

Copley Hospital, Inc.

Independent Auditor's Report and Financial Statements

September 30, 2021 and 2020

Copley Hospital, Inc.
September 30, 2021 and 2020

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Independent Auditor's Report

Board of Trustees
Copley Hospital, Inc.
Morrisville, Vermont

We have audited the accompanying financial statements of Copley Hospital, Inc., a subsidiary of Copley Health Systems, Inc. (the "Hospital"), which comprise the balance sheets as of September 30, 2021 and 2020, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 the auditor's 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, the auditor considers internal control relevant to the entity'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 entity'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 Copley Hospital, Inc. as of September 30, 2021 and 2020, and the results of its operations, changes in net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described in *Note 1* to the financial statements, in 2021, the Hospital adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to this matter.

BKD, LLP

Springfield, Missouri
January 31, 2022

Copley Hospital, Inc.
Balance Sheets
September 30, 2021 and 2020

Assets

	<u>2021</u>	<u>2020</u>
Current Assets		
Cash and cash equivalents	\$ 19,183,759	\$ 26,453,311
Short-term investments	7,000,000	7,000,000
Patient accounts receivable, net of allowance; 2020 - \$3,736,000	10,587,434	5,013,731
Other receivables	826,962	246,636
Estimated amounts due from third-party payors	400,000	450,000
Due from related parties	51,322	15,495
Supplies	2,591,159	2,484,173
Prepaid expenses	<u>2,593,237</u>	<u>1,862,386</u>
Total current assets	<u>43,233,873</u>	<u>43,525,732</u>
Assets Limited As To Use	<u>2,708,861</u>	<u>5,426,433</u>
Property and Equipment, at Cost		
Land and improvements	2,203,290	1,998,111
Buildings and improvements	37,762,731	32,124,240
Equipment	24,337,281	23,897,289
Construction in progress	<u>971,536</u>	<u>99,498</u>
	65,274,838	58,119,138
Less accumulated depreciation	<u>36,390,738</u>	<u>32,973,671</u>
	<u>28,884,100</u>	<u>25,145,467</u>
Other Assets		
Interest in net assets of Copley Health Systems, Inc.	5,760,290	5,000,707
Assets held in deferred compensation plan	<u>3,766,248</u>	<u>2,896,587</u>
	<u>9,526,538</u>	<u>7,897,294</u>
Total assets	<u>\$ 84,353,372</u>	<u>\$ 81,994,926</u>

Liabilities and Net Assets

	<u>2021</u>	<u>2020</u>
Current Liabilities		
Current maturities of long-term debt	\$ 445,218	\$ 3,468,879
Accounts payable	2,763,166	2,640,372
Accrued payroll and payroll taxes	6,105,258	4,586,008
Other accrued expenses	3,216,700	1,258,412
Estimated self-insurance costs	1,401,878	911,741
Unearned revenue	-	5,862,305
Medicare and other advances	8,323,769	4,586,609
Estimated amounts due to third-party payors	<u>3,080,000</u>	<u>1,790,000</u>
Total current liabilities	25,335,989	25,104,326
Medicare Advances	-	8,651,303
Asset Retirement Obligations	1,500,000	-
Long-Term Debt	6,738,513	9,023,128
Other Liabilities	530,577	634,770
Deferred Compensation	<u>3,766,248</u>	<u>2,896,587</u>
Total liabilities	<u>37,871,327</u>	<u>46,310,114</u>
Net Assets		
Without donor restrictions	40,721,755	30,684,105
With donor restrictions	<u>5,760,290</u>	<u>5,000,707</u>
Total net assets	<u>46,482,045</u>	<u>35,684,812</u>
Total liabilities and net assets	<u>\$ 84,353,372</u>	<u>\$ 81,994,926</u>

Copley Hospital, Inc.
Statements of Operations
Years Ended September 30, 2021 and 2020

	2021	2020
Revenues, Gains, and Other Support		
Without Donor Restriction		
Patient service revenue (net of contractual discounts and allowances)		\$ 68,394,903
Provision for uncollectible accounts		(2,949,724)
Net patient service revenue less provision for uncollectible accounts	\$ 79,720,672	65,445,179
Fixed prospective revenue	5,051,668	3,666,903
Provider relief fund revenue	5,862,305	-
Other	2,272,173	1,950,705
Total revenues, gains, and other support without donor restrictions	92,906,818	71,062,787
Expenses and Losses		
Salaries and wages	36,218,703	31,574,692
Employee benefits	8,066,068	6,903,365
Purchased services and professional fees	13,393,202	9,735,366
Supplies and other	26,148,963	22,690,246
Depreciation and amortization	4,279,649	2,789,868
Interest	84,095	126,029
Total expenses and losses	88,190,680	73,819,566
Operating Income (Loss)	4,716,138	(2,756,779)
Other Income		
Contributions received	192,511	359,778
Investment return	91,101	88,260
Gain on extinguishment of debt	5,037,900	-
Total other income	5,321,512	448,038
Excess (Deficiency) of Revenues Over Expenses and Increase (Decrease) in Net Assets Without Donor Restrictions	\$ 10,037,650	\$ (2,308,741)

