BerryDunn

copley hospital

FINANCIAL STATEMENTS

September 30, 2017 and 2016

With Independent Auditor's Report

BerryDunn

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Copley Hospital, Inc.

We have audited the accompanying financial statements of Copley Hospital, Inc., a subsidiary of Copley Health Systems, Inc., which comprise the balance sheets as of September 30, 2017 and 2016, 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 U.S. generally accepted accounting principles; 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 U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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, 2017 and 2016, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
November 20, 2017
Registration No. 92-0000278

COPLEY HOSPITAL, INC.

Balance Sheets

September 30, 2017 and 2016

ASSETS

	2017	2016
Current assets		
Cash and cash equivalents	**$ 13,409,572**	$ 13,115,754
Patient accounts receivable, net of allowances	**4,978,617**	4,667,731
Other accounts receivable	**172,423**	505,911
Due from related parties	**26,983**	3,996
Supplies	**3,337,286**	3,112,888
Prepaid expenses	**1,578,154**	1,390,159
Total current assets	**23,503,035**	22,796,439
Assets limited as to use	**1,478,371**	763,011
Property and equipment, net	**28,145,738**	19,125,503
Beneficial interest in net assets of Copley Health Systems, Inc.	**4,634,446**	7,040,732
Investments to fund deferred compensation	**2,248,762**	1,921,889
Total assets	**$ 60,010,352**	$ 51,647,574

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

LIABILITIES AND NET ASSETS

	2017	2016
Current liabilities		
Accounts payable and accrued expenses	**$ 3,221,104**	$ 3,560,808
Accrued payroll and related expenses	**3,366,736**	3,003,814
Current portion of long-term debt	**416,583**	190,111
Estimated third-party payor settlements	**1,200,000**	250,000
Deferred revenue	**6,250**	-
Total current liabilities	**8,210,673**	7,004,733
Long-term debt, excluding current portion	**8,505,788**	1,945,649
Deferred compensation	**2,248,762**	1,921,889
Total liabilities	**18,965,223**	10,872,271
Net assets		
Unrestricted	**36,410,683**	33,734,571
Temporarily restricted	**272,261**	2,788,081
Permanently restricted	**4,362,185**	4,252,651
Total net assets	**41,045,129**	40,775,303
Total liabilities and net assets	**$ 60,010,352**	$ 51,647,574

COPLEY HOSPITAL, INC.

Statements of Operations

Years Ended September 30, 2017 and 2016

	2017	2016
Unrestricted revenues, gains, and other support		
Patient service revenue (net of contractual allowances and discounts)	**$ 66,412,804**	$ 64,191,146
Provision for bad debts	**(1,428,812)**	(1,386,798)
Net patient service revenue	**64,983,992**	62,804,348
Other operating revenue	**1,607,429**	1,444,187
Loss on sales of property and equipment	**(164,683)**	(6,811)
Total unrestricted revenues, gains, and other support	**66,426,738**	64,241,724
Expenses		
Staff salaries	**22,931,687**	22,282,284
Physician salaries and fees	**8,990,190**	8,493,875
Employee benefits	**5,890,331**	5,723,522
Contracted labor	**2,128,792**	2,194,980
Supplies and drugs	**12,565,096**	11,136,126
Utilities, rent and taxes	**1,729,825**	1,713,907
Travel, education and dues	**582,077**	475,510
Medicaid provider tax	**3,747,213**	3,794,131
Purchased service and other	**4,656,023**	4,765,720
Insurance	**1,148,240**	1,211,760
Depreciation and amortization	**2,384,021**	2,488,051
Interest	**26,868**	32,541
Total expenses	**66,780,363**	64,312,407
Operating loss	**(353,625)**	(70,683)
Nonoperating gains		
Investment income, net	**46,654**	47,798
Contributions	**2,983,083**	200,601
Total nonoperating gains	**3,029,737**	248,399
Excess of revenues, gains, and other support over expenses and losses, and increase in unrestricted net assets	**$ 2,676,112**	$ 177,716

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

COPLEY HOSPITAL, INC.

