

**OneCare Vermont
Accountable Care
Organization, LLC**

Financial Statements

December 31, 2017

OneCare Vermont Accountable Care Organization, LLC

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December 31, 2017

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Report of Independent Auditors

To the Board of Managers
of OneCare Vermont Accountable Care Organization, LLC:

We have audited the accompanying financial statements of OneCare Vermont Accountable Care Organization, LLC (the "Organization"), which comprise the balance sheet as of December 31, 2017, and the related statements of operations and comprehensive income, changes in members' equity, and of cash flows for the year then ended.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OneCare Vermont Accountable Care Organization, LLC as of December 31, 2017 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script, reading "PricewaterhouseCoopers LLP".

April 17, 2019

OneCare Vermont Accountable Care Organization, LLC
Balance Sheet
December 31, 2017

	2017
Assets	
Current assets	
Cash and cash equivalents	\$ 11,381,608
Contract receivables	3,328,540
Accounts receivable, contract risk settlement	2,364,754
Other accounts receivable	221,460
Prepaid expenses and other assets	<u>209,030</u>
Total current assets	<u>17,505,392</u>
Total assets	<u>\$ 17,505,392</u>
Liabilities and Equity	
Current liabilities	
Accounts payable and accrued expenses, trade	\$ 452,154
Accounts payable, participating organizations	6,889,382
Due to University of Vermont Medical Center	6,833,770
Accounts payable, contract risk settlement	2,364,754
Deferred revenue	<u>937,203</u>
Total current liabilities	<u>17,477,263</u>
Total liabilities	<u>17,477,263</u>
Members' equity	50,000
Retained deficit	<u>(21,871)</u>
Total members' equity	<u>28,129</u>
Total liabilities and members' equity	<u>\$ 17,505,392</u>

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

OneCare Vermont Accountable Care Organization, LLC
Statement of Operations and Comprehensive Income
Year Ended December 31, 2017

	2017
Revenue	
Contract revenue	\$ 6,307,531
Participation fees	2,462,519
Administrative revenue	1,038,892
Consulting revenue	<u>216,000</u>
Total revenue	<u>10,024,942</u>
Expenses	
Population health management expenses	
Population health management expenses	<u>990,875</u>
Total population health management expenses	<u>990,875</u>
Other operating expenses	
Salaries, payroll taxes and fringe benefits	4,906,843
Software, licenses and maintenance	2,586,858
Consulting, legal and purchased services	904,402
Travel, supplies and other	<u>635,964</u>
Total other operating expenses	<u>9,034,067</u>
 Total expenses	 <u>10,024,942</u>
Net income (loss) and comprehensive income	<u>\$ -</u>

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

OneCare Vermont Accountable Care Organization, LLC
Statement of Changes in Members' Equity
Year Ended December 31, 2017

	University of Vermont Medical Center	Dartmouth- Hitchcock Health	Total
Balances at January 1, 2017	\$ 14,065	\$ 14,064	\$ 28,129
Net income (loss) and comprehensive income	-	-	-
Balances at December 31, 2017	<u>\$ 14,065</u>	<u>\$ 14,064</u>	<u>\$ 28,129</u>

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

OneCare Vermont Accountable Care Organization, LLC
Statement of Cash Flows
Year Ended December 31, 2017

Cash flows from operating activities

Net income	\$ -
Increase in cash resulting from a change in	
Contract receivables	(3,328,540)
Accounts receivable, contract risk settlement	(2,364,754)
Other accounts receivable	(221,459)
Prepaid expenses and other assets	(93,699)
Due from Dartmouth Hitchcock Health	419,612
Accounts payable and accrued expenses	362,817
Accounts payable, participating organizations	6,889,382
Payable, contract risk settlement	2,364,754
Due to University of Vermont Medical Center	4,965,540
Deferred revenue	937,203
Net cash provided by operating activities	<u>9,930,856</u>

Cash flows from investing activities

Net cash provided by investing activities	<u>-</u>
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Cash flows from financing activities

Net cash provided by financing activities	<u>-</u>
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Net increase in cash and cash equivalents	<u>9,930,856</u>
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Cash and cash equivalents

Beginning of year	<u>1,450,752</u>
End of year	<u>\$ 11,381,608</u>

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

OneCare Vermont Accountable Care Organization, LLC

Notes to Financial Statements

December 31, 2017

1. Organization

OneCare Vermont Accountable Care Organization, LLC (the “Organization” or “OneCare”) was formed in May 2012 as a statewide Accountable Care Organization (“ACO”). The Organization was formed as a joint venture between the University of Vermont Medical Center, Inc. (“UVM Medical Center”) (a wholly controlled subsidiary of the University of Vermont Health Network, “UVM Health Network”), a Vermont nonprofit corporation, and Dartmouth-Hitchcock Health (“Dartmouth-Hitchcock”), a New Hampshire nonprofit corporation. The Organization’s mission is to enhance the effectiveness of patient and family centered care for all Vermonters and to optimize the delivery of care in order to improve outcomes and patient experience in support of a sustainable health care system under a predictable rate of growth. The Organization is focused on improved health, higher quality, lower cost increases and greater coordination of care for all attributed lives. The Organization joins an extensive, statewide network of providers and communities implementing health care payment reform and population health management.

