

Copley Hospital, Inc.

Independent Auditor's Report and Financial Statements

September 30, 2020 and 2019

Copley Hospital, Inc.
September 30, 2020 and 2019

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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 sheet as of September 30, 2020, and the related statements of operations, changes in net assets, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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, 2020, and the results of its operations, changes in net assets, and its cash flows for the year 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 2020, the Hospital adopted ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* and ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

Prior Year Audited by Other Auditors

The 2019 financial statements, before they were restated for the matter discussed in *Note 1*, were audited by other auditors, and their report thereon dated December 19, 2019, expressed an unmodified opinion. Our opinion is not modified with respect to this matter.

BKD, LLP

Springfield, Missouri
February 4, 2021

Copley Hospital, Inc.
Balance Sheets
September 30, 2020 and 2019

Assets

	2020	(Restated - Note 1) 2019
Current Assets		
Cash and cash equivalents	\$ 28,613,094	\$ 2,140,224
Short-term investments	5,000,000	5,000,000
Patient accounts receivable, net of allowance; 2020 - \$3,736,000, 2019 - \$2,015,000	5,013,731	5,353,579
Other receivables	246,636	86,320
Estimated amounts due from third-party payors	450,000	1,500,000
Due from related parties	15,495	11,193
Supplies	2,484,173	2,997,420
Prepaid expenses	1,862,386	1,534,559
	43,685,515	18,623,295
Assets Limited As To Use	5,266,650	4,360,430
Property and Equipment, at Cost		
Land and improvements	1,998,111	1,998,111
Buildings and improvements	32,124,240	31,898,866
Equipment	23,897,289	22,108,026
Construction in progress	99,498	88,748
	58,119,138	56,093,751
Less accumulated depreciation	32,973,671	30,279,428
	25,145,467	25,814,323
Other Assets		
Interest in net assets of Copley Health Systems, Inc.	5,000,707	4,868,431
Assets held in deferred compensation plan	2,896,587	2,378,374
	7,897,294	7,246,805
Total assets	\$ 81,994,926	\$ 56,044,853

Liabilities and Net Assets

	2020	(Restated - Note 1) 2019
	<u>2020</u>	<u>2019</u>
Current Liabilities		
Current maturities of long-term debt	\$ 3,468,879	\$ 401,383
Accounts payable	2,640,372	806,015
Accrued payroll and payroll taxes	4,586,008	3,724,405
Other accrued expenses	1,258,412	591,046
Estimated self-insurance costs	911,741	1,023,408
Unearned revenue - provider relief funds	5,862,305	-
Medicare and other advances	4,586,609	-
Estimated amounts due to third-party payors	<u>1,790,000</u>	<u>1,750,000</u>
Total current liabilities	25,104,326	8,296,257
Medicare Advances	8,651,303	-
Long-Term Debt	9,023,128	7,508,945
Other Liabilities	634,770	-
Deferred Compensation	<u>2,896,587</u>	<u>2,378,374</u>
Total liabilities	<u>46,310,114</u>	<u>18,183,576</u>
Net Assets		
Without donor restrictions	30,684,105	32,992,846
With donor restriction	<u>5,000,707</u>	<u>4,868,431</u>
Total net assets	<u>35,684,812</u>	<u>37,861,277</u>
Total liabilities and net assets	<u>\$ 81,994,926</u>	<u>\$ 56,044,853</u>

