1. Have the hospital's projections for FY 2018 changed?

   Answer: The projection submitted for FY 2018 has not materially changed for Total Operating Expenses. Porter did compile a revised projection that included actual YTD thru June, combined with the remaining budgeted expenses for July thru September, inclusive of known or anticipated changes, to ascertain whether the revision would yield any large variances as compared to the originally submitted projection. A comparative analysis determined that no material changes have been identified.

   A revised net revenue projection for FY 2018 currently reflects a decrease in net revenue of 1.7% as it compares to the originally submitted projection. This change from the original FY 2018 projection is attributed to Medicare payment processing complications related to Medicare Risk claims, resulting in interim overpayment. A recoupment of this overpayment occurred in July, which is driving the lower net revenue projection.

2. Please explain what is included in Deductions from Revenue, and why there is substantial variation between FY2019 Budget and previous years.

   Answer: The substantial variation in deductions from revenue is attributed to the traditional Fee-For-Service (FFS) claims adjudicating differently than Fixed Prospective Payment (FPP) claims. In prior year budgets, all deductions were based on traditional FFS methodology. Now that the hospital has experienced over a year with Medicaid and several months with Medicare, Porter was able to Budget FY2019 FPP revenue based on actual claim adjudication. Additionally, Porter incorporated assumptions in the FY 2019 Budget for the nine months of BCBS participation in the program, utilizing a similar methodology with regard to appropriate adjudication. Please reference the table below which depicts a comparative example (using Medicaid and Medicare) of how a FFS claim adjudicates in contrast to a FPP claim.

Fixed Perspective Payment Adjudication*				
	Medicaid FFS	Medicaid FPP	Medicare FFS	Medicare FPP
Total Charges Incurred	$ 1,000.00	$ 1,000.00	$ 1,000.00	$ 1,000.00
Contractual Adjustment	$ (750.00)	$(1,000.00)	$ (560.00)	$ (750.00)
Payment	$ 247.00	$ -	$ 190.00	$ -
Patient Obligation	$ 3.00	$ -	$ 250.00	$ 250.00
Co-Insurance	N/A	N/A	$ 200.00	$ 200.00
Deductible	N/A	N/A	$ 50.00	$ 50.00
Contractual %	75%	100%	56%	75%
Monthly FPP Payment	N/A	$ 124.49	N/A	$ 290.47

**Illustrates a single patient visit.*

3. Please explain the increase from FY2018 Projections to FY2019 Budget in Provider Work RVU.

   Answer: The projection submitted for FY 2018 did not include the full impact of our General Surgery service line as the expansion of this practice will not be wholly realized until FY 2019, consequently yielding higher wRVU projections for FY 2019. Additionally, the FY 2018 projection reflects the impact of provider vacancies that occurred during the first half of FY 2018. Conversely, the FY 2019 Budget assumed a full year's impact of wRVUs for those, now occupied positions.

4. Please explain why the narrative indicates there are increases in certain services (e.g., general surgeries, imaging) while the submitted schedule indicates that there might be decreases in categories related to those services (e.g., All Operating Room Procedures; CT Scan, Radiology – Diagnostic).

   Answer: During the FY 2018 Budget submission, implant statistics were included in the "All Operating Room Procedure" number (4,248); whereas prior submissions for actual reported statistics did not include the implant figures. Excluding implants, the FY 2018 budgeted statistic for this service would have been 3,814. After review of our revised statistical projection for FY 2018, this statistic would be 3,844; thus, demonstrating a growth in this service line as compared to FY 2017 actual performance (3,807). The statistic related to the expansion of our General Surgery service referenced in the narrative is not recognized in the All Operating Room Procedures. This is classified as a physician service; therefore, the statistic is reflected in the Provider Work RVU and Physician Office Visit categories that are reported separately. The imaging growth that was referenced in the narrative was specific to growth in the areas of outpatient MRI and CT Scan.

5. Please explain why Salary & Benefits per FTE has increased for FY 2018 Projections and FY2019 Budget.

   Answer: Both the FY 2018 projection and FY 2019 budget are reflective of a shift from Physician salary expense to Non-MD salary expense due to the use of Advanced Practice Providers in lieu of Physicians; therefore resulting in an increase of salary/FTE in the non-MD category. Additionally, the FY 2018 projection and FY 2019 Budget included an increase in traveler expense, thereby factoring in premium rates that have an impact on the salary/FTE calculation. Lastly, the FY 2019 budget reflects an additional 0.5 % increase over prior years for the cost of living adjustment.

6. Where is risk from the hospital's ACO APM arrangements recorded on the balance sheet, they record the risk associated with revenue?

   Answer: Porter records the risk reserve as a liability on the balance sheet under "Estimated Third Party Settlements" in Adaptive. The other side of the liability entry is reflected on the statement of profit and loss as a reduction to the Fixed Prospective Payments, which in our audited financial statements is recorded as other revenue.

