



FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION

September 30, 2022 and 2021
With Independent Auditor's Report





INDEPENDENT AUDITOR'S REPORT

Board of Directors
Springfield Hospital, Inc.

Opinion

We have audited the accompanying financial statements of Springfield Hospital, Inc. (the Hospital), which comprise the balance sheets as of September 30, 2022 and 2021, and the related statements of operations, changes in net assets (deficit), and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of September 30, 2022 and 2021, 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 (U.S. GAAP).

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for a reasonable period of time.

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

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 schedule of expenses 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
February 21, 2023
Registration No. 92-0000278

SPRINGFIELD HOSPITAL, INC.

Balance Sheets

September 30, 2022 and 2021

ASSETS

	<u>2022</u>	<u>2021</u>
Current assets		
Cash and cash equivalents	\$ 10,940,988	\$ 6,067,490
Patient accounts receivable, net	7,224,994	7,994,852
Supplies	197,626	258,355
Prepaid expenses	513,193	756,374
Estimated third-party payor settlements	1,265,977	976,212
Other receivables	<u>1,563,822</u>	<u>2,919,329</u>
Total current assets	21,706,600	18,972,612
Property and equipment, net	<u>9,060,924</u>	<u>9,959,647</u>
Total assets	<u>\$ 30,767,524</u>	<u>\$ 28,932,259</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Current portion of long-term debt	\$ 1,050,559	\$ 1,063,958
Accounts payable and accrued expenses	6,522,497	4,662,438
Accrued salaries and related amounts	2,390,528	2,287,451
Other current liabilities	<u>1,718,029</u>	<u>4,151,264</u>
Total current liabilities	11,681,613	12,165,111
Long-term debt, net of current portion	6,413,786	7,366,621
Pension liability	<u>1,978,845</u>	<u>3,746,554</u>
Total liabilities	<u>20,074,244</u>	<u>23,278,286</u>
Net assets		
Without donor restrictions	9,830,746	4,665,803
With donor restrictions	<u>862,534</u>	<u>988,170</u>
Total net assets	<u>10,693,280</u>	<u>5,653,973</u>
Total liabilities and net assets	<u>\$ 30,767,524</u>	<u>\$ 28,932,259</u>

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

SPRINGFIELD HOSPITAL, INC.

Statements of Operations

Years Ended September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Net patient service revenue	\$ 49,452,937	\$ 42,328,036
Grant revenue	6,301,909	2,540,813
Fixed prospective revenue	3,614,454	8,260,651
Other operating revenues	1,888,989	1,375,249
Net assets released from restrictions used for operations	<u>124,888</u>	<u>114,255</u>
Total revenues, gains and other support without donor restrictions	<u>61,383,177</u>	<u>54,619,004</u>
Expenses		
Salaries and benefits	22,676,228	21,778,749
Supplies and other	32,963,793	28,753,060
Insurance	685,669	750,284
Depreciation and amortization	1,368,712	1,521,090
Interest	<u>156,536</u>	<u>198,051</u>
Total expenses	<u>57,850,938</u>	<u>53,001,234</u>
Operating income	<u>3,532,239</u>	<u>1,617,770</u>
Reorganization items	<u>-</u>	<u>17,213,752</u>
Nonoperating income (expenses)		
Investment income	21,918	5,884
Nonservice periodic pension costs	(225,429)	(311,912)
Contributions and support, net of related expenses	<u>4,165</u>	<u>(7,568)</u>
Nonoperating expenses, net	<u>(199,346)</u>	<u>(313,596)</u>
Excess of revenues, gains and other support over expenses and losses	3,332,893	18,517,926
Net assets released from restrictions used for capital purposes	155,523	188,576
Change in net assets to recognize funded status of pension plan	<u>1,676,527</u>	<u>1,160,479</u>
Increase in net assets without donor restrictions	<u>\$ 5,164,943</u>	<u>\$ 19,866,981</u>

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

SPRINGFIELD HOSPITAL, INC.

