BerryDunn

PORTER MEDICAL CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

with

SUPPLEMENTARY INFORMATION

September 31, 2011 and 2010

With Independent Auditors' Report

PORTER MEDICAL CENTER, INC. AND SUBSIDIARIES

September 30, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Porter Medical Center, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Porter Medical Center, Inc. and Subsidiaries (the Medical Center) as of September 30, 2011 and 2010, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Medical Center's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Porter Medical Center, Inc. and Subsidiaries as of September 30, 2011 and 2010, and the consolidated results of its operations, the consolidated changes in its net assets and its consolidated cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplementary schedule of required financial covenant ratio and consolidating information is presented for purposes of additional analysis and is not a required part of the basic 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 consolidating information and the required financial covenant ratio have been subjected to the auditing procedures applied in the audit of the basic 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the additional information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
January 10, 2012
Registration No. 92-0000278

PORTER MEDICAL CENTER, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2011 and 2010

ASSETS

	2011	2010
Current assets		
Cash and cash equivalents	**$ 3,641,627**	$ 7,478,460
Assets limited as to use, trustee held funds under debt agreements	**486,220**	442,109
Patient accounts receivable, net	**11,379,754**	7,768,260
Other receivables, net	**1,373,918**	639,421
Supplies	**1,204,951**	779,302
Prepaid expenses and other	**622,540**	387,266
Total current assets	**18,709,010**	17,494,818
Assets limited as to use, deferred compensation plan assets	**935,526**	763,540
Long-term investments	**3,405,261**	3,097,760
Property and equipment, net	**31,393,533**	29,351,497
Beneficial interest in perpetual trusts	**2,851,219**	2,952,405
Deferred financing costs, net	**262,555**	281,515
Notes receivable	**212,567**	206,264
Contributions receivable, net	**-**	11,905
Total assets	**$ 57,769,671**	$ 54,159,704

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

LIABILITIES AND NET ASSETS

	2011	2010
Current liabilities		
Current portion of long-term debt	**$ 1,573,192**	$ 1,161,483
Accounts payable and accrued expenses	**1,891,029**	2,134,171
Accrued payroll and related liabilities	**2,655,574**	2,265,361
Estimated third-party settlements	**1,183,000**	600,000
Accrued vacation	**2,273,513**	2,028,435
Deferred revenue	**22,508**	112,592
Total current liabilities	**9,598,816**	8,302,042
Liability for pension benefits	**3,263,385**	3,044,050
Deferred compensation	**935,526**	763,540
Long-term debt, net of current portion	**20,135,418**	20,180,136
Total liabilities	**33,933,145**	32,289,768
Commitments and contingencies (Notes 5, 13, 14 and 16)		
Net assets		
Unrestricted	**20,548,627**	18,379,539
Temporarily restricted	**318,998**	420,310
Permanently restricted	**2,968,901**	3,070,087
Total net assets	**23,836,526**	21,869,936
Total liabilities and net assets	**$ 57,769,671**	$ 54,159,704

PORTER MEDICAL CENTER, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years Ended September 30, 2011 and 2010

	2011	2010
Unrestricted revenues, gains and other support		
Patient service revenue (net of contractual allowances and discounts)	**$ 67,991,558**	$ 63,328,601
Less provision for bad debts	**2,322,528**	3,112,229
Net patient service revenue less provision for bad debts	**65,669,030**	60,216,372
Other operating revenue	**1,842,157**	2,188,802
Net assets released from restrictions used for operations	**110,730**	128,727
Total unrestricted revenues, gains and other support	**67,621,917**	62,533,901
Expenses		
Professional care of patients	**36,500,240**	35,746,371
General services	**5,294,139**	4,740,092
Administrative and fiscal services	**17,356,230**	18,117,070
Health care improvement tax	**3,588,860**	2,899,523
Depreciation and amortization	**3,774,183**	3,327,629
Interest	**391,783**	317,148
Total expenses	**66,905,435**	65,147,833
Operating income (loss)	**716,482**	(2,613,932)
Nonoperating gains		
Contributions received	**261,964**	205,409
Investment income	**147,437**	395,677
Other program income, net	**1,434,081**	-
Nonoperating gains	**1,843,482**	601,086
Excess (deficiency) of revenues, gains and other support over expenses and nonoperating gains	**2,559,964**	(2,012,846)
Net assets released from restrictions used for purchase of property and equipment	**39,263**	40,637
Change in net assets to recognize funded status of pension plan	**(430,139)**	(486,817)
Increase (decrease) in unrestricted net assets	**$ 2,169,088**	$ (2,459,026)

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

PORTER MEDICAL CENTER, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years Ended September 30, 2011 and 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balances, October 1, 2009	$ 20,838,565	$ 451,641	$ 2,659,814	$ 23,950,020
Deficiency of revenues, gains and other support over expenses and nonoperating gains	(2,012,846)	-	-	(2,012,846)
Net assets released from restrictions for operations	-	(128,727)	-	(128,727)
Net assets released from restrictions used for purchase of property and equipment	40,637	(40,637)	-	-
Change in net assets to recognize funded status of pension plan	(486,817)	-	-	(486,817)
Contributions	-	121,553	-	121,553
Investment income	-	16,480	-	16,480
Change in beneficial interest in perpetual trusts	-	-	410,273	410,273
Net (decrease) increase in net assets	(2,459,026)	(31,331)	410,273	(2,080,084)
Balances, September 30, 2010	18,379,539	420,310	3,070,087	21,869,936
Excess of revenues, gains and other support over expenses and nonoperating gains	**2,559,964**	**-**	**-**	**2,559,964**
Net assets released from restrictions used for operations	**-**	**(110,730)**	**-**	**(110,730)**
Net assets released from restrictions used for purchase of property and equipment	**39,263**	**(39,263)**	**-**	**-**
Change in net assets to recognize funded status of pension plan	**(430,139)**	**-**	**-**	**(430,139)**
Contributions	**-**	**58,199**	**-**	**58,199**
Investment income	**-**	**(9,518)**	**-**	**(9,518)**
Change in beneficial interest in perpetual trusts	**-**	**-**	**(101,186)**	**(101,186)**
Net increase (decrease) in net assets	**2,169,088**	**(101,312)**	**(101,186)**	**1,966,590**
Balances, September 30, 2011	**$ 20,548,627**	**$ 318,998**	**$ 2,968,901**	**$ 23,836,526**