Copley Hospital, Inc.
Statements of Operations
Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenues, Gains, and Other Support Without Donor Restriction		
Patient service revenue (net of contractual discounts and allowances)	\$ 68,394,903	\$ 68,803,369
Provision for uncollectible accounts	(2,949,724)	(1,809,559)
Net patient service revenue less provision for uncollectible accounts	65,445,179	66,993,810
Fixed prospective revenue	3,666,903	-
Other	1,950,705	1,144,278
	<u>71,062,787</u>	<u>68,138,088</u>
Expenses and Losses		
Salaries and wages	32,981,723	32,697,223
Employee benefits	6,903,365	6,539,534
Purchased services and professional fees	8,328,335	6,517,132
Supplies and other	22,690,246	21,722,596
Depreciation and amortization	2,789,868	2,711,502
Interest	126,029	111,344
	<u>73,819,566</u>	<u>70,299,331</u>
Total expenses and losses	<u>73,819,566</u>	<u>70,299,331</u>
Operating Loss	<u>(2,756,779)</u>	<u>(2,161,243)</u>
Other Income		
Contributions received	359,778	356,332
Investment return	88,260	39,405
	<u>448,038</u>	<u>395,737</u>
Total other income	<u>448,038</u>	<u>395,737</u>
Deficiency of Revenues Over Expenses and Decrease in Net Assets Without Donor Restrictions	<u>\$ (2,308,741)</u>	<u>\$ (1,765,506)</u>

Copley Hospital, Inc.
Statements of Changes in Net Assets
Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Net Assets Without Donor Restrictions		
Deficiency of revenues over expenses	\$ (2,308,741)	\$ (1,765,506)
Decrease in net assets without donor restrictions	<u>(2,308,741)</u>	<u>(1,765,506)</u>
Net Assets With Donor Restrictions		
Change in interest in net assets of Copley Health Systems, Inc.	<u>132,276</u>	<u>211,703</u>
Increase in net assets with donor restrictions	<u>132,276</u>	<u>211,703</u>
Change in Net Assets	(2,176,465)	(1,553,803)
Net Assets, Beginning of Year	<u>37,861,277</u>	<u>39,415,080</u>
Net Assets, End of Year	<u>\$ 35,684,812</u>	<u>\$ 37,861,277</u>

Copley Hospital, Inc.
Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	2020	2019 (Adjusted - Note 1)
Operating Activities		
Change in net assets	\$ (2,176,465)	\$ (1,553,803)
Items not requiring (providing) cash		
Depreciation and amortization	2,789,868	2,711,502
Change in interest in net assets of Copley Health System, Inc.	(132,276)	(211,703)
Changes in		
Accounts receivable, net	339,848	(58,756)
Estimated amounts due from and to third-party payors	1,090,000	50,000
Accounts payable and accrued expenses	3,962,753	133,368
Other assets and liabilities	(497,411)	635,243
Unearned revenue - provider relief funds	5,862,305	-
Medicare and other advance payments	13,237,912	-
	<u>24,476,534</u>	<u>1,705,851</u>
Net cash provided by operating activities		
Investing Activities		
Purchases of property and equipment	(1,679,123)	(1,416,372)
Purchases of assets limited as to use	-	(2,000,000)
	<u>(1,679,123)</u>	<u>(3,416,372)</u>
Net cash used in investing activities		
Financing Activities		
Proceeds from issuance of long-term debt	5,037,900	-
Principal payments on long-term debt	(456,221)	(488,457)
	<u>4,581,679</u>	<u>(488,457)</u>
Net cash provided by (used in) financing activities		
Increase (Decrease) in Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents	27,379,090	(2,198,978)
Cash and Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents, Beginning of Year	<u>4,500,654</u>	<u>6,699,632</u>
Cash and Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents, End of Year	<u>\$ 31,879,744</u>	<u>\$ 4,500,654</u>
Reconciliation of Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 28,613,094	\$ 2,140,224
Assets limited as to use	3,266,650	2,360,430
	<u>\$ 31,879,744</u>	<u>\$ 4,500,654</u>
Supplemental Cash Flows Information		
Interest paid	\$ 104,958	\$ 111,542

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2020 and 2019

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, 2020 and 2019, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

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

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
Other than trading	Securities not classified as trading	Fair value, with unrealized gains and losses recorded below 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.

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2020 and 2019

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

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the 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 uncollectible 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 and a provision 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. The difference between the standard rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2020 and 2019

The Hospital's write-offs decreased approximately \$665,000 to approximately \$1,229,000 for the year ended September 30, 2020, from approximately \$1,894,000 for the year ended September 30, 2019. The Hospital's allowance for uncollectible accounts for self-pay patients was 81 percent and 80 percent of self-pay accounts receivable at September 30, 2020 and 2019, respectively.

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.