Statements of Changes in Net Assets

Years Ended September 30, 2017 and 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balances, October 1, 2015	$ 33,556,855	$ 2,367,720	$ 4,147,113	$ 40,071,688
Excess of revenues, gains, and other support over expenses and losses	177,716	-	-	177,716
Change in beneficial interest in net assets of Copley Health Systems, Inc.	-	420,361	105,538	525,899
Increase in net assets	177,716	420,361	105,538	703,615
Balances, September 30, 2016	33,734,571	2,788,081	4,252,651	40,775,303
Excess of revenues, gains, and other support over expenses and losses	**2,676,112**	**-**	**-**	**2,676,112**
Change in beneficial interest in net assets of Copley Health Systems, Inc.	**-**	**(2,515,820)**	**109,534**	**(2,406,286)**
Increase (decrease) in net assets	**2,676,112**	**(2,515,820)**	**109,534**	**269,826**
Balances, September 30, 2017	**$ 36,410,683**	**$ 272,261**	**$ 4,362,185**	**$ 41,045,129**

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

COPLEY HOSPITAL, INC.

Statements of Cash Flows

Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	$ 269,826	$ 703,615
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	2,384,021	2,488,051
Provision for bad debts	1,428,812	1,386,798
Loss on sales of property and equipment	164,683	6,811
Change in beneficial interest in Copley Health Systems, Inc.	2,406,286	(525,899)
(Increase) decrease in		
Patient accounts receivable	(1,739,698)	(1,768,142)
Other accounts receivable	333,488	(325,322)
Due from related parties	(22,987)	19,224
Supplies	(224,398)	(295,282)
Prepaid expenses	(187,995)	(12,134)
Increase (decrease) in		
Accounts payable and accrued expenses	(339,704)	1,164,445
Accrued payroll and related expenses	362,922	219,793
Estimated third-party payor settlements	950,000	(1,150,000)
Deferred revenue	6,250	-
Net cash provided by operating activities	5,791,506	1,911,958
Cash flows from investing activities		
Purchases of property and equipment	(11,519,562)	(5,192,171)
Proceeds from sale of property and equipment	52,904	16,333
Change in assets limited as to use	(715,360)	2,505,451
Net cash used by investing activities	(12,182,018)	(2,670,387)
Cash flows from financing activities		
Payments on long-term debt	(315,670)	(277,466)
Proceeds from issuance of long-term debt	7,000,000	-
Net cash provided (used) by financing activities	6,684,330	(277,466)
Net increase (decrease) in cash and cash equivalents	293,818	(1,035,895)
Cash and cash equivalents, beginning of year	13,115,754	14,151,649
Cash and cash equivalents, end of year	$ 13,409,572	$ 13,115,754
Supplemental disclosures:		
Cash paid for interest	$ 26,948	$ 33,535
Noncash investing and financing transactions:		
Acquisition of equipment through capital lease	$ 102,281	$ -

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

Nature of Business

Copley Hospital, Inc. (Hospital), a subsidiary of Copley Health Systems, Inc. (CHSI), is a not-for-profit corporation organized under the laws of the State of Vermont for the purpose of establishing and maintaining a public, voluntary, short-term, critical access hospital (CAH). In addition, CHSI has a number of other subsidiaries whose relationships with the Hospital are disclosed in Note 13.

1. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments with an original maturity of twelve months or less, excluding amounts whose use is limited. Cash and cash equivalents includes $10 million of certificate of deposits at September 30, 2017 and 2016, $9 million of which are used as collateral for loan agreements.

Patient Accounts Receivable

Patient accounts receivable are stated at the amount management expects to collect from outstanding balances, and thus are reduced by an allowance for doubtful accounts. In evaluating collectibility 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 doubtful accounts and provisions for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, 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 provision for bad debts 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. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. The allowance for doubtful accounts decreased from $2,200,000 in 2016 to $1,900,000 in 2017 based on evaluation of recent payment trends.

