indenture agreements and deferred compensation plan assets and are comprised of cash and short-term investments at September 30, 2018. Amounts required to meet current liabilities of the Medical Center are included in current assets.

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Patient Accounts Receivable

Patient accounts receivable are stated at the amount management expects to collect for services rendered from third-party payors, patients 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, the Medical Center 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 services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts. For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Medical Center records a provision for bad debts in the period of service based on past experience, which indicates that many patients 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.

Meaningful Use Revenue

The Medicare and Medicaid electronic health record (EHR) incentive programs provide a financial incentive for achieving "meaningful use" of certified EHR technology. The meaningful use attestation for Medicare is subject to audit by the Centers for Medicare & Medicaid Services in future years. As part of this process, a final settlement amount for the incentive payments could be established that differs from the initial calculation, and could result in return of a portion or all of the incentive payments received by the Medical Center. The Medical Center recorded meaningful use revenue of approximately \$136,000 for the year ended September 30, 2018 and management has determined that no allowance is needed against these revenues. Meaningful use revenue is included in other revenue in the consolidated statement of operations.

Supplies

The Medical Center records supply inventories at the lower of cost, determined using the first-in, first-out method, or market.

Property and Equipment

Property and equipment acquisitions are recorded at cost, or, if contributed, at fair market value determined at the date of donation. Depreciation is provided over the estimated useful life of each

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class of depreciable asset and is computed using the straight-line method. 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. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as revenues without donor restrictions and are excluded from the excess of revenues, gains, other support and nonoperating gains over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Land Lease

The Medical Center has multiple land lease agreements with Middlebury College, upon which the entire main campus is located, inclusive of HPNH and outer lying modular office buildings. The terms of the leases are renewed and extended from year-to-year, indefinitely, until one party gives to the other party written notice of termination.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

Charity Care

The Medical Center provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Fixed Prospective Revenue

The Hospital is a participant in OneCare Vermont, LLC (OneCare), a statewide Accountable Care Organization (ACO). Beginning January 1, 2017, the Hospital entered into a risk bearing arrangement through the Vermont Medicaid program. Beginning January 1, 2018, the Hospital accepted additional risk as a member of OneCare by participating in the Medicare Next Generation Model. Under both the Medicare Next Generation Model and Vermont Medicaid program, the

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Hospital receives monthly fixed prospective payments for services provided to attributed members. The ACO 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. The Hospital recognizes their share of annual contract settlements as an increase or decrease to fixed prospective revenue.

Contributions

Unconditional promises to give cash and other assets are recorded 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 net assets without donor restrictions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor. Donor-restricted contributions whose restrictions are met within the same year as received are included in other operating revenue in the accompanying financial statements.

Excess of Revenues, Gains, Other Support and Nonoperating Gains Over Expenses

The statement of operations includes excess of revenues, gains and other support over expenses and nonoperating gains. Changes in net assets without donor restrictions which are excluded from this measure, consistent with industry practice, include defined benefit 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

PMC, Hospital, and HPNH are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and are exempt from federal income taxes on related income. PREH is a single member LLC owned 100% by PMC and is considered a disregarded entity for tax purposes.

Recently Issued Accounting Pronouncement

In August 2016, FASB issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which makes targeted changes to the not-for-profit financial reporting model. The new ASU marks the completion of the first phase of a larger project aimed at improving not-for profit financial reporting. Under the new ASU, net asset reporting will be streamlined and clarified. The existing three category classification of net assets is replaced with a simplified model that combines temporarily restricted and permanently restricted into a single category called "net assets with donor restrictions." The guidance for classifying deficiencies in endowment funds and on accounting for the lapsing of restrictions on gifts to acquire property, plant, and equipment have also been simplified and clarified. New disclosures will

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highlight restrictions on the use of resources that make otherwise liquid assets unavailable for meeting near-term financial requirements. The ASU also imposes several new requirements related to reporting expenses. The ASU is effective for fiscal years beginning after December 15, 2017 or fiscal year 2019 for the Medical Center and early adoption is permitted. The Medical Center elected to adopt the guidance early in fiscal year 2018.

Subsequent Events

For purposes of the preparation of these financial statements in conformity with U.S. GAAP, the Medical Center has considered transactions or events occurring through December 7, 2018, which was the date the financial statements were issued.