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

PORTER MEDICAL CENTER, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years Ended September 30, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Change in net assets	**$ 1,966,590**	$ (2,080,084)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Loss on disposal of property and equipment	**20,022**	99,310
Depreciation and amortization	**3,774,183**	3,327,629
Provision for bad debts	**2,322,528**	3,112,229
Net realized and unrealized loss (gain) on investments	**92,069**	(151,271)
Changes in net assets to recognize funded status of pension plan	**430,139**	486,817
Change in beneficial interest in perpetual trusts	**101,186**	(410,273)
Restricted contributions	**(58,199)**	(121,553)
(Increase) decrease in		
Patient accounts receivable, net	**(5,934,022)**	(2,423,331)
Supplies, prepaids and other current assets	**(1,384,511)**	68,367
Increase (decrease) in		
Accounts payable and accrued expenses	**(243,142)**	365,740
Accrued payroll and related liabilities	**635,291**	(851,027)
Estimated third-party settlements	**583,000**	(582,305)
Other current liabilities	**(300,888)**	(2,435)
Net cash provided by operating activities	**2,004,246**	837,813
Cash flows from investing activities		
Purchase of investments	**(2,255,818)**	(378,097)
Proceeds from sale of investments	**1,812,137**	32,872
Changes in notes receivable	**(6,303)**	181,261
Purchase of property and equipment	**(4,096,658)**	(2,725,654)
Net cash used by investing activities	**(4,546,642)**	(2,889,618)
Cash flows from financing activities		
Proceeds from restricted contributions	**58,199**	121,553
Proceeds from issuance of long-term debt	**-**	1,300,079
Principal payments on long-term debt	**(1,352,636)**	(1,266,140)
Net cash (used) provided by financing activities	**(1,294,437)**	155,492
Decrease in cash and cash equivalents	**(3,836,833)**	(1,896,313)
Cash and cash equivalents, beginning of year	**7,478,460**	9,374,773
Cash and cash equivalents, end of year	**$ 3,641,627**	$ 7,478,460
Supplemental cash flows information		
Interest paid	**$ 391,850**	$ 218,076
Capital lease obligation incurred for property and equipment	**1,719,627**	-

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

Nature of Operations and Principles of Consolidation

Porter Medical Center (PMC) was organized in 1986 to serve as a parent holding company for the following subsidiaries:

Porter Hospital, Inc. (the Hospital): The Hospital operates a 25-bed not-for-profit short-term community oriented general hospital.

Helen Porter Nursing Home, Inc. (HPNH): HPNH operates a 105-bed not-for-profit long-term community oriented skilled health care and rehabilitation center.

Porter Management Services, Inc. (PMS): PMS is a not-for-profit corporation which provides administrative and certain other services to Porter Medical Center and Subsidiaries.

Porter Real Estate Holdings, LLC (PREH): PREH is a single-member LLC real estate holding company that is owned 100% by PMC.

All of the companies are Vermont corporations and operate out of facilities in Middlebury, Vermont, and surrounding areas. All subsidiaries are 100% owned and/or controlled by PMC.

The consolidated financial statements include the accounts of PMC, the Hospital, HPNH, PHS, PREH and PMS (collectively, the 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 the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-For-Profit Entities*. Under FASB ASAC 958, all not-for-profit organizations are required to provide a balance sheet, a statement of operations, and a statement of cash flows. The statement requires reporting amounts for an organization's total assets, liabilities, and net assets in a balance sheet; reporting the change in an organizations'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 (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, 2011 and 2010, cash equivalents consisted primarily of money market accounts with brokers.

Investments and Investment Income

Investments in equity securities having a readily determinable fair value and all investments in debt securities are measured at fair value in the balance sheets. Investment income or loss (including realized gains and losses on investments, interest and dividends) is nonoperating gains (losses) unless the income or loss is restricted by donor or law. The Medical Center adopted ASC 825, effective October 1, 2008, and has elected the fair value option relative to its investments which consolidates all investment performance activity within the nonoperating gains section of the statement of operations.

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 sheets and statements of operations and changes in net assets.

Assets Limited as to Use

Assets limited as to use include assets held by trustees under debt agreements and deferred compensation plan assets. Amounts required to meet current liabilities of the Medical Center are included in current assets.

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 includes 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 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.

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 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, building, or equipment are reported as unrestricted support and are excluded from the excess (deficiency) of revenues, gains and other support over expenses and nonoperating gains, 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

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.

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.

Deferred Revenue

Deferred revenue represents amounts received for disproportionate share payments that are recognized in earnings ratably over the period the funds are earned.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Medical Center has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Medical Center in perpetuity.

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.

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. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Excess (Deficiency) of Revenues, Gains and Other Support Over Expenses and Nonoperating Gains

The statements of operations include excess 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 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, the Hospital, HPNH and PMS are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code 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.

New Accounting Pronouncement

In July 2011, the FASB amended ASC 954, *Health Care Entities*, to require health care entities to change the presentation of the statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, enhanced disclosures are required about the policies for recognizing revenues and assessing bad debts. The amendments also require disclosure of qualitative and quantitative information about significant changes in the allowance for doubtful accounts. The amendments to ASC 954 are effective for public entities for the first annual period beginning after December 15, 2011. The Medical Center elected to early adopt these amendments for fiscal year ending September 30, 2011.

Subsequent Events

For purposes of the preparation of these financial statements in conformity with GAAP, PMC has considered transactions of events occurring through January 10, 2012, which was the date the financial statement were issued.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the current year's presentation.