Supplies

Supplies are carried at the lower of cost (determined by the first-in, first-out method) or market.

Assets Limited as to Use

Assets limited as to use primarily consist of designated assets set aside by the Board of Trustees for future capital improvements, over which the Board retains control and which it may at its discretion subsequently use for other purposes.

Property and Equipment

Property and equipment acquisitions are recorded at cost or, if contributed, at fair market value determined at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues, gains, and other support over expenses and losses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Accrual for Self-Insurance

CHSI has a self-insured health plan for substantially all of its, and its subsidiaries', employees. The plan is managed and administered by MVP Health Plan, Inc. CHSI has obtained reinsurance coverage to limit CHSI's exposure associated with the plan on individual members to $150,000. The accompanying financial statements include an accrual for management's estimate of claims incurred, but not reported, of approximately $207,000 and $239,000 as of September 30, 2017 and 2016, respectively.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received and the conditions are met. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations as net assets released from restrictions.

Temporarily and Permanently Restricted Net Assets

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

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

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

Excess of Revenues, Gains, and Other Support Over Expenses and Losses

The Hospital has deemed all activities as ongoing, major, or central to the provision of healthcare services and, accordingly, they are reported as operating revenue and expenses and losses, except for unrestricted contributions and pledges, and investment income which are recorded as nonoperating gains.

The statements of operations include excess of revenues, gains, and other support over expenses and losses. Changes in unrestricted net assets which are excluded from this measure, consistent with industry practice, include net assets released from restrictions used to purchase property and equipment and contributions of long-lived assets (including contributions which by donor restriction are to be used for the purposes of acquiring such assets).

Income Taxes

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

Functional Expenses

The Hospital provides general healthcare services to residents within its geographic location. Expenses related to providing these services were as follows for the years ended September 30:

	2017	2016
Healthcare services	**$ 61,251,057**	$ 58,506,161
General and administrative	**5,529,306**	5,806,246
	$ 66,780,363	$ 64,312,407

Subsequent Events

For purposes of the preparation of these financial statements, management has considered transactions or events occurring through November 20, 2017, the date which the financial statements were available to be issued.

In October 2017, the Hospital refinanced its $7,000,000 outstanding bank debt (see Note 8).

2. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

The Hospital is designated as a CAH. Under CAH, the Hospital is reimbursed 101% of allowable cost for its inpatient and outpatient services provided to Medicare patients. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2014.

In 2012, the Hospital entered into an agreement with OneCare Vermont Accountable Care Organization, LLC (ACO), the Medicare Shared Savings Program formed by University of Vermont Medical Center (formerly known as Fletcher Allen Health Care) and Dartmouth-Hitchcock. Savings are eligible for sharing from Medicare once the ACO's performance exceeds the national trend by the minimum savings rate percentage, as defined by Medicare. ACO participants will continue to bill for Medicare services as they normally would. The agreement is through December 31, 2017.

Medicaid

Services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates. These rates vary according to an ambulatory payment classification system that is based on clinical, diagnostic, and other factors. As a CAH, the Hospital receives an additional 6.15% payment on the established rates. The Hospital submits annual cost reports subject to audit by the fiscal intermediary. The Hospital's Medicaid cost reports have been audited by the fiscal intermediary through September 30, 2014.

Revenue from the Medicare and Medicaid programs accounted for approximately 30% and 10%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2017, and 29% and 12%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2016. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. In 2017 and 2016, net patient service revenue increased by approximately $73,000 and decreased by approximately $53,000, respectively, due to prior year settlements and changes in prior year estimates.

The Hospital pays the State of Vermont a net patient revenue tax of 6%, which is reported as an operating expense.

