




Copley Hospital, Inc.

Independent Auditor's Report and Financial Statements

September 30, 2023 and 2022



Copley Hospital, Inc.
September 30, 2023 and 2022

Contents

Independent Auditor's Report..... 1

Financial Statements

Balance Sheets..... 3
Statements of Operations..... 4
Statements of Changes in Net Assets 5
Statements of Cash Flows 6
Notes to Financial Statements 7



910 E. St. Louis Street, Suite 200 / Springfield, MO 65806

P 417.865.8701 / F 417.865.0682

forvis.com

Independent Auditor's Report

Board of Trustees
Copley Hospital, Inc.
Morrisville, Vermont

Opinion

We have audited the financial statements of Copley Hospital, Inc., a subsidiary of Copley Health Systems, Inc. (the "Hospital"), which comprise the balance sheets as of September 30, 2023 and 2022, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Hospital as of September 30, 2023 and 2022, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Hospital and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in *Note 16* to the financial statements, in 2023, the entity adopted Accounting Standards Update (ASU) 2016-02, *Leases*, (Topic 842). Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern within one year after the date that these financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Hospital's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant findings, and certain internal control related matters that we identified during the audit.

FORVIS,LLP

Springfield, Missouri
February 6, 2024

Copley Hospital, Inc.
Balance Sheets
September 30, 2023 and 2022

Assets

	2023	2022
Current Assets		
Cash and cash equivalents	\$ 2,258,543	\$ 7,667,414
Short-term investments	9,000,000	9,000,000
Patient accounts receivable	16,231,085	12,922,197
Other receivables	1,447,683	782,302
Estimated amounts due from third-party payors	-	130,000
Due from related parties	363,755	300,622
Supplies	2,640,515	2,620,459
Prepaid expenses	2,447,281	2,358,579
	34,388,862	35,781,573
Property and Equipment, At Cost		
Land and improvements	2,203,290	2,203,290
Buildings and improvements	42,573,671	40,525,897
Equipment	25,586,877	24,606,946
Construction in progress	2,092,231	381,280
	72,456,069	67,717,413
Less accumulated depreciation	39,267,937	36,392,870
	33,188,132	31,324,543
Other Assets		
Interest in net assets of Copley Health Systems, Inc.	6,776,801	6,250,022
Right-of-use assets - operating leases	588,622	-
Goodwill, net	73,250	-
Assets held in deferred compensation plan	3,321,584	3,200,901
	10,760,257	9,450,923
	\$ 78,337,251	\$ 76,557,039

Liabilities and Net Assets

	<u>2023</u>	<u>2022</u>
Current Liabilities		
Current maturities of long-term debt	\$ 678,210	\$ 651,270
Accounts payable	3,929,658	2,259,670
Accrued payroll and payroll taxes	4,624,974	3,911,923
Other accrued expenses	2,120,651	1,652,016
Estimated self-insurance costs	1,942,920	1,617,719
Current portion of operating lease liabilities	193,292	-
Medicare and other advances	-	566,722
Estimated amounts due to third-party payors	<u>3,094,030</u>	<u>3,220,700</u>
Total current liabilities	16,583,735	13,880,020
Asset Retirement Obligations	1,500,000	1,500,000
Long-Term Debt	9,700,264	10,313,989
Operating Lease Liabilities	395,330	-
Deferred Compensation	<u>3,321,584</u>	<u>3,200,901</u>
Total liabilities	<u>31,500,913</u>	<u>28,894,910</u>
Net Assets		
Without donor restrictions	40,059,537	41,412,107
With donor restrictions	<u>6,776,801</u>	<u>6,250,022</u>
Total net assets	<u>46,836,338</u>	<u>47,662,129</u>
Total liabilities and net assets	<u>\$ 78,337,251</u>	<u>\$ 76,557,039</u>

Copley Hospital, Inc.
Statements of Operations
Years Ended September 30, 2023 and 2022

