



FINANCIAL STATEMENTS

with

SUPPLEMENTARY INFORMATION

September 30, 2019 and 2018

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, 2019 and 2018, 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.

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.

Board of Directors
Springfield Hospital, Inc.

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, 2019 and 2018, and the results of its operations, changes in its net assets (deficit), 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 16 to the financial statements, the Hospital has experienced significant operating losses in recent years. As more fully described in the notes to the financial statements, on June 26, 2019, the Hospital filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code. The uncertainties inherent in the bankruptcy process and the Hospital's recurring losses and negative cash flows from operations raise substantial doubt about the Hospital's ability to continue as a going concern. The Hospital is currently operating its business as a Debtor-in-Possession under the jurisdiction of the Bankruptcy Court, and continuation of the Hospital as a going concern is contingent upon, among other things, the confirmation of a Plan of Reorganization and the Hospital's ability to generate sufficient cash from operations to meet its future obligations. Note 16 includes management's main initiatives to achieve financial sustainability and to exit bankruptcy. If no reorganization plan is approved, it is possible that the Hospital's assets may be liquidated. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amount and classification of liabilities that may result from the outcome of these uncertainties. Our opinion is not modified with respect to this matter.

Other Matters

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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2019 the Hospital adopted new accounting guidance, Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. Our opinion is not modified with respect to this matter.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
August 14, 2020

Registration No. 92-0000278

SPRINGFIELD HOSPITAL, INC.

(Debtor-in-Possession)

Balance Sheets

September 30, 2019 and 2018

ASSETS

	<u>2019</u>	<u>2018</u>
Current assets		
Cash and cash equivalents	\$ 2,203,692	\$ 19,413
Patient accounts receivable, net of allowances for doubtful accounts and contractual allowances of \$7,816,562 for 2019 and \$9,429,629 for 2018	6,108,506	8,271,627
Supplies	247,471	272,042
Prepaid expenses	937,715	610,549
Estimated third-party payor settlements	-	1,071,000
Other receivables	<u>1,387,270</u>	<u>405,872</u>
Total current assets	10,884,654	10,650,503
Assets limited as to use	356,526	11,951,704
Property and equipment, net	11,951,599	12,392,957
Long-term investments	<u>-</u>	<u>765,089</u>
 Total assets	 <u>\$ 23,192,779</u>	 <u>\$ 35,760,253</u>

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

LIABILITIES AND NET ASSETS (DEFICIT)

	<u>2019</u>	<u>2018</u>
Current liabilities		
Line of credit	\$ -	\$ 2,268,078
Current portion of long-term debt	-	8,256,819
Accounts payable and accrued expenses	2,509,261	8,199,050
Accrued salaries and related amounts	1,972,022	3,992,666
Estimated third-party payor settlements	1,721,177	-
Other current liabilities	<u>3,005,108</u>	<u>644,890</u>
Total current liabilities	9,207,568	23,361,503
Liabilities subject to compromise	17,038,949	-
Long-term debt, net of current portion	-	686,919
Pension liability	<u>3,994,478</u>	<u>2,260,177</u>
Total liabilities	<u>30,240,995</u>	<u>26,308,599</u>
Net (deficit) assets		
Without donor restrictions	(7,931,988)	8,552,715
With donor restrictions	<u>883,772</u>	<u>898,939</u>
Total net (deficit) assets	<u>(7,048,216)</u>	<u>9,451,654</u>
Total liabilities and net assets	<u>\$ 23,192,779</u>	<u>\$ 35,760,253</u>

SPRINGFIELD HOSPITAL, INC.

