BerryDunn

Springfield Hospital

FINANCIAL STATEMENTS

and

SUPPLEMENTARY INFORMATION

September 30, 2020 and 2019

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, 2020 and 2019, 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 qualified 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, 2020 and 2019, 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 incurred significant operating losses and negative cash flows from operations in recent years. As discussed in the Organization note, on June 26, 2019, the Hospital and its parent filed petitions 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 Chapter 11 of the United States Bankruptcy Code effective December 31, 2021 based on its plan of reorganization approved by the Bankruptcy Court. Continuation of the Hospital as a going concern is contingent upon, among other things, the Hospital's ability to generate sufficient cash from operations to meet its future obligations. These factors raise substantial doubt about the Organization's ability to continue as a going concern. Note 16 includes management's main initiatives for financial sustainability subsequent to exiting bankruptcy. 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.

Changes in Accounting Principles

As discussed in Note 1 to the financial statements, in 2020 the Hospital adopted Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2017-07*, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,* and ASU No. 2018-08*, Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* Our opinion is not modified with respect to these matters.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
March 18, 2021

Registration No. 92-0000278

SPRINGFIELD HOSPITAL, INC.

(Debtor-in-Possession)

Balance Sheets

September 30, 2020 and 2019

ASSETS

	2020	2019
Current assets		
Cash and cash equivalents	**$ 6,299,641**	$ 2,203,692
Patient accounts receivable, net of allowances for doubtful accounts and contractual allowances of $7,542,488 for 2020 and $7,816,562 for 2019	**7,216,634**	6,108,506
Supplies	**230,072**	247,471
Prepaid expenses	**801,235**	937,715
Estimated third-party payor settlements	**-**	621,686
Other receivables	**2,230,584**	1,387,270
Total current assets	**16,778,166**	11,506,340
Assets limited as to use	**359,297**	356,526
Property and equipment, net	**10,954,631**	11,951,599
Total assets	**$ 28,092,094**	$ 23,814,465

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

LIABILITIES AND NET ASSETS (DEFICIT)

	2020	2019
Current liabilities		
Current portion of long-term debt	$ 463,825	$ 438,254
Accounts payable and accrued expenses	7,357,032	2,875,538
Accrued salaries and related amounts	2,223,614	1,972,022
Estimated third-party payor settlements	1,732,938	-
Due to related party	56,977	-
Other current liabilities	4,046,094	1,638,831
Total current liabilities	15,880,480	6,924,645
Liabilities subject to compromise	19,002,998	18,973,605
Long-term debt, net of current portion	530,568	969,953
Pension liability	5,163,028	3,994,478
Total liabilities	40,577,074	30,862,681
Net (deficit) assets		
Without donor restrictions	(13,427,178)	(7,931,988)
With donor restrictions	942,198	883,772
Total net deficit	(12,484,980)	(7,048,216)
Total liabilities and net assets	$ 28,092,094	$ 23,814,465

SPRINGFIELD HOSPITAL, INC.

(Debtor-in-Possession)

Statements of Operations

Years Ended September 30, 2020 and 2019

	2020	2019
Revenues, gains and other support without donor restrictions		
Patient service revenue (net of contractual allowances and discounts)	**$ 37,827,335**	$ 43,472,384
Less provision for bad debts	**4,117,891**	5,271,466
Net patient service revenue	**33,709,444**	38,200,918
Fixed prospective revenue	**5,778,825**	9,818,600
Other operating revenues	**7,562,782**	1,690,177
Net assets released from restrictions used for operations	**28,436**	140,966
Total revenues, gains and other support without donor restrictions	**47,079,487**	49,850,661
Expenses		
Salaries and benefits	**20,992,560**	25,675,398
Supplies and other	**27,742,027**	29,032,851
Insurance	**741,889**	750,310
Depreciation and amortization	**1,595,703**	1,618,026
Interest	**438,178**	508,414
Total expenses	**51,510,357**	57,584,999
Operating loss	**(4,430,870)**	(7,734,338)
Reorganization items	**(854,971)**	(471,733)
Nonoperating gains (losses)		
Investment income and realized gains on sales of investments	**13,996**	316,363
Net change in unrealized losses on investments	**-**	(1,363,187)
Contributions and support, net of related expenses	**(1,504)**	37,005
Nonoperating gains (losses), net	**12,492**	(1,009,819)
Deficiency of revenues, gains and other support over expenses and losses	**(5,273,349)**	(9,215,890)
Net assets released from restrictions used for capital purposes	**535,571**	18,211
Change in net assets to recognize funded status of pension plan	**(757,412)**	(1,256,731)
Transfer to Springfield Medical Care Systems, Inc.	**-**	(6,030,293)
Decrease in net assets without donor restrictions	**$ (5,495,190)**	$ (16,484,703)