The Organization’s network of participating providers (the “Participants”) includes Vermont hospitals (including UVM Medical Center) along with their employed physicians and providers, federally qualified health centers, independent practices, home health providers, designated agencies for mental health and substance abuse, area agencies on aging, and skilled nursing facilities. Each Participant has entered into an ACO Participant and Affiliate Participation agreement with OneCare and each Participant has agreed to become and remain accountable for the quality, cost and overall care of attributed lives.

OneCare has entered into an agreement with the State of Vermont, Department of Vermont Health Access (“DVHA”) as part of an ACO Pilot Project for attributed lives in Vermont’s Medicaid Program. The State of Vermont formed the Vermont Medicaid Next Generation (“VMNG”) ACO Pilot program, as part of the Vermont All-Payer Accountable Care Organization Model agreement with the Centers for Medicare and Medicaid Services (“CMS”).

Through the VMNG program, DVHA pays the Organization a monthly fixed prospective payment (“FPP”). The FPP amount is intended to provide funding for the Organization to pay its participating hospitals a fixed amount, based on attributed lives, which the hospitals accept in lieu of being paid for covered services on a fee for service basis. The Organization makes other payments on a per beneficiary basis to participating hospitals and providers as well (Note 3). Medicaid fee-for-service payments from the State of Vermont continue for all other non-hospital provider Participants, for all providers who are not a Participant, and for all services that are not covered under the FPP. The Organization seeks to influence both the cost and quality of care for each attributed beneficiary.

2. Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The Organization presents a classified balance sheet, and all assets and liabilities are considered current at December 31, 2017.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Estimates also affect the reported amounts of revenues and

OneCare Vermont Accountable Care Organization, LLC

Notes to Financial Statements

December 31, 2017

expenses during the reporting period. Significant estimates include an accrual made for the final year-end risk settlement under the VMNG contract with DVHA and amounts withheld from Participants, which could be returned based on achievements on annual quality metrics. Accordingly, actual results could differ from those estimates.

Revenue Recognition

Contract Revenue

The Organization has several contracts with DVHA to perform complex care coordination, informatics, and to promote effective care interventions to improve health outcomes. Revenue resulting from the Organization's efforts is recognized as milestones under the contracts are achieved, as evidenced through deliverables to DVHA, and payment is reasonably assured. The milestones are specified within each contract and include various tasks such as training and technical assistance on advanced analytics, supporting effective team based care coordination and furthering existing State of Vermont efforts towards creating innovative, reliable and evidenced based population health strategies. These milestones are deemed to be substantive as the consideration earned corresponds to the Organization's performance to achieve the milestones, is based on completed tasks and is reasonable relative to all deliverables and payment terms in the contract. A summary of revenue under the contracts for the year-ended December 31, 2017 is as follows:

Centers for Medicare and Medicaid Innovation (CMMI)	\$ 1,999,548
State Innovation Model	1,500,000
Health Information Technology	1,500,000
Advanced Community Care Coordination	<u>1,307,983</u>
Total contract revenue	<u>\$ 6,307,531</u>

Participation Fees

The Organization charges Participants monthly fees for being part of the OneCare ACO. Revenue is recognized on a monthly basis as ACO administrative services are performed. To the extent the Board of Managers elects to provide credits back to Participants, these credits are recorded as a reduction to Participation Fees.

Administrative Revenue

Administrative revenue represents amounts earned by OneCare to provide services under the VMNG contract. Revenue is recognized on a monthly basis as these services are performed

Consulting Revenue

The Organizations performs certain data management, reporting and support services to other organizations. Revenue is recognized on a monthly basis as these services are performed.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with maturities of three months or less when purchased.

Contract Receivables and Other Accounts Receivable

Contract receivables consist primarily of revenue earned under the Organization's complex care coordination, informatics and other care intervention agreements with DVHA. Other receivables are stated at amounts billed, net of related reserves, as applicable. No collateral is required on these receivables.

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Notes to Financial Statements

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Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets include miscellaneous items primarily related to insurance, software licenses and software maintenance contracts.

