BerryDunn

copley hospital

FINANCIAL STATEMENTS

September 30, 2019 and 2018

With Independent Auditor's Report

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, 2019 and 2018, 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, 2019 and 2018, 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.

The Board of Trustees
Copley Hospital, Inc.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2019 Copley Hospital, Inc. adopted new accounting guidance, Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
December 19, 2019
Registration No. 92-0000278

COPLEY HOSPITAL, INC.

Balance Sheets

September 30, 2019 and 2018

ASSETS

	2019	2018
Current assets		
Cash and cash equivalents	**$ 2,140,224**	$ 3,788,288
Certificates of deposit	**5,000,000**	5,000,000
Patient accounts receivable, net of allowances	**5,353,579**	5,294,823
Other accounts receivable	**86,320**	416,657
Due from related parties	**11,193**	18,422
Supplies	**2,997,420**	3,360,814
Prepaid expenses	**1,534,559**	1,468,842
Total current assets	**17,123,295**	19,347,846
Assets limited as to use	**4,360,430**	2,911,344
Property and equipment, net	**25,814,323**	27,109,453
Beneficial interest in net assets of Copley Health Systems, Inc.	**4,868,431**	4,656,728
Investments to fund deferred compensation	**2,378,374**	2,543,461
Total assets	**$ 54,544,853**	$ 56,568,832

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

LIABILITIES AND NET ASSETS

	2019	2018
Current liabilities		
Accounts payable and accrued expenses	**$ 2,420,467**	$ 2,445,476
Accrued payroll and related expenses	**3,724,407**	3,566,030
Current portion of long-term debt	**401,383**	395,303
Estimated third-party payor settlements	**250,000**	200,000
Total current liabilities	**6,796,257**	6,606,809
Long-term debt, excluding current portion	**7,508,945**	8,003,482
Deferred compensation	**2,378,374**	2,543,461
Total liabilities	**16,683,576**	17,153,752
Net assets		
Without donor restrictions	**32,992,846**	34,758,352
With donor restrictions	**4,868,431**	4,656,728
Total net assets	**37,861,277**	39,415,080
Total liabilities and net assets	**$ 54,544,853**	$ 56,568,832

COPLEY HOSPITAL, INC.

Statements of Operations

Years Ended September 30, 2019 and 2018

	2019	2018
Revenues, gains, and other support without donor restrictions		
Patient service revenue (net of contractual allowances and discounts)	**$ 68,803,371**	$ 68,104,288
Provision for bad debts	**(1,809,559)**	(1,877,839)
Net patient service revenue	**66,993,812**	66,226,449
Other operating revenue	**1,144,276**	1,245,038
Total revenues, gains, and other support without donor restrictions	**68,138,088**	67,471,487
Expenses		
Staff salaries	**24,082,328**	23,673,061
Physician salaries and fees	**8,614,895**	9,378,369
Employee benefits	**6,539,534**	5,826,938
Contracted labor	**1,932,130**	2,199,310
Supplies and drugs	**14,324,991**	13,569,748
Utilities, rent and taxes	**1,973,589**	1,954,283
Travel, education and dues	**530,854**	541,058
State provider tax	**3,899,906**	3,852,435
Purchased service and other	**4,585,010**	4,588,316
Insurance	**993,248**	1,071,167
Depreciation and amortization	**2,711,502**	2,911,044
Interest	**111,344**	117,927
Total expenses	**70,299,331**	69,683,656
Operating loss	**(2,161,243)**	(2,212,169)
Nonoperating gains		
Investment income, net	**39,405**	41,271
Contributions	**356,332**	518,567
Total nonoperating gains	**395,737**	559,838
Deficiency of revenues, gains, and other support over expenses and losses, and decrease in net assets without donor restrictions	**$ (1,765,506)**	$ (1,652,331)

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

COPLEY HOSPITAL, INC.

Statements of Changes in Net Assets

Years Ended September 30, 2019 and 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Balances, October 1, 2017	$ 36,410,683	$ 4,634,446	$ 41,045,129
Deficiency of revenues, gains, and other support over expenses and losses	(1,652,331)	-	(1,652,331)
Change in beneficial interest in net assets of Copley Health Systems, Inc.	-	22,282	22,282
(Decrease) increase in net assets	(1,652,331)	22,282	(1,630,049)
Balances, September 30, 2018	34,758,352	4,656,728	39,415,080
Deficiency of revenues, gains, and other support over expenses and losses	**(1,765,506)**	**-**	**(1,765,506)**
Change in beneficial interest in net assets of Copley Health Systems, Inc.	**-**	**211,703**	**211,703**
(Decrease) increase in net assets	**(1,765,506)**	**211,703**	**(1,553,803)**
Balances, September 30, 2019	**$ 32,992,846**	**$ 4,868,431**	**$ 37,861,277**

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

COPLEY HOSPITAL, INC.

