



HELEN PORTER NURSING HOME, INC.

FINANCIAL STATEMENTS

September 30, 2012 and 2011

With Independent Auditors' Report

HELEN PORTER NURSING HOME, INC.

September 30, 2012 and 2011

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Balance Sheets	2
Statements of Operations	3
Statements of Changes in Net Assets (Deficit)	4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 19



INDEPENDENT AUDITORS' REPORT

Board of Directors
Helen Porter Nursing Home, Inc.

We have audited the accompanying balance sheets of Helen Porter Nursing Home, Inc. (Nursing Home), a subsidiary of Porter Medical Center, Inc., as of September 30, 2012 and 2011, and the related statements of operations, changes in net assets (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Nursing Home'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 financial statements referred to above present fairly, in all material respects, the financial position of Helen Porter Nursing Home, Inc. as of September 30, 2012 and 2011, and the results of its operations, the changes in its net assets (deficit) and its cash flows for the years then ended in conformity with U.S. generally accepted auditing principles.

As discussed in Note 12 of the financial statements, Helen Porter Nursing Home, Inc. is dependent on its affiliates for continued financial support.

Berry, Dunn, McNeil & Parker

Manchester, New Hampshire
January 8, 2013
Registration No. 92-0000278

HELEN PORTER NURSING HOME, INC.

Balance Sheets

September 30, 2012 and 2011

ASSETS

	<u>2012</u>	<u>2011</u>
Current assets		
Cash and cash equivalents	\$ 385,528	\$ 238,900
Assets limited as to use	210,205	149,189
Accounts receivable, net of allowance of \$39,738 in 2012 and \$23,583 in 2011	1,319,880	1,311,219
Supplies	28,146	26,707
Prepaid expenses and other	13,422	23,134
Resident deposits	18,363	17,526
Due from affiliates	<u>1,697</u>	<u>1,975</u>
Total current assets	1,977,241	1,768,650
Property and equipment, net	1,346,173	1,473,377
Deferred financing costs	<u>106,945</u>	<u>119,893</u>
 Total assets	 <u>\$ 3,430,359</u>	 <u>\$ 3,361,920</u>

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

LIABILITIES AND NET ASSETS (DEFICIT)

	<u>2012</u>	<u>2011</u>
Current liabilities		
Current portion of long-term debt	\$ 114,541	\$ 114,171
Accounts payable	133,439	235,288
Resident deposits	18,363	17,526
Accrued payroll and other accrued expenses	613,202	558,349
Due to affiliates	<u>102,765</u>	<u>117,028</u>
Total current liabilities	982,310	1,042,362
Liability for pension benefits	824,975	494,931
Residual receipts note to affiliate	741,973	741,973
Long-term debt, excluding current portion	<u>3,478,652</u>	<u>3,588,193</u>
Total liabilities	<u>6,027,910</u>	<u>5,867,459</u>
Commitments and contingencies (Notes 8, 9 and 10)		
Net assets (deficit)		
Unrestricted	(2,688,571)	(2,540,649)
Temporarily restricted	<u>91,020</u>	<u>35,110</u>
Total net assets (deficit)	<u>(2,597,551)</u>	<u>(2,505,539)</u>
Total liabilities and net assets	<u>\$ 3,430,359</u>	<u>\$ 3,361,920</u>

HELEN PORTER NURSING HOME, INC.

Statements of Operations

Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Unrestricted revenues, gains and other support		
Resident service revenue (net of contractual allowances and discounts)	\$ 9,456,312	\$ 9,114,075
Less provision for (recoveries of) bad debts	<u>16,155</u>	<u>(3,592)</u>
Net resident service revenue	9,440,157	9,117,667
Other operating revenue	40,388	47,988
Net assets released from restrictions used for operations	<u>5,581</u>	<u>31,428</u>
Total unrestricted revenues, gains and other support	<u>9,486,126</u>	<u>9,197,083</u>
Expenses		
Professional care of residents	4,593,753	4,437,213
Dietary services	695,046	701,808
General services	884,918	900,640
Administrative and fiscal services	2,415,179	2,416,511
Health care improvement tax	516,551	430,436
Depreciation and amortization	294,236	307,630
Interest	<u>59,853</u>	<u>64,819</u>
Total expenses	<u>9,459,536</u>	<u>9,259,057</u>
Operating income (loss)	<u>26,590</u>	<u>(61,974)</u>
Nonoperating gains		
Lifeline	<u>9,864</u>	<u>5,218</u>
Excess (deficiency) of revenue, gains and other support over expenses and nonoperating gains	36,454	(56,756)
Net assets released from restrictions for capital acquisitions	53,707	39,263
Change in net assets to recognize funded status of pension plan	(289,633)	(67,270)
Equity transfer from affiliate	<u>51,550</u>	<u>901,856</u>
(Decrease) increase in unrestricted net assets	<u>\$ (147,922)</u>	<u>\$ 817,093</u>

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

HELEN PORTER NURSING HOME, INC.