Statements of Changes in Net Assets (Deficit)

Years Ended September 30, 2022 and 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balances, October 1, 2020	\$ <u>(15,201,178)</u>	\$ <u>942,198</u>	\$ <u>(14,258,980)</u>
Excess of revenues, gains and other support over expenses	18,517,926	-	18,517,926
Restricted contributions	-	348,803	348,803
Net assets released from restrictions used for operations	-	(114,255)	(114,255)
Net assets released from restrictions used for capital purposes	188,576	(188,576)	-
Change in net assets to recognize funded status of pension plan	<u>1,160,479</u>	<u>-</u>	<u>1,160,479</u>
Increase in net assets	<u>19,866,981</u>	<u>45,972</u>	<u>19,912,953</u>
Balances, September 30, 2021,	4,665,803	988,170	5,653,973
Excess of revenues and other support over expenses	3,332,893	-	3,332,893
Restricted contributions	-	154,775	154,775
Net assets released from restrictions used for operations	-	(124,888)	(124,888)
Net assets released from restrictions used for capital purposes	155,523	(155,523)	-
Change in net assets to recognize funded status of pension plan	<u>1,676,527</u>	<u>-</u>	<u>1,676,527</u>
Increase (decrease) in net assets	<u>5,164,943</u>	<u>(125,636)</u>	<u>5,039,307</u>
Balances, September 30, 2022	<u>\$ 9,830,746</u>	<u>\$ 862,534</u>	<u>\$ 10,693,280</u>

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

SPRINGFIELD HOSPITAL, INC

Statements of Cash Flows

Years Ended September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Increase in net assets	\$ 5,039,307	\$ 19,912,953
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	1,368,712	1,521,090
Gain on bankruptcy reorganization	-	(17,875,377)
Change in net assets to recognize funded status of pension plan	(1,676,527)	(1,160,479)
Reorganization items	-	661,625
Decrease (increase) in		
Patient accounts receivable, net	769,858	(2,376,715)
Supplies	60,729	(28,283)
Prepaid expenses	243,181	44,861
Estimated third-party payor settlements	(289,765)	(2,495,916)
Other receivables	1,355,507	(2,543)
Increase (decrease) in		
Accounts payable and accrued expenses	1,860,059	(19,198)
Accrued salaries and related amounts	103,077	63,837
Other current liabilities	(2,433,235)	1,253,169
Pension liability	<u>(91,182)</u>	<u>(255,995)</u>
Net cash provided (used) by operating activities before reorganization items	6,309,721	(756,971)
Operating cash flows from reorganization items:		
Professional fees paid for services rendered in connection with Chapter 11 proceedings	<u>-</u>	<u>(661,625)</u>
Net cash provided (used) by operating activities	<u>6,309,721</u>	<u>(1,418,596)</u>
Cash flows from investing activities		
Purchase of property and equipment	(411,871)	(261,714)
Proceeds from sale of investments	<u>-</u>	<u>359,297</u>
Net cash (used) provided by investing activities	<u>(411,871)</u>	<u>97,583</u>
Cash flows from financing activities		
Principal payments on long-term debt	(1,024,352)	(911,138)
Proceeds from issuance of debt to State of Vermont	<u>-</u>	<u>2,000,000</u>
Net cash (used) provided by financing activities	<u>(1,024,352)</u>	<u>1,088,862</u>
Net increase (decrease) in cash and cash equivalents	4,873,498	(232,151)
Cash and cash equivalents, beginning of year	<u>6,067,490</u>	<u>6,299,641</u>
Cash and cash equivalents, end of year	<u>\$ 10,940,988</u>	<u>\$ 6,067,490</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 111,536</u>	<u>\$ 178,456</u>
Property and equipment financed through capital leases	<u>\$ 58,118</u>	<u>\$ 264,392</u>
Liabilities subject to compromise settled primarily as noncash transactions in 2021, as disclosed in Note 1.		

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

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

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.

1. Summary of Significant Accounting Policies

Basis of Presentation

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

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

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

Use of Estimates

The preparation of financial statements in conformity with 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.

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

Net Patient Service Revenue and Patient Accounts Receivable

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.

Patient accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to operations and a credit to a valuation allowance based on its assessment of individual accounts and historical adjustments. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to patient accounts receivable.

