FINANCIAL STATEMENTS

with

SUPPLEMENTARY INFORMATION

September 30, 2017 and 2016

With Independent Auditor's Report

BerryDunn

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Springfield Hospital, Inc.

We have audited the accompanying financial statements of Springfield Hospital, Inc., a subsidiary of Springfield Medical Care Systems, Inc., which comprise the balance sheets as of September 30, 2017 and 2016, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 Springfield Hospital, Inc. as of September 30, 2017 and 2016, and the results of its operations, changes in its net assets, and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Board of Directors
Springfield Hospital, Inc.

Other Matter

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
June 22, 2018

Registration No. 92-0000278

SPRINGFIELD HOSPITAL, INC.

Balance Sheets

September 30, 2017 and 2016

ASSETS

	2017	2016
Current assets		
Cash and cash equivalents	**$ 524,817**	$ 1,027,869
Assets limited as to use, current portion	**-**	25,154
Patient accounts receivable, net of allowances for doubtful accounts and contractual allowances of $7,561,532 for 2017 and $7,314,192 for 2016	**9,896,848**	10,006,697
Supplies	**277,296**	324,370
Prepaid expenses	**694,572**	869,559
Estimated third-party payer settlements	**1,055,761**	-
Other receivables	**531,221**	546,793
Total current assets	**12,980,515**	12,800,442
Assets limited as to use, net of current portion	**13,729,486**	13,630,892
Due from Springfield Medical Care Systems, Inc.	**288,694**	71,258
Property and equipment, net	**13,248,273**	13,193,522
Long-term investments	**696,142**	393,494
Total assets	**$ 40,943,110**	$ 40,089,608

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

LIABILITIES AND NET ASSETS

		2017	2016
Current liabilities			
Line of credit		**$ 1,920,347**	$ 1,825,384
Current portion of long-term debt		**687,472**	550,220
Accounts payable and accrued expenses		**7,998,800**	5,370,734
Accrued salaries and related amounts		**2,347,813**	2,085,582
Estimated third-party payer settlements		**-**	862,310
Other current liabilities		**406,531**	429,862
	Total current liabilities	**13,360,963**	11,124,092
Long-term debt, net of current portion and unamortized debt issuance costs		**8,613,562**	7,470,652
Pension liability		**2,989,520**	3,802,662
	Total liabilities	**24,964,045**	22,397,406
Net assets			
Unrestricted		**15,182,288**	16,960,524
Temporarily restricted		**303,286**	238,187
Permanently restricted		**493,491**	493,491
	Total net assets	**15,979,065**	17,692,202
	Total liabilities and net assets	**$ 40,943,110**	$ 40,089,608

SPRINGFIELD HOSPITAL, INC.

Statements of Operations

Years Ended September 30, 2017 and 2016

	2017	2016
Unrestricted revenues, gains and other support		
Patient service revenue (net of contractual allowances and discounts)	**$ 56,923,367**	$ 58,340,480
Less provision for bad debts	**4,956,558**	4,702,357
Net patient service revenue	**51,966,809**	53,638,123
Other operating revenues	**1,615,724**	1,697,504
Net assets released from restrictions used for operations	**83,910**	16,368
Total unrestricted revenues, gains and other support	**53,666,443**	55,351,995
Expenses		
Salaries and benefits	**24,904,591**	23,865,479
Supplies and other	**30,013,054**	28,533,302
Insurance	**552,978**	518,414
Depreciation	**1,563,154**	1,886,176
Interest	**531,461**	385,831
Total expenses	**57,565,238**	55,189,202
Operating (loss) gain	**(3,898,795)**	162,793
Nonoperating gains		
Investment income and realized gains on sales of investments	**1,296,245**	653,375
Net change in unrealized gains on investments	**339,338**	469,198
Contributions and support, net	**149,279**	79,073
Nonoperating gains, net	**1,784,862**	1,201,646
(Deficiency) excess of unrestricted revenues, gains and other support over expenses and losses	**(2,113,933)**	1,364,439
Net assets released from restrictions used for purchase of property and equipment	**24,253**	18,334
Change in net assets to recognize funded status of pension plan	**921,834**	(458,755)
Transfer to Springfield Medical Care Systems, Inc.	**(610,390)**	(543,828)
(Decrease) increase in unrestricted net assets	**$ (1,778,236)**	$ 380,190

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

SPRINGFIELD HOSPITAL, INC.

