



FINANCIAL STATEMENTS

with

SUPPLEMENTARY INFORMATION

September 30, 2018 and 2017

With Independent Auditor's Report





INDEPENDENT AUDITOR'S REPORT

Board of Directors
Springfield Hospital, Inc.

We have audited the accompanying financial statements of Springfield Hospital, Inc. (the Hospital), a subsidiary of Springfield Medical Care Systems, Inc., which comprise the balance sheets as of September 30, 2018 and 2017, 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.

Basis for Qualified Opinion

The Hospital has not performed an assessment of the carrying value of its property and equipment for possible impairment, although certain indicators are present that trigger the requirement to perform such an assessment. Under U.S. generally accepted accounting principles, the carrying value should be reduced to its fair value if such indicators are present and an impairment exists. The effects on the financial statements of any impairment are not reasonably determinable.

Qualified Opinion

In our opinion, except for the effect, if any, on the financial statements, of the omission of the assessment described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of September 30, 2018 and 2017, 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.

Substantial Doubt about the Hospital's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Hospital will continue as a going concern. As discussed in Note 14 to the financial statements, the Hospital has experienced significant operating losses in recent years. This factor, and the resulting impact on cash flows, raise substantial doubt about its ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding this matter are also described in Note 14. Our opinion is not modified with respect to this matter.

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, except for the effect, if any, of the omission of the assessment described in the Basis for Qualified Opinion paragraph, 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
February 11, 2019

Registration No. 92-0000278

SPRINGFIELD HOSPITAL, INC.

Balance Sheets

September 30, 2018 and 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Current assets		
Cash and cash equivalents	\$ 19,413	\$ 524,817
Patient accounts receivable, net of allowances for doubtful accounts and contractual allowances of \$9,429,629 for 2018 and \$7,561,532 for 2017	8,271,627	9,896,848
Supplies	272,042	277,296
Prepaid expenses	610,549	694,572
Estimated third-party payor settlements	1,071,000	1,055,761
Other receivables	<u>405,872</u>	<u>531,221</u>
Total current assets	10,650,503	12,980,515
Assets limited as to use	11,951,704	13,729,486
Due from Springfield Medical Care Systems, Inc.	-	288,694
Property and equipment, net	12,392,957	13,248,273
Long-term investments	<u>765,089</u>	<u>696,142</u>
Total assets	<u>\$ 35,760,253</u>	<u>\$ 40,943,110</u>

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

LIABILITIES AND NET ASSETS

	<u>2018</u>	<u>2017</u>
Current liabilities		
Line of credit	\$ 2,268,078	\$ 1,920,347
Current portion of long-term debt	8,256,819	687,472
Accounts payable and accrued expenses	8,199,050	7,998,800
Accrued salaries and related amounts	3,992,666	2,347,813
Other current liabilities	<u>644,890</u>	<u>406,531</u>
Total current liabilities	23,361,503	13,360,963
Long-term debt, net of current portion	686,919	8,613,562
Pension liability	<u>2,260,177</u>	<u>2,989,520</u>
Total liabilities	<u>26,308,599</u>	<u>24,964,045</u>
Net assets		
Unrestricted	8,552,715	15,182,288
Temporarily restricted	405,448	303,286
Permanently restricted	<u>493,491</u>	<u>493,491</u>
Total net assets	<u>9,451,654</u>	<u>15,979,065</u>
Total liabilities and net assets	<u>\$ 35,760,253</u>	<u>\$ 40,943,110</u>

SPRINGFIELD HOSPITAL, INC.