Copley Hospital, Inc.
Statements of Changes in Net Assets
Years Ended September 30, 2021 and 2020

	2021	2020
Net Assets Without Donor Restrictions		
Excess (deficiency) of revenues over expenses	\$ 10,037,650	\$ (2,308,741)
Increase (decrease) in net assets without donor restrictions	10,037,650	(2,308,741)
Net Assets With Donor Restrictions		
Change in interest in net assets of Copley Health Systems, Inc.	759,583	132,276
Increase in net assets with donor restrictions	759,583	132,276
Change in Net Assets	10,797,233	(2,176,465)
Net Assets, Beginning of Year	35,684,812	37,861,277
Net Assets, End of Year	\$ 46,482,045	\$ 35,684,812

Copley Hospital, Inc.
Statements of Cash Flows
Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Activities		
Change in net assets	\$ 10,797,233	\$ (2,176,465)
Items not requiring (providing) cash		
Depreciation and amortization	4,279,649	2,789,868
Change in interest in net assets of Copley Health System, Inc.	(759,583)	(132,276)
Gain on extinguishment of debt	(5,037,900)	-
Changes in		
Accounts receivable, net	(5,573,703)	339,848
Estimated amounts due from and to third-party payors	1,340,000	1,090,000
Accounts payable and accrued expenses	2,927,674	3,962,753
Other assets and liabilities	(703,990)	(497,411)
Unearned revenue	(5,862,305)	5,862,305
Medicare and other advance payments	(4,914,143)	13,237,912
Asset retirement obligations	1,500,000	-
Net cash provided by (used in) operating activities	<u>(2,007,068)</u>	<u>24,476,534</u>
Investing Activities		
Purchases of property and equipment	<u>(7,541,704)</u>	<u>(1,679,123)</u>
Net cash used in investing activities	<u>(7,541,704)</u>	<u>(1,679,123)</u>
Financing Activities		
Proceeds from issuance of long-term debt	-	5,037,900
Principal payments on long-term debt	<u>(438,352)</u>	<u>(456,221)</u>
Net cash provided by (used in) financing activities	<u>(438,352)</u>	<u>4,581,679</u>
Increase (Decrease) in Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents	(9,987,124)	27,379,090
Cash and Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents, Beginning of Year	<u>29,879,744</u>	<u>2,500,654</u>
Cash and Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents, End of Year	<u>\$ 19,892,620</u>	<u>\$ 29,879,744</u>
Reconciliation of Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 19,183,759	\$ 26,453,311
Assets limited as to use	<u>708,861</u>	<u>3,426,433</u>
	<u>\$ 19,892,620</u>	<u>\$ 29,879,744</u>
Supplemental Cash Flows Information		
Interest paid	\$ 85,017	\$ 104,958
Capital lease obligation incurred	\$ 167,976	\$ -
Property and equipment in accounts payable	\$ 800,190	\$ 491,588

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2021 and 2020

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Copley Hospital, Inc. (the “Hospital”), a subsidiary of Copley Health Systems, Inc. (the “Health System”), primarily earns revenues by providing inpatient, outpatient, and emergency care services to residents in Morrisville, Vermont, and surrounding areas.

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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. The Hospital considers uninvested cash held in investment accounts to be cash and cash equivalents. At September 30, 2021 and 2020, cash equivalents consisted primarily of money market accounts.

At September 30, 2021 and 2020, the Hospital’s cash accounts exceeded federally insured limits by approximately \$22,370,000 and \$31,170,000, respectively.

Debt Investments

Debt securities held by the Hospital generally are classified and recorded in the financial statements as follows:

Classified as	Description	Recorded at
Trading	Securities that are bought and held principally for the purpose of selling in the near term and, therefore, held for only a short period of time	Fair value, with changes in fair value included in excess (deficiency) revenues over expenses

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the average cost method.

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Notes to Financial Statements
September 30, 2021 and 2020

Equity Investments

The Hospital measures equity securities, other than investments that qualify for the equity method of accounting, at fair value with changes recognized in excess (deficiency) revenues over expenses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the average cost method.

Net Investment Return

Investment return includes interest income less external and direct internal investment expense.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statements of operations and changes in net assets as with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Assets Limited As To Use

Assets limited as to use include assets set aside by the Board of Trustees for future capital improvements over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the Hospital are included in current assets.