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, 2020, 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 \$265,000, 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, 2020 and 2019.

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2020 and 2019

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, 2020 and 2019, was \$5,000,707 and \$4,868,431, 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.

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. 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. Retroactive settlements for amounts prior to 2020 and 2019 increased net patient service revenue by approximately \$540,000 and \$0, respectively.

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs), and Level 3 (significant unobservable inputs) are recognized on the period ending date.

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

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2020 and 2019

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, 2020, the Hospital recorded a liability of \$210,000 for the contracted maximum risk corridor, which is included in other accrued expenses in the accompanying financial statements.

Charity Care

The Hospital provides charity care to patients who are unable to pay for services and qualify for assistance under the Hospital’s policy. The amount of charity care is included in net patient service revenue and is not separately classified from the provision for uncollectible accounts.

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 Health System 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.

Copley Hospital, Inc.
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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.

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, 2020 and 2019, include Provider Relief Fund amounts of \$5,862,305 and \$0, 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.

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2020 and 2019

Changes in Accounting Principles

Statement of Cash Flows

In 2020, the Hospital changed its method of accounting for restricted cash and restricted cash equivalents by adopting the provisions of Accounting Standards Update No. 2016-18 (ASU 2016-18), *Statement of Cash Flows (Topic 230): Restricted Cash*. The new accounting guidance in ASU 2016-18 requires balances generally described as restricted cash or restricted cash equivalents to be included with cash and cash equivalents when reconciling beginning and end of the period balances on the statements of cash flows. This change was applied retrospectively to all periods presented which resulted in the following changed within the statement of cash flows:

	September 30, 2019		Adoption Impact
	As Previously Reported	As Adjusted	
Statement of Cash Flows			
Change in assets limited as to use	\$ (1,449,086)	\$ (2,000,000)	\$ 550,914
Net cash used in investing activities	(2,865,458)	(3,416,372)	550,914
Decrease in cash and cash equivalents	(1,648,064)	(2,198,978)	550,914
Cash and cash equivalents, beginning of year	3,788,288	6,699,632	(2,911,344)
Cash and cash equivalents, end of year	2,140,224	4,500,654	(2,360,430)

Clarifying Contributions Received and Contributions Made

In 2020, the Hospital adopted ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* using a modified prospective basis to all agreements not completed as of October 1, 2019, or entered into after October 1, 2019. ASU 2018-08 clarifies existing guidance on determining whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how the Hospital determines whether a resource provider (including a foundation, a government agency, or other) is receiving commensurate value in return for the resources transferred, and whether contributions are conditional or unconditional.

Adoption of ASU 2018-08 had no impact on the 2020 financial statements or the previously reported 2019 financial statements.

Restatement

The 2019 financial statements have been restated to present certain third-party payor settlements as current assets, and included in estimated amounts due from third-party payors, rather than as a reduction of estimated amounts due to third party payors. This change resulted in the following changes within the consolidated balance sheets:

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2020 and 2019

	As Previously Reported	As Adjusted	Adoption Impact
Estimated amounts due from third party payors	\$ -	\$ 1,500,000	\$ (1,500,000)
Estimated amounts due to third party payors	250,000	1,750,000	(1,500,000)

Note 2: COVID-19

During 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.

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 through September 30, 2020, the Hospital did not recognize any revenue related to the distributions from the Provider Relief Funds. The unrecognized amount of \$5,862,305 from the Provider Relief Funds are recorded as unearned revenue in the accompanying balance sheets.

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.

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2020 and 2019

Vermont Grants

The Hospital received the following amounts through the State of Vermont:

- 1) Grant of \$911,083 from the Medicaid retainer funding program
- 2) Grant of \$213,600 from the Hazard Pay program

Approximately \$820,000 from the above Vermont grants are included in other operating revenues in the accompanying statements of operations. The remaining amount of approximately \$304,000 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 year ended September 30, 2020, the Hospital received \$10,927,961 from accelerated Medicare payment requests, which are included in current and long-term Medicare and other advances in the accompanying balance sheets.