2. Net Patient Service Revenue and Patient Accounts Receivable

Net Patient Service Revenue

Patient service revenue and contractual and other allowances consisted of the following for the year ended September 30, 2018:

Inpatient	\$ 51,760,755
Outpatient	<u>127,714,875</u>
Gross patient service revenue	<u>179,475,630</u>
Less Medicare and Medicaid allowances	71,416,903
Less other contractual allowances	23,986,822
Less charity care and other discounts	<u>1,496,307</u>
	<u>96,900,032</u>
Patient service revenue (net of contractual allowances and discounts)	82,575,598
Less provision for bad debts	<u>4,278,046</u>
Net patient service revenue	\$ <u><u>78,297,552</u></u>

Patient Accounts Receivable

Patient accounts receivable consisted of the following at September 30, 2018:

Gross patient accounts receivable	\$ 30,295,294
Less: Estimated contractual allowances	14,866,251
Estimated allowance for doubtful accounts and charity care	<u>2,607,175</u>
Net patient accounts receivable	\$ <u><u>12,821,868</u></u>

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September 30, 2018

During 2018, the Medical Center increased its estimate from \$1,599,182 to \$1,802,630 in the allowance for doubtful accounts relating to self-pay patients and increased such estimate from \$573,484 to \$804,545 for doubtful accounts relating to third-party payors. During 2018, self-pay write-offs were \$3,842,989. Such variations resulted from changes experienced in the collection of amounts from self-pay patients and third-party payors. The increase in the allowance for doubtful accounts relating to self-pay patients is due to the deterioration in the age of such accounts.

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

Medicare

On December 31, 2005, the Hospital became a critical access hospital (CAH). As a CAH, the Hospital is reimbursed at 101% of reasonable allowable costs for its inpatient and outpatient services, excluding ambulance services, provided to Medicare patients. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Centers for Medicare & Medicaid Services (Medicare or CMS) fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2015.

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

The Hospital's inpatient services rendered to Office of Vermont Health Access (Medicaid) program beneficiaries are reimbursed at prospectively-determined rates. The prospectively-determined rates are not subject to retroactive adjustment. Outpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively-determined rates and therefore are not subject to retroactive adjustments. The Hospital's Medicaid cost reports have been audited through September 30, 2014.

HPNH is reimbursed for services rendered to Title XIX Medicaid patients 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.

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September 30, 2018

Other Arrangements

The Medical Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively-determined rates per discharge, discounts from established charges and prospectively-determined daily rates.

Approximately 60% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the year ended September 30, 2018. The Hospital has agreements with Medicare and Medicaid. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs. Differences between amounts previously estimated and amounts subsequently determined to be recoverable or payable are included in net patient service revenues in the year the amounts become known. Net patient service revenue increased by approximately \$626,000 in 2018 due to removal of allowances or recognition of settlements no longer subject to audits, reviews and investigations.

The Hospital recognizes patient service revenue associated with services rendered to patients who have third-party payor coverage on the basis of contractual rates for such services. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates (or on the basis of discounted rates, if negotiated or provided by policy). Based on historical trends, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services rendered. Thus, the Hospital records a provision for bad debts related to uninsured patients in the period the services are rendered. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized during the fiscal year ended September 30, 2018 totaled \$82,575,598, of which \$80,731,560 was revenue from third-party payors and \$1,844,038 was revenue from self-pay patients.

3. Community Benefit

The Hospital provides services without charge, or at amounts less than its established rates, to patients who meet the criteria of its charity care policy. The criteria for charity care, which is granted on a sliding scale, consider gross income and family size as compared to the federal poverty guidelines (FPL). The maximum of 100% charity care will be granted if the gross income of the individual is up to 200% of FPL.

The net cost of charity care provided was approximately \$725,568 in 2018. The total cost estimate is based on an overall financial statement cost to charge ratio applied against gross charity care charges. In 2018, .89% of all services as defined by percentage of gross revenue was provided on a charity basis.

57 inpatients received their entire episode of service on a charity case basis in 2018. During this same period, 3,634 outpatients received their entire episode of service on a charity case basis.

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Notes to Consolidated Financial Statements

September 30, 2018

4. Availability and Liquidity

As of September 30, 2018, the Medical Center has working capital of \$26,665,457 and average days (based on normal expenditures) cash and cash equivalents on hand of 123.

Financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principle payments on debt, and capital construction costs not financed with debt, were as follows as of September 30, 2018:

Cash and cash equivalents	\$ 24,067,700
Assets limited as to use	247,250
Patient accounts receivable, net	12,821,868
Other receivables, net	2,100,179
Long-term investments, net of restricted amounts	<u>6,297,796</u>
Financial assets available at year end for current use	<u>\$ 45,534,793</u>

The Medical Center has certain long-term investments to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the qualitative information above. The Medical Center has other long-term investments and assets for restricted use, which are more fully described in Note 19, are not available for general expenditure within the next year and are not reflected in the amount above.

The Medical Center's goal is generally to maintain financial assets to meet 100 days of operating expenses (approximately \$24.6 million). As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts (cash equivalents).

As of September 30, 2018, the Medical Center was in compliance with financial covenants as described in Note 8.

5. Investments and Investment Return

Assets limited as to use consisted of the following at September 30, 2018:

Helen Porter - Restricted Donations	
Cash and cash equivalents	<u>\$ 247,250</u>
Deferred compensation	
Mutual funds	<u>\$ 1,413,701</u>

Long-term investments consisted of the following at September 30, 2018:

Cash and cash equivalents	\$ 310,124
Investments held by Middlebury College	<u>6,245,194</u>
	<u>\$ 6,555,318</u>

Investments by Middlebury College are part of a pooled fund.

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Total investment return is comprised of the following for the year ending September 30, 2018:

Nonoperating revenue and expenses:

Investment income	\$ 470,813
Net realized gains	<u>801</u>
Investment income recorded in nonoperating gains	<u>471,614</u>

Changes in net assets with donor restrictions:

Change in beneficial interest in perpetual trusts	<u>116,064</u>
	<u>\$ 587,678</u>

6. Property and Equipment

The major categories of property and equipment are as follows at September 30, 2018:

Land and land improvements	\$ 1,065,290
Buildings and leasehold improvements	14,900,812
Equipment	7,447,676
Construction in progress	<u>1,247,811</u>
	24,661,589
Less accumulated depreciation	<u>(3,056,806)</u>
Property and equipment, net	<u>\$ 21,604,783</u>

7. Beneficial Interest in Perpetual Trusts

The Hospital is an income beneficiary of two perpetual trusts controlled by an unrelated third-party trustee. The beneficial interests in the assets of these trusts are included in the Medical Center's financial statements as permanently restricted net assets. Income is distributed in accordance with the individual trust documents and is included in investment return. Trust income distributed to the Medical Center for the year ended September 30, 2018 was \$87,918.

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8. Borrowings

Long-term debt consists of the following as of September 30, 2018:

Vermont Educational and Health Buildings Finance Agency (VEHBFA) Revenue Bond Refunding Series 2015A, with fixed interest at 2.85%, payable in monthly payments of \$69,211 including principal and interest, through August 2035; collateralized by the gross receipts of the Hospital. These bonds are puttable by the purchaser (People's United Bank) on or after August 1, 2025.	\$11,136,923
VEHBFA Demand Revenue Bonds Series 2015A bonds with fixed interest at 2.85%, due in monthly payments of \$16,961 including principal and interest through August 2035; collateralized by gross receipts of HPNH. The bonds are puttable by the purchaser (People's United Bank) on or after August 1, 2025.	2,729,207
Note payable at a fixed interest rate of 2.78%, monthly payments of \$5,690 including principal and interest, due in full February 2020; collateralized by certain property.	96,591
Note payable at a variable interest rate (5.25% at September 30, 2018), monthly payments of \$1,743 including principal and interest with the remaining principal due in March 2019; collateralized by certain property.	105,043
Capital lease obligations, at various rates with monthly payments ranging from \$134 to \$355 due calendar years 2018 through 2019; collateralized by leased equipment.	<u>2,800</u>
Total long-term debt	14,070,564
Less current portion	<u>821,873</u>
	<u>\$13,248,691</u>

Aggregate annual maturities of long-term debt and payments on capital lease obligations at September 30, 2018 are:

	Long-term Debt (Excluding Capital Lease Obligations)	Capital Lease Obligations
2019	\$ 819,062	\$ 2,890
2020	693,800	-
2021	685,200	-
2022	705,000	-
2023	725,600	-
Thereafter	<u>10,439,102</u>	<u>-</u>
	<u>\$14,067,764</u>	2,890
Less amount representing interest		<u>(90)</u>
		<u>\$ 2,800</u>

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In connection with the bond issuance, the Hospital, PMC and HPNH are all members of an Obligated Group. The Obligated Group is required to meet certain financial covenants. The Obligated Group is in compliance with these financial covenants at September 30, 2018 as defined in the Master Trust Indenture and its supplements.