Statements of Operations

Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Unrestricted revenues, gains and other support		
Patient service revenue (net of contractual allowances and discounts)	\$ 49,650,654	\$ 56,923,367
Less provision for bad debts	<u>5,028,274</u>	<u>4,956,558</u>
Net patient service revenue	44,622,380	51,966,809
Fixed prospective revenue	8,356,432	-
Other operating revenues	1,602,488	1,615,724
Net assets released from restrictions used for operations	<u>282,653</u>	<u>83,910</u>
Total unrestricted revenues, gains and other support	<u>54,863,953</u>	<u>53,666,443</u>
Expenses		
Salaries and benefits	27,574,071	24,904,591
Supplies and other	31,456,859	30,013,054
Insurance	642,143	552,978
Depreciation and amortization	1,552,306	1,563,154
Interest	<u>634,651</u>	<u>531,461</u>
Total expenses	<u>61,860,030</u>	<u>57,565,238</u>
Operating loss	<u>(6,996,077)</u>	<u>(3,898,795)</u>
Nonoperating gains		
Investment income and realized gains on sales of investments	1,194,356	1,296,245
Net change in unrealized gains on investments	(118,100)	339,338
Contributions and support, net of related expenses	<u>(393)</u>	<u>149,279</u>
Nonoperating gains, net	<u>1,075,863</u>	<u>1,784,862</u>
Deficiency of unrestricted revenues, gains and other support over expenses and losses	(5,920,214)	(2,113,933)
Net assets released from restrictions used for purchase of property and equipment	98,083	24,253
Change in net assets to recognize funded status of pension plan	889,811	921,834
Transfer to Springfield Medical Care Systems, Inc.	<u>(1,697,253)</u>	<u>(610,390)</u>
Decrease in unrestricted net assets	<u>\$ (6,629,573)</u>	<u>\$ (1,778,236)</u>

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

SPRINGFIELD HOSPITAL, INC.

Statements of Changes in Net Assets

Years Ended September 30, 2018 and 2017

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Balances, October 1, 2016	\$ <u>16,960,524</u>	\$ <u>238,187</u>	\$ <u>493,491</u>	\$ <u>17,692,202</u>
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.	<u>(610,390)</u>	<u>-</u>	<u>-</u>	<u>(610,390)</u>
(Decrease) increase in net assets	<u>(1,778,236)</u>	<u>65,099</u>	<u>-</u>	<u>(1,713,137)</u>
Balances, September 30, 2017	<u>15,182,288</u>	<u>303,286</u>	<u>493,491</u>	<u>15,979,065</u>
Deficiency of revenues, gains and other support over expenses and losses	(5,920,214)	-	-	(5,920,214)
Restricted contributions	-	482,898	-	482,898
Net assets released from restrictions used for operations	-	(282,653)	-	(282,653)
Net assets released from restrictions used for purchase of property and equipment	98,083	(98,083)	-	-
Change in net assets to recognize funded status of pension plan	889,811	-	-	889,811
Transfer to Springfield Medical Care Systems, Inc.	<u>(1,697,253)</u>	<u>-</u>	<u>-</u>	<u>(1,697,253)</u>
(Decrease) increase in net assets	<u>(6,629,573)</u>	<u>102,162</u>	<u>-</u>	<u>(6,527,411)</u>
Balances, September 30, 2018	<u>\$ 8,552,715</u>	<u>\$ 405,448</u>	<u>\$ 493,491</u>	<u>\$ 9,451,654</u>

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

SPRINGFIELD HOSPITAL, INC.