2. Net Patient Service Revenue and Patient Accounts Receivable

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

	2011	2010
Patient services		
Inpatient	**$ 40,863,432**	$ 31,041,111
Outpatient	**74,322,048**	74,522,054
Gross patient service revenue	**115,185,480**	105,563,165
Less Medicare and Medicaid allowances	**29,514,871**	24,212,407
Less other contractual allowances	**16,573,892**	16,920,966
Less charity care and other discounts	**1,105,159**	1,101,191
	47,193,922	42,234,564
Patient service revenue (net of contractual allowances and discounts)	**67,991,558**	63,328,601
Less provision for bad debts	**2,322,528**	3,112,229
Net patient service revenue	**$ 65,669,030**	$ 60,216,372

Patient Accounts Receivable

Patient accounts receivable consisted of the following at September 30:

	2011	2010
Gross patient accounts receivable	**$ 21,435,446**	$ 14,786,647
Less: Estimated contractual allowances	**6,871,589**	3,495,569
Estimated allowance for doubtful accounts and charity care	**3,184,103**	3,522,818
Net patient accounts receivable	**$ 11,379,754**	$ 7,768,260

During 2011, the Medical Center decreased its estimate from $2,878,932 to $2,291,009 in the allowance for doubtful accounts relating to self-pay patients and increased such estimate from $643,887 to $893,094 for doubtful accounts relating to third-party payors. During 2011, self-pay write-offs increased from $2,177,218 to $3,572,590. Such increases resulted from trends experienced in the collection of amounts from self-pay patients and third-party payors.

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 certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2009.

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 per diem 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

Inpatient services rendered to 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.

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.

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 59% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2011 and 2010. The Hospital has agreements with the Centers for Medicare and Medicaid Services (Medicare) and the Office of Vermont Health Access (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 that amounts become known. In 2011, net patient service revenue increased by approximately $95,000 and in 2010, net patient service revenue decreased by approximately $281,000 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 fiscal year ended September 30, 2011 totaled $67,991,558, of which $63,658,251 was revenue from third-party payors and $4,333,307 was revenue from self-pay patients. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized during fiscal year ended September 30, 2010 totaled $63,328,601, of which $59,276,022 was revenue from third-party payors and $4,052,579 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 $619,000 in 2011 and $512,800 in 2010. The total cost estimate is based on an overall financial statement cost to charge ratio applied against gross charity care charges. In 2011 and 2010, 1.0% and 1.1%, respectively, of all services as defined by percentage of gross revenue was provided on a charity basis.

In 2011, of a total of 44 inpatients received their entire episode of service on a charity case basis. In 2010, of a total of 45 inpatients received their entire episode of service on a charity case basis.

In 2011, of a total of 975 outpatients received their entire episode of service on a charity case basis. In 2010, of a total of 1,072 outpatients received their entire episode of service on a charity case basis.

4. Investments and Investment Return

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

	2011	2010
Held by trustee under debt agreement		
Cash and cash equivalents	**$ 486,220**	$ 442,109
Deferred compensation		
Cash and cash equivalents	**$ 935,526**	$ 763,540

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

	2011	2010
Cash and cash equivalents	**$ 568,232**	$ 372,405
Mutual funds	**295,672**	311,982
Marketable equity securities	**1,313,725**	1,381,278
Corporate and taxable bonds	**562,000**	613,171
U.S. Government obligations and government securities	**510,041**	347,953
Government sponsored enterprises	**155,591**	70,971
	$ 3,405,261	$ 3,097,760

Total investment return is comprised of the following for the years ending September 30:

	2011	2010
Interest and dividend income	**$ 229,988**	$ 260,886
Net unrealized (losses) gains	**(175,221)**	89,849
Realized gains	**83,152**	61,422
	$ 137,919	$ 412,157

Total investment income is reflected in the statement of operations and changes in net assets as follows:

	2011	2010
Unrestricted net assets		
Other nonoperating income	**$ 147,437**	$ 395,677
Temporarily restricted net assets	**(9,518)**	16,480
	$ 137,919	$ 412,157

5. Property and Equipment

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

	2011	2010
Land and land improvements	**$ 2,493,770**	$ 2,449,862
Buildings and leasehold improvements	**30,563,674**	29,690,618
Equipment	**19,398,762**	13,809,494
Construction in progress	**120,744**	1,497,357
	52,576,950	47,447,331
Less accumulated depreciation	**(21,183,417)**	(18,095,834)
Net property and equipment, at cost	**$ 31,393,533**	$ 29,351,497

Construction in progress as of September 30, 2011, consists of costs related to an information technology system conversion. The project is expected to be completed by September 2012, with an estimated cost of completion of $4,359,000. As of September 30, 2011, PMC has committed $1,500,000 to complete the project.

6. 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 years ended September 30, 2011 and 2010, was $138,366 and $141,645, respectively.

7. Borrowings

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

	2011	2010
Vermont Educational and Health Buildings Financing Agency (VEHBFA) Variable Rate Demand Revenue Bonds:		
2005 Series A bonds with variable interest (.15% at September 30, 2011), payable in annual installments ranging from $335,000 to $890,000 through December 2035, secured gross receipts of Porter Hospital.	**$14,220,000**	$ 14,540,000
2000 Series A bonds with variable interest (.17% at September 30, 2011, payable in annual installments ranging from $105,000 to $295,000 through October 2030, secured by gross receipts of HPNH.	**3,690,000**	3,800,000
Note payable to a bank, monthly payments of $5,422, including principal and interest at 6.75%, due in June 2015; collateralized by property, lease agreement and a security agreement; guaranteed by Porter Hospital, Inc.	**218,567**	267,855
Variable rate note payable to a bank (3.00% at September 30, 2011), due in monthly payments of $2,875 including principal and interest, due in full February 2021; collateralized by property, guaranteed by Porter Hospital, Inc.	**228,730**	249,558
Note payable at a fixed interest rate of 4.7%, monthly payments of $24,400, due in March 2015; collateralized by certain equipment.	**928,113**	1,201,070

	2011	2010
Note payable at a variable interest rate of (4% at September 30, 2011), monthly payments of $1,743, with the remaining principal, originally due in March 2019; collateralized by certain property.	**207,292**	221,292
Note payable at a fixed interest rate of 7.5%, monthly payments of $1,329, paid in full at September 30, 2011.	**-**	38,971
Capital lease obligations, at various rates with monthly payments ranging from $349 to $37,110, due 2012 through 2016; collateralized by leased equipment.	**2,215,908**	1,022,873
	21,708,610	21,341,619
Less current maturities	**1,573,192**	1,161,483
	$20,135,418	$ 20,180,136

Letters of Credit

As part of the bond covenants, the Hospital is required to maintain a letter of credit. The letter of credit is issued by a bank in the amount of the outstanding principal balance plus 45 days' interest calculated at 10%, which, in turn, is secured by the gross receipts of the Hospital. The current letter of credit expires September 30, 2013.