(Debtor-in-Possession)

Statements of Operations

Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Revenues, gains and other support without donor restrictions		
Patient service revenue (net of contractual allowances and discounts)	\$ 43,472,384	\$ 49,650,654
Less provision for bad debts	<u>5,271,466</u>	<u>5,028,274</u>
Net patient service revenue	38,200,918	44,622,380
Fixed prospective revenue	9,818,600	8,356,432
Other operating revenues	1,690,177	1,602,488
Net assets released from restrictions used for operations	<u>140,966</u>	<u>282,653</u>
Total revenues, gains and other support without donor restrictions	<u>49,850,661</u>	<u>54,863,953</u>
Expenses		
Salaries and benefits	25,675,398	27,574,071
Supplies and other	29,032,851	31,456,859
Insurance	750,310	642,143
Depreciation and amortization	1,618,026	1,552,306
Interest	<u>508,414</u>	<u>634,651</u>
Total expenses	<u>57,584,999</u>	<u>61,860,030</u>
Operating loss	<u>(7,734,338)</u>	<u>(6,996,077)</u>
Reorganization items	(471,733)	-
Nonoperating gains (losses)		
Investment income and realized gains on sales of investments	316,363	1,194,356
Net change in unrealized losses on investments	(1,363,187)	(118,100)
Contributions and support, net of related expenses	<u>37,005</u>	<u>(393)</u>
Nonoperating (losses) gains, net	<u>(1,009,819)</u>	<u>1,075,863</u>
Deficiency of revenues, gains and other support over expenses and losses and decrease in net assets without donor restrictions	(9,215,890)	(5,920,214)
Net assets released from restrictions used for purchase of property and equipment	18,211	98,083
Change in net assets to recognize funded status of pension plan	(1,256,731)	889,811
Transfer to Springfield Medical Care Systems, Inc.	<u>(6,030,293)</u>	<u>(1,697,253)</u>
Decrease in net assets without donor restrictions	<u>\$ (16,484,703)</u>	<u>\$ (6,629,573)</u>

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

SPRINGFIELD HOSPITAL, INC.

(Debtor-in-Possession)

Statements of Changes in Net Assets (Deficit)

Years Ended September 30, 2019 and 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balances, October 1, 2017	\$ <u>15,182,288</u>	\$ <u>796,777</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>(1,697,253)</u>
(Decrease) increase in net assets	<u>(6,629,573)</u>	<u>102,162</u>	<u>(6,527,411)</u>
Balances, September 30, 2018	<u>8,552,715</u>	<u>898,939</u>	<u>9,451,654</u>
Deficiency of revenues, gains and other support over expenses and losses	(9,215,890)	-	(9,215,890)
Restricted contributions	-	144,010	144,010
Net assets released from restrictions used for operations	-	(140,966)	(140,966)
Net assets released from restrictions used for purchase of property and equipment	18,211	(18,211)	-
Change in net assets to recognize funded status of pension plan	(1,256,731)	-	(1,256,731)
Transfer to Springfield Medical Care Systems, Inc.	<u>(6,030,293)</u>	<u>-</u>	<u>(6,030,293)</u>
Decrease in net assets	<u>(16,484,703)</u>	<u>(15,167)</u>	<u>(16,499,870)</u>
Balances, September 30, 2019	\$ <u>(7,931,988)</u>	\$ <u>883,772</u>	\$ <u>(7,048,216)</u>

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

SPRINGFIELD HOSPITAL, INC

(Debtor-in-Possession)