Statements of Cash Flows

Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ (6,527,411)	\$ (1,713,137)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation and amortization	1,581,699	1,589,649
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	(789,565)	(1,376,716)
Transfer to Springfield Medical Care Systems, Inc.	1,697,253	610,390
Change in net assets to recognize funded status of pension plan	(889,811)	(921,834)
(Increase) decrease in		
Patient accounts receivable, net	1,625,221	109,849
Supplies	5,254	47,074
Prepaid expenses	84,023	174,987
Estimated third-party payor settlements	(15,239)	(1,918,071)
Other receivables	125,349	15,572
(Decrease) increase in		
Accounts payable and accrued expenses	200,250	2,628,066
Accrued salaries and related amounts	1,644,853	262,231
Other current liabilities	238,359	(23,331)
Pension liability	<u>160,468</u>	<u>108,692</u>
Net cash used by operating activities	<u>(859,297)</u>	<u>(321,311)</u>
Cash flows from investing activities		
Purchase of property and equipment	(368,368)	(864,272)
Proceeds from sale of investments	5,607,311	9,111,106
Purchase of investments	(3,108,911)	(8,110,478)
Net advances to related party	<u>(1,408,559)</u>	<u>(827,826)</u>
Net cash provided (used) by investing activities	<u>721,473</u>	<u>(691,470)</u>
Cash flows from financing activities		
Principal payments on long-term debt	(715,311)	(8,220,531)
Proceeds from borrowings on long-term debt	-	9,076,189
Net advances on line of credit	347,731	94,963
Payment of debt issuance costs	<u>-</u>	<u>(440,892)</u>
Net cash (used) provided by financing activities	<u>(367,580)</u>	<u>509,729</u>
Net decrease in cash and cash equivalents	<u>(505,404)</u>	<u>(503,052)</u>
Cash and cash equivalents, beginning of year	<u>524,817</u>	<u>1,027,869</u>
Cash and cash equivalents, end of year	<u>\$ 19,413</u>	<u>\$ 524,817</u>

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

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2018 and 2017

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 payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts. 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.

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2018 and 2017

The Hospital's allowance for doubtful accounts was \$803,745 and \$849,989 as of September 30, 2018 and 2017, respectively. There were no significant changes to the allowance for doubtful accounts in 2018 or 2017.

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

Debt Issuance Costs

Certain costs related to the issuance of debt, such as accountant's, attorney's and underwriting fees, are capitalized and amortized on a straight-line basis over the lives of the respective debt issues. Unamortized debt issuance costs as of September 30, 2018 and 2017 are presented as a direct deduction from the carrying amount of the related debt. In addition, the amortization of the debt issuance costs of \$29,393 and \$26,495 for the years ended September 30, 2018 and 2017, respectively, is classified as interest expense.

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2018 and 2017

During the year ended September 30, 2017, the Hospital refinanced Series A 2002 bonds, promissory notes and a 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 of Revenues, Gains and Other Support Over Expenses and Losses

The statements of operations include deficiency of revenues, gains and other support over expenses and losses. Changes in unrestricted net assets which are excluded from this measure, consistent with industry practice, include net assets released from restrictions 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 payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

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

Fixed Prospective Revenue

The Hospital is a participant in OneCare Vermont, LLC, a statewide accountable care organization (ACO). Beginning January 1, 2018, the Hospital entered into risk bearing arrangements through the Medicare Next Generation Model, the Vermont Medicaid Program, and Blue Cross/Blue Shield of Vermont. Under the Medicare Next Generation Model and Vermont Medicaid Program, the Hospital receives monthly fixed prospective payments for services provided to attributed members. 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 in fixed prospective 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

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2018 and 2017

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, 2018 and 2017, the Hospital incurred \$3,240,700 and \$3,195,888, 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 expenses related to providing these services were as follows for the years ended September 30:

	<u>2018</u>	<u>2017</u>
Health care services	\$ 46,144,605	\$ 43,469,661
General and administrative	<u>15,715,425</u>	<u>14,095,577</u>
	<u>\$ 61,860,030</u>	<u>\$ 57,565,238</u>

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 February 11, 2019, the date that the financial statements were available to be issued.

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2018 and 2017

2. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Revenue from the Medicare and Medicaid programs accounted for approximately 45% and 49% of the Hospital's net patient service revenue for the years ended September 30, 2018 and 2017, respectively.