Patient Accounts Receivable

Subsequent to Adoption of ASU 2014-09, Revenue from Contracts with Customers (Topic 606)

Patient accounts receivable reflects the outstanding amount of consideration to which the Hospital expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others. As a service to the patient, the Hospital bills third-party payors directly and bills the patient when the patient's responsibility for copays, coinsurance, and deductibles is determined. Patient accounts receivable are due in full when billed, unless the patient has previously been approved for an alternative payment plan or for patient financial assistance.

The Hospital performs individual credit risk assessments which evaluates the individual circumstances, abilities, and intentions of each patient prior to providing the patient services. If subsequent to providing the services the Hospital becomes aware of patient-specific events, facts, or circumstances indicating patients no longer have the ability or intention to pay the amount of consideration to which the Hospital expected to be entitled for providing the patient services, then the related patient receivable balances are written off as bad debt expense and reported in the statement of operations as other operating expenses. No bad debt expense was recognized in 2021.

Prior to Adoption of ASU 2014-09, Revenue from Contracts with Customers (Topic 606)

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible

Copley Hospital, Inc.
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September 30, 2021 and 2020

accounts and provision for uncollectible accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible 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 uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

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 Hospital records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. For those who do not qualify for charity care the difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The Hospital's write-offs decreased approximately \$665,000 to approximately \$1,229,000 for the year ended September 30, 2020. The Hospital's allowance for uncollectible accounts for self-pay patients was 81 percent of self-pay accounts receivable at September 30, 2020.

Contract Assets and Liabilities

Amounts related to health care services provided to patients which have not been billed and that do not meet the conditions of an unconditional right to payment at the end of the reporting period are contract assets. Contract asset balances consist primarily of health care services provided to patients who are still receiving inpatient care at the Hospital at the end of the year. Contract assets are included in patient accounts receivable at September 30, 2021 and 2020.

Amounts received related to health care services that have not yet been provided to patients are contract liabilities. Contract liabilities consist of Medicare advanced payments received in April 2020 under the provisions of the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act). In general, advanced amounts will be recouped from remittances starting 12 months after the advance was made, see *Note 2*.

Other Receivables

Other receivables are stated at their net collectible amount. The Hospital adjusts receivables based upon a review of outstanding receivables, historical collection information, and existing economic conditions.

Supplies

Inventories are stated at the lower of cost or net realizable value. Costs are determined using the first-in, first-out (FIFO) method.

Copley Hospital, Inc.
Notes to Financial Statements
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Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Land improvements	5 - 25 years
Buildings and improvements	5 - 40 years
Equipment	3 - 34 years

At September 30, 2021, construction in progress represents costs incurred in connection with the construction of various additions and alterations to the Hospital's facilities and equipment. The total cost to complete the projects is approximately \$3,120,000, with funding from cash from operations and existing cash and investments.

Long-Lived Asset Impairment

The Hospital evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended September 30, 2021 and 2020.

Interest in Net Assets of Copley Health Systems, Inc.

Copley Health Systems, Inc. (the "Health System") and the Hospital are financially interrelated organizations. The Health System holds net assets on behalf of the Hospital. The Hospital accounts for its interest in the net assets of the Health System in a manner similar to the equity method. The interest is stated at fair value, and changes in the interest are included in change in net assets. The interest as of September 30, 2021 and 2020, was \$5,760,290 and \$5,000,707, respectively.

Net Assets With Donor Restrictions

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor restrictions. Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions are those whose use by the Hospital has been limited by donors to a specific time period or purpose or have been restricted by donors to be maintained by the Hospital in perpetuity.

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2021 and 2020

Patient Service Revenue

Subsequent to Adoption of ASU 2014-09, Revenue from Contracts with Customers (Topic 606)

Patient service revenue is recognized as the Hospital satisfies performance obligations under its contracts with patients. Patient service revenue is reported at the estimated transaction price or amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care. The Hospital determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Hospital's policies, and implicit price concessions provided to uninsured patients.

The Hospital determines its estimates of explicit price concessions which represent adjustments and discounts based on contractual agreements, its discount policies, and historical experience by payor groups. The Hospital determines its estimate of implicit price concessions based on its historical collection experience by classes of patients. The estimated amounts also include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations by third-party payors.

Prior to Adoption of ASU 2014-09, Revenue from Contracts with Customers (Topic 606)

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. 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. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Fixed Prospective Revenue

Beginning January 1, 2020, the Hospital began receiving monthly fixed prospective payments for services provided for certain Medicaid beneficiaries. The Medicaid program provides a monthly, per member payment received in advance of the services being performed and recognized as revenue in the month to which it relates. The revenues for Medicaid program are recorded as fixed prospective payment revenue on the statement of operations. Revenues recorded under these arrangements represent the fixed, agreed-upon amounts as a result of the Hospital's stand-ready performance obligation to provide health care services to qualified beneficiaries. Fee-for-service payments continue for all other nonhospital providers in the Accountable Care Organization (ACO), for all providers who are not a part of the ACO, and for all services that are not included in the fixed prospective payment. The ACO is responsible for both the cost and quality of care for each attributed member. This is true whether that person uses little or no care or whether they require services consistently throughout the year.