Statements of Cash Flows

Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net (deficit) assets	\$ (16,499,870)	\$ (6,527,411)
Adjustments to reconcile change in net assets (deficit) to net cash provided (used) by operating activities		
Depreciation and amortization	1,647,419	1,581,699
Net realized and unrealized losses (gains) on investments	1,139,982	(789,565)
Transfer to Springfield Medical Care Systems, Inc.	6,030,293	1,697,253
Change in net assets to recognize funded status of pension plan	1,256,731	(889,811)
Reorganization items	471,733	-
(Increase) decrease in		
Patient accounts receivable, net	2,163,121	1,625,221
Supplies	24,571	5,254
Prepaid expenses	(327,166)	84,023
Estimated third-party payor settlements	3,922,479	(15,239)
Other receivables	(981,398)	125,349
(Decrease) increase in		
Accounts payable and accrued expenses	2,406,847	200,250
Accrued salaries and related amounts	(2,020,644)	1,644,853
Other current liabilities	1,360,218	238,359
Pension liability	<u>477,570</u>	<u>160,468</u>
Net cash provided (used) by operating activities before reorganization items	1,071,886	(859,297)
Operating cash flows from reorganization items:		
Professional fees paid for services rendered in connection with Chapter 11 proceedings	<u>(471,733)</u>	<u>-</u>
Net cash provided (used) by operating activities	<u>600,153</u>	<u>(859,297)</u>
Cash flows from investing activities		
Purchase of property and equipment	(247,573)	(368,368)
Proceeds from sale of investments	13,336,992	5,607,311
Purchase of investments	(2,116,707)	(3,108,911)
Net advances to related party	<u>(6,259,019)</u>	<u>(1,408,559)</u>
Net cash provided by investing activities	<u>4,713,693</u>	<u>721,473</u>
Cash flows from financing activities		
Principal payments on long-term debt	(2,808,993)	(715,311)
Proceeds from issuance of long-term debt	1,000,000	-
Net (repayments) advances on line of credit	<u>(1,320,574)</u>	<u>347,731</u>
Net cash used by financing activities	<u>(3,129,567)</u>	<u>(367,580)</u>
Net increase (decrease) in cash and cash equivalents	2,184,279	(505,404)
Cash and cash equivalents, beginning of year	<u>19,413</u>	<u>524,817</u>
Cash and cash equivalents, end of year	<u>\$ 2,203,692</u>	<u>\$ 19,413</u>

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

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2019 and 2018

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.

On June 26, 2019, the Hospital and SMCS filed separate petitions for relief under Chapter 11 of the federal bankruptcy laws in the United States Bankruptcy Court for the District of Vermont. Under Chapter 11, certain claims against the Hospital and SMCS in existence prior to the filing of the petitions for relief under the federal bankruptcy laws are stayed while the Hospital and SMCS continue business operations as a Debtor-in-possession. These claims are reflected in the September 30, 2019 balance sheet as liabilities subject to compromise. Additional claims may arise subsequent to the filing date resulting from rejection of executory contracts, including leases, and from the determination by the court (or agreed to by parties in interest) of allowed claims for contingencies and other disputed amounts. Claims secured against the Hospital and SMCS' assets (secured claims) also are stayed, although the holders of such claims have the right to move the court for relief from the stay. Secured claims are secured primarily by liens on the Hospital and SMCS' property and equipment. The Hospital received approval from the Bankruptcy Court to pay or otherwise honor certain of its prepetition obligations, including employee wages.

1. Summary of Significant Accounting Policies

Basis of Presentation

Net assets (deficit) and revenues, expenses, and gains (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 (deficit) in a balance sheet; reporting the change in an organization's net assets (deficit) in statements of operations and changes in net (deficit) assets; 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.

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2019 and 2018

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.

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.

The Hospital's allowance for doubtful accounts was \$830,353 and \$803,745 as of September 30, 2019 and 2018, respectively. There were no significant changes to the allowance for doubtful accounts in 2019 or 2018.

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 FASB ASC 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.

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2019 and 2018

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 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 support without donor restrictions 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 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.

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, 2019 and 2018 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 for the years ended September 30, 2019 and 2018 is classified as interest expense.

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 net assets without donor restrictions 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.

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2019 and 2018

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. The Hospital's participation in the ACO was terminated effective January 1, 2020.

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.

Donor-restricted gifts are reported as cash and cash equivalents.

Reorganization Items

Reorganization items are comprised of costs directly associated with Chapter 11 reorganization. These include professional expenses and trustee fees.