In connection with the letter of credit securing the 2005 Series A bonds, the Hospital is subject to certain financial covenants which include capitalization and debt service coverage, restrictions on acquisition of new indebtedness, disposition of properties, consolidations or mergers and transfers of assets between affiliated companies. The Hospital is in compliance with all of these financial covenants.

As part of the bond covenants, 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 March 24, 2013. PMC is a co-obligor on the letter of credit. In connection with the letter of credit securing the 2000 Series A bonds HPNH and PMC are required to maintain a debt service coverage ratio of not less than 1.5. HPNH and PMC were in compliance with this requirement at September 30, 2011.

Aggregate annual maturities of long-term debt and payments on capital lease obligations at September 30, 2011, are:

	Long-term Debt (Excluding Capital Lease Obligations)	Capital Lease Obligations
2012	$ 730,782	$ 866,639
2013	824,700	789,578
2014	868,900	631,844
2015	750,000	88,512
2016	565,300	29,504
Thereafter	15,753,020	-
	$ 19,492,702	2,406,077
Less amount representing interest		(190,169)
		$ 2,215,908

8. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purpose or periods:

	2011	2010
Health care services	**$ 79,831**	$ 107,648
Purchase of equipment	**2,787**	76,282
Indigent care	**236,380**	236,380
	$ 318,998	$ 420,310

Permanently restricted net assets are restricted to:

	2011	2010
Investments to be held in perpetuity, the income is restricted for indigent care	**$ 117,682**	$ 117,682
Beneficial interests in perpetual trusts, the income is unrestricted	**2,851,219**	2,952,405
	$ 2,968,901	$ 3,070,087

9. Assets Held in Trust

The Hospital is a contingent income beneficiary of two trusts. 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 $3,458,000 and $3,581,000 on September 30, 2011 and 2010, respectively. Distributions of income are made at the discretion of the trustees. Income distributed to the Hospital by the trusts is to be used to defray the cost of providing charity care and amounted to $186,633 in 2011 and $171,793 in 2010.

10. Other Program Income, net

Other program income, net represents the net income resulting from the federal 340(b) Drug Pricing Program. The Program provides for discounts and reduced prices on medications because the Hospital as a qualified federal grantee (as a Critical Access Hospital). In addition to savings for medications used within the Hospital, the Hospital has also established contracts with five local pharmacies during 2011. 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. The net of these three amounts resulted in net program income of $1,428,863 for the year ended September 30, 2011.

11. Functional Expenses

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

	2011	2010
Health care services	**$ 58,022,831**	$ 56,318,377
General and administrative	**8,882,604**	8,829,456
	$ 66,905,435	$ 65,147,833

12. Concentration of 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 payers at September 30, 2011 and 2010, is:

	2011	2010
Medicare	**36 %**	27 %
Medicaid	**11**	10
Other third-party payors	**26**	29
Patients	**27**	34
	100 %	100 %

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.

13. Commitments and Contingencies

Medical Malpractice Claims

The Medical Center purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. GAAP requires a health care provider to accrue the expense of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Medical Center's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Guarantees

The Hospital guarantees certain third-party debts of PREH. The guarantee terms are for periods of 9 and 14 years. Should the Hospital be obligated to perform under the guarantee agreements, the Hospital may seek reimbursement from the related organization of amounts expended under the guarantees. At September 30, 2011 and 2010, the total outstanding balances on the guaranteed loans were approximately $447,000 and $517,500, respectively.

Self-Insurance

The Medical Center is self-insured for employee health care benefits. The Medical Center accrues a liability for employee health care 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.

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.

14. Benefit Plans

Defined Contribution Plan

The Medical Center has a 403(b) defined contribution pension plan covering substantially all 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 covered payroll based on the employee's years of service and the employee's age as of January 1, 2011.

The Medical Center has estimated a liability of approximately $943,000 and $887,000 at September 30, 2011 and 2010, 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 $1,157,000 and $1,123,000 for calendar years 2011 and 2010, respectively.

Deferred Compensation Plan

The Medical Center has nonqualified deferred compensation plan established under Section 457 of the Internal Revenue Code of 1986. 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. Expense under such plans amounted to $82,000 and $87,000 for the years ended September 30, 2011 and 2010, respectively.

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 $133,212 to the plan in 2012.

The Medical Center has adopted FASB ASC 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 The Medical Center.