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

	<u>2018</u>	<u>2017</u>
Patient services		
Inpatient	\$ 25,157,040	\$ 23,445,880
Outpatient	<u>96,095,738</u>	<u>91,920,728</u>
Gross patient service revenue	<u>121,252,778</u>	<u>115,366,608</u>
Less Medicare and Medicaid allowances	56,817,164	45,734,590
Less other contractual allowances	12,644,617	10,561,445
Less charity care and other discounts	<u>2,140,343</u>	<u>2,147,206</u>
	<u>71,602,124</u>	<u>58,443,241</u>
Patient service revenue (net of contractual allowances and discounts)	49,650,654	56,923,367
Less provision for bad debts	<u>5,028,274</u>	<u>4,956,558</u>
Net patient service revenue	<u>\$ 44,622,380</u>	<u>\$ 51,966,809</u>

The Hospital has agreements with the Centers for Medicare & Medicaid Services (Medicare) and the Department 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 2018 and 2017, net patient service revenue increased approximately \$103,000 and \$197,000, respectively, due to changes in allowances or recognition of settlements no longer subject to audits, reviews, and investigations.

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2018 and 2017

The Hospital participates in the statewide ACO and records monthly fixed prospective payments and its share of annual contract settlements as fixed prospective revenue. For patients not attributed to or services not eligible for the ACO, payment arrangements with major third-party payors are as 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, 2016.

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 payor 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 payor sources was as follows:

	<u>2018</u>	<u>2017</u>
Revenue from third-party payors	\$ 47,425,891	\$ 54,247,788
Revenue from self-pay patients	<u>2,224,763</u>	<u>2,675,579</u>
	<u>\$ 49,650,654</u>	<u>\$ 56,923,367</u>

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2018 and 2017

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 \$992,000 in 2018 and \$901,000 in 2017. The total cost estimate is based on an overall financial statement cost to charge ratio applied against gross charity care charges. In 2018 and 2017, 1.60% and 1.57%, respectively, of all services as defined by percentage of gross revenue were provided on a charity care basis.

In 2018, of a total of 103 Hospital inpatients receiving charity care, 82 received their entire episode of service on a charity care basis and 21 received partial subsidy. In 2017, of a total of 107 inpatients receiving charity care, 71 received their entire episode of service on a charity care basis and 36 received partial subsidy.

In 2018, of a total of 956 Hospital outpatients receiving charity care, 779 received their entire episode of service on a charity care basis and 177 received partial subsidy. In 2017, of a total of 815 outpatients receiving charity care, 670 received their entire episode of service on a charity care basis and 145 received partial subsidy.

4. Investments

The composition of investments at September 30, 2018 and 2017 is set forth in the following table. Investments are stated at fair value.

	<u>2018</u>	<u>2017</u>
Cash and short-term investments	\$ 191,513	\$ 228,783
Fixed income	2,698,032	2,972,134
Equities	<u>9,827,248</u>	<u>11,224,711</u>
Total investments	<u>\$ 12,716,793</u>	<u>\$ 14,425,628</u>

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2018 and 2017

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

	<u>2018</u>	<u>2017</u>
Assets limited as to use, internally designated for capital acquisition and operations	\$ 11,951,704	\$ 13,729,486
Long-term investments	<u>765,089</u>	<u>696,142</u>
	<u>\$ 12,716,793</u>	<u>\$ 14,425,628</u>

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

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 286,691	\$ 258,867
Realized gains on sales of securities	907,665	1,037,378
Net change in unrealized gains on investments	<u>(118,100)</u>	<u>339,338</u>
	<u>\$ 1,076,256</u>	<u>\$ 1,635,583</u>

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.

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

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

	Level 1	
	<u>2018</u>	<u>2017</u>
Investments:		
Cash and short-term investments	\$ 191,513	\$ 228,783
Fixed income	2,698,032	2,972,134
Equities	<u>9,827,248</u>	<u>11,224,711</u>
Total assets	<u>\$ 12,716,793</u>	<u>\$ 14,425,628</u>
Investments - held by defined benefit pension plan (Note 12):		
Mutual funds:		
Fixed income	\$ 7,621,849	\$ 7,047,618
Equities	<u>4,691,316</u>	<u>5,537,413</u>
Total investments - held by defined pension plan	<u>\$ 12,313,165</u>	<u>\$ 12,585,031</u>

6. Property and Equipment

A summary of property and equipment follows:

	<u>2018</u>	<u>2017</u>
Land and land improvements	\$ 2,083,694	\$ 2,096,580
Buildings and improvements	14,217,938	14,173,879
Leasehold improvements	948,319	958,377
Fixed equipment	5,131,746	5,195,714
Major moveable equipment	16,944,296	16,830,454
Construction in progress	<u>205,527</u>	<u>108,078</u>
	<u>39,531,520</u>	39,363,082
Less accumulated depreciation and amortization	<u>27,138,563</u>	<u>26,114,809</u>
Property and equipment, net	<u>\$ 12,392,957</u>	<u>\$ 13,248,273</u>

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

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7. Borrowings

Long-Term Debt

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

	<u>2018</u>	<u>2017</u>
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, 2018). The term note is collateralized by real property and investments.	\$ 8,340,464	\$ 8,768,837
Capital leases payable in equal monthly installments of \$31,736 at fixed rates between 2.85% and 6.50%.	<u>990,279</u>	<u>948,595</u>
	9,330,743	9,717,432
Less current portion	8,256,819	687,472
Less unamortized debt issuance costs	<u>387,005</u>	<u>416,398</u>
Long-term debt, net of current portion and unamortized debt issuance costs	<u>\$ 686,919</u>	<u>\$ 8,613,562</u>

On December 1, 2016, the Hospital and SMCS refinanced certain debt 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 has entered various equipment lease agreements. Assets, net of accumulated amortization, recorded under capital leases totaled \$1,045,782 and \$960,019 at September 30, 2018 and 2017, respectively. The present value of these assets has been included with property and equipment, net. Amortization expense for assets under capital lease was \$242,861 and \$83,256 for the years ended September 30, 2018 and 2017, respectively, and has been included with depreciation and amortization expense in the accompanying financial statements. Accumulated amortization associated with the lease totaled \$460,944 and \$218,083 at September 30, 2018 and 2017, respectively.

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

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The Hospital and SMCS are required to comply with financial debt covenants related to the term note payable. As of September 30, 2018 the Hospital and SMCS were not in compliance. For financial statement purposes, the term note, net of unamortized debt issuance costs, has been classified as current based on the Hospital's noncompliance and financial condition.

Principal repayments of the Hospital's portion of the long-term debt are as follows:

	Term Note as <u>Scheduled</u>	Term Note Classified as <u>Current</u>	Capital Lease <u>Obligations</u>
2019	\$ 447,864	\$ 8,340,464	\$ 344,982
2020	470,901	-	273,288
2021	497,427	-	273,288
2022	524,243	-	146,323
2023	552,504	-	42,410
Thereafter	<u>5,847,525</u>	<u>-</u>	<u>-</u>
	<u>\$ 8,340,464</u>	<u>\$ 8,340,464</u>	1,080,291
Less amounts representing interest			<u>90,012</u>
			<u>\$ 990,279</u>

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% (5.01% as of September 30, 2018). The Hospital's outstanding balance was \$2,268,078 and \$1,920,347 at September 30, 2018 and 2017, respectively. The line of credit expires on March 31, 2019.

8. Temporarily and Permanently Restricted Net Assets

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

	<u>2018</u>	<u>2017</u>
Health care services		
Purchase of equipment and departmental expenses	\$ 402,823	\$ 301,686
Health education	<u>2,625</u>	<u>1,600</u>
	<u>\$ 405,448</u>	<u>\$ 303,286</u>

SPRINGFIELD HOSPITAL, INC.

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September 30, 2018 and 2017

Permanently restricted net assets are restricted to:

	<u>2018</u>	<u>2017</u>
Investments to be held in perpetuity, the income from which is expendable to support health care services	\$ <u>493,491</u>	\$ <u>493,491</u>

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 payor agreements. The mix of receivables from patients and third-party payors was as follows as of September 30:

	<u>2018</u>	<u>2017</u>
Medicare	27 %	32 %
Medicaid	16	15
Commercial	30	27
Self pay	<u>27</u>	<u>26</u>
	<u>100 %</u>	<u>100 %</u>

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, 2018 and 2017, the Hospital had accrued \$1,080,000 and \$250,000, respectively, under the self-insurance contract. The 2018 accrual reflects delays by the Hospital in paying outstanding claims beginning in January 2018. In December 2018, the Hospital paid outstanding claims through September 30, 2018.