The Hospital has access to a \$2,000,000 line of credit through UVM Health Network subject to reasonable restrictions as imposed by UVM Health Network. There were no borrowings on the line of credit as of September 30, 2018.

9. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes at September 30, 2018:

Specific purpose	
Health care services	\$ 89,345
Purchase of equipment	128,746
Indigent care	<u>236,378</u>
	<u>454,469</u>
Passage of time	
Investments to be held in perpetuity, the income is restricted for indigent care	117,682
Beneficial interests in perpetual trusts, the income is without donor restrictions	<u>3,683,951</u>
	<u>3,801,633</u>
	<u>\$ 4,256,102</u>

Net assets without donor restrictions are available for the following purposes at September 30, 2018:

Undesignated	<u>\$35,677,114</u>
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Net assets released from net assets with donor restrictions at September 30, 2018:

Satisfaction of purpose restrictions	
Purchase of property and equipment	<u>\$ 426,501</u>
Passage of time - operations	<u>\$ 2,397</u>

10. Assets Held in Trust

The Hospital is the income beneficiary of various trusts, over which the trustee has variance power (the power to direct both corpus and income). Because the Medical Center has only a contingent interest in the assets of these trusts, they are not included in the Medical Center's financial statements. The fair value of the assets totaled approximately \$4,468,000 on September 30, 2018. Distributions of income are made at the discretion of the trustees. Income distributed to the Hospital by the trusts are restricted for indigent care and amounted to \$208,896 in 2018.

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11. Other Program Income, Net

Other program income, net, predominantly represents the net income resulting from the federal 340(b) Drug Pricing Program (Program). The Program provides for discounts and reduced prices on medications because the Hospital is a qualified federal grantee (as a CAH). In addition to savings for medications used within the Hospital, the Hospital has also established contracts with six local pharmacies during 2018. Revenue from prescriptions filled by these contract pharmacies is recorded as "other program revenue." The Hospital paid all expenses for the drugs dispensed by the contract pharmacies at wholesaler cost. The Hospital also paid the contract pharmacies a dispensing fee for filling the prescriptions. These expenses are treated as "other expense" by the Hospital. Program income of \$4,405,600 was recorded for the year ended September 30, 2018. Program expenses of \$1,304,071 were recorded for the year ended September 30, 2018.

12. Functional Expenses

The Medical Center provides healthcare services primarily to residents within its geographic area. Expenses related to providing these services are as follows for the year ended September 30, 2018:

	<u>Healthcare Service</u>	<u>Administrative Support</u>	<u>Total</u>
Salary, payroll taxes and fringe benefits	\$ 57,797,064	\$ 4,056,445	\$ 61,853,509
Supplies and other	12,874,317	1,128,098	14,002,415
Purchased services	5,903,488	2,252,925	8,156,413
Provider tax	5,219,899	-	5,219,899
Depreciation	2,776,625	320,260	3,096,885
Interest expense	<u>336,390</u>	<u>93,671</u>	<u>430,061</u>
	<u>\$ 84,907,783</u>	<u>\$ 7,851,399</u>	<u>\$ 92,759,182</u>

13. Concentrations of Credit Risk

Credit Risk

The Medical Center grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, 2018:

Medicare	49 %
Medicaid	11
Other third-party payors	24
Patients	<u>16</u>
	<u>100 %</u>

The Medical Center maintains a substantial portion of its cash and cash equivalents in bank accounts which at times may exceed federally insured limits. The Medical Center has not experienced any losses in such accounts. The Medical Center believes it is not exposed to any significant risk on cash and cash equivalents.

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Labor Force

The Hospital's unionized labor workforce are members of the Porter Federation of Nurses and Health Professionals, AFT Vermont Local Unit #5753. The Union contract has been negotiated through September 30, 2020.

14. Commitments and Contingencies

Medical Malpractice Claims

The Medical Center carries malpractice insurance coverage under a claims-made policy on a fixed premium basis. The Medical Center intends to renew its coverage on a claims-made basis and anticipates such coverage will be available. The Medical Center is subject to complaints, claims and litigation due to potential claims which arise in the normal course of business. U.S. GAAP requires the Medical Center to accrue the ultimate estimated 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. Amounts accrued under this provision are included in other receivables and accounts payable and accrued expenses on the balance sheet.