Statements of Changes in Net Assets

Years Ended September 30, 2017 and 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balances, October 1, 2015	$ 16,580,334	$ 182,329	$ 493,491	$ 17,256,154
Excess of revenues, gains and other support over expenses and losses	1,364,439	-	-	1,364,439
Restricted contributions	-	90,560	-	90,560
Net assets released from restrictions used for operations	-	(16,368)	-	(16,368)
Net assets released from restrictions used for purchase of property and equipment	18,334	(18,334)	-	-
Change in net assets to recognize funded status of pension plan	(458,755)	-	-	(458,755)
Transfer to Springfield Medical Care Systems, Inc.	(543,828)	-	-	(543,828)
Increase in net assets	380,190	55,858	-	436,048
Balances, September 30, 2016	16,960,524	238,187	493,491	17,692,202
Deficiency of revenues, gains and other support over expenses and losses	**(2,113,933)**	**-**	**-**	**(2,113,933)**
Restricted contributions	**-**	**173,262**	**-**	**173,262**
Net assets released from restrictions used for operations	**-**	**(83,910)**	**-**	**(83,910)**
Net assets released from restrictions used for purchase of property and equipment	**24,253**	**(24,253)**	**-**	**-**
Change in net assets to recognize funded status of pension plan	**921,834**	**-**	**-**	**921,834**
Transfer to Springfield Medical Care Systems, Inc.	**(610,390)**	**-**	**-**	**(610,390)**
(Decrease) increase in net assets	**(1,778,236)**	**65,099**	**-**	**(1,713,137)**
Balances, September 30, 2017	**$ 15,182,288**	**$ 303,286**	**$ 493,491**	**$ 15,979,065**

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

SPRINGFIELD HOSPITAL, INC.

Statements of Cash Flows

Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	$ (1,713,137)	$ 436,048
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities		
Depreciation and amortization	1,589,649	1,890,076
Loss on disposal of property and equipment	23,967	-
Loss on early extinguishment of long-term debt	61,301	-
Net realized and unrealized gains on investments	(1,376,716)	(902,732)
Transfer to Springfield Medical Care Systems, Inc.	610,390	543,828
Change in net assets to recognize funded status of pension plan	(921,834)	458,755
(Increase) decrease in		
Patient accounts receivable, net	109,849	(940,772)
Supplies	47,074	(54,617)
Prepaid expenses	174,987	(191,877)
Other receivables	15,572	(77,955)
Increase (decrease) in		
Accounts payable and accrued expenses	2,628,066	2,713,190
Accrued salaries and related amounts	262,231	(488,814)
Estimated third-party payer settlements	(1,918,071)	(1,297,147)
Other current liabilities	(23,331)	(192,364)
Pension liability	108,692	(28,520)
Net cash (used) provided by operating activities	(321,311)	1,867,099
Cash flows from investing activities		
Purchase of property and equipment	(864,272)	(839,108)
Proceeds from sale of investments	9,111,106	4,200,042
Purchase of investments	(8,110,478)	(4,362,437)
Net advances to related party	(827,826)	(701,752)
Net cash used by investing activities	(691,470)	(1,703,255)
Cash flows from financing activities		
Principal payments on long-term debt	(8,220,531)	(831,297)
Proceeds from borrowings on long-term debt	9,076,189	-
Net advances on line of credit	94,963	-
Payment of debt issuance costs	(440,892)	-
Net cash provided (used) by financing activities	509,729	(831,297)
Net decrease in cash and cash equivalents	(503,052)	(667,453)
Cash and cash equivalents, beginning of year	1,027,869	1,695,322
Cash and cash equivalents, end of year	$ 524,817	$ 1,027,869

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

Organization

Springfield Hospital, Inc. (the Hospital) is a not-for-profit Critical Access Hospital which provides inpatient, outpatient, emergency care, inpatient mental health, and specialty care services to the residents of Springfield, Vermont and the surrounding communities. The Hospital is a subsidiary of Springfield Medical Care Systems, Inc. (SMCS), a Vermont not-for-profit corporation, which operates as a multi-site Federally Qualified Health Center.