Statements of Cash Flows

Years Ended September 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	**$ (1,553,803)**	$ (1,630,049)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	**2,711,502**	2,911,044
Provision for bad debts	**1,809,559**	1,877,839
Change in beneficial interest in Copley Health Systems, Inc.	**(211,703)**	(22,282)
(Increase) decrease in		
Patient accounts receivable	**(1,868,315)**	(2,194,045)
Other accounts receivable	**330,337**	(244,234)
Due from related parties	**7,229**	8,561
Supplies	**363,394**	(23,528)
Prepaid expenses	**(65,717)**	109,312
Increase (decrease) in		
Accounts payable and accrued expenses	**(25,009)**	(781,878)
Accrued payroll and related expenses	**158,377**	199,294
Estimated third-party payor settlements	**50,000**	(1,000,000)
Net cash provided (used) by operating activities	**1,705,851**	(789,966)
Cash flows from investing activities		
Purchases of property and equipment	**(1,416,372)**	(1,874,759)
Change in assets limited as to use	**(1,449,086)**	(1,432,973)
Net cash used by investing activities	**(2,865,458)**	(3,374,936)
Cash flows from financing activities		
Payments on long-term debt	**(488,457)**	(523,586)
Net cash used by financing activities	**(488,457)**	(523,586)
Net decrease in cash and cash equivalents	**(1,648,064)**	(4,621,284)
Cash and cash equivalents, beginning of year	**3,788,288**	8,409,572
Cash and cash equivalents, end of year	**$ 2,140,224**	$ 3,788,288
Supplemental disclosures:		
Cash paid for interest	**$ 111,542**	$ 111,077

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 14.

1. Summary of Significant Accounting Policies

Basis of Presentation

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic (ASC) 958, *Not-For-Profit Entities*. Under FASB ASC 958 and FASB ASC 954, *Health Care Entities*, all not-for-profit healthcare organizations are required to provide a balance sheet, a statement of operations, a statement of changes in net assets, and a statement of cash flows. FASB ASC 954 requires reporting amounts for an organization's total assets, liabilities, and net assets in a balance sheet; reporting the change in an organization's net assets in statements of operations and changes in net assets; and reporting the change in its cash and cash equivalents in a statement of cash flows, according to the following net asset classification:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Hospital. These net assets may be used at the discretion of the Hospital's management and the Board of Trustees (Board).

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Hospital or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of operations and changes in net assets.

Newly Adopted Accounting Pronouncement

In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which makes targeted changes to the not-for-profit financial reporting model. The ASU marks the completion of the first phase of a larger project aimed at improving not-for-profit financial reporting. Under the ASU, net asset reporting is streamlined and clarified. The previous three category classification of net assets is replaced with a simplified model that combines temporarily restricted and permanently restricted into a single category called “net assets with donor restrictions.” The guidance for classifying deficiencies in endowment funds and on accounting for the lapsing of restrictions on gifts to acquire property and equipment has also been simplified and clarified. New disclosures highlight restrictions on the use of resources that make otherwise liquid assets unavailable for meeting near-term financial requirements. The ASU also imposes several new requirements related to reporting expenses.

The ASU is effective for the Hospital for the year ended September 30, 2019. Required disclosures for 2018 are also included in these financial statements.

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 a maturity of three months or less, excluding amounts whose use is limited.

Certificates of Deposit

Certificates of deposit (CDs) with maturities greater than three months and less than one year are presented separately from cash and cash equivalents in the balance sheets.

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 $2,100,000 in 2018 to $2,015,000 in 2019 based on the aging of receivables.

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 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 deficiency 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 $279,000 and $250,000 as of September 30, 2019 and 2018, 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 support with donor restrictions 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, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statements of operations as net assets released from restrictions.

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.

Operating and Performance Indicators

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 contributions and pledges without donor restrictions, and investment income which are recorded as nonoperating gains.

The statements of operations include deficiency of revenues, gains, and other support over expenses and losses. Changes in net assets without donor restrictions 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.

Subsequent Events

For purposes of the preparation of these financial statements, management has considered transactions or events occurring through December 19, 2019, the date which the financial statements were available to be issued.

Effective January 1, 2020, the Hospital will begin participation in the Vermont Medicaid risk-bearing program as a member of OneCare Vermont, LLC (OneCare), a statewide Accountable Care Organization (ACO). Under the Vermont Medicaid program, the Hospital will receive monthly fixed prospective payments for services provided to attributed patients. The ACO is responsible for both the cost and quality of care for each attributed patient. This is true whether that patient uses little or no care or whether they require services consistently throughout the year. The Hospital will recognize its share of annual contract settlements as an increase or decrease in its fixed prospective revenue.