	2023	2022
Revenues, Gains, and Other Support		
Without Donor Restriction		
Patient service revenue	\$ 90,065,824	\$ 84,310,822
Fixed prospective revenue	6,134,878	7,069,106
Provider relief fund revenue	-	1,692,218
Other	1,875,398	1,592,251
Total revenues, gains, and other support without donor restrictions	98,076,100	94,664,397
Expenses and Losses		
Salaries and wages	44,181,621	40,625,693
Employee benefits	9,625,142	8,788,461
Purchased services and professional fees	15,094,827	16,152,129
Supplies and other	27,646,793	26,667,898
Depreciation and amortization	3,047,395	2,917,574
Interest	206,862	183,648
Total expenses and losses	99,802,640	95,335,403
Operating Loss	(1,726,540)	(671,006)
Other Income		
Contributions received	-	267,386
Investment return, net	55,563	51,048
Total other income	55,563	318,434
Deficiency of Revenues Over Expenses	(1,670,977)	(352,572)
Transfer from Affiliate	318,407	1,042,924
Increase (Decrease) in Net Assets		
Without Donor Restrictions	\$ (1,352,570)	\$ 690,352

Copley Hospital, Inc.
Statements of Changes in Net Assets
Years Ended September 30, 2023 and 2022

	2023	2022
Net Assets Without Donor Restrictions		
Deficiency of revenues over expenses	\$ (1,670,977)	\$ (352,572)
Transfer from affiliate	318,407	1,042,924
Increase (decrease) in net assets without donor restrictions	(1,352,570)	690,352
Net Assets With Donor Restrictions		
Change in interest in net assets of Copley Health Systems, Inc.	526,779	489,732
Increase in net assets with donor restrictions	526,779	489,732
Change in Net Assets	(825,791)	1,180,084
Net Assets, Beginning of Year	47,662,129	46,482,045
Net Assets, End of Year	\$ 46,836,338	\$ 47,662,129

Copley Hospital, Inc.
Statements of Cash Flows
Years Ended September 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating Activities		
Change in net assets	\$ (825,791)	\$ 1,180,084
Items not requiring (providing) cash		
Depreciation and amortization	3,047,395	2,917,574
Noncash operating lease expense	588,622	-
Change in interest in net assets of Copley Health System, Inc.	(526,779)	(489,732)
Changes in		
Accounts receivable, net	(3,308,888)	(2,334,763)
Estimated amounts due from and to third-party payors	3,330	410,700
Accounts payable and accrued expenses	2,978,925	(4,095,138)
Other assets and liabilities	(837,272)	718
Medicare and other advance payments	(566,722)	(7,757,047)
Operating lease liabilities	(588,622)	-
Net cash used in operating activities	<u>(35,802)</u>	<u>(10,167,604)</u>
Investing Activities		
Purchases of property and equipment	<u>(4,695,202)</u>	<u>(5,785,630)</u>
Net cash used in investing activities	<u>(4,695,202)</u>	<u>(5,785,630)</u>
Financing Activities		
Proceeds from issuance of long-term debt	-	4,307,549
Principal payments on long-term debt	(677,867)	(579,521)
Net cash provided by (used in) financing activities	<u>(677,867)</u>	<u>3,728,028</u>
Decrease in Cash and Cash Equivalents	(5,408,871)	(12,225,206)
Cash and Cash Equivalents	<u>7,667,414</u>	<u>19,892,620</u>
Cash and Cash Equivalents	<u>\$ 2,258,543</u>	<u>\$ 7,667,414</u>
Supplemental Cash Flows Information		
Interest paid	\$ 205,144	\$ 181,486
Capital lease obligation incurred	\$ -	\$ 53,500
Property and equipment in accounts payable	\$ 517,027	\$ 319,077
Right-of-use assets obtained in exchange for operating lease liabilities at adoption of Topic 842	\$ 217,891	\$ -
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 467,984	\$ -
ROU assets obtained in exchange for finance lease liabilities	\$ 91,082	\$ -

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2023 and 2022

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, expenses, gains, losses and other changes in net assets 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, 2023, cash equivalents consisted primarily of money market accounts.

At September 30, 2023, the Hospital’s cash accounts exceeded federally insured limits by approximately \$4,948,000.

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

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, 2023 and 2022

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.

Patient Accounts Receivable

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

The Hospital performs individual credit risk assessments which evaluates the individual circumstances, abilities, and intentions of each patient prior to providing the patient services. If subsequent to providing the services the Hospital becomes aware of patient-specific events, facts, or circumstances indicating patients no longer have the ability or intention to pay the amount of consideration to which the Hospital expected to be entitled for providing the patient services, then the related patient receivable balances are written off as bad debt expense and reported in the statement of operations as other operating expenses. No bad debt expense was recognized in 2023 and 2022.