The Hospital is also partially self-funded for its workers' compensation policy. The deductibles associated with this policy are \$75,000 for an individual claim and \$400,000 in the aggregate. At September 30, 2018 and 2017, the Hospital had a letter of credit for \$95,000, and an escrow fund as part of the policy agreement available to make payments for claims charged to the deductible.

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2018 and 2017

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, 2018 and 2017.

11. Supplemental Cash Flow Information

Cash paid for interest for the years ended September 30, 2018 and 2017 was \$605,258 and \$504,966, respectively.

The Hospital entered into capital lease obligations, acquiring assets with a value of \$328,622 and \$777,600 in 2018 and 2017, respectively. These lease commitments and capital assets were treated as noncash transactions.

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:

	<u>2018</u>	<u>2017</u>
Benefit obligation	\$ (14,573,342)	\$ (15,574,551)
Fair value of plan assets	<u>12,313,165</u>	<u>12,585,031</u>
Funded status	<u>\$ (2,260,177)</u>	<u>\$ (2,989,520)</u>

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

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2018 and 2017

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:

	<u>2018</u>	<u>2017</u>
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 15,574,551	\$ 16,030,303
Interest cost	569,421	539,935
Actuarial gain	(768,777)	(350,433)
Benefits paid	<u>(801,853)</u>	<u>(645,254)</u>
Benefit obligation at end of year	\$ <u>14,573,342</u>	\$ <u>15,574,551</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 12,585,031	\$ 12,227,641
Actual return on plan assets	529,987	877,644
Employer contribution	-	125,000
Benefits paid	<u>(801,853)</u>	<u>(645,254)</u>
Fair value of plan assets at end of year	\$ <u>12,313,165</u>	\$ <u>12,585,031</u>
Components of net periodic benefit cost		
Interest cost	\$ 569,421	\$ 539,935
Expected return on plan assets	(762,189)	(739,212)
Amortization of unrecognized net actuarial loss	<u>353,236</u>	<u>432,969</u>
Net periodic benefit cost	\$ <u>160,468</u>	\$ <u>233,692</u>

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

	<u>2018</u>	<u>2017</u>
Net actuarial gain	\$ (536,575)	\$ (488,865)
Reclassification adjustment for amortization of net unrecognized actuarial loss	<u>(353,236)</u>	<u>(432,969)</u>
Change in net assets to recognize funded status of the Pension Plan	\$ <u>(889,811)</u>	\$ <u>(921,834)</u>

Charged against unrestricted net assets at September 30, 2018 and 2017 are unrecognized actuarial losses of \$4,549,712 and \$5,439,523, respectively, which have not been recognized in net periodic pension cost. The actuarial loss for the pension plan that is expected to be amortized into net periodic pension benefit cost over the next fiscal year is \$281,381.

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2018 and 2017

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

	<u>2018</u>	<u>2017</u>
Weighted average assumptions at or for the year ended September 30		
Discount rate		
For determining net periodic benefit cost	3.75 %	3.45 %
For determining benefit obligation	4.15	3.75
Expected return on plan assets	6.25	6.25

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. Target asset allocations are determined by the funded status of the pension plan and allocated between equity securities and bonds.

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, 2018 and 2017, by asset category, are as follows:

	<u>2018</u>	<u>2017</u>
Mutual funds		
Fixed income	62 %	56 %
Equities	38 %	44 %
Total	<u>100 %</u>	<u>100 %</u>

Contributions

The Hospital does not expect to contribute to its defined benefit pension plan in 2019.