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 rules, 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, 2016.

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 13% 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, 2016.

Revenue from the Medicare and Medicaid programs accounted for approximately 31% and 10%, respectively, of the Hospital's net patient service revenue for the years ended September 30, 2019 and 2018. 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 2019 and 2018, net patient service revenue decreased by approximately $77,000 and increased by approximately $301,000, 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:

	2019	2018
Total all payors		
Third-party payors	**$ 67,931,292**	$ 67,455,972
Self-pay	**872,079**	648,316
Patient service revenue (net of contractual allowances and discounts)	**$ 68,803,371**	$ 68,104,288

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

	2019	2018
Patient services		
Inpatient	**$ 41,297,458**	$ 37,532,794
Outpatient	**71,888,724**	68,267,447
Skilled nursing	**571,715**	1,228,068
Gross patient service revenue	**113,757,897**	107,028,309
Less contractual allowances	**44,113,003**	38,304,310
Less charity care	**841,523**	619,711
	44,954,526	38,924,021
Patient service revenue (net of contractual allowances and discounts)	**68,803,371**	68,104,288
Less provision for bad debts	**1,809,559**	1,877,839
Net patient service revenue	**$ 66,993,812**	$ 66,226,449

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:

	2019	2018
Charges foregone, based on established rates	**$ 841,523**	$ 619,711
Estimated costs incurred to provide charity care	**$ 520,000**	$ 403,000
Equivalent percentage of charity care services to all services	**0.74 %**	0.58 %

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

4. Availability and Liquidity of Financial Assets

As of September 30, 2019 and 2018, the Hospital has working capital of $10,327,038 and $12,741,037, respectively. As part of the Hospital's liquidity management plan, cash in excess of daily requirements is invested in short-term investments and certificates of deposits. The Hospital has $2,360,430 and $911,344 at September 30, 2019 and 2018, respectively, that are designated assets set aside by the Board for future capital improvements. These assets limited as to use are not available for general expenditure within the next year; however, the internally designated amounts could be made available at the Board's discretion to meet unexpected liquidity needs.

Financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, were as follows as of September 30:

	2019	2018
Cash and cash equivalents	**$ 2,140,224**	$ 3,788,288
CDs	**5,000,000**	5,000,000
Patient accounts receivable, net	**5,353,579**	5,294,823
Other accounts receivable	**86,320**	416,657
Assets limited as to use	**4,360,430**	2,911,344
Less Board-designated funds	**(2,360,430)**	(911,344)
Less CDs as collateral for debt	**(7,910,328)**	(8,398,785)
Total financial assets	**$ 6,669,795**	$ 8,100,983

5. Patient Accounts Receivable

Patient accounts receivable as of September 30 are as follows:

	2019	2018
Accounts receivable	**$ 11,868,579**	$ 11,894,823
Less - allowance for doubtful accounts	**(2,015,000)**	(2,100,000)
- allowance for contractual adjustments	**(4,500,000)**	(4,500,000)
Net patient accounts receivable	**$ 5,353,579**	$ 5,294,823

6. Assets Limited as to Use

The composition of assets limited as to use at September 30, 2019 and 2018 is set forth in the following table. Cash, cash equivalents, and CDs are stated at fair value.

	2019	2018
Internally designated by Board of Trustees		
Cash and cash equivalents	**$ 2,360,430**	$ 2,911,344
CDs	**2,000,000**	-
Total	**$ 4,360,430**	$ 2,911,344

7. Property and Equipment

A summary of property and equipment follows:

	2019	2018
Land and land improvements	**$ 1,998,111**	$ 1,954,063
Buildings and improvements	**31,898,866**	31,664,995
Equipment	**22,108,026**	21,849,241
	56,005,003	55,468,299
Less accumulated depreciation	**30,279,428**	28,396,701
	25,725,575	27,071,598
Construction in progress	**88,748**	37,855
Property and equipment, net	**$ 25,814,323**	$ 27,109,453

8. Fair Value Measurements

FASB ASC 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 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, 2019	
	Total	**Level 1**
Investments to fund deferred compensation:		
Cash and short-term investments	**$ 397,002**	**$ 397,002**
Mutual funds		
Equity funds	**1,712,087**	**1,712,087**
Fixed income funds	**146,111**	**146,111**
International equity funds	**123,174**	**123,174**
Total	**$ 2,378,374**	**$ 2,378,374**

	Fair Value Measurements at September 30, 2018	
	Total	Level 1
Investments to fund deferred compensation:		
Cash and short-term investments	$ 183,752	$ 183,752
Mutual funds		
Equity funds	1,292,105	1,292,105
Fixed income funds	249,338	249,338
International equity funds	818,266	818,266
Total	$ 2,543,461	$ 2,543,461

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.