Contract Assets and Liabilities

Amounts related to health care services provided to patients which have not been billed and that do not meet the conditions of an unconditional right to payment at the end of the reporting period are contract assets. Contract asset balances consist primarily of health care services provided to patients who are still receiving inpatient care at the Hospital at the end of the year. Contract assets are included in patient accounts receivable at September 30, 2023 and 2022.

Amounts received related to health care services that have not yet been provided to patients are contract liabilities.

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2023 and 2022

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 finance 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, 2023, 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 \$5,627,000. The Hospital expects to fund the majority of the projects with new debt issuance, cash from operations and existing cash and investments.

Goodwill

The Hospital has elected the accounting alternative for amortizing goodwill. Under this alternative, goodwill is amortized on a straight-line basis over 10 years. The Hospital tests goodwill for impairment when there is a triggering event indicating that the fair value of the reporting unit may be below its carrying amount. The Hospital also elected the accounting alternative for evaluating goodwill impairment triggering events and performs a goodwill impairment triggering event evaluation only as of the end of each reporting period.

In testing goodwill for impairment, the Hospital has the option first to perform a qualitative assessment to determine whether it is more likely than not that goodwill is impaired or the entity can bypass the qualitative assessment and proceed directly to the quantitative test by comparing the carrying amount, including goodwill, of the reporting unit with its fair value. The goodwill impairment loss, if any, is measured as the amount by which the carrying amount of a reporting unit, including goodwill, exceeds its fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2023 and 2022

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, 2023 and 2022.

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, 2023 and 2022, was \$6,776,801 and \$6,250,022, 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.

Patient Service Revenue

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

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

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2023 and 2022

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

The Hospital recognizes its share of annual contract settlements as an increase or decrease to fixed prospective revenue. The Hospital is subject to an annual contracted maximum risk corridor. As of September 30, 2023 and 2022, the Hospital recorded a liability of approximately \$494,000 and \$428,000, respectively, for the contracted maximum risk corridor, which is included in other accrued expenses in the accompanying financial statements.

Charity Care

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

The Hospital's direct and indirect costs for services furnished under its charity care policy aggregated approximately \$683,000 and \$904,000 for the years ended September 30, 2023 and 2022, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Contributions

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

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the Hospital overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2023 and 2022

Nature of the Gift	Value Recognized
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment, and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

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

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

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. At September 30, 2023, the Hospital had received \$1,000,000 of conditional promises to give that are not recognized in the financial statements. These conditional promises will be recognized upon incurring allowable expenditures under that agreement. There were no conditional contributions at September 30, 2022.

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.

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2023 and 2022

Deficiency of Revenues Over Expenses

The statement of operations includes deficiency of revenues over expenses. Changes in net assets without donor restrictions which are excluded from deficiency of revenues over expenses, consistent with industry practice, include permanent transfers to and from affiliates for other than goods and services.

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.

2022 Revision to Notes to Financial Statements

The 2022 *Note 6* to the financial statements has been revised. The revision increased estimated malpractice costs, including estimated recoveries by \$750,000. This revision had no impact on the balance sheet or the related statements of operations, changes in net assets, and cash flows.

Note 2: COVID-19

During 2023 and 2022, the COVID-19 pandemic continued to cause significant disruptions to Hospital operations, including volatile patient revenue and increased expenses. The matter has and will have a negative impact on the Hospital's financial condition and operating results. The magnitude of the financial impact cannot be reasonably estimated at this time.

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2023 and 2022

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 \$7,554,523 in grants from the CARES Act Provider Relief Fund distributions. The Hospital elected to account for such payments as conditional contributions in accordance with ASC Topic 958-605, *Revenue Recognition*. Payments are recognized as contribution revenue once the applicable terms and conditions required to retain the funds have been substantially met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the impact of the pandemic on the Hospital's revenues and expenses, the Hospital recognized \$0 and \$1,692,218 during the years ended September 30, 2023 and 2022, respectively. As of September 30, 2023, the Hospital has recognized all of the Provider Relief Funds received as revenue.