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, 2020 and 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Balances, October 1, 2018	$ 8,552,715	$ 898,939	$ 9,451,654
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.	(6,030,293)	-	(6,030,293)
Decrease in net assets	(16,484,703)	(15,167)	(16,499,870)
Balances, September 30, 2019	(7,931,988)	883,772	(7,048,216)
Deficiency of revenues, gains and other support over expenses and losses	**(5,273,349)**	**-**	**(5,273,349)**
Restricted contributions	**-**	**642,400**	**642,400**
Net assets released from restrictions used for operations	**-**	**(28,436)**	**(28,436)**
Net assets released from restrictions used for capital purposes	**535,571**	**(535,571)**	**-**
Change in net assets to recognize funded status of pension plan	**(757,412)**	**-**	**(757,412)**
Transfer to Springfield Medical Care Systems, Inc.	**-**	**(19,967)**	**(19,967)**
(Decrease) increase in net assets	**(5,495,190)**	**58,426**	**(5,436,764)**
Balances, September 30, 2020	**$ (13,427,178)**	**$ 942,198**	**$ (12,484,980)**

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, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Change in net (deficit) assets	**$ (5,436,764)**	$ (16,499,870)
Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities		
Depreciation and amortization	**1,625,096**	1,647,419
Restricted contributions for long-term purposes	**(535,571)**	-
Net realized and unrealized losses on investments	**-**	1,139,982
Transfer to Springfield Medical Care Systems, Inc.	**19,967**	6,030,293
Change in net assets to recognize funded status of pension plan	**757,412**	1,256,731
Reorganization items	**854,971**	471,733
(Increase) decrease in		
Patient accounts receivable, net	**(1,108,128)**	2,163,121
Due from related parties	**56,977**	-
Supplies	**17,399**	24,571
Prepaid expenses	**136,480**	(327,166)
Estimated third-party payor settlements	**-**	3,922,479
Other receivables	**(843,314)**	(981,398)
Increase (decrease) in		
Accounts payable and accrued expenses	**4,481,494**	2,406,847
Accrued salaries and related amounts	**251,592**	(2,020,644)
Estimated third-party payor settlements	**2,354,624**	-
Other current liabilities	**1,107,263**	1,360,218
Pension liability	**411,138**	477,570
Net cash provided by operating activities before reorganization items	**4,150,636**	1,071,886
Operating cash flows from reorganization items:		
Professional fees paid for services rendered in connection with Chapter 11 proceedings	**(854,971)**	(471,733)
Net cash provided by operating activities	**3,295,665**	600,153
Cash flows from investing activities		
Purchase of property and equipment	**(598,735)**	(247,573)
Proceeds from sale of investments	**-**	13,336,992
Purchase of investments	**(2,771)**	(2,116,707)
Net advances to related party	**-**	(6,259,019)
Net cash (used) provided by investing activities	**(601,506)**	4,713,693
Cash flows from financing activities		
Principal payments on long-term debt	**(413,814)**	(2,808,993)
Proceeds from issuance of long-term debt	**1,300,000**	1,000,000
Transfer of Springfield Medical Care Systems, Inc. net assets with donor restrictions	**(19,967)**	-
Net repayments on line of credit	**-**	(1,320,574)
Restricted contributions received for long-term purposes	**535,571**	-
Net cash provided (used) by financing activities	**1,401,790**	(3,129,567)
Net increase in cash and cash equivalents	**4,095,949**	2,184,279
Cash and cash equivalents, beginning of year	**2,203,692**	19,413
Cash and cash equivalents, end of year	**$ 6,299,641**	$ 2,203,692

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

Organization

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

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 Debtors-in-possession. These claims are reflected in the balance sheets 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. On December 31, 2020, the Hospital exited bankruptcy based on its plan of reorganization approved by the bankruptcy court. See Note 17 for further information on the plan of reorganization.