1. Summary of Significant Accounting Policies

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts whose use is limited or under debt agreements.

Patient Accounts Receivable

Patient accounts receivable are stated at the amount management expects to collect from outstanding balances. In evaluating the collectibility of accounts receivable, the Hospital analyzes past results and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a provision for bad debts in the period of service based on past experience, which indicates that many patients are unable or unwilling to pay amounts for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

The Hospital's allowance for doubtful accounts was $849,989 and $871,095 as of September 30, 2017 and 2016, respectively. There were no significant changes to the allowance for doubtful accounts in 2017 or 2016.

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheets. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the (deficiency) excess of unrestricted revenues, gains and other support over expenses and losses, pursuant to the fair value option under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 825, *Financial Instruments*, to simplify the presentation of these amounts in the statements of operations, unless the income or loss is restricted by donor or law.

Assets Limited as to Use

Assets limited as to use primarily consist of assets held by trustees under indenture agreements and designated assets set aside by the Board of Directors (the Board) for future capital improvements and operations, over which the Board retains control and which it may, at its discretion, subsequently use for other purposes.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter of the lease term or the asset's estimated useful life.

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

Debt Issuance Costs

Certain costs related to the issuance of debt, such as accountants, attorneys and underwriting fees, are capitalized and amortized on a straight-line basis over the lives of the respective debt issues. During the year ended September 30, 2017, the Hospital adopted FASB Accounting Standards Update No. 2015-03 - *Interest-Imputation of Interest - Simplifying the Presentation of Debt Issuance Costs*. As a result, unamortized debt issuance costs as of September 30, 2017 and 2016 have been presented as a direct deduction from the carrying amount of the related long-term debt. In addition, the amortization of the debt issuance costs of $26,495 and $3,900 for the years ended September 30, 2017 and 2016, respectively, is classified as interest expense.

During the year ended September 30, 2017, the Hospital refinanced the Series A 2002 bonds, promissory notes and line of credit. As a result, the Hospital wrote off $61,301 in unamortized bond issuance costs relating to the Series A 2002 bonds, which is included in supplies and other expenses in the statement of operations.

(Deficiency) Excess of Unrestricted Revenues, Gains and Other Support Over Expenses and Losses

The statements of operations include (deficiency) excess of unrestricted revenues, gains and other support over expenses and losses. Changes in unrestricted net assets which are excluded from this measure, consistent with industry practice, include net assets released from restrictions for purchase of property and equipment, changes in net assets to recognize the funded status of the pension plan, and transfers to SMCS.

Net Patient Service Revenue

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

Charity Care

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

Donor-Restricted Gifts

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

Donor-restricted gifts are reported as cash and cash equivalents and long-term investments.

Employee Retirement Plans

The Hospital has a noncontributory defined benefit pension plan covering all eligible employees. The plan provides benefits that are based on the employee's compensation during the five highest years preceding retirement. The Hospital's funding policy is to make an annual contribution per actuarial calculation. On December 1, 2005, the Board elected to freeze the defined benefit pension plan and to establish a defined contribution retirement plan for all eligible employees.

SMCS has a 401(k) retirement plan covering substantially all of its employees including those of the Hospital. The plan provides for immediate vesting of employee contributions and full vesting of employer contributions over a five-year period of service with SMCS. Under the plan, SMCS makes discretionary matching contributions bi-weekly.