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

Vermont Grants

Through September 30, 2023, the Hospital received the following amounts through the State of Vermont:

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

No amounts were recognized in 2023 or 2022. Approximately \$1,067,000 from the above Vermont grants was recognized prior to 2022. At September 30, 2023 and 2022, the remaining amount of approximately \$91,000 is included in other accrued expenses in the accompanying balance sheets.

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, 2023 and 2022, was approximately \$0 and \$563,000, respectively, and is recorded as accrued payroll and payroll taxes in the accompanying balance sheets. Deferred payroll taxes were due in two equal installments on December 31, 2021, and December 31, 2022.

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2023 and 2022

Note 3: Patient Service Revenue

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

Performance Obligations

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

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

Transaction Price

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

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2023 and 2022

Third-Party Payors

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

Medicare. The Hospital is certified by Medicare as a Critical Access Hospital (CAH). Medicare inpatient and outpatient reimbursement as a CAH is based on the defined allowable costs of services rendered. CAH certification places several restrictions on operations, including a 96-hour average annual acute-care length of stay restriction and a limit of 25 medical/surgical beds. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor.

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

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

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

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

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Hospital's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2023 and 2022

associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known based on newly available information or as years are settled or are no longer subject to such audits, reviews, and investigations. Patient revenue increased by approximately \$1,120,000 in 2022, for changes in settlement amounts previously estimated. Changes in previously estimated patient revenue settlement amounts for were not significant for 2023.

Refund Liabilities

From time to time the Hospital will receive overpayments of patient balances from third-party payors or patients resulting in amounts owed back to either the patients or third-party payors. These amounts are excluded from revenues and are recorded as liabilities until they are refunded. As of September 30, 2023 and 2022, the Hospital has a liability of approximately \$2,130,000 and \$1,200,000, respectively, for refunds to third-party payors and patients recorded, and included in accounts payable on the balance sheets.

Patient and Uninsured Payors

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

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

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Hospital also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Hospital estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Amounts recognized during the years ended September 30, 2023 and 2022, due to changes in its estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years were not significant. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2023 and 2022

Revenue Composition

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

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

The composition of net patient care service revenue less provision for uncollectible accounts by primary payor for the years ended September 30, 2023 and 2022, is as follows:

	2023	2022
Medicare	\$ 44,449,701	\$ 41,609,467
Medicaid	3,692,199	3,456,276
Blue Cross	20,982,662	19,305,569
Other third-party payors	19,649,962	18,730,722
Patients	<u>1,291,300</u>	<u>1,208,788</u>
	<u><u>\$ 90,065,824</u></u>	<u><u>\$ 84,310,822</u></u>

The composition of patient care service revenue based on lines of business for the years ended September 30, 2023 and 2022, is as follows:

	2023	2022
Hospital – inpatient	\$ 18,530,964	\$ 19,338,967
Hospital – outpatient	66,989,729	59,975,999
Physician services	<u>4,545,131</u>	<u>4,995,856</u>
Total	<u><u>\$ 90,065,824</u></u>	<u><u>\$ 84,310,822</u></u>

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

Contract Balances

Contract balances consist primarily of health care services provided to patients who are still receiving inpatient care at the end of the year. Contract assets are transferred to receivables when the rights become unconditional. Contract liabilities represent the Hospital's obligation to provide services to patients when consideration has already been received from the patient or a third-party payor.

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2023 and 2022

The following table provides information about the Hospital's receivables and liabilities from contracts with customers:

	2023	2022
Accounts receivable, beginning of year	\$ 12,922,197	\$ 10,587,434
Accounts receivable, end of year	16,231,085	12,922,197
Contract liabilities, beginning of year	\$ -	\$ 8,323,769
Contract liabilities, end of year	-	-

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, 2023 and 2022, is:

	2023	2022
Medicare	54%	55%
Medicaid	4%	6%
Blue Cross	13%	7%
Other third-party payors	24%	22%
Patients	5%	10%
	<u>100%</u>	<u>100%</u>

Note 5: Investments and Investment Return

Investments are included on the balance sheet as short-term investments, and at September 30 include:

	2023	2022
Certificates of deposit	<u>\$ 9,000,000</u>	<u>\$ 9,000,000</u>
Total	<u>\$ 9,000,000</u>	<u>\$ 9,000,000</u>

Investment return is comprised of interest income.