Other Receivables

Other receivables are stated at the amount management expects to collect from outstanding balances.

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 support without donor restrictions and excluded from the excess 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 support with donor restrictions. 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.

Excess of Revenues, Gains and Other Support Over Expenses and Losses

The statements of operations include excess of revenues, gains and other support over expenses and losses. Changes in net assets without donor restrictions which are excluded from this measure, consistent with industry practice, include net assets released from restrictions for capital acquisition and changes in net assets to recognize the funded status of the pension plan.

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

Provider Relief Funds

The Coronavirus Aid, Relief, and Economic Security (CARES) Act provides funds to eligible healthcare providers to prevent, prepare for and respond to COVID-19. The CARES Act provides the U.S. Department of Health and Human Services (HHS) with discretion to operate the program and determine the reporting requirements. The funds have been appropriated to reimburse healthcare providers for COVID related expenses or lost revenues that are attributable to COVID-19. During 2020, the Hospital received \$5,444,565 of HHS Provider Relief Funds (Funds) and attested to the receipt of the Funds and agreement with the associated terms and conditions. During 2022, the Hospital received \$2,897,298 of HHS and American Rescue Plan Rural Payments to providers who service rural Medicaid and Medicare beneficiaries. The Hospital has chosen to follow the conditional contribution model for the Funds. Management believes the Hospital has met the conditions necessary to recognize all funds as revenue. For the year ended September 30, 2022, the Hospital has recognized \$2,897,298 as grant revenues in the statements of operations. Management believes the position taken is a reasonable interpretation of the rules currently available. Due to the complexity of the reporting requirements and the continued issuance of clarifying guidance, it is possible the amount of income recognized related to the lost revenues and COVID-related costs may change by a material amount. Any difference between amounts previously estimated and amounts subsequently determined to be recoverable or payable will be included in income in the year that such amounts become known.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received and the conditions are met. The gifts are reported as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statements of operations as net assets released from restrictions.

Reorganization Items

Reorganization items are comprised of gains and costs directly associated with Chapter 11 reorganization. These include professional expenses and trustee fees. In 2021, it also includes the gain on bankruptcy reorganization of 17,875,377. The Hospital exited bankruptcy in December 2020.

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.

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

The Hospital has a 401(k) retirement plan covering substantially all of its employees. The plan provides for immediate vesting of employee contributions and full vesting of employer contributions over a five-year period of service.

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 healthcare provider tax of 6% on net patient service revenue to the State of Vermont. For the years ended September 30, 2022 and 2021, the Hospital incurred \$3,363,263 and \$2,788,490, respectively, in healthcare provider tax, which is reported in supplies and other expenses in the statements of operations.

Functional Expenses

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

<u>2022</u>	<u>Healthcare Services</u>	<u>Support Services</u>	<u>Total</u>
Salaries, payroll taxes and employee benefits	\$ 17,624,641	\$ 5,051,587	\$ 22,676,228
Supplies	5,106,193	593,234	5,699,427
Healthcare provider tax	3,363,263	-	3,363,263
Purchased services	14,985,034	1,471,791	16,456,825
Physician fees	3,199,975	-	3,199,975
Occupancy	671,917	276,280	948,197
Equipment rental	512,663	178,625	691,288
Repairs and maintenance	424,909	289,380	714,289
Insurance	682,367	3,302	685,669
Depreciation and amortization	969,906	398,806	1,368,712
Interest	-	156,536	156,536
Other	474,251	1,416,278	1,890,529
	<u>\$ 48,015,119</u>	<u>\$ 9,835,819</u>	<u>\$ 57,850,938</u>

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

<u>2021</u>	<u>Healthcare Services</u>	<u>Support Services</u>	<u>Total</u>
Salaries, payroll taxes and employee benefits	\$ 17,564,133	\$ 4,214,616	\$ 21,778,749
Supplies	4,455,957	871,194	5,327,151
Healthcare provider tax	2,788,490	-	2,788,490
Purchased services	11,858,186	1,742,784	13,600,970
Physician fees	3,276,090	-	3,276,090
Occupancy	615,220	252,967	868,187
Equipment rental	426,900	129,316	556,216
Repairs and maintenance	414,193	210,423	624,616
Insurance	693,172	57,112	750,284
Depreciation and amortization	1,077,885	443,205	1,521,090
Interest	19,595	178,456	198,051
Other	<u>490,853</u>	<u>1,220,487</u>	<u>1,711,340</u>
	<u>\$ 43,680,674</u>	<u>\$ 9,320,560</u>	<u>\$ 53,001,234</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 21, 2023, the date that the financial statements were available to be issued.