Blue Cross/Other

Inpatient and outpatient services rendered to Blue Cross subscribers are reimbursed at submitted charges less a negotiated discount. The amounts paid to the Hospital are not subject to any retroactive adjustments.

The Hospital has also entered into other payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided and, thus, the Hospital records a provision for bad debts related to uninsured patients. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources is as follows:

	2017	2016
Total all payors		
Third-party payors	**$ 65,518,070**	$ 63,509,193
Self-pay	**894,734**	681,953
Patient service revenue (net of contractual allowances and discounts)	**$ 66,412,804**	$ 64,191,146

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

	2017	2016
Patient services		
Inpatient	**$ 37,629,198**	$ 35,632,616
Outpatient	**71,364,294**	73,823,479
Skilled nursing	**776,726**	350,698
Gross patient service revenue	**109,770,218**	109,806,793
Less contractual allowances	**42,667,373**	44,794,496
Less charity care	**690,041**	821,151
	43,357,414	45,615,647
Patient service revenue (net of contractual allowances and discounts)	**66,412,804**	64,191,146
Less provision for bad debts	**1,428,812**	1,386,798
Net patient service revenue	**$ 64,983,992**	$ 62,804,348

3. Charity Care

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. The following information measures the level of charity care provided during the years ended September 30:

	2017	2016
Charges foregone, based on established rates	**$ 690,041**	$ 821,151
Estimated costs incurred to provide charity care	**$ 420,000**	$ 481,000
Equivalent percentage of charity care services to all services	**0.63%**	0.75%

Costs of providing charity care services have been estimated based on the relationship of charges for those services to total expenses.

4. Patient Accounts Receivable

Patient accounts receivable as of September 30 are as follows:

	2017	2016
Accounts receivable	**$ 11,878,617**	$ 11,517,731
Less - allowance for doubtful accounts	**(1,900,000)**	(2,200,000)
- allowance for contractual adjustments	**(5,000,000)**	(4,650,000)
Net patient accounts receivable	**$ 4,978,617**	$ 4,667,731

5. Assets Limited as to Use

The composition of assets limited as to use at September 30, 2017 and 2016 is set forth in the following table. Cash and cash equivalents are stated at fair value.

	2017	2016
Internally designated by Board of Trustees		
Cash and cash equivalents	**$ 1,478,371**	$ 763,011

6. Property and Equipment

A summary of property and equipment follows:

	2017	2016
Land and land improvements	**$ 1,857,300**	$ 1,438,699
Buildings and improvements	**31,320,126**	20,879,545
Equipment	**21,547,825**	19,721,076
	54,725,251	42,039,320
Less accumulated depreciation	**27,528,429**	27,152,914
	27,196,822	14,886,406
Construction in progress	**948,916**	4,239,097
Property and equipment, net	**$ 28,145,738**	$ 19,125,503

In February 2016, the Hospital received approval for its Certificate of Need (CON) for upgrading the surgical suite of the Hospital. The total estimated cost of $12,500,000 will be financed with a $7,000,000 borrowing, $3,200,000 in fundraising, and working capital. Phase One of the project was completed in July 2017. Phase Two and Three are expected to be completed in December 2017. Total estimated cost of the project is expected to be $13,500,000, 8% above the original CON. Vermont CON statutes consider a change in scope of a project to be a material change if the change in all project costs exceed 10% of the approved project cost.

7. Fair Value Measurements

Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Topic 820, *Fair Value Measurement*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Assets measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at September 30, 2017		
	Total	Level 1	(Level 2)
Investments to fund deferred compensation:			
Cash and short-term investments	**$ 142,008**	**$ 142,008**	**$ -**
Mutual funds			
Equity funds	**1,060,403**	**1,060,403**	**-**
Fixed income funds	**264,638**	**264,638**	**-**
International equity funds	**781,713**	**781,713**	**-**
Beneficial interest in net assets of CHSI	**4,634,446**	**-**	**4,634,446**
Total	**$ 6,883,208**	**$ 2,248,762**	**$ 4,634,446**