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, 2019 and 2018

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, 2019 and 2018, the Hospital incurred \$2,831,012 and \$3,240,700, respectively, in health care 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>2019</u>	<u>Healthcare Services</u>	<u>Support Services</u>	<u>Total</u>
Salaries, payroll taxes and employee benefits	\$ 21,348,285	\$ 4,327,113	\$ 25,675,398
Supplies	4,910,622	378,556	5,289,178
Health care provider tax	2,831,012	-	2,831,012
Purchased services	8,931,727	2,082,811	11,014,538
Physician fees	5,678,972	75,203	5,754,175
Occupancy	662,997	256,486	919,483
Equipment rental	453,449	58,247	511,696
Repairs and maintenance	215,418	102,827	318,245
Insurance	665,683	84,627	750,310
Depreciation and amortization	1,166,684	451,342	1,618,026
Interest	366,594	141,820	508,414
Other	<u>564,055</u>	<u>1,830,469</u>	<u>2,394,524</u>
	<u>\$ 47,795,498</u>	<u>\$ 9,789,501</u>	<u>\$ 57,584,999</u>

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2019 and 2018

<u>2018</u>	<u>Healthcare Services</u>	<u>Support Services</u>	<u>Total</u>
Salaries and related payroll taxes	\$ 22,334,243	\$ 5,239,828	\$ 27,574,071
Supplies	4,890,100	524,278	5,414,378
Health care provider tax	3,240,700	-	3,240,700
Purchased services	10,973,570	1,142,922	12,116,492
Physician fees	5,765,436	45,338	5,810,774
Occupancy	605,605	234,283	839,888
Equipment rental	509,143	62,605	571,748
Repairs and maintenance	658,878	118,303	777,181
Insurance	574,366	67,777	642,143
Depreciation and amortization	1,119,296	433,010	1,552,306
Interest	457,618	177,033	634,651
Other	<u>694,726</u>	<u>1,990,972</u>	<u>2,685,698</u>
	<u>\$ 51,823,681</u>	<u>\$ 10,036,349</u>	<u>\$ 61,860,030</u>

Recently Issued Accounting Pronouncement

In August 2016, FASB issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which makes targeted changes to the not-for-profit financial reporting model. The new ASU marks the completion of the first phase of a larger project aimed at improving not-for-profit financial reporting. Under the new ASU, net asset reporting is streamlined and clarified. The existing three category classification of net assets is replaced with a simplified model that combines temporarily restricted and permanently restricted into a single category called “net assets with donor restrictions.” The guidance for classifying deficiencies in endowment funds and on accounting for the lapsing of restrictions on gifts to acquire property and equipment has also been simplified and clarified. New disclosures highlight restrictions on the use of resources that make otherwise liquid assets unavailable for meeting near-term financial requirements. The ASU also imposes several new requirements related to reporting expenses. The Hospital has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

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 August 14, 2020, the date that the financial statements were available to be issued.

On March 11, 2020 the World Health Organization declared coronavirus disease (COVID-19) a global pandemic. Local, U.S., and world governments encouraged self-isolation to curtail the spread of COVID-19 by mandating the temporary shut-down of business in many sectors and imposing limitations on travel and the size and duration of group gatherings. As states begin to reopen, most sectors have experienced significant disruption to business operations. Hospitals have played an important role in delivering critical services during the outbreak. The Coronavirus

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2019 and 2018

Preparedness and Response Supplemental Appropriations Act, 2020, provides several waivers to allow flexibility to hospitals and providers to deliver critical care. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and additional government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impacts to the Hospital, management believes that a material impact on the Hospital's financial position and results of future operations is reasonably possible.

In April 2020, the Hospital received a \$1.3 million term loan from the State of Vermont due the earlier of 18 months after disbursement or as part of the bankruptcy resolution. The loan bears interest at the Federal Funds Rate and is collateralized by certain unencumbered federal relief funds the Hospital received in response to COVID-19.