Taxes

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

The Hospital pays a health care provider tax of 6% on net patient service revenue to the State of Vermont. For the years ended September 30, 2017 and 2016, the Hospital incurred $3,195,888 and $3,172,987, respectively, in health care provider tax, which is reported in supplies and other expenses in the statements of operations.

Functional Expenses

The Hospital provides general health care services to residents within its geographic location. The percentage of expenses related to providing these services were as follows for the years ended September 30, 2017 and 2016:

Health care services	76 %
General and administrative	24
	100 %

Subsequent Events

For purposes of the preparation of these financial statements in conformity with U.S. GAAP, management has considered transactions or events occurring through June 22, 2018, the date that the financial statements were available to be issued.

Effective January 1, 2018, the Hospital began participation in the State of Vermont's alternative payment model (all-payor system). Under this model, the Hospital has entered into risk-bearing agreements with Medicare, Vermont Medicaid and Blue Cross/Blue Shield of Vermont. All three are capitated-based agreements with pre-established risk corridors.

2. Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Revenue from the Medicare and Medicaid programs accounted for approximately 33% and 16%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2017 and 35% and 13%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2016.

Net patient service revenue and contractual and other allowances consisted of the following for the years ended September 30:

	2017	2016
Patient services		
Inpatient	**$ 23,445,880**	$ 25,700,048
Outpatient	**91,920,728**	94,049,147
Gross patient service revenue	**115,366,608**	119,749,195
Less Medicare and Medicaid allowances	**45,734,590**	48,808,919
Less other contractual allowances	**10,561,445**	10,245,934
Less charity care and other discounts	**2,147,206**	2,353,862
	58,443,241	61,408,715
Patient service revenue (net of contractual allowances and discounts)	**56,923,367**	58,340,480
Less provision for bad debts	**4,956,558**	4,702,357
Net patient service revenue	**$ 51,966,809**	$ 53,638,123

The Hospital has agreements with the Centers for Medicare & Medicaid Services (Medicare) and the Division of Vermont Health Access (Medicaid). Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs. Differences between amounts previously estimated and amounts subsequently determined to be recoverable or payable are included in net patient service revenue in the year that such amounts become known. In 2017 and 2016, net patient service revenue increased approximately $197,000 and $442,000, respectively, due to changes in allowances or recognition of settlements no longer subject to audits, reviews, and investigations.

A summary of the payment arrangements with major third-party payers follows:

Medicare

As a Critical Access Hospital, the Hospital is reimbursed 101% of reasonable allowable costs for its inpatient and outpatient services provided to Medicare patients, less a 2% federal sequestration payment reduction. Psychiatric services related to Medicare beneficiaries are paid based on a prospective payment methodology. The Hospital is reimbursed for cost reimbursable items at tentative rates, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2015.

Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates. The prospectively determined rates are not subject to retroactive adjustment.

Blue Cross

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

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

	2017	2016
Revenue from third-party payers	**$ 53,005,455**	$ 54,979,953
Revenue from self-pay patients	**3,917,912**	3,360,527
	$ 56,923,367	$ 58,340,480

3. Community Benefit

The Hospital provides services without charge, or at amounts less than its established rates, to patients who meet the criteria of its charity care policy. The criteria for charity care, which is granted on a sliding scale, consider gross income and family size as compared to the federal poverty levels (FPL) as follows:

- Up to 200% of FPL will receive 100% charity care
- 201% - 220% of FPL will receive 90% charity care
- 221% - 240% of FPL will receive 80% charity care
- 241% - 260% of FPL will receive 70% charity care
- 261% - 280% of FPL will receive 60% charity care
- 281% - 300% of FPL will receive 50% charity care

The net cost of charity care provided was approximately $899,000 in 2017 and $973,000 in 2016. The total cost estimate is based on an overall financial statement cost to charge ratio applied against gross charity care charges. In 2017 and 2016, 1.57% and 1.76%, respectively, of all services as defined by percentage of gross revenue were provided on a charity care basis.