Effective October 1, 2018, the Medical Center entered into a contract to insure its medical malpractice through a multiprovider captive insurance company, VMC Indemnity Company Ltd. (VMCIC), a related party through UVMHC. VMCIC has reinsurance with commercial carriers for coverage above a self-insured per claim retentive for affiliates of UVM Medical Center for Professional Liability, Commercial General Liability, Professional Liability, and Commercial General Liability, with limits on such reinsurance.

Self-Insurance

The Medical Center is self-insured for employee healthcare benefits. The Medical Center accrues a liability for employee healthcare by charging the statement of operations for certain known claims and reasonable estimates for incurred, but not reported, claims based on claims experience. The amount of actual losses incurred could differ materially from these estimates in the near term.

The Medical Center self-insures their employee health benefits and have estimated and recorded amounts to meet the expected obligations under the program. Stop loss insurance coverage is in effect which limits the Medical Center's exposure to loss on an individual basis of \$175,000 (excluding services rendered by the Medical Center to participants) and an annual aggregate basis of \$8,510,232 (excluding services rendered by the Medical Center to participants). In 2018 total expense for health benefits was approximately \$4,972,000. The Medical Center has accrued a liability for this program within accounts payable and accrued expenses in the consolidated balance sheet totaling approximately \$1,200,000 at September 30, 2018.

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Litigation

In the normal course of business, the Medical Center is, from time-to-time, subject to allegations that may or do result in litigation. The Medical Center evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term. The Medical Center has received a demand for payment of contract fees from a software vendor following early termination of a contract. The Medical Center disputes owing any fees to the vendor on the basis that the contract termination was justified as a result of the vendor's documented and material performance failures. No contingent liability has been recorded related to this matter.

15. Benefit Plans

Defined Contribution Plan

The Medical Center has a 403(b) defined contribution pension plan covering substantially all employees. The Medical Center makes an employer contribution to the plan. In order to receive the contribution, employees must meet certain eligibility requirements. The Medical Center makes contributions between 3% and 6% of covered payroll based on the employee's years of service and the employee's age as of January 1, 2018.

The Medical Center has estimated a liability of approximately \$1,146,000 at September 30, 2018 related to the 403(b) plan. This amount has been included in accrued payroll and related liabilities. Contributions are calculated on a calendar year basis, and are paid following the end of the calendar year. Expense under the plan was approximately \$1,456,000 for the year ended 2018.

Deferred Compensation Plan

The Medical Center has a nonqualified deferred compensation plan established under Section 457 of the IRC. These plans cover key employees of the Medical Center. Estimated amounts are accrued at September 30 with amounts transferred to accounts recorded in deferred compensation plan investments on a calendar year basis. There were no amounts accrued under or contributed to the plan during 2018.

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Defined Benefit Plan

The Medical Center has a noncontributory defined benefit pension plan covering all employees who meet the eligibility requirements. The Medical Center's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as PMC may determine to be appropriate from time-to-time. The Medical Center expects to contribute to the plan in 2018.

The Medical Center uses a September 30, 2018 measurement date for the plan. Significant balances for the plan as a whole are:

Benefit obligations	\$ (16,203,869)
Fair value of plan assets	<u>11,928,690</u>
Funded status	<u>\$ (4,275,179)</u>

The tables below present details about the plan, including components of net periodic benefit cost and certain assumptions used to determine the funded status and cost:

Change in benefit obligation	
Benefit obligation at beginning of year	\$ 17,013,291
Service cost (including expense load)	50,000
Interest cost	658,163
Actuarial gain	(810,796)
Benefits paid	(656,297)
Expenses paid	<u>(50,492)</u>
Benefit obligation at end of year	<u>\$ 16,203,869</u>
Change in plan assets	
Fair value of plan assets at beginning of year	\$ 11,305,313
Actual return on plan assets	777,171
Employer contributions	552,995
Benefits paid	(656,297)
Expenses paid	<u>(50,492)</u>
Fair value of plan assets at end of year	<u>\$ 11,928,690</u>
Components of net periodic benefit cost	
Administrative expense cost	\$ 50,000
Interest cost	658,163
Expected return on plan assets	(579,896)
Amortization of net loss	<u>450,012</u>
Net periodic benefit cost	<u>\$ 578,279</u>

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Notes to Consolidated Financial Statements

September 30, 2018

Other amounts recognized in the statement of operations relate entirely to actuarial losses.