Statements of Changes in Net Assets (Deficit)

Years Ended September 30, 2012 and 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Balances, October 1, 2010	\$ <u>(3,357,742)</u>	\$ <u>48,805</u>	\$ <u>(3,308,937)</u>
Deficiency of revenue, gains and other support over expenses and nonoperating gains	(56,756)	-	(56,756)
Change in net assets to recognize funded status of pension plan	(67,270)	-	(67,270)
Contributions	-	56,996	56,996
Net assets released from restrictions used for operations	-	(31,428)	(31,428)
Net assets released from restrictions for capital acquisitions	39,263	(39,263)	-
Transfer from Affiliates	<u>901,856</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in net assets	<u>817,093</u>	<u>(13,695)</u>	<u>803,398</u>
Balances, September 30, 2011	<u>(2,540,649)</u>	<u>35,110</u>	<u>(2,505,539)</u>
Excess of revenue, gains and other support over expenses and nonoperating gains	36,454	-	36,454
Contributions	-	115,198	115,198
Change in net assets to recognize funded status of pension plan	(289,633)	-	(289,633)
Net assets released from restrictions used for operations	-	(5,581)	(5,581)
Net assets released from restrictions for capital acquisitions	53,707	(53,707)	-
Transfer from affiliates	<u>51,550</u>	<u>-</u>	<u>51,550</u>
Net (decrease) increase in net assets	<u>(147,922)</u>	<u>55,910</u>	<u>(92,012)</u>
Balances, September 30, 2012	<u>\$ (2,688,571)</u>	<u>\$ 91,020</u>	<u>\$ (2,597,551)</u>

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

HELEN PORTER NURSING HOME, INC.

Statements of Cash Flows

Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Change in net assets	\$ (92,012)	\$ 803,398
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	294,236	307,630
Provision for (recoveries of) bad debts	16,155	(3,592)
Changes in net assets to recognize funded status of pension plan	289,633	67,270
Equity transfer from affiliate	(51,550)	(901,856)
(Increase) decrease in		
Accounts receivable, net	(24,816)	(322,179)
Due from affiliates	278	(787)
Supplies, prepaid expenses, and other current assets	8,273	49,173
Increase (decrease) in		
Due to affiliates	(14,263)	17,042
Accounts payable, accrued payroll and other current liabilities	<u>(6,585)</u>	<u>129,070</u>
Net cash provided by operating activities	<u>419,349</u>	<u>145,169</u>
Cash flows from investing activities		
Purchase of property and equipment	(154,084)	(185,451)
Change in assets limited as to use	<u>(61,016)</u>	<u>(30,017)</u>
Net cash used by investing activities	<u>(215,100)</u>	<u>(215,468)</u>
Cash flows from financing activities		
Equity transfer from affiliate	51,550	53,240
Principal payments on long-term debt	<u>(109,171)</u>	<u>(113,893)</u>
Net cash used by financing activities	<u>(57,621)</u>	<u>(60,653)</u>
Increase (decrease) in cash and cash equivalents	146,628	(130,952)
Cash and cash equivalents, beginning of year	<u>238,900</u>	<u>369,852</u>
Cash and cash equivalents, end of year	\$ <u>385,528</u>	\$ <u>238,900</u>
Supplemental cash flow information		
Interest paid	\$ <u>59,853</u>	\$ <u>64,819</u>

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

HELEN PORTER NURSING HOME, INC.

Notes to Financial Statements

September 30, 2012 and 2011

Nature of Operations

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

1. Summary of Significant Accounting Policies

Basis of Presentation

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

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (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, 2012 and 2011, cash equivalents consisted primarily of money market accounts.

Assets Limited as to Use

Assets limited as to use are assets held by trustees under indenture agreements and are comprised of cash and short-term investments at September 30, 2012 and 2011.

HELEN PORTER NURSING HOME, INC.

Notes to Financial Statements

September 30, 2012 and 2011

Resident Accounts Receivable

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

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

Supplies

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

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on a straight-line basis.