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.

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.

Receivables

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 $692,160 and $830,353 as of September 30, 2020 and 2019, respectively. The decrease in the allowance for doubtful accounts from 2019 to 2020 is primarily due to the decrease in aged patient accounts receivables.

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

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.

Assets Limited as to Use

Assets limited as to use primarily consist of 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 are presented as a direct deduction from the carrying amount of the related debt.

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 capital acquisition, changes in net assets to recognize the funded status of the pension plan, and transfers to SMCS.

Net Patient Service Revenue

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

Charity Care

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

Fixed Prospective Revenue

The Hospital is a participant in OneCare Vermont, LLC, a statewide accountable care organization (ACO). Beginning January 1, 2018, the Hospital entered into risk bearing arrangements through the Medicare Next Generation Model, the Vermont Medicaid Program, and Blue Cross/Blue Shield of Vermont. Under the Medicare Next Generation Model and Vermont Medicaid Program, the Hospital receives monthly fixed prospective payments for services provided to attributed members. The ACO is responsible for both the cost and quality of care for each attributed member. This is true whether that person uses little or no care or whether they require services consistently throughout the year. The Hospital recognizes its share of annual contract settlements as an increase or decrease in fixed prospective revenue. The Hospital's participation in the Medicare Next Generation Model ACO arrangement was terminated effective January 1, 2020.

Coronavirus Disease (COVID-19)

In March 2020 the World Health Organization declared COVID-19 a global pandemic and the United States federal government declared COVID-19 a national emergency. The Hospital implemented an emergency response to ensure the safety of its patients, staff and the community. In an effort to reduce the spread of COVID-19 and in response to the urging of the Centers for Disease Control and Prevention and the U.S. Surgeon General, elective and non-urgent care was postponed beginning in mid-March. Additional factors in this decision were the effort to reduce the use of personal protective equipment which was in critically short supply worldwide. Hospitals have played an important part in delivering critical services during the outbreak. 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.

The Coronavirus Aid, Relief, and Economic Security Act established the Provider Relief Fund (PRF) to support healthcare providers in the battle against the COVID19 outbreak. The PRF is being administered by the U.S. Department of Health and Human Services. The Hospital received PRF in the amount of $5,444,565 during the year ended September 30, 2020. These funds are to be used for qualifying expenses and to cover lost revenue due to COVID19. The PRF are considered contributions and are recognized as income as the conditions of the funding are met. Management believes the Hospital met the conditions necessary to recognize the PRF received as revenue for the year ended September 30, 2020. 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, there is at least a reasonable possibility the amount of income recognized related to qualifying expenses or lost revenues 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.

Donor-restricted gifts in 2020 and 2019 consisted of 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.

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, 2020 and 2019, the Hospital incurred $3,508,015 and $2,831,012, 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:

2020	**Healthcare Services**	**Support Services**	**Total**
Salaries, payroll taxes and employee benefits	**$ 17,409,519**	**$ 3,583,041**	**$ 20,992,560**
Supplies	**4,262,937**	**469,167**	**4,732,104**
Health care provider tax	**3,508,015**	**-**	**3,508,015**
Purchased services	**8,825,583**	**2,020,021**	**10,845,604**
Physician fees	**4,889,040**	**9,434**	**4,898,474**
Occupancy	**141,630**	**793,648**	**935,278**
Equipment rental	**446,766**	**67,329**	**514,095**
Repairs and maintenance	**286,078**	**189,547**	**475,625**
Insurance	**663,455**	**78,434**	**741,889**
Depreciation and amortization	**1,429,331**	**166,372**	**1,595,703**
Interest	**29,393**	**408,785**	**438,178**
Other	**509,271**	**1,323,561**	**1,832,832**
	$ 42,401,018	**$ 9,109,339**	**$ 51,510,357**