Weighted average assumptions used to determine benefit obligation	
Discount rate	4.41 %

Weighted average assumptions used to determine benefit cost	
Discount rate	3.95
Expected return on assets	5.22

The Medical Center 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 over the next ten years as of September 30, 2018:

2019	\$ 769,948
2020	811,482
2021	832,054
2022	878,327
2023	915,618
2024 - 2028	5,006,214

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 plan to recognize potentially higher returns through a limited investment in equity securities. Plan assets are rebalanced quarterly. At September 30, 2018, plan assets by category are as follows:

Equity funds	58 %
Debt funds	32
International funds	<u>10</u>
	<u>100 %</u>

The targeted asset allocation ranges for the plan are as follows:

	<u>Ranges</u>
Equity funds	0 - 60%
Fixed income funds	30 - 100
Short-term investments or funds	0 - 20
Alternative investments or funds	0 - 10

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In the next year, \$309,179 is expected to be recognized as a component of net periodic benefit cost related to net actuarial loss previously recognized in net assets without donor restrictions. The total amount to be amortized into pension expense in future years is \$2,700,000. No plan assets are expected to be returned to the Medical Center in 2018. The Medical Center expects to contribute \$550,055 to the plan in 2019.

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.

16. Related Party Transactions

During 2018, the Medical Center was billed approximately \$590,367 in expenses related to cardiology services, EKG services, pharmacy, billing, inventory transfers, insurances, pathology and medial director services, legal, information technology, palliative care, overhead, shared services, audit fees, EPIC, wellness, anesthesiology, and affiliation fees. During 2018, UVMHC transferred approximately \$550,000 worth of IT equipment to the Hospital. As of September 30, 2018, substantially all amounts due to affiliates are owed to UVMHC.

17. Health Care Improvement Tax

Effective July 1, 1991, a health care improvement tax was imposed on medical centers, nursing homes and home health agencies as part of a program to upgrade services in Vermont. The State of Vermont pays the Hospital with funds received from the health care improvement trust fund and federal matching funds. The assessment rate for subsequent years will be determined annually by the Vermont General Assembly.

18. Operating Leases

Noncancelable operating leases at the Hospital for primary care outpatient offices expire in various years through March 2025. These leases generally contain renewal options for periods ranging from three to six years and require the Hospital to pay all executory costs.

Future minimum lease payments at September 30 are as follows:

2019	\$ 784,200
2020	575,600
2021	364,500
2022	276,700
2023	276,700
Thereafter	<u>90,100</u>
	<u>\$ 2,367,800</u>

Rent expense during 2018 amounted to \$941,100.

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Notes to Consolidated Financial Statements

September 30, 2018

19. Fair Value Measurements and Disclosures

FASB ASC 820, *Fair Value Measurement*, 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. The standard describes three levels of inputs that may be used to measure 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.

Assets at fair value on a recurring basis are summarized below:

	<u>Fair Value Measurements at September 30, 2018</u>			
	<u>Total</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
PMC Assets:				
Investments				
Cash and cash equivalents	\$ 310,124	\$ 310,124	\$ -	\$ -
Marketable equity securities	-	-	-	-
Investments held by Middlebury College	6,245,194	-	-	6,245,194
Deferred compensation plan assets	1,413,701	1,413,701	-	-
Beneficial interest in perpetual trusts	<u>3,683,951</u>	<u>-</u>	<u>-</u>	<u>3,683,951</u>
Total PMC assets	<u>\$ 11,652,970</u>	<u>\$ 1,723,825</u>	<u>\$ -</u>	<u>\$ 9,929,145</u>
Pension assets:				
Cash and cash equivalents	\$ 3,094	\$ 3,094	\$ -	\$ -
Mutual funds	<u>11,925,596</u>	<u>11,925,596</u>	<u>-</u>	<u>-</u>
Total pension assets	<u>\$ 11,928,690</u>	<u>\$ 11,928,690</u>	<u>\$ -</u>	<u>\$ -</u>

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Significant activity for assets measured at the fair value on a recurring basis using unobservable inputs (Level 3) is as follows:

	Investments Held by Middlebury College	Beneficial Interest in Perpetual Trust
Level 3 investments at September 30, 2017	\$ 6,048,438	\$ 3,567,887
Change in value	<u>196,756</u>	<u>116,064</u>
Level 3 investments at September 30, 2018	<u>\$ 6,245,194</u>	<u>\$ 3,683,951</u>

The fair value of Level 3 assets is based on the Medical Center's share of the quoted market prices of the underlying assets of the Middlebury pooled funds and beneficial trusts or of similar securities, as provided by the respective custodians. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. All fair values are provided by investment managers.