The Medical Center uses a September 30, 2010 measurement date for the plan. Significant balances, costs and assumptions for the plan as a whole are:

	2011	2010
Benefit obligations	**$ (10,942,491)**	$ (10,690,102)
Fair value of plan assets	**7,679,106**	7,646,052
Funded Status	**$ (3,263,385)**	$ (3,044,050)

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:

	2011	2010
Change in benefit obligation		
Benefit obligation at beginning of year	**$ 10,690,102**	$ 9,744,578
Interest cost	**554,076**	553,482
Actuarial (gain) loss	**(24,710)**	647,213
Benefits paid	**(276,977)**	(255,171)
Benefit obligation at end of year	**$ 10,942,491**	$ 10,690,102
Change in plan assets		
Fair value of plan assets at beginning of year	**$ 7,646,052**	$ 7,274,994
Actual return on plan assets	**(101,595)**	526,229
Employer contributions	**411,626**	100,000
Benefits paid	**(276,977)**	(255,171)
Fair value of plan assets at end of year	**$ 7,679,106**	$ 7,646,052
Components of net periodic benefit cost		
Interest cost	**$ 554,076**	$ 553,482
Expected return on plan assets	**(516,972)**	(490,199)
Amortization of net loss	**163,718**	124,366
Net periodic benefit cost	**$ 200,822**	$ 187,649
Weighted average assumptions used to determine benefit obligation		
Discount rate	**5.50 %**	5.25 %
Weighted average assumptions used to determine benefit cost		
Discount rate	**5.25**	5.75
Expected return on assets	**6.85**	6.85

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 as of September 30, 2011:

2011	$ 325,864
2012	377,573
2013	396,178
2014	442,799
2015	475,394
2016 - 2020	2,985,271

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 agreements permit 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, plan assets by category are as follows:

	2011	2010
Equity securities	**43.0 %**	47.4 %
Debt securities	**49.2**	45.3
Other assets	**7.8**	7.3
	100.0 %	100.0 %

No amounts are expected to be recognized in the next year 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 the Medical Center in 2012.

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.

15. 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 General Assembly. A foundation associated with the Vermont Association of Hospitals and Health Systems redistributes amounts from hospitals who receive state funds in excess of their Medicaid assessment. The following tax was paid and funds received by the Hospital and HPNH:

	2011	2010
Medicaid assessment	**$ 3,588,860**	$ 2,899,523
Disproportionate share payments received	**(1,158,110)**	(1,085,929)
	2,430,750	1,813,594
Foundation revenue, included in other revenue	**-**	(495,507)
	$ 2,430,750	$ 1,318,087

16. Operating Leases

Noncancelable operating leases at the Hospital for primary care outpatient offices expire in various years through May 2013. 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, 2011, after elimination of related party leases were:

2012	$ 744,600
2013	556,600
2014	387,600
2015	387,600
2016	247,600
	$ 2,324,000

17. Fair Value Measurements

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. 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.

	Fair Value Measurements at September 30, 2011			
	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments				
Cash and cash equivalents	$ 568,232	$ 568,232	$ -	$ -
Corporate and taxable bonds	562,000	-	562,000	-
U.S. Treasury obligations and government securities	510,041	510,041	-	-
Government sponsored enterprises	155,591	-	155,591	-
Marketable equity securities				
Basic materials	28,845	28,845	-	-
Communication services	39,013	39,013	-	-
Consumer staples	142,096	142,096	-	-
Consumer discretionary	126,126	126,126	-	-
Energy	149,719	149,719	-	-
Financial services	169,501	169,501	-	-
Healthcare	170,202	170,202	-	-
Industrials	121,547	121,547	-	-
Technology	233,005	233,005	-	-
Utilities	30,679	30,679	-	-
Miscellaneous	102,992	102,992	-	-
Total marketable equity securities	1,313,725	1,313,725	-	-
Mutual funds				
Growth funds	87,789	87,789	-	-
Equity funds	158,604	158,604	-	-
Bond funds	15,197	15,197	-	-
International funds	34,082	34,082	-	-
Total mutual funds	295,672	295,672	-	-
Deferred compensation plan assets: cash and cash equivalents	935,526	935,526	-	-
Beneficial interest in perpetual trust	2,851,219	-	-	2,851,219
Total assets	$ 7,192,006	$ 3,623,196	$ 717,591	$ 2,851,219

	Fair Value Measurements at September 30, 2011			
	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Pension assets:				
Cash and cash equivalents	$ 591,426	$ 591,426	$ -	$ -
Mutual funds				
Growth funds	972,862	972,862	-	-
Equity funds	2,330,897	2,330,897	-	-
Bond funds	3,777,562	3,777,562	-	-
Total mutual funds	7,081,321	7,081,321	-	-
Accrued interest	6,359	6,359	-	-
Total	$ 7,679,106	$ 7,679,106	$ -	$ -

Significant activity for the year ended September 30, 2011 for assets measured at the fair value on a recurring basis using unobservable inputs (Level 3) is as follows:

Level 3 investments at October 1, 2010	$ 2,952,405
Net appreciation of beneficial interest in perpetual trusts	(101,186)
Level 3 investments at September 30, 2011	$ 2,851,219

	Fair Value Measurements at September 30, 2010			
	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments				
Cash and cash equivalents	$ 372,405	$ 372,405	$ -	$ -
Corporate and taxable bonds	613,171	-	613,171	-
U.S. Treasury obligations and government securities	347,953	347,953	-	-
Government sponsored enterprises	70,971	-	70,971	-
Marketable equity securities				
Basic materials	48,228	48,228	-	-
Communication services	51,011	51,011	-	-
Consumer discretionary	96,574	96,574	-	-
Consumer staple	183,759	183,759	-	-
Energy	164,989	164,989	-	-
Financial services	195,901	195,901	-	-
Healthcare	171,296	171,296	-	-
Industrials	204,857	204,857	-	-
Technology	224,008	224,008	-	-
Utilities	40,655	40,655	-	-
Total marketable equity securities	1,381,278	1,381,278	-	-
Mutual funds				
Growth funds	85,196	85,196	-	-
Equity funds	170,869	170,869	-	-
Bond funds	14,663	14,663	-	-
International funds	41,254	41,254	-	-
Total mutual funds	311,982	311,982	-	-
Deferred compensation plan assets: cash and cash equivalents	763,540	763,540	-	-
Beneficial interest in perpetual trust	2,952,405	-	-	2,952,405
Total assets	$ 6,813,705	$ 3,177,158	$ 684,142	$ 2,952,405