Due to UVM Medical Center

Due to UVM Medical Center primarily includes operating expenses that are processed by UVM Medical Center and billed to the Organization, along with other transactions between the two organizations such as the billing of monthly participation fees and reimbursement activity from UVM Medical Center under the CMMI contract for which OneCare is a subrecipient. Included within operating expenses are \$190,593 of rental expense (excluding common area and maintenance charges) for the year ended December 31, 2017 related to office space. UVM Medical Center bills the Organization monthly for rental expense, however, there is no formal agreement with UVM Medical Center under this arrangement.

Accounts Payable, Participating Organizations

Accounts payable to participating organizations primarily includes January 2018 FPP payments received by the Organization from DVHA in December 2017 totaling \$6,144,598. This account also includes certain other credits issued to providers related to participation fees previously paid, as voted on by the Board of Managers.

Deferred Revenue

Cash received from DVHA or Participants as advance deposits for undelivered services, are recorded within deferred revenue until the services are performed. Revenue related to ACO contracts or other remaining undelivered performance obligations is deferred and recognized upon completion of the underlying performance criteria.

Income Taxes

The Organization is a for-profit limited liability corporation, which elected to be treated as a partnership for tax purposes; therefore, any income passes through to the non-profit members and is treated as business related income. Accordingly, no provision for federal or state income taxes has been made in the financial statements.

Members' Equity

Each founding member made an initial contribution of \$25,000. Each of the members agreed to make additional capital contributions in an amount equal to fifty percent of capital requirements of the Organization determined by the operating and capital budget approved by the Organization's Board of Managers. No member may make additional contributions of capital, withdraw capital, lend or advance, or receive interest on capital, without unanimous consent of the Board of Managers. Any profits or losses of the Organization are allocated among the members based on the percentage of capital contribution.

Comprehensive Income or Loss

Comprehensive income or loss consists of two components: net income and other comprehensive income or loss. Other comprehensive income or loss refers to revenues, expenses, gains and losses that are recorded as an element of members' equity but are excluded from net income. The Organization has no components of other comprehensive income or loss, thus net income is equal to comprehensive income or loss.

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3. Vermont Medicaid Next Generation Program

The Organization has an agreement with DVHA to manage the quality and cost of care through its Participants to attributed lives/beneficiaries. The attribution of Medicaid beneficiaries occurs prospectively at the beginning of the program year. Beneficiaries cannot be added during the program year but beneficiaries may become ineligible for attribution during the program year for various reasons. Under the agreement, the Organization receives a monthly All Inclusive Population Based Payment ("AIPBP"). The AIPBP is paid prospectively on a monthly basis from DVHA. The AIPBP includes a Primary Care Case Management Fee ("PCCM") of \$2.50 per attributed beneficiary per month, administrative funding of \$6.50 per attributed beneficiary per month, a FPP to be paid to Participants as reimbursement for services they provide to attributed members and a quality withhold. In regards to the administrative fee, the Organization retains 50% and distributes 50% to the Participants. The Organization records their 50% share of the administrative funding as revenue; however, all other activity is recorded on a net basis following the guidance in ASC 605-45, *Revenue Recognition*, and thus does not directly impact the Organization's Statement of Operations. A summary of the gross activity flowing through the Organization from DVHA for the year-ended December 31, 2017 is as follows:

FPP	\$ 47,435,653
PCCM	726,391
Administrative	2,077,771
Quality withhold	<u>412,060</u>
Total AIPBP	<u>\$ 50,651,875</u>

Value-Based Incentive Fund

The Organization has an agreement with DVHA to withhold 0.5% of payments to Participants to support a quality incentive program called the value-based incentive fund ("VBIF"). These value-based incentive funds are distributed to Participants based on targeted quality measures. The unearned portion of these funds can also be used for reinvestment into ACO-wide quality improvement initiatives. The Organization recorded a liability of \$350,250 at December 31, 2017, reflective of the portion of the VBIF earned by Participants based on final 2017 quality results.

Risk-Based Spending Target

The Organization has agreed to a risk-based medical spending target for the full attributed population during the Performance Year, which is the period from January 1, 2017 to December 31, 2017. At the end of the performance year, the Organization will be liable if the actual cost of care is between 100 and 103% of an established target. The Organization is entitled to all savings if the actual cost of care is between 97% and 100% of the target.

The Organization records, as an asset or liability at year-end, an estimated amount for the savings or loss under this contract, which will ultimately be settled with DVHA in late summer of the following fiscal year. Participants will fund any amount due to DVHA or will receive a distribution of any savings under this contract in a manner approved by the Board of Managers. At December 31, 2017, a payable of \$2,364,754 was recorded to Participants representing the favorable settlement under the 2017 VMNG contract.