The Hospital recognizes its share of annual contract settlements as an increase or decrease to fixed prospective revenue. The Hospital is subject to an annual contracted maximum risk corridor. As of September 30, 2021 and 2020, the Hospital recorded a liability of approximately \$268,000 and \$210,000, respectively, for the contracted maximum risk corridor, which is included in other accrued expenses in the accompanying financial statements.

Copley Hospital, Inc.
Notes to Financial Statements
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Charity Care

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

The Hospital's direct and indirect costs for services furnished under its charity care policy aggregated approximately \$523,000 and \$553,000 for the years ending September 30, 2021 and 2020, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Contributions

Contributions are provided to the Hospital either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the Hospital overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment, and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment, and other long-lived assets are reported when those assets are placed in service.

Copley Hospital, Inc.
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Gifts and investment income having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions. Conditional contributions at September 30, 2021 and 2020, include Provider Relief Fund amounts of \$0 and \$5,862,305, respectively (see *Note 2*).

Grant Revenue

Support funded by grants is generally considered a conditional contribution and recognized as the Hospital performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency that, as a result of such audit, adjustments could be required.

Estimated Self-Insurance Costs

The Hospital records an estimated liability for self-insured employee health claims, which is included in accrued expenses, and includes an estimate for both reported claims and claims incurred but not reported.

Professional Liability Claims

The Hospital recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in *Note 6*.

Income Taxes

The Hospital has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Change in Accounting Principles

During 2021, the Hospital adopted the Financial Accounting Standards Board Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (Topic 606), (ASU 2014-09) using a modified-retrospective method of adoption to all contracts with patients at October 1, 2020. The core guidance in ASU 2014-09 is to recognize revenue to depict the transfer of promised goods or services to customers or patients in an amount that reflects the consideration to which the Hospital expects to be entitled in exchange for those goods or services. The amount to which the Hospital expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing patient care services to its patients. Adoption of ASU 2014-09 resulted in changes in presentation of the financial statements and related disclosures in the notes to the consolidated financial statements. Prior to the adoption of ASU 2014-09, the majority of the provision for doubtful accounts related to patients without insurance, as well as patient responsibility balances for copays, coinsurance, and deductibles for patients with insurance. Under

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ASU 2014-09, the estimated amounts due from patients for which the Hospital does not expect to be entitled or collect from the patients are considered implicit price concessions and excluded from the Hospital's estimation of the transaction price or revenue recorded.

The following table presents the related effect of the adoption of Topic 606 on the statement of operations for the year ended September 30, 2021:

	September 30, 2021		
	Balances Without Adoption of Topic 606	As Reported	Effect of Adoption
Statements of Operations			
Revenues, Gains, and Other Support Without Donor Restrictions			
Patient service revenue (net of contractual discounts and allowances)	\$ 82,354,385		\$ (82,354,385)
Provision for uncollectible accounts	<u>(2,633,713)</u>		<u>2,633,713</u>
Net patient service revenue less provision for uncollectible accounts	<u>\$ 79,720,672</u>	<u>\$ 79,720,672</u>	<u>\$ -</u>

Revisions

The 2020 financial statements have been revised for immaterial corrections in the classification of investment and cash amounts. The revisions increased short-term investments by \$2,000,000, decreased cash by \$2,159,783, and increased assets limited as to use by \$159,783. These revisions did not have a significant impact on the financial statement line items impacted.

The 2020 financial statements have been revised for immaterial corrections in the classification of certain expenses. The revisions increased purchased services and professional fees by \$1,407,031 and decreased salaries and wages by the same amount. These revisions did not have a significant impact on the financial statement line items impacted.

Note 2: COVID-19

During 2021 and 2020, the COVID-19 pandemic caused significant disruption to Hospital operations, including reduced patient revenue and increased expenses for preparation and adjustments to the Hospital. There is considerable uncertainty around the duration and magnitude of the impact of COVID-19. The matter has and will have a negative impact on the Hospital's financial condition and operating results. The magnitude of the financial impact cannot be reasonably estimated at this time.

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2021 and 2020

CARES Act and Other Programs

On March 27, 2020, the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) was signed into law. The following summarizes significant CARES Act and other programs impacting the Hospital.