In 2017, of a total of 107 Hospital inpatients receiving charity care, 71 received their entire episode of service on a charity care basis and 36 received partial subsidy. In 2016, of a total of 125 inpatients receiving charity care, 94 received their entire episode of service on a charity care basis and 31 received partial subsidy.

In 2017, of a total of 815 Hospital outpatients receiving charity care, 670 received their entire episode of service on a charity care basis and 145 received partial subsidy. In 2016, of a total of 862 outpatients receiving charity care, 707 received their entire episode of service on a charity care basis and 155 received partial subsidy.

4. Investments

The composition of investments at September 30, 2017 and 2016 is set forth in the following table. Investments are stated at fair value.

	2017	2016
Cash and short-term investments	**$ 228,783**	$ 208,901
Fixed income	**2,972,134**	3,286,304
Equities	**11,224,711**	10,554,335
Total investments	**$ 14,425,628**	$ 14,049,540

Investments are presented as follows in the balance sheets at September 30:

	2017	2016
Assets limited as to use, internally designated for capital acquisition and operations	**$ 13,729,486**	$ 13,630,892
Assets limited as to use, restricted by bond agreement and held by trustee for debt service fund (current)	**-**	25,154
Long-term investments	**696,142**	393,494
	$ 14,425,628	$ 14,049,540

During the year ended September 30, 2017, the Hospital refinanced the Series A 2002 bonds, promissory notes and line of credit. Deposits required under the Series A 2002 bonds agreement were settled when the bonds were refinanced. At September 30, 2016, assets limited as to use, restricted by bond agreement and held by trustee for debt service fund, represent amounts deposited in accordance with the bonds payable. The new debt agreement does not have a requirement to maintain such a fund.

Investment income and gains on investments are comprised of the following for the years ended September 30:

	2017	2016
Interest and dividend income	**$ 258,867**	$ 219,841
Realized gains on sales of securities	**1,037,378**	433,534
Net change in unrealized gains on investments	**339,338**	469,198
	$ 1,635,583	$ 1,122,573

5. Fair Value Measurements

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

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

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

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

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

	Level 1	
	2017	2016
Investments:		
Cash and short-term investments	**$ 228,783**	$ 208,901
Fixed income	**2,972,134**	3,286,304
Equities	**11,224,711**	10,554,335
Total assets	**$ 14,425,628**	$ 14,049,540
Investments - held by defined benefit pension plan (Note 12):		
Mutual funds:		
Fixed income	**$ 7,047,618**	$ 6,675,985
Equities	**5,537,413**	5,551,656
Total investments - held by defined pension plan	**$ 12,585,031**	$ 12,227,641

6. Property and Equipment

A summary of property and equipment follows:

	2017	2016
Land and land improvements	**$ 2,096,580**	$ 2,075,941
Buildings and improvements	**14,173,879**	14,227,652
Leasehold improvements	**958,377**	966,627
Fixed equipment	**5,195,714**	5,173,392
Major moveable equipment	**16,830,454**	17,873,907
Construction in progress	**108,078**	157,034
	39,363,082	40,474,553
Less accumulated depreciation	**26,114,809**	27,281,031
Property and equipment, net	**$ 13,248,273**	$ 13,193,522

Depreciation expense for the years ended September 30, 2017 and 2016 amounted to $1,563,154 and $1,886,176, respectively.

7. Borrowings

Long-term debt consisted of the following as of September 30:

	2017	2016
Term note payable due in monthly principal and interest installments of $73,031 through December 2031. Interest is variable, equal to the July 15 amortizing Federal Home Loan Bank of Boston Rate plus 2.70% (5.19% at September 30, 2017). The term note is collateralized by real property and certain investments.	**$ 8,768,837**	$ -
Vermont Educational and Health Buildings Financing Agency (VEHBFA) variable rate demand hospital revenue bonds 2002 Series A, refinanced during 2017.	**-**	6,115,000
Capital leases payable in equal monthly installments of $25,647 at fixed rates between 5.27% and 6.50%.	**948,595**	395,319
3.86% promissory note, payable in monthly principal and interest payments of $28,495; refinanced during 2017.	**-**	1,573,856
	9,717,432	8,084,175
Less current portion	**687,472**	550,220
Less unamortized debt issuance costs	**416,398**	63,303
Long-term debt, net of current portion and unamortized debt issuance costs	**$ 8,613,562**	$ 7,470,652