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2023 and 2022

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 \$2,518,000 and \$1,905,000 as of September 30, 2023 and 2022, respectively. Estimated recoveries are included in other receivables. It is reasonably possible that this estimate could change materially in the near term.

Note 7: Long-Term Debt

	2023	2022
Note payable (A)	\$ 6,220,351	\$ 6,633,776
Note payable (B)	1,834,063	1,927,007
Note payable (C)	2,178,088	2,261,050
Finance lease obligations (D)	145,972	143,426
	10,378,474	10,965,259
Less current maturities	678,210	651,270
	\$ 9,700,264	\$ 10,313,989

- 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, 2023). Final payment due in March 2037. Secured by Hospital cash and investments.
- B) Note payable with monthly payments of \$9,472, including interest at a rate of the weighted average yield of certificates of deposits, plus 1 percent (1.35 percent at September 30, 2023). Final payment due in December 2041. The note is secured by Hospital cash and investments.
- C) Note payable with initial monthly payments of \$13,563, including interest at a fixed rate of 3.54 percent for 120 months. Monthly payments of \$13,891, including variable interest at a rate based on the Federal Home Loan Bank of Boston five-year classic regular advance rate, plus 2.1 percent. Final payment will be due in October 2040. The note is secured by real estate owned by the Hospital. The rate as of September 30, 2023 and 2022, is 3.54 percent 6.35 percent, respectively.

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2023 and 2022

D) Various finance leases including principal and interest payments of various amounts due monthly, including interest ranging from 3.94 percent to 7.42 percent, with final payment due September 2025.

	2023	2022
Equipment	\$ 359,995	\$ 268,913
Less accumulated depreciation	129,895	58,087
	\$ 230,100	\$ 210,826

Aggregate annual maturities of long-term debt and payments on finance lease obligations at September 30, 2023, are:

	Long-Term Debt Excluding Capital Finance Obligations	Finance Lease Obligations
2024	\$ 609,733	\$ 74,764
2025	610,061	55,601
2026	620,471	25,669
2027	631,098	-
2028	631,098	-
Thereafter	7,130,041	-
	\$ 10,232,502	156,034
Less amount representing interest		10,062
Present value of future minimum lease payments		145,972
Less current maturities		68,477
Noncurrent portion		\$ 77,495

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2023 and 2022

Note 8: Net Assets

Net Assets with Donor Restrictions

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

	<u>2023</u>	<u>2022</u>
Subject to expenditure for specified purpose		
Beneficial interest in assets held by Copley Health Systems, Inc.	\$ 1,312,882	\$ 969,067
Not subject to appropriation or expenditure		
Beneficial interest in assets held by Copley Health Systems, Inc.	<u>5,463,919</u>	<u>5,280,955</u>
	<u>\$ 6,776,801</u>	<u>\$ 6,250,022</u>

Note 9: Liquidity and Availability

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

	<u>2023</u>	<u>2022</u>
Financial assets at year-end		
Cash and cash equivalents	\$ 2,258,543	\$ 7,667,414
Short-term investments	9,000,000	9,000,000
Other receivables	1,447,683	782,302
Patient accounts receivable	16,231,085	12,922,197
Estimated amounts due from third-party payors	-	130,000
Due from related parties	363,755	300,622
Assets held in deferred compensation plan	<u>3,321,584</u>	<u>3,200,901</u>
Total financial assets	<u>32,622,650</u>	<u>34,003,436</u>
Less amounts not available to be used within one year		
Assets held in deferred compensation plan	3,321,584	3,200,901
Estimated amounts due from third-party payors	-	130,000
Short-term investments	<u>8,054,414</u>	<u>8,560,783</u>
Total amounts not available to be used within one year	<u>11,375,998</u>	<u>11,891,684</u>
Financial assets available to meet general expenditures within one year	<u>\$ 21,246,652</u>	<u>\$ 22,111,752</u>

As part of the Hospital's liquidity management, it has a policy to structure its financial assets to be

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2023 and 2022

available as its general expenditures, liabilities, and other obligations come due.