Provider Relief Funds

The Hospital received \$5,862,305 in grants from the CARES Act Provider Relief Fund distributions. The Hospital elected to account for such payments as conditional contributions in accordance with ASC Topic 958-605 – *Revenue Recognition*. Payments are recognized as contribution revenue once the applicable terms and conditions required to retain the funds have been substantially met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the impact of the pandemic on the Hospital’s revenues and expenses, the Hospital recognized \$5,862,305 during the year ended September 30, 2021. No amounts were recognized during the year ended September 30, 2020.

The Hospital will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the impact of the pandemic on the Hospital’s revenues and expenses. The terms and conditions governing the Provider Relief Funds are complex and subject to interpretation and change. If the Hospital is unable to attest to or comply with current or future terms and conditions, the Hospital’s ability to retain some or all of the distributions received may be impacted.

Vermont Grants

Through September 30, 2021, The Hospital received the following amounts through the State of Vermont:

- 1) Grant of \$911,083 from the Medicaid retainer funding program
- 2) Grants totaling \$247,600 from the Hazard Pay program

Approximately \$820,000 from the above Vermont grants were recognized in 2020 in other operating revenues in the accompanying statements of operations. An additional \$247,600 was recognized in other operating revenues during 2021. The remaining amount of approximately \$91,000 is included in other accrued expenses in the accompanying balance sheets.

Medicare Accelerated and Advanced Payment Program

During the year ended September 30, 2020, the Hospital requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. Accelerated payments received will be required to be repaid, based on current enacted legislation.

During the years ended September 30, 2021 and 2020, the Hospital received \$349,266 and \$10,927,961, respectively, from accelerated Medicare payment requests. At September 30, 2021 and 2020, \$8,323,769 and \$10,927,961, respectively, had yet to be recouped by the Medicare administrative contractor, and is included in current and long-term Medicare advances in the accompanying balance sheets.

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Blue Cross Advance

During 2020, the Hospital received an advance from Blue Cross of \$2,309,951. During 2021, these amounts were repaid. At September 30, 2020, these amounts are included in Medicare advances in the accompanying balance sheets.

Paycheck Protection Program

In May 2020, the Hospital received a \$5,037,900 loan through the Small Business Administration (SBA) Paycheck Protection Program, and has elected to account for the funding as a loan in accordance with ASC Topic 470, *Debt*. Interest is accrued in accordance with the loan agreement. During 2021, the Hospital obtained forgiveness of the loan which was recognized as a nonoperating income in the financial statements. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration, or lender; as a result of such audit, adjustments could be required to any gain recognized. See *Note 7* for more information.

Payroll Tax Deferral

The CARES Act provides for a deferral of payments of the employer portion of payroll tax incurred during the pandemic. The amount deferred as of September 30, 2021 and 2020, was approximately \$1,061,000 and \$635,000, respectively, and is recorded as long-term other liabilities and accrued payroll and payroll taxes in the accompanying balance sheets. Deferred payroll taxes will be due in two equal installments on December 31, 2021, and December 31, 2022.

Note 3: Patient Service Revenue

Patient service revenue is reported at the amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Hospital bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance Obligations

Performance obligations are determined based on the nature of the services provided by the Hospital. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. The Hospital believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the Hospital receiving inpatient acute care services or patients receiving services in its outpatient centers or in their homes (home care). The Hospital measures the performance obligation from inpatient admission, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services.

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Because all of its performance obligations relate to contracts with a duration of less than one year, the Hospital has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks at the end of the reporting period.

Transaction Price

The Hospital determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Hospital's policy and implicit price concessions provided to uninsured patients. The Hospital determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. The Hospital determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Third-Party Payors

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

Medicare. The Hospital is certified by Medicare as a Critical Access Hospital (CAH). Medicare inpatient and outpatient reimbursement as a CAH is based on the defined allowable costs of services rendered. CAH certifications places several restrictions on operations, including a 96-hour average annual acute-care length of stay restriction and a limit of 25 medical/surgical beds. 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 administrative contractor.

Medicaid. Inpatient, outpatient, clinic, and skilled nursing services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates. The Hospital has entered into a contractual agreement with One Care Vermont (OCV) to include Medicaid participation. Therefore, a significant portion of the Hospital's Medicaid patients receive payments under a fixed prospective payment instead of the traditional payment methodology described above.

Other. Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Copley Hospital, Inc.

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Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements.

Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Hospital's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Hospital. In addition, the contracts the Hospital has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Hospital's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known based on newly available information or as years are settled or are no longer subject to such audits, reviews, and investigations. Patient revenue increased by approximately \$1,300,000 in 2021 for changes in settlement amounts previously estimated.

Refund Liabilities

From time to time the Hospital will receive overpayments of patient balances from third-party payors or patients resulting in amounts owed back to either the patients or third-party payors. These amounts are excluded from revenues and are recorded as liabilities until they are refunded. As of September 30, 2021, the Hospital has a liability of approximately \$885,000 for refunds to third-party payors and patients recorded, and included in accounts payable on the balance sheets. No amounts were recorded at September 30, 2020.