2. Availability and Liquidity of Financial Assets

The Hospital had working capital of \$10,024,987 and \$6,807,501 at September 30, 2022 and 2021, respectively. The Hospital had average days (based on normal expenditures) cash on hand of 71 and 43 at September 30, 2022 and 2021, respectively. Note 10 contains additional information regarding the Hospital's cash flow challenges and management's plans to address them.

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

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents, less donor-restricted amounts	\$ 10,078,454	\$ 5,079,320
Patient accounts receivable, net	7,224,994	7,994,852
Estimated third-party payor settlements	1,265,977	976,212
Other receivables	<u>1,108,817</u>	<u>2,062,329</u>
Financial assets available to meet general expenditures within one year	<u>\$ 19,678,242</u>	<u>\$ 16,112,713</u>

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

3. Net Patient Service Revenue and Patient Accounts Receivable

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

As allowed under FASB ASC 606-10-32-18, the Hospital has elected the practical expedient and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Hospital's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Hospital does in certain instances enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Performance obligations are determined based on the nature of the services provided by the Hospital. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Hospital believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in hospitals receiving inpatient acute care services or patients receiving services in outpatient centers. The Hospital measures the performance obligation from admission into the Hospital or the commencement of an outpatient service to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue from performance obligations satisfied at a point in time is generally recognized when the goods are provided to patients and customers in a retail setting (for example, cafeteria) and the Hospital does not believe it is required to provide additional goods or services related to that sale.

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

The Hospital determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Hospital's policy, and implicit price concessions provided to uninsured patients. The Hospital determines its estimate of implicit price concessions based on its historical collection experience with this class of patients and records these as a direct reduction to net patient service revenue.

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

Each performance obligation is separately identifiable from other promises in the customer contract. As the performance obligations are met (i.e., room, board, ancillary services, level of care), revenue is recognized based upon the allocated transaction price. The transaction price is allocated to separate performance obligations based upon the relative standalone selling price. In instances where management determines there are multiple performance obligations across multiple months, the transaction price is allocated by applying an estimated implicit and explicit rate to gross charges based on the separate performance obligations.

In assessing collectibility, the Hospital has elected the portfolio approach. This portfolio approach is being used as the Hospital has a large volume of similar contracts with similar classes of customers. The Hospital reasonably expects that the effect of applying a portfolio approach to a group of contracts would not differ materially from considering each contract separately. Management's judgment to group the contracts by portfolio is based on the payment behavior expected in each portfolio category. As a result, aggregating all of the contracts (which are at the patient level) by the particular payor or group of payors, will result in the recognition of the same amount of revenue as applying the analysis at the individual patient level.

Estimated Third-Party Payor Settlements

The Hospital has agreements with third-party reimbursing agencies that provide for payments at amounts different from its established rates. A summary of the payment arrangements with major third-party reimbursing entities 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. 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, 2019.

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.

The Hospital currently participates in the statewide accountable care organization (ACO), OneCare Vermont, LLC, for Medicaid and records 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.

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

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.

Other

The Hospital has entered into payment agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment to the Hospital is primarily discounts from established charges, prospectively determined daily rates, and fee schedules.

The Hospital has agreements with the Centers for Medicare & Medicaid Services (CMS) 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 2022 and 2021, net patient service revenue increased approximately \$967,000 and \$1,906,000, respectively, due to changes in allowances or recognition of settlements no longer subject to audits, reviews, and investigations.