2. Availability and Liquidity of Financial Assets

The Hospital had working capital of \$1,677,086 at September 30, 2019 and a working capital deficit of \$(12,711,000) at September 30, 2018. The 2019 amount excludes liabilities subject to compromise. The Hospital had average days (based on normal expenditures) cash on hand of 14 and 0 at September 30, 2019 and 2018, respectively. Note 16 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>2019</u>	2018
Cash	\$ 2,203,692	\$ 19,413
Patient accounts receivable, net	6,108,506	8,271,627
Estimated third-party payor settlements	-	1,071,000
Other receivables	<u>347,270</u>	<u>405,872</u>
Financial assets available to meet general expenditures within one year	<u>\$ 8,659,468</u>	<u>\$ 9,767,912</u>

The Hospital has assets limited as to use of \$356,526 and \$11,951,704 at September 30, 2019 and 2018, respectively, that are designated assets set aside by the Board for future capital improvements and operations. Therefore, these assets are not available for general expenditure within the next year; however, the internally designated amounts could be made available, if necessary.

The Hospital and SMCS split a \$3,000,000 available line of credit with a bank, as discussed in Note 9. The line of credit was frozen when the Hospital filed for Chapter 11 bankruptcy protection on June 26, 2019. See Note 16 for further discussion.

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Notes to Financial Statements

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3. 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 50% and 45% of the Hospital's net patient service revenue for the years ended September 30, 2019 and 2018, respectively.

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

	<u>2019</u>	<u>2018</u>
Patient services		
Inpatient	\$ 20,679,809	\$ 25,157,040
Outpatient	<u>89,532,923</u>	<u>96,095,738</u>
Gross patient service revenue	<u>110,212,732</u>	<u>121,252,778</u>
Less Medicare and Medicaid allowances	54,148,290	56,817,164
Less other contractual allowances	10,902,865	12,644,617
Less charity care and other discounts	<u>1,689,193</u>	<u>2,140,343</u>
	<u>66,740,348</u>	<u>71,602,124</u>
Patient service revenue (net of contractual allowances and discounts)	43,472,384	49,650,654
Less provision for bad debts	<u>5,271,466</u>	<u>5,028,274</u>
Net patient service revenue	<u>\$ 38,200,918</u>	<u>\$ 44,622,380</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 2019 and 2018, net patient service revenue increased approximately \$57,000 and \$103,000, respectively, due to changes in allowances or recognition of settlements no longer subject to audits, reviews, and investigations.

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:

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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>2019</u>	<u>2018</u>
Revenue from third-party payors	\$ 40,998,792	\$ 47,425,891
Revenue from self-pay patients	<u>2,473,592</u>	<u>2,224,763</u>
	<u>\$ 43,472,384</u>	<u>\$ 49,650,654</u>

4. 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

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- 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 \$818,000 in 2019 and \$992,000 in 2018. The total cost estimate is based on an overall financial statement cost to charge ratio applied against gross charity care charges. In 2019 and 2018, 1.42% and 1.60%, respectively, of all services as defined by percentage of gross revenue were provided on a charity care basis.

In 2019, of a total of 104 Hospital inpatients receiving charity care, 8 received their entire episode of service on a charity care basis and 96 received partial subsidy. In 2018, of a total of 103 inpatients receiving charity care, 82 received their entire episode of service on a charity care basis and 21 received partial subsidy.

In 2019, of a total of 2,110 Hospital outpatients receiving charity care, 433 received their entire episode of service on a charity care basis and 1,677 received partial subsidy. In 2018, of a total of 956 outpatients receiving charity care, 779 received their entire episode of service on a charity care basis and 177 received partial subsidy.

5. Investments

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

	<u>2019</u>	<u>2018</u>
Cash and short-term investments	\$ 356,526	\$ 191,513
Fixed income	-	2,698,032
Equities	-	9,827,248
	<u> </u>	<u> </u>
Total investments	\$ <u>356,526</u>	\$ <u>12,716,793</u>

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

	<u>2019</u>	<u>2018</u>
Assets limited as to use, internally designated for capital acquisition and operations	\$ 356,526	\$ 11,951,704
Long-term investments	-	765,089
	<u> </u>	<u> </u>
	\$ <u>356,526</u>	\$ <u>12,716,793</u>

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

	<u>2019</u>	<u>2018</u>
Interest and dividend income	\$ 93,158	\$ 286,691
Realized gains on sales of securities	223,205	907,665
Net change in unrealized gains on investments	<u>(1,363,187)</u>	<u>(118,100)</u>
	\$ <u>(1,046,824)</u>	\$ <u>1,076,256</u>

SPRINGFIELD HOSPITAL, INC.