On December 1, 2016, the Hospital and SMCS refinanced the VEHBFA 2002 Series A revenue bonds, promissory notes and the outstanding line of credit with a $12,000,000 U.S. Department of Agriculture Rural Development term note and $3,000,000 line of credit. The Hospital is responsible for approximately 77% of the $12,000,000 term note while the line of credit is shared between the Hospital and SMCS.

The Hospital had a standby letter of credit for $7,486,171 through December 1, 2016. The letter of credit was a part of the VEHBFA 2002 Series A revenue bonds agreement and was available to make principal and interest payments on the bonds. The letter of credit was collateralized by all Hospital assets. As a result of the refinancing, the letter of credit commitment was not renewed.

The Hospital has entered various equipment lease agreements. Assets, net of accumulated amortization, recorded under capital leases totaled $960,019 and $164,788 at September 30, 2017 and 2016, respectively. The present value of these assets has been included with property and equipment, net. Amortization expense for assets under capital lease was $83,256 and $59,923 for the years ended September 30, 2017 and 2016, respectively, and has been included with depreciation expense in the accompanying financial statements. Accumulated amortization associated with the lease totaled $218,083 and $134,826 at September 30, 2017 and 2016, respectively.

Scheduled principal repayments of the Hospital's portion of the long-term debt under the new financing arrangement are as follows:

	Term Note	Capital Lease Obligations
2018 (included in current liabilities)	$ 424,920	$ 307,761
2019	447,896	271,914
2020	470,901	200,220
2021	497,427	200,220
2022	524,243	73,255
Thereafter	6,403,450	-
	$ 8,768,837	1,053,370
Less amounts representing interest		104,775
		$ 948,595

The Hospital and SMCS are required to comply with financial debt covenants related to the term note payable. As of September 30, 2017, the Hospital and SMCS were not in compliance with certain requirements and have received a debt covenant waiver from the lending institution.

Line of Credit

The Hospital and SMCS split a $3,000,000 available line of credit with a bank, collateralized by real property held by the Hospital and investments. Interest on borrowings is charged at the one-month LIBOR rate plus 2.75% (3.99% as of September 30, 2017). The Hospital's outstanding balance was $1,920,347 and $1,825,384 at September 30, 2017 and 2016, respectively. The line of credit expires on March 31, 2018.

8. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods:

	2017	2016
Health care services		
Purchase of equipment and departmental expenses	**$ 301,686**	$ 236,237
Health education	**1,600**	1,950
	$ 303,286	$ 238,187

Permanently restricted net assets are restricted to:

	2017	2016
Investments to be held in perpetuity, the income from which is expendable to support health care services	**$ 493,491**	$ 493,491

9. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers was as follows as of September 30:

	2017	2016
Medicare	**32 %**	25 %
Medicaid	**15**	20
Commercial	**27**	28
Self pay	**26**	27
	100 %	100 %

The Hospital routinely invests its surplus operating funds in money market mutual funds. These funds generally invest in highly liquid U.S. government and agency obligations. Investments in money market funds are not insured or guaranteed by the U.S. government.

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

10. Commitments and Contingencies

Self-Insurance

The Hospital has a self-insured health care plan for substantially all of its employees. The Hospital has obtained reinsurance coverage to limit the Hospital's exposure associated with this plan individually of $105,000 with an aggregate limit of 125% of the group expected claims. At September 30, 2017 and 2016, the Hospital had accrued $250,000 and $225,745, respectively, under the self-insurance contract.