	Fair Value Measurements at September 30, 2011			
	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Pension assets:				
Cash and cash equivalents	$ 522,812	$ 522,812	$ -	$ -
Corporate bonds	1,018,165	-	1,018,165	-
U.S. Treasury obligations and government securities	2,445,736	-	2,445,736	-
Marketable equity securities				
Basic materials	85,416	85,416	-	-
Communication services	75,636	75,636	-	-
Consumer discretionary	300,304	300,304	-	-
Consumer staples	145,996	145,996	-	-
Energy	253,184	253,184	-	-
Financial services	357,617	357,617	-	-
Healthcare	275,245	275,245	-	-
Industrials	293,684	293,684	-	-
Technology	432,420	432,420	-	-
Utilities	88,185	88,185	-	-
Total equities	2,307,687	2,307,687	-	-
Mutual funds				
Growth funds	381,854	381,854	-	-
Equity funds	932,163	932,163	-	-
Total mutual funds	1,314,017	1,314,017	-	-
Accrued interest	37,635	37,635	-	-
Total	$ 7,646,052	$ 4,182,151	$ 3,463,901	$ -

Significant activity for the year ended September 30, 2010 for assets measured at the fair value on a recurring basis using unobservable inputs (Level 3) is as follows:

Level 3 investments at October 1, 2009	$ 2,542,132
Net appreciation of beneficial interest in perpetual trusts	410,273
Level 3 investments at September 30, 2010	$ 2,952,405

The fair value of Level 2 assets is primarily based on quoted market prices of underlying assets, comparable securities. The fair value of Level 3 assets is based on the Medical Centers share of underlying assets of the trust. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The Medical Center's financial instruments consist of cash and cash equivalents, marketable securities, trade accounts receivable and payable, estimated third-party payor settlements and long-term debt. The fair values of all financial instruments approximate their carrying values at September 30, 2011 and 2010.

SUPPLEMENTARY INFORMATION

PORTER MEDICAL CENTER, INC. AND SUBSIDIARIES

Consolidating - Balance Sheets

September 30, 2011

Assets

	Porter Medical Center, Inc.	Porter Hospital, Inc.	Helen Porter Nursing Home, Inc.	Porter Management Services, Inc.	Porter Real Estate Holdings, LLC	Eliminations	Consolidated
Current assets							
Cash and cash equivalents	$ 206,534	$ 3,100,982	$ 256,426	$ 75,882	$ 1,803	$ -	$ 3,641,627
Assets limited as to use, trustee held funds under debt agreements	-	337,031	149,189	-	-	-	486,220
Patient accounts receivable, net	-	10,069,880	1,309,874	-	-	-	11,379,754
Other receivables, net	195,601	1,132,783	-	45,534	-	-	1,373,918
Current portion of note receivable, related party	-	3,103	-	-	-	(3,103)	-
Supplies	-	1,178,244	26,707	-	-	-	1,204,951
Prepaid expenses and other	3,174	594,316	24,479	571	-	-	622,540
Due from affiliates	263	240,336	1,975	164,269	2,067	(408,910)	-
Total current assets	405,572	16,656,675	1,768,650	286,256	3,870	(412,013)	18,709,010
Assets limited as to use, deferred compensation plan assets	-	412,630	-	522,896	-	-	935,526
Long-term investments	303,285	3,101,976	-	-	-	-	3,405,261
Property and equipment, net	-	28,812,904	1,473,377	-	1,165,467	(58,215)	31,393,533
Beneficial interest in perpetual trusts	-	2,851,219	-	-	-	-	2,851,219
Deferred financing costs, net	-	142,662	119,893	-	-	-	262,555
Notes receivable	-	212,567	-	-	-	-	212,567
Note receivable, related party - noncurrent	741,973	34,794	-	-	-	(776,767)	-
Investment in subsidiary	611,769	-	-	-	-	(611,769)	-
Total assets	$ 2,062,599	$ 52,225,427	$ 3,361,920	$ 809,152	$ 1,169,337	$ (1,858,764)	$ 57,769,671

PORTER MEDICAL CENTER, INC. AND SUBSIDIARIES

Consolidating - Balance Sheets (Concluded)

September 30, 2011

Liabilities and Net Assets (Deficit)

	Porter Medical Center, Inc.	Porter Hospital, Inc.	Helen Porter Nursing Home, Inc.	Porter Management Services, Inc.	Porter Real Estate Holdings, LLC	Eliminations	Consolidated
Current liabilities							
Current portion of long-term debt	$ -	$ 1,385,558	$ 114,171	$ -	$ 76,566	$ (3,103)	$ 1,573,192
Accounts payable and accrued expenses	11,175	1,620,426	252,814	1,925	4,689	-	1,891,029
Accrued payroll and related liabilities	-	2,051,341	558,349	45,884	-	-	2,655,574
Estimated third-party settlements	-	1,183,000	-	-	-	-	1,183,000
Accrued vacation	-	2,176,110	-	97,403	-	-	2,273,513
Deferred revenue	-	22,508	-	-	-	-	22,508
Due to affiliates	2,601	148,688	117,028	72,908	67,685	(408,910)	-
Total current liabilities	13,776	8,587,631	1,042,362	218,120	148,940	(412,013)	9,598,816
Liability for pension benefits	-	2,515,825	494,931	252,629	-	-	3,263,385
Deferred compensation	-	412,630	-	522,896	-	-	935,526
Residual receipts note to affiliate	-	-	741,973	-	-	(741,973)	-
Long-term debt, net of current portion	-	16,173,391	3,588,193	-	408,628	(34,794)	20,135,418
Total liabilities	13,776	27,689,477	5,867,459	993,645	557,568	(1,188,780)	33,933,145
Net assets (deficit)							
Unrestricted	2,048,823	21,283,161	(2,540,649)	(184,493)	611,769	(669,984)	20,548,627
Temporarily restricted	-	283,888	35,110	-	-	-	318,998
Permanently restricted	-	2,968,901	-	-	-	-	2,968,901
Total net assets (deficit)	2,048,823	24,535,950	(2,505,539)	(184,493)	611,769	(669,984)	23,836,526
Total liabilities and net assets	$ 2,062,599	$ 52,225,427	$ 3,361,920	$ 809,152	$ 1,169,337	$ (1,858,764)	$ 57,769,671