	Fair Value Measurements at September 30, 2016		
	Total	Level 1	(Level 2)
Investments to fund deferred compensation:			
Cash and short-term investments	$ 103,261	$ 103,261	$ -
Mutual funds			
Equity funds	687,017	687,017	-
Fixed income funds	521,942	521,942	-
International equity funds	609,669	609,669	-
Beneficial interest in net assets of CHSI	7,040,732	-	7,040,732
Total	$ 8,962,621	$ 1,921,889	$ 7,040,732

As the beneficial interest in net assets of CHSI is not readily available to the Hospital, the assets are classified as Level 2. The underlying assets are managed through the Hospital and CHSI.

8. Long-Term Debt

A summary of long-term debt follows:

	2017	2016
Note payable with interest payable at a rate of the weighted average yield of certificates of deposit held as collateral, plus 1% (1.35% at September 30, 2017). Refinanced in October 2017.	**$ 1,862,708**	$ 2,135,760
Line of credit with interest payable at a rate of the weighted average yield of certificates of deposit held as collateral, plus 1% (1.35% at September 30, 2017). Refinanced in October 2017.	**7,000,000**	-
Capital lease payable with monthly principal only payments of $8,523 through April 2018.	**59,663**	-
	8,922,371	2,135,760
Less current portion	**416,583**	190,111
Long-term debt, excluding current portion	**$ 8,505,788**	$ 1,945,649

On October 2, 2017, the Hospital refinanced its note payable and line of credit into a new loan agreement with borrowings totaling $8,862,708. The loan is payable in monthly installments of $42,236, including interest, through October 2037. Interest is at a rate equal to the Hospital's certificates of deposit interest rates plus 1% (1.35% at September 30, 2017). The loan is collateralized by certificates of deposit totaling approximately $9 million.

Maturities for long-term debt in subsequent fiscal years from September 30, 2017, based on the refinancing, are as follows:

	Long-Term Debt	Capital Lease Obligation
2018 (included in current liabilities)	$ 356,920	$ 59,663
2019	394,435	-
2020	399,793	-
2021	405,224	-
2022	410,728	-
Thereafter	6,895,608	-
	$ 8,862,708	$ 59,663

9. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30:

	2017	2016
Beneficial interest in net assets of CHSI consisting of cash contributions expendable primarily for Hospital capital projects.	**$ 272,261**	$ 2,788,081

Permanently restricted net assets are restricted to:

	2017	2016
Beneficial interest in CHSI consisting of endowed investments of which realized and unrealized gains are expendable for patient services and the purchase of property and equipment.	**$ 4,362,185**	$ 4,252,651

The CHSI endowment fund donative instrument requires appreciation to be expended for the purposes described above, with dividends and interest to be reinvested to offset future inflation.

10. Retirement Plans

The Hospital participates in a defined contribution tax-sheltered annuity plan available to substantially all employees. Contributions, which are based on a percentage of each covered employee's annual compensation, for the years ended September 30, 2017 and 2016 were $748,969 and $778,219, respectively.

The Hospital maintains a nonqualified deferred compensation plan which was established for a select group of management or highly compensated employees. The amounts contributed to the plan by employees are recognized as an asset and a corresponding liability in the financial statements. Benefits are subject to "substantial risk of forfeiture" provisions.

11. Concentrations

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	2017	2016
Medicare	**36%**	31%
Medicaid	**13**	15
Blue Cross	**15**	16
Other third-party payors	**25**	25
Patients	**11**	13
	100%	100%

The Hospital maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. The Hospital believes it is not exposed to any significant risk on cash and cash equivalents.

The Hospital's unionized registered nurses are 20% of the Hospital's workforce and are members of the United Nurses and Professionals Local Unit. The union contract is in effect through May 2018.