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

	<u>2022</u>	<u>2021</u>
Gross patient service revenue	\$ 113,412,718	\$ 101,348,810
Less contractual allowances	62,998,816	58,192,600
Less charity care and other discounts	<u>960,965</u>	<u>828,174</u>
Net patient service revenue	<u>\$ 49,452,937</u>	<u>\$ 42,328,036</u>

Net patient service revenue recognized for the years ended September 30, 2022 and 2021 by payor is as follows:

	<u>2022</u>	<u>2021</u>
Medicare and Medicaid	\$ 17,921,597	\$ 16,231,002
Commercial	29,171,934	24,502,285
Self-pay	<u>2,359,406</u>	<u>1,594,749</u>
Total	<u>\$ 49,452,937</u>	<u>\$ 42,328,036</u>

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

Charity Care

Patients who meet the Hospital's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue. The Hospital estimates the costs associated with providing charity care by calculating a ratio of total cost to total gross charges, and then multiplying that ratio by the gross uncompensated charges associated with providing care to patients eligible for free care. The estimated cost of caring for charity care patients was approximately \$475,000 and \$418,000 for 2022 and 2021, respectively.

4. Property and Equipment

A summary of property and equipment follows:

	<u>2022</u>	<u>2021</u>
Land and land improvements	\$ 2,094,433	\$ 2,094,433
Buildings and improvements	14,922,183	14,899,158
Leasehold improvements	948,319	948,319
Fixed equipment	6,177,609	6,031,912
Major moveable equipment	18,044,646	17,695,705
Construction in progress	<u>76,951</u>	<u>124,624</u>
	42,264,141	41,794,151
Less accumulated depreciation and amortization	<u>33,203,217</u>	<u>31,834,504</u>
Property and equipment, net	<u>\$ 9,060,924</u>	<u>\$ 9,959,647</u>

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

5. Long-Term Debt

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

	<u>2022</u>	<u>2021</u>
State of Vermont Note A, due in monthly principal and interest installments of \$10,118, including annual interest of 2%, February 2032 when the remaining principal is due; collateralized by the Hospital's assets.	1,938,532	2,000,000
State of Vermont Note B, bearing interest of 2% and payable as a balloon payment in February 2032; collateralized by the Hospital's assets.	3,000,000	3,000,000
Unsecured note payable in monthly installments of \$54,037, including interest of 2%, through February 2026.	2,140,212	2,738,925
Capital leases payable in equal monthly installments of \$44,214 at fixed rates between 2.85% and 5.27%, maturing through 2024.	<u>385,601</u>	<u>691,654</u>
	7,464,345	8,430,579
Less current portion	<u>1,050,559</u>	<u>1,063,958</u>
Long-term debt, net of current portion, unamortized debt issuance costs	<u>\$ 6,413,786</u>	<u>\$ 7,366,621</u>

The Hospital has entered various equipment lease agreements. Assets, net of accumulated amortization, recorded under capital leases totaled \$592,386 and \$967,788 at September 30, 2022 and 2021, respectively. The amortized cost of these assets has been included with property and equipment, net. Amortization expense for assets under capital lease was \$448,073 and \$450,263 for the years ended September 30, 2022 and 2021, respectively, and has been included with depreciation and amortization expense in the accompanying financial statements. Accumulated amortization associated with the lease assets totaled \$1,880,883 and \$1,432,810 at September 30, 2022 and 2021, respectively.

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

Principal repayments of long-term debt are as follows:

	Term Notes as <u>Scheduled</u>	Capital Lease <u>Obligations</u>
2023	\$ 694,633	\$ 366,164
2024	708,653	30,479
2025	722,957	-
2026	357,395	-
2027	90,344	-
Thereafter	<u>4,504,762</u>	<u>-</u>
	<u>\$ 7,078,744</u>	396,643
Less amounts representing interest		<u>11,042</u>
		<u>\$ 385,601</u>

6. Net Assets with Donor Restriction

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

	<u>2022</u>	<u>2021</u>
Funds with donor restrictions temporary in nature:		
Purchase of equipment and departmental expenses	\$ 368,253	\$ 493,389
Health education	<u>790</u>	<u>1,290</u>
Total funds maintained with donor restrictions temporary in nature	<u>369,043</u>	<u>494,679</u>
Investments to be held in perpetuity, the income from which is expendable to support healthcare services	<u>493,491</u>	<u>493,491</u>
Total funds maintained with donor restrictions held in perpetuity	<u>493,491</u>	<u>493,491</u>
Total net assets with donor restrictions	<u>\$ 862,534</u>	<u>\$ 988,170</u>

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

7. 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>2022</u>	<u>2021</u>
Medicare	32 %	40 %
Medicaid	6	6
Commercial	59	50
Self pay	<u>3</u>	<u>4</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.