SUPPLEMENTARY INFORMATION

**PORTER MEDICAL CENTER, INC. AND SUBSIDIARIES D/B/A THE UNIVERSITY
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Consolidating - Balance Sheet

September 30, 2018

Assets	The University of Vermont Health Network - Porter Medical Center, Inc.	Porter Hospital, Inc.	Helen Porter Nursing Home, Inc.	Porter Real Estate Holdings, LLC	<u>Eliminations</u>	<u>Consolidated</u>
Current assets						
Cash and cash equivalents	\$ 2,235,257	\$ 21,047,087	\$ 530,346	\$ 255,010	\$ -	\$ 24,067,700
Assets limited as to use	8,450	123,370	115,430	-	-	247,250
Patient accounts receivable, net	-	11,750,031	1,071,837	-	-	12,821,868
Other receivables, net	40,103	2,013,887	6,189	40,000	-	2,100,179
Supplies	-	1,759,415	17,654	-	-	1,777,069
Prepaid expenses and other	-	693,937	13,153	-	-	707,090
Resident deposits	-	-	23,527	-	-	23,527
Due from affiliates	<u>500,938</u>	<u>1,034,776</u>	<u>21,905</u>	<u>-</u>	<u>(1,557,619)</u>	<u>-</u>
Total current assets	2,784,748	38,422,503	1,800,041	295,010	(1,557,619)	41,744,683
Assets limited as to use, deferred compensation plan assets	208,382	1,205,319	-	-	-	1,413,701
Long-term investments	170,284	6,322,912	62,122	-	-	6,555,318
Property and equipment, net	-	18,977,445	2,082,122	603,431	(58,215)	21,604,783
Beneficial interest in perpetual trusts	-	3,683,951	-	-	-	3,683,951
Note receivable, related party	741,973	-	-	-	(741,973)	-
Investment in subsidiary	<u>1,197,341</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,197,341)</u>	<u>-</u>
Total assets	<u>\$ 5,102,728</u>	<u>\$ 68,612,130</u>	<u>\$ 3,944,285</u>	<u>\$ 898,441</u>	<u>\$ (3,555,148)</u>	<u>\$ 75,002,436</u>

**PORTER MEDICAL CENTER, INC. AND SUBSIDIARIES D/B/A THE UNIVERSITY
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Consolidating - Balance Sheet (Concluded)

September 30, 2018

Liabilities and Net Assets (Deficit)

	The University of Vermont Health Network - Porter Medical Center, Inc.	Porter Hospital, Inc.	Helen Porter Nursing Home, Inc.	Porter Real Estate Holdings, LLC	Eliminations	Consolidated
Current liabilities						
Current portion of long-term debt	\$ -	\$ 691,672	\$ 130,200	\$ -	\$ -	\$ 821,872
Accounts payable and accrued expenses	184,904	3,710,497	517,586	-	-	4,412,987
Resident deposits	-	-	23,527	-	-	23,527
Accrued payroll and related liabilities	291,460	3,503,648	687,618	-	-	4,482,726
Accrued compensated absences	287,060	2,396,985	403,138	-	-	3,087,183
Estimated third-party settlements	-	1,721,295	125,000	-	-	1,846,295
Due to affiliates	<u>371,371</u>	<u>829,566</u>	<u>760,219</u>	<u>1,099</u>	<u>(1,557,619)</u>	<u>404,636</u>
Total current liabilities	1,134,795	12,853,663	2,647,288	1,099	(1,557,619)	15,079,226
Liability for pension benefits	83,667	3,579,932	611,580	-	-	4,275,179
Deferred compensation	208,382	1,204,646	-	-	-	1,413,028
Residual receipts note to affiliate	-	-	741,973	-	(741,973)	-
Long-term third-party settlements, net of current portion	-	1,053,096	-	-	-	1,053,096
Long-term debt, net of current portion	<u>-</u>	<u>10,646,884</u>	<u>2,601,807</u>	<u>-</u>	<u>-</u>	<u>13,248,691</u>
Total liabilities	<u>1,426,844</u>	<u>29,338,221</u>	<u>6,602,648</u>	<u>1,099</u>	<u>(2,299,592)</u>	<u>35,069,220</u>
Net assets (deficit)						
Without donor restrictions	3,675,884	35,158,179	(2,798,735)	897,342	(1,255,556)	35,677,114
With donor restrictions	<u>-</u>	<u>4,115,730</u>	<u>140,372</u>	<u>-</u>	<u>-</u>	<u>4,256,102</u>
Total net assets (deficit)	<u>3,675,884</u>	<u>39,273,909</u>	<u>(2,658,363)</u>	<u>897,342</u>	<u>(1,255,556)</u>	<u>39,933,216</u>
Total liabilities and net assets (deficit)	<u>\$ 5,102,728</u>	<u>\$ 68,612,130</u>	<u>\$ 3,944,285</u>	<u>\$ 898,441</u>	<u>\$(3,555,148)</u>	<u>\$ 75,002,436</u>