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

Land Lease

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

HELEN PORTER NURSING HOME, INC.

Notes to Financial Statements

September 30, 2012 and 2011

Deferred Financing Costs

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

Temporarily Restricted Net Assets

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

Net Resident Service Revenue

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

Contributions

Unconditional promises to give cash and other assets are accrued at estimated fair value at the date each promise is received. Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. 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 met 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 (deficiency) of revenues, gains and other support over expenses and nonoperating gains. Changes in unrestricted net assets, which are excluded from this measure consistent with industry practice, include defined benefit pension plan adjustments, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Income Taxes

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

HELEN PORTER NURSING HOME, INC.

Notes to Financial Statements

September 30, 2012 and 2011

Reclassifications

Certain amounts in the 2011 financial statements have been reclassified to conform to the current year's presentation.

Subsequent Events

For purposes of the preparation of these financial statements in conformity with GAAP, the HPNH has considered transactions of events occurring through January 8, 2013, which was the date the financial statements were issued.

2. Net Resident Service Revenue

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

	<u>2012</u>	<u>2011</u>
Resident services		
Room and board	\$ 10,887,485	\$10,271,396
Medical supplies	269,119	298,514
Physical therapy	870,560	739,016
Speech therapy	12,010	15,276
Occupational therapy	560,060	604,341
Pharmacy	<u>193,021</u>	<u>205,456</u>
	12,792,255	12,133,999
Less contractual allowances	<u>3,335,943</u>	<u>3,019,924</u>
Resident service revenue (net of contractual allowances and discounts)	9,456,312	9,114,075
Less provision for (recoveries of) bad debts	<u>16,155</u>	<u>(3,592)</u>
Net resident service revenue	<u>\$ 9,440,157</u>	<u>\$ 9,117,667</u>

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

Medicare

HPNH is paid under a prospective payment system for Medicare Part A services. Under the prospective payment system, there is no additional settlement on the difference between the interim 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.

HELEN PORTER NURSING HOME, INC.

Notes to Financial Statements

September 30, 2012 and 2011

Medicaid

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

Approximately 86% and 88% of net resident service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2012 and 2011, respectively. Due to the large concentration of residents who receive benefits from the Medicaid and Medicare reimbursement programs, HPNH is highly dependent upon regulatory authorities establishing reimbursement rates that are adequate to sustain NPNH's operations.

3. Property and Equipment

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

	<u>2012</u>	<u>2011</u>
Land improvements	\$ 179,807	\$ 177,607
Building and improvements	4,383,005	4,315,211
Equipment	788,076	723,018
Construction in progress	<u>19,032</u>	<u>-</u>
	5,369,920	5,215,836
Less accumulated depreciation	<u>4,023,747</u>	<u>3,742,459</u>
Net property and equipment	<u>\$ 1,346,173</u>	<u>\$ 1,473,377</u>

HELEN PORTER NURSING HOME, INC.

Notes to Financial Statements

September 30, 2012 and 2011

4. Borrowings

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

	<u>2012</u>	<u>2011</u>
Vermont Educational and Health Buildings Financing Agency (VEHBFA) Variable Rate Demand Revenue Bonds:		
Series 2000A bonds with variable interest (0.17% at September 30, 2012), payable in annual installments ranging from \$110,000 to \$295,000 through October 2030; secured by gross receipts of HPNH.	\$ 3,585,000	\$ 3,690,000
Capital lease obligations with an imputed interest rate of 8.03%, due through June 2014; collateralized by certain equipment.	<u>8,193</u>	<u>12,364</u>
	3,593,193	3,702,364
Less current portion	<u>114,541</u>	<u>114,171</u>
	<u>\$ 3,478,652</u>	<u>\$ 3,588,193</u>

Aggregate annual maturities of long-term debt at September 30, 2012 are:

	Long-Term Debt (Excluding Capital Lease Obligations)	Capital Lease Obligations
2013	\$ 110,000	\$ 5,033
2014	120,000	3,773
2015	125,000	-
2016	120,000	-
2017	120,000	-
Thereafter	<u>2,990,000</u>	<u>-</u>
	<u>\$ 3,585,000</u>	8,806
Less amount representing interest		<u>(613)</u>
		<u>\$ 8,193</u>

HELEN PORTER NURSING HOME, INC.