8. Commitments and Contingencies

Self-Insurance

The Hospital has a self-insured healthcare 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 \$160,000 with an aggregate limit of 125% of the group expected claims. At September 30, 2022 and 2021, the Hospital had accrued \$402,328 and \$492,829, respectively, under the self-insurance contract.

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 and excluded from the table in Note 2. The Hospital has evaluated its exposure to losses arising from potential claims and has properly accounted for them in the financial statements as of September 30, 2022 and 2021.

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

9. 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>2022</u>	<u>2021</u>
Benefit obligation	\$ (11,058,817)	\$ (14,450,459)
Fair value of plan assets	<u>9,079,972</u>	<u>10,703,905</u>
Funded status	<u>\$ (1,978,845)</u>	<u>\$ (3,746,554)</u>

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:

	<u>2022</u>	<u>2021</u>
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 14,450,459	\$ 15,243,076
Interest cost	343,146	317,034
Actuarial gain	(2,922,282)	(306,601)
Benefits paid	<u>(812,506)</u>	<u>(803,050)</u>
Benefit obligation at end of year	<u>\$ 11,058,817</u>	<u>\$ 14,450,459</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 10,703,905	\$ 10,080,048
Actual return on plan assets	(1,128,038)	859,000
Employer contribution	316,611	567,907
Benefits paid	<u>(812,506)</u>	<u>(803,050)</u>
Fair value of plan assets at end of year	<u>\$ 9,079,972</u>	<u>\$ 10,703,905</u>
Components of net periodic benefit cost		
Interest cost	\$ 343,146	\$ 317,034
Expected return on plan assets	(654,076)	(616,718)
Amortization of unrecognized net actuarial loss	<u>536,359</u>	<u>611,596</u>
Net periodic benefit cost	<u>\$ 225,429</u>	<u>\$ 311,912</u>

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

The following amounts were recognized in the Hospital's increase in net assets without donor restrictions for the Pension Plan, excluding amounts recognized in net periodic benefit cost:

	<u>2022</u>	<u>2021</u>
Net actuarial gain	\$ 1,140,168	\$ 548,883
Reclassification adjustment for amortization of net unrecognized actuarial loss	<u>536,359</u>	<u>611,596</u>
Change in net assets to recognize funded status of the Pension Plan	<u>\$ 1,676,527</u>	<u>\$ 1,160,479</u>

Charged against net assets without donor restrictions at September 30, 2022 and 2021 are unrecognized actuarial losses of \$3,726,849 and \$5,403,376, 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 \$383,182.

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

	<u>2022</u>	<u>2021</u>
Weighted average assumptions at or for the year ended September 30		
Discount rate		
For determining net periodic benefit cost	2.45 %	2.14 %
For determining benefit obligation	5.09	2.45
Expected return on plan assets	5.00	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 and Fair Value Measurement

The Pension Plan's investment objectives are to seek to achieve and maintain a fully funded position for Plan termination. The investment strategy for achieving and maintaining this position varies with the funded status and other parameters related to the overall goal. As the funded status rises, the Plan objective will move gradually toward maintaining that level and managing funded status volatility, rather than generating return. The investment portfolio is allocated on certain phasing thresholds of equities and bonds, based on the quarterly calculation of the funded status of the Plan. No more than 40% of the Plan's investments are allocated to equities. Performance of investments is evaluated against peer group median returns for three- and five-year cumulative periods and risk-adjusted performance. An investment option may be placed on a watch list and a thorough review and analysis of the investment option may be conducted as a result of performance, significant changes in assets or investment strategy, increases in fees and expenses, or any extraordinary event that may interfere with the ability to prudently manage the investment assets.