Patient and Uninsured Payors

Consistent with the Hospital's mission, care is provided to patients regardless of their ability to pay. Therefore, the Hospital provides implicit price concessions to uninsured patients and patients with other uninsured balances, such as copays and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Hospital expects to collect based on its collection history with those patients.

Patients who meet the Hospital's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

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Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Hospital also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Hospital estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the year ended September 30, 2021, additional revenue of approximately \$1,900,000 was recognized due to changes in its estimates of implicit price concessions, discounts and contractual adjustments for performance obligations satisfied in prior years. Subsequent changes that are determined to be the result of an adverse change in the patient’s ability to pay are recorded as bad debt expense.

Revenue Composition

The Hospital has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors:

- Payors (for example, Medicare, Medicaid, managed care or other insurance, patient) have different reimbursement and payment methodologies
- The Hospital’s line of business that provided the service (for example, hospital inpatient, hospital outpatient, etc.)

The composition of net patient care service revenue less provision for uncollectible accounts by primary payor for the years ended September 30, 2021 and 2020, is as follows:

	2021	2020
Medicare	\$ 24,306,429	\$ 21,261,716
Medicaid	2,905,195	3,091,274
Blue Cross	21,370,931	18,263,922
Other third-party payors	29,412,652	21,971,613
Patients	1,725,465	856,654
	<u>\$ 79,720,672</u>	<u>\$ 65,445,179</u>

Copley Hospital, Inc.
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The composition of patient care service revenue based on lines of business for the year ended September 30, 2021, is as follows:

	2021
Hospital - inpatient	\$ 21,601,715
Hospital - outpatient	49,842,583
Physician services	8,276,374
	<hr/>
Total	<u>\$ 79,720,672</u>

Nearly all revenue is related to health care services which are transferred and rendered over time.

Note 4: Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, 2021 and 2020, is:

	2021	2020
Medicare	32%	30%
Medicaid	4%	4%
Blue Cross	26%	27%
Other third-party payors	31%	34%
Patients	7%	5%
	<hr/>	<hr/>
	<u>100%</u>	<u>100%</u>

Note 5: Investments and Investment Return

Investments at September 30 include:

	2021	2020
Cash and cash equivalents	\$ 708,861	\$ 3,426,433
Certificates of deposit	9,000,000	9,000,000
	<hr/>	<hr/>
Total	<u>\$ 9,708,861</u>	<u>\$ 12,426,433</u>

Copley Hospital, Inc.
Notes to Financial Statements
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Investments are included on the balance sheet as follows:

	2021	2020
Short-term investments	\$ 7,000,000	\$ 7,000,000
Assets limited as to use	2,708,861	5,426,433
Total	\$ 9,708,861	\$ 12,426,433

Investment return is comprised of interest income.

Note 6: Professional Liability Claims

The Hospital purchases medical malpractice insurance under a claims-made policy. Under such a policy, only claims made and reported to the insurer during the policy term, regardless of when the incidents giving rise to the claims occurred, are covered. The Hospital also purchases excess umbrella liability coverage, which provides additional coverage above the basic policy limits up to the amount specified in the umbrella policy.

Based upon the Hospital's claims experience, an accrual had been made for the Hospital's estimated medical malpractice costs, including costs associated with litigating or settling claims, under its malpractice insurance policy, amounting to approximately \$1,860,147 and \$721,697 as of September 30, 2021 and 2020, respectively. Estimated recoveries are included in other receivables. It is reasonably possible that this estimate could change materially in the near term.

Note 7: Long-Term Debt

	2021	2020
Note payable (A)	\$ 7,046,760	\$ 7,454,107
Note payable (B)	-	5,037,900
Capital lease obligation (C)	136,971	-
	7,183,731	12,492,007
Less current maturities	445,218	3,468,879
	\$ 6,738,513	\$ 9,023,128

A) Note payable with monthly payments of \$42,236, including interest at a rate of the weighted average yield of certificates of deposits, plus 1 percent (1.35 percent at September 30, 2021). Final payment due in March 2037. Secured by Hospital cash and investments.

Copley Hospital, Inc.
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- B) During 2020, the Hospital received a Paycheck Protection Program loan through the Small Business Administration, see *Note 2*. Note payable dated May 7, 2020, in the original amount of \$5,037,900 at 1 percent interest. This loan was forgiven during 2021 (see *Note 2*).
- C) Principal and interest payments of \$3,089 due monthly including interest at 3.94 percent, final payment due September 2025.