Notes to Financial Statements

September 30, 2012 and 2011

Letter of Credit

As part of its 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 2000A bonds, PMC and HPNH are required to maintain a debt service coverage ratio of not less than 1.5 to 1.0. HPNH and PMC were not in compliance with this requirement at September 30, 2012 and have received a waiver of this covenant from TD Bank as of September 30, 2012.

5. Temporarily Restricted Net Assets

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

	<u>2012</u>	<u>2011</u>
Health care services	\$ <u>91,020</u>	\$ <u>35,110</u>

During 2012 and 2011, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes in the amounts of \$59,288 and \$70,691, respectively.

6. Functional Expenses

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

	<u>2012</u>	<u>2011</u>
Health care services	\$ <u>7,648,068</u>	\$ 7,480,121
General and administrative	<u>1,811,468</u>	<u>1,778,936</u>
	<u>\$ 9,459,536</u>	<u>\$ 9,259,057</u>

HELEN PORTER NURSING HOME, INC.

Notes to Financial Statements

September 30, 2012 and 2011

7. **Concentration of Credit Risk**

HPNH grants credit without collateral to its residents, most of whom are area residents and are insured under third-party payor agreements. The mix of receivables from residents and third-party payors at September 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Medicare	14 %	36 %
Medicaid	44	31
Self-pay	31	26
Other third-party payors	<u>11</u>	<u>7</u>
	<u>100 %</u>	<u>100 %</u>

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

8. **Commitments and Contingencies**

Medical Malpractice Claims

HPNH carries malpractice insurance coverage under a claims-made policy on a fixed premium basis. HPNH is subject to complaints, claims and litigation due to potential claims which arise in the normal course of business. GAAP requires HPNH to accrue the ultimate cost of malpractice claims when the incident that gives rise to the claim occurs, without consideration of insurance recoveries. Expected recoveries are presented as a separate asset. HPNH has evaluated its exposure to losses arising from potential claims and determined that no such accrual is necessary for the year ended September 30, 2012.

Self-Insurance

HPNH is self-insured for employee health care benefits. HPNH 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. Effective January 1, 2013, HPNH will terminate its self-insurance program and has established a fully-insured health insurance program for its employees.

HELEN PORTER NURSING HOME, INC.

Notes to Financial Statements

September 30, 2012 and 2011

9. **Benefit Plans**

Defined Contribution Plan

PMC has a 403(b) defined contribution plan covering substantially all HPNH employees. PMC makes an employer contribution to the plan. In order to receive the contribution, employees must meet certain eligibility requirements. PMC will make contributions between 3% and 6% of the covered payroll based on the employees' years of service and the employees' ages as of January 1, 2011.

HPNH has estimated a liability of approximately \$136,000 and \$122,000 at September 30, 2012 and 2011, 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 \$167,000 and \$164,000 for calendar years 2012 and 2011, respectively.

Defined Benefit Plan

PMC has a noncontributory defined benefit pension plan covering all HPNH employees who meet the eligibility requirements. PMC's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the PMC may determine to be appropriate from time to time. PMC expects to contribute \$262,812 to the plan in 2013.

PMC 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 sheet and statement of operations and changes in net assets of PMC.

HPNH's share of the net pension accrual was a pension liability of \$824,975 and \$494,931 at September 30, 2012 and 2011, respectively. HPNH's share of the pension expense was \$40,414 and \$98,677 for the years ending September 30, 2012 and 2011, respectively, and HPNH did not contribute to the plan in 2012 or 2011. Pension expenses are allocated from PMC based on total salaries.

HELEN PORTER NURSING HOME, INC.

Notes to Financial Statements

September 30, 2012 and 2011

PMC uses a September 30, 2012 measurement date for the plan. Significant balances, costs and assumptions for the plan as a whole are:

	<u>2012</u>	<u>2011</u>
Benefit obligation	\$ (14,202,606)	\$ (10,942,491)
Fair value of plan assets	<u>9,206,866</u>	<u>7,679,106</u>
Funded status	\$ <u>(4,995,740)</u>	\$ <u>(3,263,385)</u>

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

	<u>2012</u>	<u>2011</u>
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 10,942,491	\$ 10,690,102
Interest cost	592,876	554,076
Actuarial loss (gain)	3,045,711	(24,710)
Benefits paid	<u>(378,472)</u>	<u>(276,977)</u>
Benefit obligation at end of year	\$ <u>14,202,606</u>	\$ <u>10,942,491</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 7,679,106	\$ 7,646,052
Actual return on plan assets	1,394,514	(101,595)
Employer contributions	511,718	411,626
Benefits paid	<u>(378,472)</u>	<u>(276,977)</u>
Fair value of plan assets at end of year	\$ <u>9,206,866</u>	\$ <u>7,679,106</u>
Components of net periodic benefit cost		
Interest cost	\$ 592,876	\$ 554,076
Expected return on plan assets	(519,420)	(516,972)
Amortization of net loss	<u>201,333</u>	<u>163,718</u>
Net periodic benefit cost	\$ <u>274,789</u>	\$ <u>200,822</u>