9. Long-Term Debt

A summary of long-term debt follows:

	2019	2018
Note payable at a rate of the weighted average yield of CDs held as collateral, plus 1% (1.35% at September 30, 2019), due in monthly payments of $42,236, including interest, through July 2037.	**$ 7,910,328**	$ 8,398,785
Less current portion	**401,383**	395,303
Long-term debt, excluding current portion	**$ 7,508,945**	$ 8,003,482

Maturities for long-term debt in subsequent fiscal years from September 30, 2019 are as follows:

2020 (included in current liabilities)	$ 401,383
2021	406,603
2022	412,204
2023	417,881
2024	423,407
Thereafter	5,848,850
	$7,910,328

10. Net Assets

Net assets with donor restrictions are available for the following purposes at September 30:

	2019	2018
Funds subject to use or time restriction:		
Beneficial interest in net assets of CHSI consisting of cash contributions expendable primarily for Hospital capital projects	**$ 204,259**	$ 140,171
Funds of perpetual duration:		
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	**$4,664,172**	$4,516,557

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.

11. 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, 2019 and 2018 were $780,654 and $750,698, 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.

12. 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:

	2019	2018
Medicare	**30 %**	32 %
Medicaid	**10**	10
Blue Cross	**18**	15
Other third-party payors	**27**	30
Patients	**15**	13
	100 %	100 %

The Hospital maintains its cash and cash equivalents and CDs 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 and CDs.

The Hospital's unionized registered nurses are 19% of the Hospital's workforce and are members of the United Nurses and Professionals Local Unit. The union contract is in effect through May 2021.

13. 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 that no such accrual is necessary for the years ended 2019 and 2018.

FASB ASC 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.

14. 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 $270,980 and $208,534 for 2019 and 2018, 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. The Hospital received contributions from CHSI of $309,386 and $457,347 during 2019 and 2018, 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)	
	2019	2018	**2019**	2018
CHSI	**$ 1,942**	$ 5,556	**$ (21,090)**	$ (13,997)
LAHC	**3,408**	7,024	**15,203**	16,200
HCB	**1,710**	(1,613)	**7,305**	8,989
CWI	**4,133**	7,455	**33,466**	33,288
Total	**$ 11,193**	$ 18,422	**$ 34,884**	$ 44,480

15. Contributed Services

During 2019 and 2018, volunteer hours of 11,932 and 11,902, 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.

16. Functional Expenses

The statements of operations report certain expense categories that are attributable to both healthcare services and support functions. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Employee benefits are allocated based on salaries, and occupancy costs are allocated based on square footage. Expenses related to healthcare and support services for the years ended September 30 are as follows:

2019	Healthcare Service	Administrative Support	Total
Staff salaries	**$ 21,364,835**	**$ 2,717,493**	**$ 24,082,328**
Physician salaries and fees	**8,614,895**	**-**	**8,614,895**
Employee benefits	**5,974,200**	**565,334**	**6,539,534**
Contract labor	**1,782,083**	**150,047**	**1,932,130**
Supplies and drugs	**14,106,772**	**218,219**	**14,324,991**
Utilities, rent and taxes	**832,223**	**1,141,366**	**1,973,589**
Travel, education and dues	**298,189**	**232,665**	**530,854**
State provider tax	**3,899,906**	**-**	**3,899,906**
Purchased service and other	**4,045,231**	**539,779**	**4,585,010**
Insurance	**894,342**	**98,906**	**993,248**
Depreciation and amortization	**2,555,012**	**156,490**	**2,711,502**
Interest	**111,344**	**-**	**111,344**
	$ 64,479,032	**$ 5,820,299**	**$ 70,299,331**

2018	**Healthcare Service**	**Administrative Support**	Total
Staff salaries	$ 20,958,626	$ 2,714,435	$ 23,673,061
Physician salaries and fees	9,378,369	-	9,378,369
Employee benefits	5,317,833	509,105	5,826,938
Contract labor	2,199,310	-	2,199,310
Supplies and drugs	13,307,581	262,167	13,569,748
Utilities, rent and taxes	785,476	1,168,807	1,954,283
Travel, education and dues	310,155	230,903	541,058
State provider tax	3,852,435	-	3,852,435
Purchased services and other	3,962,323	625,993	4,588,316
Insurance	974,517	96,650	1,071,167
Depreciation and amortization	2,662,642	248,402	2,911,044
Interest	117,927	-	117,927
	$ 63,827,194	$ 5,856,462	$ 69,683,656