Aggregate annual maturities of long-term debt and payments on capital lease obligations at September 30, 2021, are:

	Long-Term Debt Excluding Capital Lease Obligations	Capital Lease Obligations
2022	\$ 412,969	\$ 37,068
2023	418,657	37,068
2024	424,196	37,068
2025	430,267	37,068
2026	436,193	-
Thereafter	4,924,478	-
	\$ 7,046,760	148,272
Less amount representing interest		11,301
Present value of future minimum lease payments		136,971
Less current maturities		32,249
Noncurrent portion		\$ 104,722

Copley Hospital, Inc.
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Note 8: Net Assets

Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes or periods:

	2021	2020
Subject to expenditure for specified purpose		
Beneficial interest in assets held by Copley Health Systems, Inc.	\$ 871,080	\$ 213,802
Not subject to appropriation or expenditure		
Beneficial interest in assets held by Copley Health Systems, Inc.	<u>4,889,210</u>	<u>4,786,905</u>
	<u><u>\$ 5,760,290</u></u>	<u><u>\$ 5,000,707</u></u>

Note 9: Liquidity and Availability

The Hospital's financial assets available within one year of the balance sheet date for general expenditure are:

	2021	2020
Financial assets at year-end		
Cash and cash equivalents	\$ 19,183,759	\$ 26,453,311
Short-term investments	7,000,000	7,000,000
Patient accounts receivable	10,587,434	5,013,731
Due from related parties	51,322	15,495
Assets limited as to use	<u>2,708,861</u>	<u>5,426,433</u>
Total financial assets	39,531,376	43,908,970
Less amounts not available to be used within one year		
Short-term investments and assets limited as to use	<u>7,046,760</u>	<u>7,454,107</u>
Financial assets available to meet general expenditures within one year	<u><u>\$ 32,484,616</u></u>	<u><u>\$ 36,454,863</u></u>

As part of the Hospital's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

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Note 10: Functional Expenses

The Hospital provides health care services primarily to residents within its geographic area. Certain costs attributable to more than one function have been allocated among the health care services, general and administrative, and fundraising functional expense classifications based on the direct assignment, expenses, and other methods. The following schedule presents the natural classification of expenses by function as follows:

	2021				
	Health Care Services		Total Health Care Services	General and Administrative	Total
	Inpatient	Outpatient			
Salaries and wages	\$ 9,013,054	\$ 23,623,301	\$ 32,636,355	\$ 3,582,348	\$ 36,218,703
Employee benefits	1,731,483	4,538,235	6,269,718	1,796,350	8,066,068
Purchased services and professional fees	3,004,751	7,875,482	10,880,233	2,512,969	13,393,202
Supplies and other	6,566,833	17,211,735	23,778,568	2,370,395	26,148,963
Depreciation and amortization	1,108,967	2,906,612	4,015,579	264,070	4,279,649
Interest	23,224	60,871	84,095	-	84,095
	<u>\$ 21,448,312</u>	<u>\$ 56,216,236</u>	<u>\$ 77,664,548</u>	<u>\$ 10,526,132</u>	<u>\$ 88,190,680</u>
Total expenses					
	<u>\$ 21,448,312</u>	<u>\$ 56,216,236</u>	<u>\$ 77,664,548</u>	<u>\$ 10,526,132</u>	<u>\$ 88,190,680</u>

	2020				
	Health Care Services		Total Health Care Services	General and Administrative	Total
	Inpatient	Outpatient			
Salaries and wages	\$ 9,473,600	\$ 19,402,393	\$ 28,875,993	\$ 2,698,699	\$ 31,574,692
Employee benefits	2,070,895	4,241,294	6,312,189	591,176	6,903,365
Purchased services and professional fees	2,526,733	5,174,871	7,701,604	2,033,762	9,735,366
Supplies and other	6,774,040	13,873,564	20,647,604	2,042,642	22,690,246
Depreciation and amortization	845,209	1,731,028	2,576,237	213,631	2,789,868
Interest	41,347	84,682	126,029	-	126,029
	<u>\$ 21,731,824</u>	<u>\$ 44,507,832</u>	<u>\$ 66,239,656</u>	<u>\$ 7,579,910</u>	<u>\$ 73,819,566</u>
Total expenses					
	<u>\$ 21,731,824</u>	<u>\$ 44,507,832</u>	<u>\$ 66,239,656</u>	<u>\$ 7,579,910</u>	<u>\$ 73,819,566</u>

Note 11: Pension Plans

The Hospital has a tax-deferred annuity plan covering substantially all employees. Contributions are based upon a percentage of each covered employee's annual compensation. Pension expense was \$1,276,829 and \$952,422 for 2021 and 2020, respectively.

The Hospital also has a deferred compensation plan for the benefit of certain employees. The assets are classified as assets held in a deferred compensation plan and a corresponding liability has been recorded.

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Note 12: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2021 and 2020.