	<u>2012</u>	<u>2011</u>
Weighted average assumptions used to determine benefit obligation		
Discount rate	4.25 %	5.50 %
Weighted average assumptions used to determine benefit cost		
Discount rate	5.50	5.25
Expected return on assets	6.85	6.85

HELEN PORTER NURSING HOME, INC.

Notes to Financial Statements

September 30, 2012 and 2011

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

The following benefit payments are expected to be paid by the plan for all entities as of September 30, 2012:

2012	\$	441,701
2013		448,733
2014		504,041
2015		527,827
2016		559,744
2017 - 2021		3,458,805

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

Asset allocation is primarily based on a strategy to provide stable earnings while still permitting the plans to recognize potentially higher returns through a limited investment in equity securities. Plan assets are rebalanced quarterly. At September 30, 2012 and 2011, plan assets by category are as follows:

	<u>2012</u>	<u>2011</u>
Equity securities	48.2 %	43.0 %
Debt securities	43.8	49.2
Cash and cash equivalents	<u>8.0</u>	<u>7.8</u>
	<u>100.0 %</u>	<u>100.0 %</u>

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 PMC in 2013.

Risks

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

HELEN PORTER NURSING HOME, INC.

Notes to Financial Statements

September 30, 2012 and 2011

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.

Plan assets measured at fair value on a recurring basis are summarized below. Fair values were primarily determined using market and income approaches.

				<u>Fair Value Measurements at September 30, 2012</u>		
				<u>Total</u>	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Pension Assets:						
Investments						
Cash and short-term investments				\$ 739,608	\$ 739,608	\$ -
Mutual funds						
Growth funds				1,320,572	1,320,572	-
Equity funds				3,111,309	3,111,309	-
Bond funds				<u>4,024,362</u>	<u>4,024,362</u>	-
Total mutual funds				<u>8,456,243</u>	<u>8,456,243</u>	-
Accrued interest				<u>11,015</u>	<u>11,015</u>	-
Total assets				<u>\$ 9,206,866</u>	<u>\$ 9,206,866</u>	<u>\$ -</u>

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

HELEN PORTER NURSING HOME, INC.

Notes to Financial Statements

September 30, 2012 and 2011

The fair value of Level 2 assets is primarily based on quoted market prices of underlying assets, comparable securities, interest rates, and credit risk. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows.

10. Related Party Transactions

Revenues and Expenses

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

	<u>2012</u>	<u>2011</u>
PH		
Medical director	\$ (15,444)	\$ (15,444)
Speech therapy services	6,863	8,988
Employee physicals	(19,614)	(31,419)
Resident medical testing	(44,449)	(69,436)
PMS		
Maintenance services	-	-
Fiscal services	(37,836)	(38,820)
Administrative services	(39,696)	(30,516)

Accounts Receivable

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

	<u>2012</u>	<u>2011</u>
PH	\$ 1,697	\$ 1,650
PMS	-	325
	<u>\$ 1,697</u>	<u>\$ 1,975</u>

Accounts Payable

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

	<u>2012</u>	<u>2011</u>
PH	\$ 87,787	\$ 102,114
PMS	14,978	14,914
	<u>\$ 102,765</u>	<u>\$ 117,028</u>

HELEN PORTER NURSING HOME, INC.

Notes to Financial Statements

September 30, 2012 and 2011

Residual Receipts Note

In addition, HPNH has an outstanding residual receipts note payable to PMC of \$741,973 at September 30, 2012 and 2011, with no stated maturity. As of September 30, 2011, PMC no longer charges HPNH interest on the loan and has forgiven accrued interest of \$848,616. HPNH does not expect to pay any of this amount owed during 2012, therefore it is considered a long-term liability.

11. Fair Value of Financial Instruments

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

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

12. Economic Dependency

HPNH receives financial support from PMC in the form of working capital advances. The future existence of HPNH is dependent upon continued financial support of this type. PMC has indicated its commitment to continue its financial support of HPNH due to the vital role HPNH's services play in the community.