   Building a risk reserve is necessary for the following reasons:

   - As clarification, Porter would like to emphasize that we have not and will not increase our prices or rate to offset the reserve amount. As with the FY 2018 Budget submission, Porter has submitted its FY 2019 Budget with a zero percent price increase. Furthermore, the commercial rate request that was developed and submitted for the FY 2019 Budget was solely based on and only applicable to our fee-for-service revenue.
   - As a small Critical Access Hospital, we build necessary reserves for our third party Medicare settlement over time. These reserves can fluctuate from year-to-year based on changes in the relationship between expense and revenue. Similarly, the risk reserve is needed to account for the changes in the relationship between FFS and FPP for all ACO payers. Due to Porter's size and CAH designation, it is imperative that we are conservative in our approach to reserves, as one large settlement will have a greater impact due to our smaller volumes. Additionally, this program is in its infancy; as a result we have not yet ascertained the

success and effects of the FPP model. By regularly reserving against the potential for downside risk we are able to guard against the impact that future settlements might have. If assumptions for reserves were not recognized, Porter would be left vulnerable. Given the fluctuations we have experienced with the attribution thus far, acknowledging the volatile nature of the risk program is necessary. This allows us to continue to serve our patient population and achieve our mission to improve the health of our community, one person at a time as well as accomplish the goals of the All Payer Model.

- Recognizing these reserves allows us to manage our business under this new payment methodology where the hospital bears the risk and is the initial source of investment for the APM.

Please Note – In accordance with FASB guidelines, our Medicare settlement/liability is reflected in our deductions from revenue. Conversely, the risk reserve is required to be reported in Other Operating Revenue to align with the reporting of the fixed prospective payment revenue. Whereby, the risk reserve is always recognized as a reduction to the fixed perspective payment and is not included in the deductions from revenue. In Adaptive, this risk reserve is recorded in its own line (Fixed Prospective Payments & Reserves) in an effort to maintain uniformity in reporting.

7. If not addressed in the narrative, please explain any factors contributing to changes in bad debt and free care, including policy changes if any.

Answer: Bad debt and free care are write-offs for payments primarily related to uncollectable individual patient obligation payments for services provided based upon agreed to fee schedules with the insurers and/or individual patients. Patient obligation payments for co-pays and patient deductibles vary greatly from plan to plan, even within plans certain types of services may have different patient obligation payment structures.

Bad Debt and Free Care %s are calculated as a percentage of Total Gross Revenues. Those %s are a reflection of actual past experiences which are modeled forward on current gross revenues to establish reserves to estimated uncollectable patient obligation payments related to bad debt and free care which are not known at the time of service. There is a lag time between the date of service and the time hospitals actually know when anticipated patient payments will fall to bad debt or free care. Bad debt and free care %s are merely a reflection of past actual experiences and trends. It is very difficult to forecast changes which may impact the actual trends in the future until they are experienced. The types of shifts which may influence changes in bad debt and free care trends include large movements of non-insured patient populations to insured and vice versa. High deductible plans also have a direct effect on bad debt and charity; if the high deductible plans are increasing or if the deductible amounts of current plans increase, this will have a direct impact on bad debt and charity %s. The change to the individual insurance mandate penalty will most likely have an effect on bad debt and free care %s, but we do not yet have sufficient information to model this with confidence.

There has been no recent change to bad debt write-offs or free care qualification policies.

There are no changes to FY2018 projections.

8. Please provide more specificity about what is included in Other Operating Expense for FY2017 Actuals, FY2018 Budget and Projections, and FY2019 Budget, and explain the variation from year to year?

Answer:

Porter Hospital - Org 2501	FY17 Actual	FY18 Budget	FY18 Projected	FY19 Budget
Other Operating Expense				
Medical & Surgical Supplies	4,795,975	4,501,847	4,614,455	4,735,738
Pharmaceuticals	2,187,245	2,106,094	2,084,880	2,278,277
Nutrition Supplies	254,429	301,136	276,193	282,633
Other Supplies	469,181	478,817	482,919	455,910
Purchased Services	6,255,915	6,526,442	7,354,884	8,793,575
Maintenance and Repairs	188,630	228,000	173,632	174,298
Lease and Rental	1,265,014	1,263,935	1,242,047	1,237,500
Utilities	1,386,892	1,420,803	1,362,386	1,279,760
Other Expenses	1,529,929	1,396,942	1,428,707	1,535,101
Insurance	1,159,076	1,254,040	968,081	991,725
Internal Expense Allocation	4,045,472	4,035,294	3,585,713	3,614,556
Shared Services	-	487,783	401,593	816,163
Total Other Operating Expense	**23,537,757**	**24,001,133**	**23,975,491**	**26,195,236**

The Other Operating Expense category consists of medical supplies, drug supplies, nutrition supplies, miscellaneous supplies, purchased services (which includes service contracts, ACO expense, legal fees, consulting), maintenance and repairs, lease and rental, utilities, insurance, shared service expense, and management fees.