Note 10: Functional Expenses

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

	2023				
	Health Care Services		Total Health Care Services	General and Administrative	Total
	Inpatient	Outpatient			
Salaries and wages	\$ 4,184,573	\$ 32,506,482	\$ 36,691,055	\$ 7,490,566	\$ 44,181,621
Employee benefits	911,626	7,081,666	7,993,292	1,631,850	9,625,142
Purchased services and professional fees	1,429,676	11,105,969	12,535,645	2,559,182	15,094,827
Supplies and other	2,618,510	20,341,037	22,959,547	4,687,246	27,646,793
Depreciation and amortization	315,490	2,450,781	2,766,271	281,124	3,047,395
Interest	19,593	152,198	171,791	35,071	206,862
Total expenses	\$ 9,479,468	\$ 73,638,133	\$ 83,117,601	\$ 16,685,039	\$ 99,802,640

	2022				
	Health Care Services		Total Health Care Services	General and Administrative	Total
	Inpatient	Outpatient			
Salaries and wages	\$ 10,100,805	\$ 26,474,306	\$ 36,575,111	\$ 4,050,582	\$ 40,625,693
Employee benefits	1,886,554	4,944,677	6,831,231	1,957,230	8,788,461
Purchased services and professional fees	3,634,513	9,526,095	13,160,608	2,991,521	16,152,129
Supplies and other	6,694,079	17,545,249	24,239,328	2,428,570	26,667,898
Depreciation and amortization	756,018	1,981,531	2,737,549	180,025	2,917,574
Interest	50,717	132,931	183,648	-	183,648
Total expenses	\$ 23,122,686	\$ 60,604,789	\$ 83,727,475	\$ 11,607,928	\$ 95,335,403

Note 11: Pension Plans

The Hospital has a tax-deferred annuity plan covering substantially all employees. Contributions are based upon a percentage of each covered employee's annual compensation. Pension expense was \$981,604 and \$1,009,112 for 2023 and 2022, 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.

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2023 and 2022

Note 12: Disclosures About Fair Value of Assets and Liabilities

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

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

Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2023 and 2022.

	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, 2023				
Assets				
Investments				
Assets held in deferred compensation plans				
Cash equivalents	\$ 115,537	\$ 115,537	\$ -	\$ -
Mutual funds and equities	3,038,819	3,038,819	-	-
Fixed income securities	167,228	167,228	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 3,321,584</u>	<u>\$ 3,321,584</u>	<u>\$ -</u>	<u>\$ -</u>

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2023 and 2022

	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, 2022				
Assets				
Investments				
Assets held in deferred compensation plans				
Cash equivalents	\$ 482,335	\$ 482,335	\$ -	\$ -
Mutual funds and equities	2,555,726	2,555,726	-	-
Fixed income securities	162,840	162,840	-	-
	<u>\$ 3,200,901</u>	<u>\$ 3,200,901</u>	<u>\$ -</u>	<u>\$ -</u>
Total assets	<u>\$ 3,200,901</u>	<u>\$ 3,200,901</u>	<u>\$ -</u>	<u>\$ -</u>

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended September 30, 2023.

Investments and Cash Equivalents

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

Note 13: Asset Retirement Obligation

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

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2023 and 2022

require the Hospital to handle and dispose of asbestos in a special manner if a building undergoes major renovations or is demolished. For the year ended September 30, 2023 and 2022, the Hospital recognized a liability of \$1,500,000 for all estimable and known areas containing an ARO. The corresponding expense was included in depreciation expense prior years.

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

Note 14: Related Party Transactions

The Hospital is associated with several related organizations. Amounts due from related parties were \$363,755 and \$300,622 at September 30, 2023 and 2022, respectively.

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 \$82,000 and \$29,409 in 2023 and 2022, 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 \$316,880 and \$1,132,051 during 2023 and 2022, respectively. Contributions of \$318,407 and \$1,042,924 in 2023 and 2022, respectively, were included in transfer from affiliate.

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 \$320,338 and \$284,618 for 2023 and 2022, 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 Hospital, Inc.
Notes to Financial Statements
September 30, 2023 and 2022

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 is the sole member of CWI. The Hospital received \$41,000 and \$37,569 in management fees from CWI in 2023 and 2022, respectively, which is other operating revenue in the accompanying financial statements.

CWI provides housing and related services to the Hospital. The Hospital recorded expense of \$111,537 and \$71,652 in relation to these services for the years ended September 30, 2023 and 2022, respectively.