PORTER MEDICAL CENTER, INC. AND SUBSIDIARIES

Consolidating - Statements of Operations

Year Ended September 30, 2011

	Porter Medical Center, Inc.	Porter Hospital, Inc.	Helen Porter Nursing Home, Inc.	Porter Management Services, Inc.	Porter Real Estate Holdings, LLC	Eliminations	Consolidated
Unrestricted revenues, gains and other support							
Patient service revenue (net of contractual allowances and discounts)	$ -	$ 58,979,939	$ 9,113,375	$ -	$ -	$ (101,756)	$ 67,991,558
Less provision for (recoveries) bad debts	-	2,326,120	(3,592)	-	-	-	2,322,528
Net patient service revenue	-	56,653,819	9,116,967	-	-	(101,756)	65,669,030
Property rental income, related party	-	-	-	-	108,790	(108,790)	-
Other operating revenue	51	1,806,096	48,688	1,820,228	23,686	(1,856,592)	1,842,157
Net assets released from restrictions used for operations	-	79,302	31,428	-	-	-	110,730
Total unrestricted revenues, gains and other support	51	58,539,217	9,197,083	1,820,228	132,476	(2,067,138)	67,621,917
Expenses							
Professional care of patients	-	32,161,266	4,440,730	-	-	(101,756)	36,500,240
General services	-	3,800,481	1,602,448	-	-	(108,790)	5,294,139
Administrative and fiscal services	105,735	14,965,041	2,412,994	1,658,893	70,159	(1,856,592)	17,356,230
Health care improvement tax	-	3,158,424	430,436	-	-	-	3,588,860
Depreciation and amortization	-	3,431,186	307,630	-	35,367	-	3,774,183
Interest	-	314,456	64,819	-	14,878	(2,370)	391,783
Total expenses	105,735	57,830,854	9,259,057	1,658,893	120,404	(2,069,508)	66,905,435
Operating (loss) income	(105,684)	708,363	(61,974)	161,335	12,072	2,370	716,482
Nonoperating gains							
Contributions received	75,331	186,633	-	-	-	-	261,964
Investment income	15,469	134,040	-	298	-	(2,370)	147,437
Other program income, net	-	1,428,863	5,218	-	-	-	1,434,081
Equity in earnings of Porter Real Estate Holdings, LLC	12,072	-	-	-	-	(12,072)	-
Nonoperating gains	102,872	1,749,536	5,218	298	-	(14,442)	1,843,482
(Deficiency) excess of revenues, gains and other support over expenses and nonoperating gains	$ (2,812)	$ 2,457,899	$ (56,756)	$ 161,633	$ 12,072	$ (12,072)	$ 2,559,964
Net assets released from restrictions used for purchase of property and equipment	-	(347,098)	(67,270)	(15,771)	-	-	(430,139)
Change in net assets to recognize funded status of pension plan	-	-	39,263	-	-	-	39,263
Equity transfer (to) from affiliate	(733,168)	(98,688)	901,856	(70,000)	-	-	-
Increase (decrease) in unrestricted net assets	$ (735,980)	$ 2,012,113	$ 817,093	$ 75,862	$ 12,072	$ (12,072)	$ 2,169,088

PORTER MEDICAL CENTER, INC. AND SUBSIDIARIES

Consolidating - Balance Sheets

September 30, 2010

Assets

	Porter Medical Center, Inc.	Porter Hospital, Inc.	Helen Porter Nursing Home, Inc.	Porter Management Services, Inc.	Porter Real Estate Holdings, LLC	Eliminations	Consolidated
Current assets							
Cash and cash equivalents	$ 187,594	$ 6,737,172	$ 387,354	$ 135,763	$ 30,577	$ -	$ 7,478,460
Assets limited as to use, trustee held funds under debt agreements	-	322,937	119,172	-	-	-	442,109
Patient accounts nonreceivable, net	-	6,784,157	984,103	-	-	-	7,768,260
Other receivables, net	242,774	367,095	-	29,552	-	-	639,421
Current portion of note receivable, related party	-	2,922	-	-	-	(2,922)	-
Supplies	-	754,471	24,831	-	-	-	779,302
Prepaid expenses and other	38,356	394,536	75,528	62,776	-	(183,930)	387,266
Due from affiliates	182	428,190	1,188	379,440	-	(809,000)	-
Total current assets	468,906	15,791,480	1,592,176	607,531	30,577	(995,852)	17,494,818
Assets limited as to use, deferred compensation plan assets	-	302,984	-	460,556	-	-	763,540
Long-term investments	163,427	2,934,333	-	-	-	-	3,097,760
Property and equipment, net	-	26,686,903	1,582,608	-	1,140,201	(58,215)	29,351,497
Beneficial interest in perpetual trusts	-	2,952,405	-	-	-	-	2,952,405
Deferred financing costs, net	-	148,674	132,841	-	-	-	281,515
Notes receivable	188,627	17,637	-	-	-	-	206,264
Note receivable, related party - noncurrent	1,590,589	37,896	-	-	-	(1,628,485)	-
Contributions receivable, noncurrent	11,905	-	-	-	-	-	11,905
Investment in subsidiary	599,697	-	-	-	-	(599,697)	-
Total assets	$ 3,023,151	$ 48,872,312	$ 3,307,625	$ 1,068,087	$ 1,170,778	$ (3,282,249)	$ 54,159,704

PORTER MEDICAL CENTER, INC. AND SUBSIDIARIES

Consolidating - Balance Sheets (Concluded)

September 30, 2010

Liabilities and Net Assets (Deficit)