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2018 and 2017

Estimated Future Benefit Payments

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

Fiscal year	
2019	\$ 846,900
2020	870,300
2021	908,700
2022	914,800
2023	932,900
Years 2024 - 2028	4,671,300

Defined Contribution Pension Plan

In 2006, the Hospital 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 the Hospital. 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 the Hospital vest to the participants over a 5-year period. Total expense under the Plan was approximately \$243,000 and \$232,000 for the years ended September 30, 2018 and 2017, respectively.

13. Related Party Transactions

The Hospital contracts with SMCS for billing services. The costs to the Hospital were \$188,400 during 2018 and 2017.

SMCS received rent from the Hospital of \$72,336 and \$72,402 for various ambulatory care centers and physician office spaces for the years ended September 30, 2018 and 2017, respectively.

For the years ended September 30, 2018 and 2017, the Hospital forgave \$1,697,253 and \$610,390, 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.

14. Financial Improvement Plan

The accompanying financial statements have been prepared in conformity with U.S. GAAP, which contemplate continuation of the Hospital as a going concern. The Hospital has incurred significant operating losses and negative cash flows from operations in recent years, and has a working capital deficit as a result of these ongoing losses and a debt default due to covenant violations. These factors raise substantial doubt about the Hospital's ability to continue as a going concern.

SPRINGFIELD HOSPITAL, INC.

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In view of these matters, realization of a major portion of the assets in the accompanying balance sheet is dependent upon continued operations of the Hospital, which in turn are dependent upon the Hospital's ability to meet its obligations as they become due, and the success of its future efforts. The Hospital has undertaken recent initiatives to mitigate these conditions. In 2018, the Hospital entered into a new contract for emergency room services that will significantly reduce the cost of this service. The Board has engaged a consulting firm on January 9, 2019 to perform an operational and financial improvement assessment and to serve as interim chief executive and financial management, and also engaged legal counsel to look at options for restructuring debt. In late January 2019, the Vermont Agency of Human Services advanced \$800,000 to the Hospital against future Medicaid claims payments, following ratification by the SMCS and Hospital's Boards of at least \$6.5 million of specific savings to be implemented no later than April 1, 2019. Full repayment of the advance is due no later than June 30, 2020. In addition, Berkshire Bank released \$4.3 million of the Hospital's investments held as collateral for, and to pay down, the line of credit and term loan balances. Berkshire Bank also released another \$800,000 of the Hospital's collateral to be used for working capital purposes.

Management intends to implement initiatives to restructure its position that may allow the Hospital to continue as a going concern. However, events could occur outside the scope of operations that might hinder the Hospital's ability to continue as a going concern.

SUPPLEMENTARY INFORMATION

SPRINGFIELD HOSPITAL, INC.

Schedule of Operating Expenses

Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Salaries and benefits		
Salaries and related payroll taxes	\$ 21,354,999	\$ 20,787,456
Employee benefits	<u>6,219,072</u>	<u>4,117,135</u>
Total salaries and benefits	<u>27,574,071</u>	<u>24,904,591</u>
Supplies and other		
Supplies	5,414,378	5,700,006
Health care provider tax	3,240,700	3,195,888
Purchased services	12,116,492	10,925,917
Physician fees	5,810,774	5,777,363
Accounting and legal fees	123,858	219,530
Telephone	108,562	101,951
Postage and shipping	101,143	119,066
Occupancy	839,888	696,654
Equipment rental	571,748	626,093
Repairs and maintenance	777,181	797,295
Printing and publishing	24,800	11,812
Travel	67,423	71,726
Dues and subscriptions	170,625	214,800
Licenses and taxes	24,600	28,818
Advertising	148,857	138,904
Education and training	163,351	125,415
Recruiting	38,791	21,372
Other expenses	<u>1,713,688</u>	<u>1,240,444</u>
Total supplies and other	<u>31,456,859</u>	<u>30,013,054</u>
Insurance	642,143	552,978
Depreciation and amortization	1,552,306	1,563,154
Interest	<u>634,651</u>	<u>531,461</u>
Total expenses	<u>\$ 61,860,030</u>	<u>\$ 57,565,238</u>