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6. Fair Value Measurements

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>2019</u>	<u>2018</u>
Investments:		
Cash and short-term investments	\$ 356,526	\$ 191,513
Fixed income	-	2,698,032
Equities	<u>-</u>	<u>9,827,248</u>
Total assets	<u>\$ 356,526</u>	<u>\$ 12,716,793</u>
Investments - held by defined benefit pension plan (Note 14):		
Mutual funds:		
Fixed income	\$ 295,270	\$ 7,621,849
Equities	<u>10,668,443</u>	<u>4,691,316</u>
Total investments - held by defined benefit pension plan	<u>\$ 10,963,713</u>	<u>\$ 12,313,165</u>

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2019 and 2018

7. **Property and Equipment**

A summary of property and equipment follows:

	<u>2019</u>	<u>2018</u>
Land and land improvements	\$ 2,083,694	\$ 2,083,694
Buildings and improvements	14,275,585	14,217,938
Leasehold improvements	948,319	948,319
Fixed equipment	5,993,584	5,131,746
Major moveable equipment	17,244,679	16,944,296
Construction in progress	<u>123,447</u>	<u>205,527</u>
	40,669,308	39,531,520
Less accumulated depreciation and amortization	<u>28,717,709</u>	<u>27,138,563</u>
Property and equipment, net	<u>\$ 11,951,599</u>	<u>\$ 12,392,957</u>

8. **Liabilities Subject to Compromise**

Liabilities subject to compromise consist of the following as of September 30, 2019:

Line of credit	\$ 947,504
Long-term debt	7,093,233
Estimated third-party settlements	1,130,302
Accounts payable and accrued expenses	<u>7,867,910</u>
	<u>\$ 17,038,949</u>

9. **Borrowings**

The State of Vermont Agency of Human Services provided \$1 million in short-term financial assistance in late January 2019. Repayment is anticipated through future Medicaid payments. The amount is included in other current liabilities.

Long-Term Debt

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

	<u>2019</u>	<u>2018</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, 2019). The term note is collateralized by real property and investments.	\$ 5,685,026	\$ 8,340,464

SPRINGFIELD HOSPITAL, INC.

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	<u>2019</u>	<u>2018</u>
Capital leases payable in equal monthly installments of \$40,255 at fixed rates between 2.85% and 5.27%, maturing through 2023.	<u>1,408,207</u>	<u>990,279</u>
	7,093,233	9,330,743
Less liabilities subject to compromise	7,093,233	-
Less current portion	-	8,256,819
Less unamortized debt issuance costs	<u>-</u>	<u>387,005</u>
Long-term debt, net of current portion and unamortized debt issuance costs	<u>\$ -</u>	<u>\$ 686,919</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 \$1,592,703 and \$1,045,782 at September 30, 2019 and 2018, respectively. The present value of these assets has been included with property and equipment, net. Amortization expense for assets under capital lease was \$384,175 and \$242,861 for the years ended September 30, 2019 and 2018, respectively, and has been included with depreciation and amortization expense in the accompanying financial statements. Accumulated amortization associated with the lease totaled \$845,118 and \$460,944 at September 30, 2019 and 2018, respectively.

The Hospital and SMCS are required to comply with financial debt covenants related to the term note payable. As of September 30, 2019 the Hospital and SMCS were not in compliance. For 2018 financial statement purposes, the term note, net of unamortized debt issuance costs, was classified as current based on the Hospital's noncompliance and financial condition.

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% (4.79% as of September 30, 2019). The Hospital's outstanding balance was \$947,504 at September 30, 2019 and included in liabilities subject to compromise. The Hospital's outstanding balance was \$2,268,078 at September 30, 2018. The line of credit was frozen when the Hospital filed for Chapter 11 bankruptcy protection on June 26, 2019. See Note 16 for further discussion.