The Hospital is also partially self-funded for its workers' compensation policy. The deductibles associated with this policy are $100,000 for an individual claim and $500,000 in the aggregate. At September 30, 2017 and 2016, the Hospital had a letter of credit for $150,000, and an escrow fund as part of the policy agreement available to make payments for claims charged to the deductible.

Loss Contingencies

The Hospital carries business and malpractice insurance coverage under a claims-made policy. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured. The Hospital intends to renew its coverage on a claims-made basis and has no reason to believe that it may be prevented from renewing such coverage. The Hospital is subject to complaints, claims and litigation due to potential claims which arise in the normal course of business. U.S. GAAP require the Hospital to accrue the ultimate cost of claims when the incident that gives rise to the claim occurs, without consideration of insurance recoveries. Expected recoveries are presented as a separate asset. The Hospital has evaluated its exposure to losses arising from potential claims and determined that no such accrual is necessary at September 30, 2017 and 2016.

11. Supplemental Cash Flow Information

Cash paid for interest for the years ended September 30, 2017 and 2016 was $504,966 and $381,931, respectively.

The Hospital entered into capital lease obligations, acquiring assets with a value of $777,600 in 2017. These lease commitments and capital assets were treated as noncash transactions. The Hospital did not enter into any capital lease obligations in 2016.

12. Employee Retirement Plans

Defined Benefit Pension Plan

The following table sets forth the funded status of the defined benefit plan (the Pension Plan) and amounts recognized in the Hospital's financial statements as of September 30:

	2017	2016
Benefit obligation	**$ (15,574,551)**	$ (16,030,303)
Fair value of plan assets	**12,585,031**	12,227,641
Funded status	**$ (2,989,520)**	$ (3,802,662)

Due to the frozen status of the plan, the benefit obligation represents both the projected and the accumulated benefit obligation.

The table below presents details about the Hospital's Pension Plan, including its funded status, components of net periodic benefit cost, and certain assumptions used in determining the funded status and cost:

	2017	2016
Change in benefit obligation		
Benefit obligation at beginning of year	**$ 16,030,303**	$ 14,921,130
Interest cost	**539,935**	597,826
Actuarial (gain) loss	**(350,433)**	1,138,808
Benefits paid	**(645,254)**	(627,461)
Benefit obligation at end of year	**$ 15,574,551**	$ 16,030,303
Change in plan assets		
Fair value of plan assets at beginning of year	**$ 12,227,641**	$ 11,548,703
Actual return on plan assets	**877,644**	1,056,399
Employer contribution	**125,000**	250,000
Benefits paid	**(645,254)**	(627,461)
Fair value of plan assets at end of year	**$ 12,585,031**	$ 12,227,641
Components of net periodic benefit cost		
Interest cost	**$ 539,935**	$ 597,826
Expected return on plan assets	**(739,212)**	(757,546)
Amortization of unrecognized net actuarial loss	**432,969**	381,200
Net periodic benefit cost	**$ 233,692**	$ 221,480

The following amounts were recognized in the Hospital's (decrease) increase in unrestricted net assets for the Pension Plan, excluding amounts recognized in net periodic benefit cost:

	2017	2016
Net actuarial (gain) loss	**$ (488,865)**	$ 839,955
Reclassification adjustment for amortization of net unrecognized actuarial loss	**(432,969)**	(381,200)
Change in net assets to recognize funded status of the Pension Plan	**$ (921,834)**	$ 458,755

Charged against unrestricted net assets at September 30, 2017 and 2016 are unrecognized actuarial losses of $5,439,523 and $6,361,357, respectively, which have not been recognized in net periodic pension cost. The actuarial loss for the pension plan that is expected to be amortized from unrestricted net assets into net periodic pension benefit cost over the next fiscal year is $353,236.