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4. Line of Credit

The Organization and the UVM Medical Center entered into an irrevocable line of credit in an amount not to exceed \$2,800,000 for repayment of the risk-based spending target (Note 3). This line of credit expired on March 28, 2019, which as per the agreement was 90 days after the final settlement of the 2017 Performance Year. There were no draws on the line of credit during fiscal year 2017 and at December 31, 2017, the Organization did not have any outstanding borrowings under the line of credit.

5. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following at December 31, 2017:

Consulting, legal and other purchased services	\$ 196,902
Software licenses and maintenance	245,194
Travel, supplies and other	<u>10,058</u>
Total accrued expenses	<u>\$ 452,154</u>

6. Related-Party Transactions

The Organization, given the nature of its business and relationship with the UVM Health Network has entered into various transactions with affiliates of the UVM Health Network, during the ordinary course of business, as follows:

- The Organization has entered into participation agreements with several UVM Health Network affiliates. These affiliates have agreed to deliver services to Medicaid beneficiaries attributed to the Organization (Note 3).
- UVM Medical Center is an ACO Participant and as such, the Organization made payments totaling \$27,432,317 to UVM Medical Center for patient services provided under the VMNG contract during the year ended December 31, 2017. Additionally, UVM Medical Center provides various administrative services to the Organization, such as the processing of payroll and accounts payable transactions. All employees of the Organization are UVM Medical Center employees and are covered under UVM Medical Center's insurance policies and employee benefit plans. At December 31, 2017, the Organization had expense reimbursements payable to UVM Medical Center totaling \$8,333,770, offset by contract receivables from UVM Medical Center of \$1,500,000. Participation fees of \$180,067 owed by UVM Medical Center are included in other accounts receivable on the balance sheet.
- Central Vermont Medical Center is an ACO Participant and is a wholly controlled subsidiary of the UVM Health Network. The Organization made payments totaling \$9,749,428 to Central Vermont Medical Center for patient services provided under the VMNG contract for the year ended December 31, 2017. At December 31, 2017, the Organization had Participation fees payable to Central Vermont Medical Center totaling \$200,744 which are included in accounts payable to participating organizations on the balance sheet.
- Porter Medical Center is an ACO Participant and is a wholly controlled subsidiary of the UVM Health Network. The Organization made payments totaling \$3,565,088 to Porter Medical Center for patient services provided under the VMNG contract for the year ended December 31, 2017. At December 31, 2017, the Organization had Participation fees payable

OneCare Vermont Accountable Care Organization, LLC

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to Porter Medical Center totaling \$36,497, which are included in accounts payable to participating organizations on the balance sheet.

- The Organization has a services agreement to provide data management and reporting services to Adirondacks ACO, LLC, an ACO operating in the State of New York. One of the partners to the Adirondacks ACO is Champlain Valley Physicians Hospital, a wholly controlled subsidiary of the UVM Health Network. The Organization recorded \$216,000 in revenue related to this services agreement for the year ended December 31, 2017.

7. Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentration of credit risk consist principally of cash and cash equivalents. At December 31, 2017, one financial institution held all of the Organization's cash and cash equivalents. The Organization maintains balances in operating accounts above federally insured limits.

The Organization primarily earns revenue from one party, a governmental organization, which accounted for 73% of revenues for the year ended December 31, 2017. At December 31, 2017, this party accounted for 94% of accounts receivable. The Organization expects to maintain this relationship.

8. Contingencies

The Organization is party in various legal proceedings and potential claims arising in the ordinary course of its business. In addition, the health care industry as a whole is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to government review and interpretation as well as regulatory actions, which could result in the imposition of significant fines and penalties. Management does not believe that these matters will have a material adverse effect on the Organization's financial position or results of operations.

The Organization is not currently party to any material legal proceedings. At each reporting date, the Organization evaluates whether or not a potential loss amount or a potential range of losses is probable and reasonably estimable under the provisions of the authoritative guidance that addresses accounting for contingencies.

9. Subsequent Events

The Organization has assessed the impact of subsequent events through April 17, 2019, the date the audited financial statements were available for issuance and has concluded that there were no such events that require adjustment to the audited financial statements or disclosure in the notes to the audited financial statements other than as noted below.

DVHA and the Organization elected to exercise one of the four optional one-year extensions permitted under the VMNG contract. The one-year extension enables DVHA and the Organization to continue the VMNG program for the 2018 calendar year. In January 2018, the Organization executed an agreement with the Centers for Medicare & Medicaid Services to participate in the Medicare Next Generation ACO Model. In February 2018, the Organization executed an agreement with Blue Cross and Blue Shield of Vermont to participate in the Commercial Shared Savings Pilot Program.