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2019 and 2018

10. Net Assets

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

	<u>2019</u>	<u>2018</u>
Funds with donor restrictions temporary in nature:		
Purchase of equipment and departmental expenses	\$ 387,671	\$ 402,823
Health education	<u>2,610</u>	<u>2,625</u>
Total funds maintained with donor restrictions temporary in nature	<u>390,281</u>	<u>405,448</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>
Total funds maintained with donor restrictions held in perpetuity	<u>493,491</u>	<u>493,491</u>
Total net assets with donor restrictions	<u>\$ 883,772</u>	<u>\$ 898,939</u>

11. 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>2019</u>	<u>2018</u>
Medicare	26 %	26 %
Medicaid	13	16
Commercial	37	32
Self pay	<u>24</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.

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2019 and 2018

12. 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 \$150,000 with an aggregate limit of 125% of the group expected claims. At September 30, 2019 and 2018, the Hospital had accrued \$272,727 and \$1,080,000, 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, 2019 and 2018, 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. The letter of credit was frozen when the Hospital filed for Chapter 11 bankruptcy protection on June 26, 2019. See Note 16 for further discussion.

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 has properly accounted for them in the financial statements as of September 30, 2019. No such accrual was necessary at September 30, 2018.

13. Supplemental Cash Flow Information

Cash paid for interest for the years ended September 30, 2019 and 2018 was \$479,021 and \$605,258, respectively.

The Hospital entered into capital lease obligations, acquiring assets with a value of \$929,095 and \$328,622 in 2019 and 2018, respectively. These lease commitments and capital assets were treated as noncash transactions.

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2019 and 2018

14. 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>2019</u>	<u>2018</u>
Benefit obligation	\$ (14,958,191)	\$ (14,573,342)
Fair value of plan assets	<u>10,963,713</u>	<u>12,313,165</u>
Funded status	<u>\$ (3,994,478)</u>	<u>\$ (2,260,177)</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>2019</u>	<u>2018</u>
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 14,573,342	\$ 15,574,551
Interest cost	588,136	569,421
Actuarial loss (gain)	1,400,809	(768,777)
Benefits paid	(753,665)	(801,853)
Settlement	<u>(850,431)</u>	<u>-</u>
Benefit obligation at end of year	<u>\$ 14,958,191</u>	<u>\$ 14,573,342</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 12,313,165	\$ 12,585,031
Actual return on plan assets	254,644	529,987
Benefits paid	(753,665)	(801,853)
Settlement	<u>(850,431)</u>	<u>-</u>
Fair value of plan assets at end of year	<u>\$ 10,963,713</u>	<u>\$ 12,313,165</u>
Components of net periodic benefit cost		
Interest cost	\$ 588,136	\$ 569,421
Expected return on plan assets	(744,485)	(762,189)
Immediate recognition of settlement	330,149	-
Amortization of unrecognized net actuarial loss	<u>303,770</u>	<u>353,236</u>
Net periodic benefit cost	<u>\$ 477,570</u>	<u>\$ 160,468</u>

SPRINGFIELD HOSPITAL, INC.

Notes to Financial Statements

September 30, 2019 and 2018

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

	<u>2019</u>	<u>2018</u>
Net actuarial loss (gain)	\$ 1,890,650	\$ (536,575)
Reclassification adjustment for amortization of net unrecognized actuarial loss	(303,770)	(353,236)
Immediate recognition of settlement	<u>(330,149)</u>	<u>-</u>
Change in net assets to recognize funded status of the Pension Plan	<u>\$ 1,256,731</u>	<u>\$ (889,811)</u>

Charged against net assets without donor restrictions at September 30, 2019 and 2018 are unrecognized actuarial losses of \$5,806,443 and \$4,549,712, 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 \$458,577.