	Porter Medical Center, Inc.	Porter Hospital, Inc.	Helen Porter Nursing Home, Inc.	Porter Management Services, Inc.	Porter Real Estate Holdings, LLC	Eliminations	Consolidated
Current liabilities							
Current portion of long-term debt	$ -	$ 978,213	$ 113,872	$ -	$ 72,320	$ (2,922)	$ 1,161,483
Accounts payable and accrued expenses	13,836	1,863,591	232,519	16,459	7,766	-	2,134,171
Accrued payroll and related liabilities	-	1,679,092	480,957	105,312	-	-	2,265,361
Estimated third-party settlements	-	600,000	-	-	-	-	600,000
Accrued vacation	-	1,864,519	-	163,916	-	-	2,028,435
Deferred revenue	-	112,592	-	-	-	-	112,592
Due to affiliates	40,582	310,644	99,986	352,705	5,083	(809,000)	-
Total current liabilities	54,418	7,408,651	927,334	638,392	85,169	(811,922)	8,302,042
Liability for pension benefits	-	2,418,302	396,254	229,494	-	-	3,044,050
Deferred compensation	-	302,984	-	460,556	-	-	763,540
Residual receipts note to affiliate	-	-	1,590,589	-	-	(1,590,589)	-
Long-term debt, net of current portion	-	16,029,735	3,702,385	-	485,912	(37,896)	20,180,136
Total liabilities	54,418	26,159,672	6,616,562	1,328,442	571,081	(2,440,407)	32,289,768
Net assets (deficit)							
Unrestricted	2,784,803	19,271,048	(3,357,742)	(260,355)	599,697	(657,912)	18,379,539
Temporarily restricted	183,930	371,505	48,805	-	-	(183,930)	420,310
Permanently restricted	-	3,070,087	-	-	-	-	3,070,087
Total net assets (deficit)	2,968,733	22,712,640	(3,308,937)	(260,355)	599,697	(841,842)	21,869,936
Total liabilities and net assets	$ 3,023,151	$ 48,872,312	$ 3,307,625	$ 1,068,087	$ 1,170,778	$ (3,282,249)	$ 54,159,704

PORTER MEDICAL CENTER, INC. AND SUBSIDIARIES

Consolidating - Statements of Operations

Year Ended September 30, 2010

	Porter Medical Center, Inc.	Porter Hospital, Inc.	Helen Porter Nursing Home, Inc.	Porter Management Services, Inc.	Porter Real Estate Holdings, LLC	Eliminations	Consolidated
Unrestricted revenues, gains and other support							
Patient service revenue (net of contractual allowances and discounts)	$ -	$ 54,573,553	$ 8,886,060	$ -	$ -	$ (131,012)	$ 63,328,601
Less provision for bad debts	-	3,102,565	9,664	-	-	-	3,112,229
Net patient service revenue	-	51,470,988	8,876,396	-	-	(131,012)	60,216,372
Property rental income, related party	-	-	-	-	142,320	(142,320)	-
Other operating revenue	40,822	2,130,935	43,767	3,462,916	-	(3,489,638)	2,188,802
Net assets released from restrictions used for operations	-	120,399	8,328	-	-	-	128,727
Total unrestricted revenues, gains and other support	40,822	53,722,322	8,928,491	3,462,916	142,320	(3,762,970)	62,533,901
Expenses							
Professional care of patients	-	31,369,208	4,508,175	-	-	(131,012)	35,746,371
General services	-	3,363,898	1,479,440	-	-	(103,246)	4,740,092
Administrative and fiscal services	127,146	15,562,142	2,391,322	3,537,482	27,690	(3,528,712)	18,117,070
Health care improvement tax	-	2,483,444	416,079	-	-	-	2,899,523
Depreciation and amortization	-	2,980,433	313,442	-	33,754	-	3,327,629
Interest	-	223,858	101,549	-	31,379	(39,638)	317,148
Total expenses	127,146	55,982,983	9,210,007	3,537,482	92,823	(3,802,608)	65,147,833
Operating (loss) income	(86,324)	(2,260,661)	(281,516)	(74,566)	49,497	39,638	(2,613,932)
Nonoperating gains							
Contributions received	89,532	115,877	-	-	-	-	205,409
Investment return	59,287	370,521	-	5,507	-	(39,638)	395,677
Equity in earnings of Porter Real Estate Holdings, LLC	49,497	-	-	-	-	(49,497)	-
Nonoperating gains	198,316	486,398	-	5,507	-	(89,135)	601,086
Excess (deficiency) of revenues, gains and other support over expenses and nonoperating gains	111,992	(1,774,263)	(281,516)	(69,059)	49,497	(49,497)	(2,012,846)
Net assets released from restrictions used for purchase of property and equipment	-	40,600	37	-	-	-	40,637
Change in net assets to recognize funded status of pension plan	-	(377,283)	(75,943)	(33,591)	-	-	(486,817)
Increase (decrease) in unrestricted net assets	$ 111,992	$ (2,110,946)	$ (357,422)	$ (102,650)	$ 49,497	$ (49,497)	$ (2,459,026)

PORTER MEDICAL CENTER, INC. AND SUBSIDIARIES

Schedule of Required Financial Covenant Ratio

Year Ended September 30, 2011

Debt Service Coverage Ratio

Income available for debt service:		
Increase in unrestricted net assets	$	2,169,088
Net unrealized losses on investments		175,221
Depreciation and amortization		3,774,183
Interest expense		391,783
Change in net assets to recognize funded status of pension plan		430,139
Income available for debt service	$	6,940,414
Interest expense	$	391,783
Current portion of long-term debt		1,573,192
Annual debt service	$	1,964,975
Debt service coverage ratio required to be no less than 1.5		3.53

PORTER MEDICAL CENTER, INC. AND SUBSIDIARIES

Schedule of Required Financial Covenant Ratio

Year Ended September 30, 2011

Basis of Accounting

The accompanying Supplemental Schedule of Required Financial Covenant Ratio has been prepared in accordance with Section 5.09 of the Second Amended and Restated Letter of Credit Reimbursement Agreement dated September 22, 2005 as amended on March 16, 2010, between Helen Porter Nursing Home and Porter Medical Center, Inc. and TD Bank. The Debt Service Coverage Ratio has been derived from the financial statements of Porter Medical Center, Inc. and Subsidiaries for the year ended September 30, 2011.

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