Note 15: Significant Estimates and Concentrations

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

Variable Consideration

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

Malpractice Claims

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

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's 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 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.

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2023 and 2022

Asset Retirement Obligation

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

Note 16: Leases

Change in Accounting Principle

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, *i.e.*, the comparatives under ASC 840 option.

The Hospital adopted Topic 842 on October 1, 2022 (the effective date), using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. The Hospital elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification, or initial direct costs for existing or expired leases prior to the effective date. The Hospital elected the practical expedient to account for nonlease components and the lease components to which they relate as a single lease component for all leases. Also, the Hospital elected to keep short-term leases with an initial term of 12 months or less off the balance sheet. The Hospital elected the hindsight practical expedient in determining the lease term for existing leases as of October 1, 2022.

The most significant impact of adoption was the recognition of operating lease ROU assets and operating lease liabilities of \$685,875, while the accounting for existing capital leases (now referred to as finance leases) remained substantially unchanged. As part of adopting the standard, previously recognized liabilities for deferred rent and lease incentives were reclassified as a component of the ROU assets. The standard did not significantly affect our statements of operations, comprehensive income, or cash flows.

Accounting Policies

The Hospital determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of ROU assets and lease liabilities on the balance sheets. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Hospital determines lease classification as operating or finance at the lease commencement date. Finance leases are included in property and equipment, current maturities of long-term debt, and long-term debt in our balance sheets.

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2023 and 2022

The Hospital combines lease and nonlease components, such as common area and other maintenance costs, and accounts for them as a single lease component in calculating the ROU assets and lease liabilities for its office buildings and medical equipment.

At lease commencement, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The Hospital has made a policy election to use a risk-free rate (the rate of a zero-coupon U.S. Treasury instrument) for the initial and subsequent measurement of all lease liabilities. The risk-free rate is determined using a period comparable with the lease term.

The lease term may include options to extend or to terminate the lease that the Hospital is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

The Hospital has elected not to record leases with an initial term of 12 months or less on the balance sheets. Lease expense on such leases is recognized on a straight-line basis over the lease term.

Nature of Leases

The Hospital has entered into the following lease arrangements:

Finance Leases

These leases mainly consist of equipment, etc. for the use of medical equipment. Termination of the leases generally are prohibited unless there is a violation under the lease agreement.

Operating Leases

The Hospital leases medical equipment that expire in various years through 2028. Lease payments generally have fixed fee schedules. Termination of the leases is generally prohibited unless there is a violation under the lease agreement.

Short-Term Leases

The Hospital leases office space from a related party. Additionally, the Hospital leases certain medical equipment and other items on a seasonal demand. The expected lease terms are less than 12 months. Total short-term lease expense included in operating expenses for the year ending September 30, 2023, was \$824,975.

All Leases

The Hospital's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2023 and 2022

Quantitative Disclosures

The lease cost and other required information for the year ended September 30, 2023, are:

Lease cost	
Finance lease cost	
Amortization of right-of-use asset	\$ 71,809
Interest on lease liabilities	11,073
Operating lease cost	105,257
Short-term lease cost	<u>824,975</u>
 Total lease cost	 <u><u>\$ 1,013,114</u></u>
Other information	
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 930,232
Financing cash flows from finance leases	\$ 88,469
Operating cash flows from finance leases	\$ 11,073
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 685,875
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 91,082
Weighted-average remaining lease term	
Operating leases	4.2 years
Finance leases	2.2 years
Weighted-average discount rate	
Operating leases	0.00%
Finance leases	5.77%

Future minimum lease payments and reconciliation to the balance sheet at September 30, 2023, are as follows:

	Operating Leases	Finance Leases
	<u> </u>	<u> </u>
2024	\$ 193,292	\$ 74,764
2025	119,423	55,601
2026	96,039	25,669
2027	96,039	-
2028	<u>83,829</u>	<u>-</u>
Total future undiscounted lease payments	588,622	156,034
Less imputed interest	<u>-</u>	<u>10,062</u>
Lease liabilities	<u><u>\$ 588,622</u></u>	<u><u>\$ 145,972</u></u>

Copley Hospital, Inc.
Notes to Financial Statements
September 30, 2023 and 2022

Note 17: Subsequent Events

Subsequent events have been evaluated through February 6, 2024, which is the date the financial statements were available to be issued.