FY2017 Actuals vs. FY2018 Budget

Within the other operating expense category, there is minimal change between the FY2018 Budget versus the FY2018 Projections (Projections are $26K less than the FY2018 Budget); therefore we will compare the FY2017 Actuals to the FY2018 Budget. The FY2018 Budget increased by $463K, primarily driven by an increase in shared service expense as Porter Hospital became part of the University of Vermont Health Network.

FY2018 Projections vs. FY2019 Budget

The FY2018 Projection as it compares to the FY2019 Budget equates to an increase of $2.2M. Noteworthy variances exist within the subcategory of purchased services (which is budgeted at $1.4M in excess of FY2018 Projections) and within the shared service expense (which is budgeted at $415K in excess of FY2018 Projections). The remaining $400K in net change is due to small fluctuations in varying related expense categories. As it pertains to the purchased services variance, the accounting change related to the ACO participation fees comprises $460K of the expense (Please refer to question nine for an explanation regarding the mechanics of the accounting change). As it pertains to the additional $800K in IT expense, this is related to program and software upgrades

needed to support the EPIC implementation as Porter's current IT infrastructure is tailored to its existing EMR.

FY2018 Budget vs. FY2019 Budget
The FY2018 Budget as it compares to FY2019 Budget equates to an increase of $2.2M before applicable categorization changes. Notable variances exist within the subcategory of purchased services, which is attributable to the accounting change of $1.1M, and increases in IT expense of $1.0M. Please refer to question nine for an explanation regarding the mechanics of the accounting change. As it pertains to the additional $1.0M in IT expense, this is related to program and software upgrades needed to support the Epic implementation as Porter's current IT infrastructure is tailored to its existing EMR. Lastly, a noteworthy classification change did occur within other operating expenses as locum tenens expense has been moved to contracted physician labor, which reflects a reduction of $886K; thus equating to a net expense change of $1.3M. This would also apply to the FY2018 Projections.

9. Please complete the table that has been provided to clarify accounting of ACO-related revenue and expenses.

Answer: The requested table has been completed

	2018 Budget ($)	Adaptive Account Name	2018 Projection ($)	Adaptive Account Name	2019 Budget ($)	Adaptive Account Name
Gross Home Hospital Spend for OCV Lives*	$ 17,507,455	Fixed Prospective Payments	$ 11,776,874	Fixed Prospective Payments	$ 18,342,324	Fixed Prospective Payments
Gross Value Based Incentive Payments*	814,654		415,660	Other Reform Payments	838,618	Other Reform Payments
(Value Based Incentive Deduction)*				Other Operating Expense		Other Operating Expense
(Participation Deduction)*			630,422	Other Operating Expense	1,067,391	Other Operating Expense
Gross Revenue Entered into Adaptive**	17,507,455		40,997,016	Gross Revenue	62,415,538	Gross Revenue
Contractual Allowances Entered into Adaptive**	(17,507,455)		(32,903,770)	Allowances	(49,254,793)	Allowances
ACO Risk Accounted for (if any)	(1,612,597)	Reserves - Risk Portion	(1,188,294)	Reserves - Risk Portion	(2,191,379)	Reserves - Risk Portion
Total ACO Risk***			(1,188,294)		(2,191,379)	
Attributed Lives (#)			5,092		6,149	

*Please indicate the Adaptive account used (Revenue accounts can be found on the 'Payer Revenue (Input)' tab on this spreadsheet). If anything is recorded in an expense account or on the balance sheet, please indicate where in Adaptive it is recorded.

**In order to account for the claims associated with OneCare attributed lives, many hospitals have included the total gross revenue related to the attributed lives by payer, then took a deduction through contractual allowances. If your hospital did this, please enter the dollar value and accounts used.

***Please list the risk amount regardless of whether you are recording anything.

Below is a table explaining the detailing the mechanics of the accounting change we thought might be useful, amounts in the table are based the FY2019 budget submission highlighting the two different accounting methods for booking the participation fees.

Under the current agreement with the ACO, there is not a distinction between the Value Based Incentive Deduction and the Participation Deduction; these two amounts are combined. For this reason, our auditing firm, PwC, is unable to clearly identify an expense for administrative/participation fees from true deductions for the value based incentives. Without that distinction, we are not able to classify the administrative fee as an expense separately from the value based incentive, which should be recognized as a deduction from the fixed prospective payment. Please refer to the table below for further clarification.

Porter Hospital	Before Accounting Change	After Accounting Change
Total FY FPP for OCV Lives	18,342,324	18,342,324
Total FY Other Reform Pmts	838,618	838,618
Total FY Risk Reserve	(2,191,379)	(2,191,379)
Fixed Perspective Payment	**16,989,563**	**16,989,563**
Participation Deductions	(1,067,391)	-
Net FPP	**15,922,172**	**16,989,563**
Participation Fee as an Expense on P&L	-	1,067,391
Total ***(Net FPP less Expense)***	**15,922,172**	**15,922,172**