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

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

	<u>2022</u>	<u>2021</u>
Mutual funds		
Fixed income	64 %	60 %
Equities	<u>36 %</u>	<u>40 %</u>
Total	<u>100 %</u>	<u>100 %</u>

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

- Level 1:** Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2:** Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.
- Level 3:** Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

	Level 1	
	<u>2022</u>	<u>2021</u>
Investments – held by defined benefit pension plan:		
Mutual funds:		
Fixed income	\$ 5,832,125	\$ 6,426,312
Equities	<u>3,247,847</u>	<u>4,277,593</u>
Total investments – held by defined benefit pension plan	<u>\$ 9,079,972</u>	<u>\$ 10,703,905</u>

Contributions

Expected employer contributions to the Hospital's defined benefit pension plan are \$302,904 in 2023.

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

Estimated Future Benefit Payments

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

Fiscal year	
2023	\$ 902,700
2024	912,400
2025	906,500
2026	894,700
2027	893,700
Years 2028 - 2032	4,296,200

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 five-year period. Total expense under the Plan was approximately \$165,871 and \$7,550 for the years ended September 30, 2022 and 2021, respectively.

10. 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. On June 26, 2019, the Hospital filed a petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Vermont, and subsequently exited bankruptcy effective December 31, 2020 based on its plan of reorganization approved by the bankruptcy court. The Hospital's ability to continue as a going concern is dependent upon the success of its future efforts in generating sufficient revenues.

Management continues to work diligently to improve the Hospital's cash and operating positions. Management is regularly reviewing operations to identify more cost effective and efficient ways to provide healthcare services that are appropriate for a rural hospital to be providing to the people of the service area. Some specific initiatives undertaken or planned for the future by the Hospital are:

1. Actively recruiting a second general surgeon.
2. Recruitment of podiatrist completed in October 2021. The DPM started at one day per week and has expanded coverage in 2022. The provider will expand to full time in March 2023.

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

3. Replacement Revenue Cycle Director joined the team in May 2021. Analysis and evaluation of revenue cycle in process with improvement strategies being developed and implemented.
4. Changed Radiology Physician Group providers in November 2021. Estimated savings approximately \$300K/year.
5. An external consultant has been engaged to assist with evaluation of revenue cycle and operational opportunities and implementation of strategies to improve performance.
6. Expanded physician coverage for urology services increased from 8 days per month to 10 days per month in October 2022.
7. Hired full time gynecology provider who started in September 2022.
8. Offering of new service for pain management in September 2022.

Management believes the relief provided under Chapter 11 of the federal bankruptcy laws and initiatives already taken provide the opportunity to allow the Hospital to continue as a going concern.

SPRINGFIELD HOSPITAL, INC.

Schedule of Expenses

Years Ended September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Salaries and benefits		
Salaries and related payroll taxes	\$ 19,778,651	\$ 19,148,326
Employee benefits	<u>2,897,577</u>	<u>2,630,423</u>
Total salaries and benefits	<u>22,676,228</u>	<u>21,778,749</u>
Supplies and other		
Supplies	5,699,427	5,327,151
Healthcare provider tax	3,363,263	2,788,490
Purchased services	16,456,825	13,600,970
Physician fees	3,199,975	3,276,090
Accounting and legal fees	410,583	188,084
Telephone	106,117	104,985
Postage and shipping	73,884	70,014
Occupancy	948,197	868,187
Equipment rental	691,288	556,216
Repairs and maintenance	714,289	624,616
Printing and publishing	14,328	5,313
Travel	59,158	36,181
Dues and subscriptions	232,713	104,026
Licenses and taxes	37,617	39,183
Advertising	81,499	72,199
Education and training	35,338	32,570
Recruiting	58,274	143,252
Other expenses	<u>781,018</u>	<u>915,533</u>
Total supplies and other	<u>32,963,793</u>	<u>28,753,060</u>
Insurance	685,669	750,284
Depreciation and amortization	1,368,712	1,521,090
Interest	<u>156,536</u>	<u>198,051</u>
Total expenses	<u>\$ 57,850,938</u>	<u>\$ 53,001,234</u>