The assumptions used in the measurement of the Hospital's net periodic benefit cost and benefit obligation are shown in the following table:

	2017	2016
Weighted average assumptions at or for the year ended September 30		
Discount rate		
For determining net periodic benefit cost	**3.45 %**	4.10 %
For determining benefit obligation	**3.75**	3.45
Expected return on plan assets	**6.25**	6.75

To develop the expected long-term rate of return on plan assets assumption, the Hospital considered the historical return and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

Plan Assets

The Pension Plan's investment objectives are to achieve long-term growth in excess of long-term inflation and to provide a rate of return that meets or exceeds the actuarial expected long-term rate of return on plan assets over a long-term time horizon. In order to manage risk, plan management aims for a low level of the variability in yearly returns. The Pension Plan also aims to diversify its holdings among sectors, industries, and companies. No more than 25% of the Pension Plan's equities may be held in a single industry.

The Hospital's Pension Plan weighted-average asset allocations at September 30, 2017 and 2016, by asset category, are as follows:

	2017	2016
Asset category		
Mutual funds		
Fixed income	**56 %**	55 %
Equities	**44 %**	45 %
Total	**100 %**	100 %

Contributions

The Hospital expects to contribute approximately $250,000 to its defined benefit pension plan in 2018.

Estimated Future Benefit Payments

The following benefit payments are expected to be paid over the next ten years:

Fiscal year	
2018	$ 813,200
2019	848,900
2020	872,400
2021	914,600
2022	918,800
Years 2023 - 2027	4,703,400

Defined Contribution Pension Plan

In 2006, SMCS established a 401(k) retirement plan (the Plan) for substantially all of its employees. The Plan was retroactive to October 1, 2005 with regard to eligibility determinations and discretionary matching contributions by SMCS. Employees are immediately eligible to contribute to the Plan and are 100% vested in their contributions. Employees become eligible for matching and other discretionary contributions once an employee has completed a 90-day probationary employment period. Discretionary contributions made by SMCS vest to the participants over a 5-year period. Total expense under the Plan was approximately $232,000 and $231,000 for the years ended September 30, 2017 and 2016, respectively.

13. Related Party Transactions

The Hospital contracts with SMCS for billing services. The costs to the Hospital were $188,400 and $188,964 during 2017 and 2016, respectively.

SMCS received rent from the Hospital of $72,402 and $72,336 for various ambulatory care centers and physician office spaces for the years ended September 30, 2017 and 2016, respectively.

For the years ended September 30, 2017 and 2016, the Hospital forgave $610,390 and $543,828, respectively, of outstanding balances owed by SMCS for amounts paid by the Hospital. These amounts have accordingly been treated as noncash transactions for purposes of the statement of cash flows.

SUPPLEMENTARY INFORMATION

SPRINGFIELD HOSPITAL, INC.

Schedule of Operating Expenses

Years Ended September 30, 2017 and 2016

	2017	2016
Salaries and benefits		
Salaries and related payroll taxes	**$ 20,787,456**	$ 20,181,008
Employee benefits	**4,117,135**	3,684,471
Total salaries and benefits	**24,904,591**	23,865,479
Supplies and other		
Supplies	**5,700,006**	5,985,082
Health care provider tax	**3,195,888**	3,172,987
Purchased services	**10,925,917**	9,879,800
Physician fees	**5,777,363**	5,083,047
Accounting and legal fees	**219,530**	180,111
Telephone	**101,951**	100,910
Postage and shipping	**119,066**	106,622
Occupancy	**696,654**	873,660
Equipment rental	**626,093**	708,210
Repairs and maintenance	**797,295**	778,627
Printing and publishing	**11,812**	13,066
Travel	**71,726**	45,823
Dues and subscriptions	**214,800**	248,785
Licenses and taxes	**28,818**	33,900
Advertising	**138,904**	81,785
Education and training	**125,415**	85,101
Recruiting	**21,372**	118,497
Other expenses	**1,240,444**	1,037,289
Total supplies and other	**30,013,054**	28,533,302
Insurance	**552,978**	518,414
Depreciation	**1,563,154**	1,886,176
Interest	**531,461**	385,831
Total expenses	**$ 57,565,238**	$ 55,189,202