Blue Cross Advance

The Hospital received an advance from Blue Cross of \$2,309,951, which is included in Medicare and other 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. Any forgiveness of the loan is recognized as a gain in the financial statements in the period the debt is legally released. 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, 2020, was approximately \$635,000 and is recorded as long-term other liabilities in the accompanying balance sheets. Deferred payroll taxes will be due in two equal installments on December 31, 2021, and December 31, 2022.

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2020 and 2019

Note 3: Net Patient Service Revenue

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. 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. Thus, the Hospital records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided. This provision for uncollectible accounts is presented on the statement of operations as a component of 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. These payment arrangements include:

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.

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.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into 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.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended September 30, 2020 and 2019, respectively, was approximately:

Copley Hospital, Inc.
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	2020	2019
Medicare	\$ 21,678,331	\$ 21,807,798
Medicaid	3,398,263	3,418,558
Blue Cross	18,721,916	18,833,727
Other third-party payors	24,118,640	24,262,680
Patients	477,753	480,606
	<u>\$ 68,394,903</u>	<u>\$ 68,803,369</u>

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, 2020 and 2019, is:

	2020	2019
Medicare	30%	30%
Medicaid	4%	10%
Blue Cross	27%	18%
Other third-party payors	34%	27%
Patients	5%	15%
	<u>100%</u>	<u>100%</u>

Note 5: Investments and Investment Return

Investments at September 30 include:

	2020	2019
Cash and cash equivalents	\$ 3,266,650	\$ 2,360,430
Certificates of deposit	7,000,000	7,000,000
Total	<u>\$ 10,266,650</u>	<u>\$ 9,360,430</u>

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2020 and 2019

Investments are included on the balance sheet as follows:

	2020	2019
Short-term investments	\$ 5,000,000	\$ 5,000,000
Assets limited as to use	<u>5,266,650</u>	<u>4,360,430</u>
Total	<u>\$ 10,266,650</u>	<u>\$ 9,360,430</u>

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 \$721,697 and \$703,667 as of September 30, 2020 and 2019, respectively. It is reasonably possible that this estimate could change materially in the near term.

Note 7: Long-Term Debt

	2020	2019
Note payable (A)	\$ 7,454,107	\$ 7,910,328
Note payable (B)	<u>5,037,900</u>	<u>-</u>
	12,492,007	7,910,328
Less current maturities	<u>3,468,879</u>	<u>401,383</u>
	<u>\$ 9,023,128</u>	<u>\$ 7,508,945</u>

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, 2020). Final payment due in March 2037. Secured by Hospital cash and investments.

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. If certain provisions are met by the Hospital, the loan is expected to be forgiven in future periods instead of having to repay the loan proceeds. If not forgiven, monthly payments of \$283,282 are required with final maturity in May 2022. The loan is unsecured.

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Aggregate annual maturities of long-term debt at September 30, 2020, are:

2021	\$ 3,468,879
2022	2,389,348
2023	418,657
2024	424,196
2025	430,267
Thereafter	<u>5,360,660</u>
	<u><u>\$ 12,492,007</u></u>

Note 8: Net Assets

Net Assets with Donor Restrictions

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

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose		
Beneficial interest in assets held by Copley Health Systems, Inc.	\$ 213,802	\$ 204,259
Not subject to appropriation or expenditure		
Beneficial interest in assets held by Copley Health Systems, Inc.	<u>4,786,905</u>	<u>4,664,172</u>
	<u><u>\$ 5,000,707</u></u>	<u><u>\$ 4,868,431</u></u>

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Note 9: Liquidity and Availability

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

	<u>2020</u>	<u>2019</u>
Financial assets at year-end		
Cash and cash equivalents	\$ 28,613,094	\$ 2,140,224
Short-term investments	5,000,000	5,000,000
Patient accounts receivable, net of allowance	5,013,731	5,353,579
Other receivables	246,636	86,320
Due from related parties	15,495	11,193
Assets limited as to use	<u>5,266,650</u>	<u>4,360,430</u>
Total financial assets	44,155,606	16,951,746
Less amounts not available to be used within one year		
Short-term investments and assets limited as to use	<u>7,454,107</u>	<u>7,910,328</u>
Financial assets available to meet general expenditures within one year	<u>\$ 36,701,499</u>	<u>\$ 9,041,418</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.