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2021				
Assets				
Investments				
Assets held in deferred compensation plans				
Cash equivalents	\$ 512,020	\$ 512,020	\$ -	\$ -
Mutual funds and equities	3,066,475	3,066,475	-	-
Fixed income securities	187,753	187,753	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	\$ 3,766,248	\$ 3,766,248	\$ -	\$ -
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Copley Hospital, Inc.
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	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2020				
Assets				
Investments				
Assets held in deferred compensation plans				
Cash equivalents	\$ 320,651	\$ 320,651	\$ -	\$ -
Mutual funds and equities	2,414,566	2,414,566	-	-
Fixed income securities	161,370	161,370	-	-
	<u>2,896,587</u>	<u>2,896,587</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 2,896,587</u>	<u>\$ 2,896,587</u>	<u>\$ -</u>	<u>\$ -</u>

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended September 30, 2021.

Investments and Cash Equivalents

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections, and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Hospital has no securities classified as Level 3.

Note 13: Asset Retirement Obligation

Accounting principles generally accepted in the United States of America require that an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard) even when the timing and/or method of settlement may be conditional on a future event. The Hospital's conditional asset retirement obligations primarily relate to asbestos contained in buildings that the Hospital owns. Environmental regulations exist in Vermont that

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require the Hospital to handle and dispose of asbestos in a special manner if a building undergoes major renovations or is demolished. For the year ended September 30, 2021 and 2020, the Hospital recognized a liability of \$1,500,000 and \$0, respectively, for all estimable and known areas containing an ARO. The corresponding expense was included in depreciation expense during 2021.

A liability may not be recognized for additional obligations in the accompanying financial statements because the range of time over which the Hospital may settle the obligations is unknown and cannot be reasonably estimated. The Hospital will recognize a liability when sufficient information is available to reasonably estimate fair value.

Note 14: Related Party Transactions

The Hospital is associated with several related organizations. Amounts due from related parties were \$51,323 and \$15,495 at September 30, 2021 and 2020, respectively.

Copley Health Systems, Inc.

Copley Health Systems, Inc. (the “Health System”) controls the Hospital and other entities as discussed herein. Management services are provided by the Hospital to the Health System affiliated entities. Management fee expense to the Health System was \$32,034 and \$29,424 in 2021 and 2020, respectively, and included in purchased services and professional fees in the accompanying financial statements.

The Health System coordinates and implements fundraising and other resource development activities for the various Health System entities, primarily the Hospital. The Hospital’s interest in the restricted net assets of the Health System is reported as a noncurrent asset in the balance sheets. The Hospital received contributions from the Health System of \$192,511 and \$359,778 during 2021 and 2020, respectively.

Health Center Building

Health Center Building, Inc. (HCB), a for-profit corporation, owns and manages an office building that leases space to the Hospital and area physicians on an annual basis. Rent expense was \$272,951 and \$285,682 for 2021 and 2020, respectively. The Health System is the parent company and shareholder of HCB.

Copley Terrace

Lamoille Area Housing Corporation (LAHC), d/b/a Copley Terrace, is a not-for-profit corporation established to provide housing for the elderly and handicapped. The Health System as sole corporate member of LAHC, is the sponsor organization for the Copley Terrace project, which is insured and subsidized by the U.S. Department of Housing and Urban Development. The Health System also serves as the management agent for the project under an agreement whereby the Health System receives fees in return for various management services.

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Copley Woodlands

Copley Woodlands, Inc. (CWI) is a not-for-profit corporation which operates an independent living retirement facility located in Stowe, Vermont. The Health System owns 100 percent of CWI at September 30, 2021. The Hospital received \$36,907 and \$35,878 in management fees from CWI in 2021 and 2020, respectively, which is other operating revenue in the accompanying financial statements.

During 2021, CWI began providing housing and related services to the Hospital. The Hospital recorded expense of \$37,011 in relation to these services for the year ended September 30, 2021.

Note 15: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Variable Consideration

Estimates of variable consideration in determining the transaction price for patient service revenue as described in *Notes 1* and *3*.

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Notes 1* and *6*.

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's selfinsurance program or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital 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.

Investments

The Hospital invests in 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 change could materially affect the amounts reported in the accompanying balance sheets.

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Asset Retirement Obligation

As discussed in *Note 13*, the Hospital recorded a liability for its conditional asset retirement obligation related to asbestos abatement.

Note 16: Future Change in Accounting Principles

Leases (ASU 2016-02)

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and non-lease components in an arrangement. The new standard is effective for the Hospital's annual period beginning October 1, 2022. The Hospital is evaluating the impact the standard will have on the financial statements. The standard could have a material impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.

Note 17: Subsequent Events

Subsequent events have been evaluated through January 31, 2022, which is the date the financial statements were available to be issued.