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

	<u>2019</u>	<u>2018</u>
Weighted average assumptions at or for the year ended September 30		
Discount rate		
For determining net periodic benefit cost	4.15 %	3.75 %
For determining benefit obligation	2.83	4.15
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 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 3 and 5-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.

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The Hospital's Pension Plan weighted-average asset allocations at September 30, 2019 and 2018, by asset category, are as follows:

	<u>2019</u>	<u>2018</u>
Mutual funds		
Fixed income	3 %	62 %
Equities	<u>97 %</u>	<u>38 %</u>
Total	<u>100 %</u>	<u>100 %</u>

Contributions

The Hospital does not expect to contribute to its defined benefit pension plan in 2020.

Estimated Future Benefit Payments

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

Fiscal year	
2020	\$ 833,900
2021	854,300
2022	877,700
2023	890,800
2024	901,300
Years 2025 - 2029	4,427,500

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 \$200,000 and \$243,000 for the years ended September 30, 2019 and 2018, respectively.

15. Related Party Transactions

The Hospital contracts with SMCS for billing services. The costs to the Hospital were \$188,400 during 2019 and 2018.

SMCS received rent from the Hospital of \$84,336 for various ambulatory care centers and physician office spaces for the years ended September 30, 2019 and 2018.

SPRINGFIELD HOSPITAL, INC.

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September 30, 2019 and 2018

For the years ended September 30, 2019 and 2018, the Hospital forgave \$6,030,293 and \$1,697,253, 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.

16. 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.

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.

As discussed in the Organization footnote, 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. Under Chapter 11, certain claims against the Hospital in existence prior to the filing of the petition for relief under the federal bankruptcy laws are stayed while the Hospital continues business operations as Debtor-in-Possession.

Management continues to work diligently to improve the Hospital's cash and operating positions. Management is constantly 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 are:

1. Recruited a second full-time general surgeon who is scheduled to begin in October 2020 and replaces several locum tenens, resulting in a significant reduction in expense.
2. Total review of the employee benefits program to better align with the market, enhancing the health coverage for employees at a reduced cost.
3. Temporarily suspended the 401k retirement employer match.
4. Restructured specialty clinic physician coverage so as to reduce expenses without reducing call coverage.
5. Engaged a new physician company to staff and manage the hospitalist service. This company will provide a more collaborative service between the Hospital's inpatient service and the emergency department as well as reduce the cost of the program.
6. Restructured the billing and accounts receivable department to utilize a "revenue cycle" approach to collecting revenue. This will enhance cash collections.

Management believes relief 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.

SUPPLEMENTARY INFORMATION

SPRINGFIELD HOSPITAL, INC.

Schedule of Operating Expenses

Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Salaries and benefits		
Salaries and related payroll taxes	\$ 19,692,769	\$ 21,354,999
Employee benefits	<u>5,982,629</u>	<u>6,219,072</u>
Total salaries and benefits	<u>25,675,398</u>	<u>27,574,071</u>
Supplies and other		
Supplies	5,289,178	5,414,378
Health care provider tax	2,831,012	3,240,700
Purchased services	11,014,538	12,116,492
Physician fees	5,754,175	5,810,774
Accounting and legal fees	247,532	123,858
Telephone	72,628	108,562
Postage and shipping	117,349	101,143
Occupancy	919,483	839,888
Equipment rental	511,696	571,748
Repairs and maintenance	318,245	777,181
Printing and publishing	11,254	24,800
Travel	66,510	67,423
Dues and subscriptions	108,030	170,625
Licenses and taxes	22,053	24,600
Advertising	60,124	148,857
Education and training	43,878	163,351
Recruiting	78,439	38,791
Other expenses	<u>1,566,727</u>	<u>1,713,688</u>
Total supplies and other	<u>29,032,851</u>	<u>31,456,859</u>
Insurance	750,310	642,143
Depreciation and amortization	1,618,026	1,552,306
Interest	<u>508,414</u>	<u>634,651</u>
Total expenses	<u>\$ 57,584,999</u>	<u>\$ 61,860,030</u>