**PORTER MEDICAL CENTER, INC. AND SUBSIDIARIES D/B/A THE UNIVERSITY
OF VERMONT HEALTH NETWORK - PORTER MEDICAL CENTER, INC.**

Consolidating - Statement of Operations

Year Ended September 30, 2018

	The University of Vermont Health Network - Porter Medical Center, Inc.	Porter Hospital, Inc.	Helen Porter Nursing Home, Inc.	Porter Real Estate Holdings, LLC	Eliminations	Consolidated
Revenue without donor restrictions, gains and other support						
Patient service revenue (net of contractual allowances and discounts)	\$ -	\$ 72,915,914	\$ 9,740,090	\$ -	\$ (80,406)	\$ 82,575,598
Less provision for bad debts	-	4,231,055	46,991	-	-	4,278,046
Net patient service revenue	-	68,684,859	9,693,099	-	(80,406)	78,297,552
Property rental income, related party	-	-	-	84,720	(84,720)	-
Fixed prospective revenue	-	10,480,607	-	-	-	10,480,607
Other operating income (loss)	4,533,151	3,558,137	(67,128)	-	(4,299,145)	3,725,015
Net assets released from restrictions used for operations	-	1,937	460	-	-	2,397
Total revenues without donor restrictions, gains and other support	<u>4,533,151</u>	<u>82,725,540</u>	<u>9,626,431</u>	<u>84,720</u>	<u>(4,464,271)</u>	<u>92,505,571</u>
Expenses						
Professional care of patients	-	45,933,882	5,911,214	-	(61,957)	51,783,139
General services	-	3,476,864	1,660,026	-	(84,720)	5,052,170
Administrative and fiscal services	4,269,440	23,917,169	3,291,346	16,667	(4,317,594)	27,177,028
Health care improvement tax	-	4,703,348	516,551	-	-	5,219,899
Depreciation	-	2,858,521	212,209	26,155	-	3,096,885
Interest	-	343,546	81,025	5,490	-	430,061
Total expenses	<u>4,269,440</u>	<u>81,233,330</u>	<u>11,672,371</u>	<u>48,312</u>	<u>(4,464,271)</u>	<u>92,759,182</u>
Operating income (loss)	<u>263,711</u>	<u>1,492,210</u>	<u>(2,045,940)</u>	<u>36,408</u>	<u>-</u>	<u>(253,611)</u>
Nonoperating gains						
Contributions	110,162	208,896	175	-	-	319,233
Investment return	8,954	458,822	3,838	-	-	471,614
Other program income, net	-	3,101,529	-	-	-	3,101,529
Equity in earnings of Porter Real Estate Holdings, LLC	36,408	-	-	-	(36,408)	-
Nonoperating gains, net	<u>155,524</u>	<u>3,769,247</u>	<u>4,013</u>	<u>-</u>	<u>(36,408)</u>	<u>3,892,376</u>
Excess (deficiency) of revenues, gains, other support and nonoperating gains over expenses	419,235	5,261,457	(2,041,927)	36,408	(36,408)	3,638,765
Net assets released from restrictions used for purchase of property and equipment	-	66,210	360,291	-	-	426,501
Change in net assets to recognize funded status of pension plan	93,243	1,165,832	199,008	-	-	1,458,083
Transfer from University of Vermont Medical Center, Inc.	-	550,036	-	-	-	550,036
Transfer (to) from affiliates	-	(2,250,000)	2,250,000	-	-	-
Increase (decrease) in net assets without donor restrictions	<u>\$ 512,478</u>	<u>\$ 4,793,535</u>	<u>\$ 767,372</u>	<u>\$ 36,408</u>	<u>\$ (36,408)</u>	<u>\$ 6,073,385</u>