Note 10: Charity Care

The costs of charity care provided under the Hospital's charity care policy were approximately \$553,000 and \$520,000 for 2020 and 2019, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

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Note 11: 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:

	2020				
	Health Care Services		Total Health Care Services	General and Administrative	Total
	Inpatient	Outpatient			
Salaries and wages	\$ 9,935,217	\$ 20,347,807	\$ 30,283,024	\$ 2,698,699	\$ 32,981,723
Employee benefits	2,070,895	4,241,294	6,312,189	591,176	6,903,365
Purchased services and professional fees	2,065,116	4,229,457	6,294,573	2,033,762	8,328,335
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					

	2019				
	Health Care Services		Total Health Care Services	General and Administrative	Total
	Inpatient	Outpatient			
Salaries and wages	\$ 11,034,192	\$ 18,945,538	\$ 29,979,730	\$ 2,717,493	\$ 32,697,223
Employee benefits	2,198,835	3,775,365	5,974,200	565,334	6,539,534
Purchased services and professional fees	2,144,773	3,682,541	5,827,314	689,818	6,517,132
Supplies and other	7,372,671	12,658,761	20,031,432	1,691,164	21,722,596
Depreciation and amortization	940,385	1,614,627	2,555,012	156,490	2,711,502
Interest	40,981	70,363	111,344	-	111,344
	<u>\$ 23,731,837</u>	<u>\$ 40,747,195</u>	<u>\$ 64,479,032</u>	<u>\$ 5,820,299</u>	<u>\$ 70,299,331</u>
Total expenses					

Copley Hospital, Inc.
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Note 12: 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 \$952,422 and \$780,654 for 2020 and 2019, 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.

Note 13: 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 table presents 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, 2020 and 2019.

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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>161,370</u>	<u>161,370</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 2,896,587</u>	<u>\$ 2,896,587</u>	<u>\$ -</u>	<u>\$ -</u>

	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, 2019				
Assets				
Investments				
Assets held in deferred compensation plans				
Cash equivalents	\$ 397,002	\$ 397,002	\$ -	\$ -
Mutual funds and equities	1,835,261	1,835,261	-	-
Fixed income securities	146,111	146,111	-	-
	<u>146,111</u>	<u>146,111</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 2,378,374</u>	<u>\$ 2,378,374</u>	<u>\$ -</u>	<u>\$ -</u>

Copley Hospital, Inc.
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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, 2020.

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 14: 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 many of the states that the Hospital operates in that require the Hospital to handle and dispose of asbestos in a special manner if a building undergoes major renovations or is demolished.

A liability has not been recognized 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 15: Related Party Transactions

The Hospital is associated with several related organizations. Activities with these organizations are described in this note. Net amounts due from related parties were \$15,495 and \$11,193 at September 30, 2020 and 2019, respectively, and included in due from related parties in the accompanying balance sheets.

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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 \$29,424 and \$30,567 in 2020 and 2019, 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 \$359,778 and \$309,386 during 2020 and 2019, 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 \$285,682 and \$270,980 for 2020 and 2019, 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.

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 50 percent of CWI. The Hospital received \$35,878 and \$33,466, respectively, in management fees from CWI in 2020 and 2019, respectively, which is other operating revenue in the accompanying financial statements.

Note 16: 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:

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Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are 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 self-insurance 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 various 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.

Asset Retirement Obligation

As discussed in *Note 14*, the Hospital has not yet recorded a liability for its conditional asset retirement obligation related to asbestos abatement, as sufficient information is not yet available to reasonably estimate fair value.

Note 17: Future Change in Accounting Principles

Revenue Recognition (ASU 2014-09)

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before

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contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for the Hospital's annual period beginning October 1, 2020. The Hospital is in the process of evaluating the impact the amendment will have on the financial statements.

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 nonlease 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 18: Subsequent Events

Subsequent events have been evaluated through February 4, 2021, which is the date the financial statements were available to be issued.