12. Contingencies

The Hospital carries malpractice insurance coverage under a claims-made policy. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured. The policy contains a provision which allows the Hospital to purchase "tail" coverage for an indefinite period of time to avoid any lapse in insurance coverage. The Hospital intends to renew its coverage on a claims-made basis and has no reason to believe that it may be prevented from renewing such coverage. The Hospital is subject to complaints, claims and litigation due to potential claims which arise in the normal course of business. U.S. generally accepted accounting principles require the Hospital to accrue the ultimate cost of malpractice claims when the incident that gives rise to the claim occurs, without consideration of insurance recoveries. Expected recoveries are presented as a separate asset. The Hospital has evaluated its exposure to losses arising from potential claims and determined necessary accruals.

FASB ASC Topic 410, *Asset Retirement and Environmental Obligations*, requires entities to record asset retirement obligations at fair value if they can be reasonably estimated. The State of Vermont requires special disposal procedures relating to building materials containing asbestos. The Hospital building contains some asbestos, but a liability has not been recognized. This is because there are no current plans to renovate the building that would require removal of the asbestos; accordingly, the liability has an indeterminate settlement date and its fair value cannot be reasonably estimated.

13. Related Party Transactions

The Hospital is associated with several related organizations. Activities with these organizations are described in this note.

CHSI is a tax-exempt organization which controls the Hospital and other entities as discussed herein. Management services are provided by the Hospital to CHSI's affiliated entities.

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 $197,729 and $195,980 for 2017 and 2016, respectively. CHSI is the parent company and shareholder of HCB.

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. CHSI, 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. CHSI also serves as the management agent for the project under an agreement whereby CHSI receives fees in return for various management services.

CHSI coordinates and implements fundraising and other resource development activities for the various CHSI entities, primarily the Hospital. The Hospital's interest in the restricted net assets of CHSI is reported as a non-current asset in the balance sheets at the fair value of the underlying assets. The Hospital received contributions from CHSI of $2,938,083 and $200,601 during 2017 and 2016, respectively.

Copley Woodlands, Inc. (CWI) is a not-for-profit corporation which operates an independent living retirement facility located in Stowe, Vermont. CWI is owned 50% by CHSI and 50% by University of Vermont Medical Center.

Transactions and balances between the above-described organizations and the Hospital are summarized as follows:

	Due (to) from Related Parties		Management Fee Income (Expense)	
	2017	2016	**2017**	2016
CHSI	**$ 5,756**	$ 4,545	**$ (20,900)**	$ -
LAHC	**10,306**	3,687	**15,600**	34,500
HCB	**1,178**	1,947	**6,600**	34,500
CWI	**9,743**	(6,183)	**34,000**	34,500
Total	**$ 26,983**	$ 3,996	**$ 35,300**	$ 103,500

14. Contributed Services

During 2017 and 2016, volunteer hours of 12,474 and 13,628, respectively, were provided to the Hospital. Such services are not recognized as contribution revenue in the financial statements. The volunteers provide nonspecialized services to the Hospital, including patient assistance, clerical tasks, and event support.

15. Meaningful Use Revenues

The Medicare electronic health record (EHR) incentive program provides a financial incentive for hospitals and eligible professionals for achieving "meaningful use" of certified EHR technology. The criteria for meaningful use will be staged in three steps with the final stage beginning in 2018. The meaningful use attestation is subject to audit by the Centers for Medicare and Medicaid Services in future years. As part of this process, a final settlement amount for the incentive payments could be established that differs from the initial calculation, and could result in return of a portion or all of the incentive payments received by the Hospital.

The Medicaid program provides incentive payments to hospitals and eligible professionals as they adopt, implement, upgrade or demonstrate meaningful use in the first year of participation and demonstrate meaningful use for up to five remaining participation years.

During 2017 and 2016, the Hospital recorded meaningful use revenues of $330,801 and $106,210, respectively, related to the Medicare and Medicaid EHR programs. These revenues are included in other operating revenue.