2019	Healthcare Services	Support Services	Total
Salaries and related payroll taxes	$ 21,635,466	$ 4,039,932	$ 25,675,398
Supplies	4,892,677	396,501	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	149,463	770,020	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	1,449,326	168,700	1,618,026
Interest	29,393	479,021	508,414
Other	564,055	1,830,469	2,394,524
	$ 47,496,641	$ 10,088,358	$ 57,584,999

Newly Adopted Accounting Pronouncements

In 2020, the Hospital adopted FASB Accounting Standards Update (ASU) No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This ASU requires an employer to report the service cost component of net periodic pension cost in the same line item as other compensation costs arising from services rendered by employees during the period. The other components of net periodic pension cost are required to be presented in the statements of operations separately from the service cost component and outside a subtotal of income (loss) from operations, if one is presented. The adoption of ASU No. 2017-07 did not have a material impact on the Hospital's financial reporting.

In 2020, the Hospital also adopted FASB ASU No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides guidance for determining when transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions, and whether a contribution is conditional. The adoption of ASU No. 2018-08 did not impact the Hospital's financial position or changes in net assets.

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 March 18, 2021, the date that the financial statements were available to be issued.

Effective December 31, 2020, the Hospital exited bankruptcy based on its plan of reorganization approved by the bankruptcy court. See Note 17 for additional information.

2. Availability and Liquidity of Financial Assets

The Hospital had working capital of $897,686 and $4,581,695 at September 30, 2020 and 2019, respectively. These amounts exclude liabilities subject to compromise. The Hospital had average days (based on normal expenditures) cash on hand of 46 and 14 at September 30, 2020 and 2019, 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:

	2020	2019
Cash and cash equivalents, less donor-restricted amounts	**$ 5,357,443**	$ 1,319,920
Patient accounts receivable, net	**7,216,634**	6,108,506
Estimated third-party payor settlements	**-**	621,686
Other receivables	**865,584**	347,270
Financial assets available to meet general expenditures within one year	**$ 13,439,661**	$ 8,397,382

The Hospital has assets limited as to use of $359,297 and $356,526 at September 30, 2020 and 2019, 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.

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 40% and 33% of the Hospital's net patient service revenue for the years ended September 30, 2020 and 2019, respectively.

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

	2020	2019
Patient services		
Inpatient	**$ 20,253,276**	$ 20,679,809
Outpatient	**72,877,255**	89,532,923
Gross patient service revenue	**93,130,531**	110,212,732
Less Medicare and Medicaid allowances	**43,352,374**	54,148,290
Less other contractual allowances	**10,348,768**	10,902,865
Less charity care and other discounts	**1,602,054**	1,689,193
	55,303,196	66,740,348
Patient service revenue (net of contractual allowances and discounts)	**37,827,335**	43,472,384
Less provision for bad debts	**4,117,891**	5,271,466
Net patient service revenue	**$ 33,709,444**	$ 38,200,918

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 2019, net patient service revenue increased approximately $57,000, due to changes in allowances or recognition of settlements no longer subject to audits, reviews, and investigations. There was no such impact to net patient service revenue in 2020.

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

Medicare

As a Critical Access Hospital, the Hospital is reimbursed 101% of reasonable allowable costs for its inpatient and outpatient services provided to Medicare patients. 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:

	2020	2019
Revenue from third-party payors	**$ 36,471,917**	$ 40,998,792
Revenue from self-pay patients	**1,355,418**	2,473,592
	$ 37,827,335	$ 43,472,384

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
- 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 $508,000 in 2020 and $818,000 in 2019. The total cost estimate is based on an overall financial statement cost to charge ratio applied against gross charity care charges. In 2020 and 2019, 0.99% and 1.42%, respectively, of all services as defined by percentage of gross revenue were provided on a charity care basis.

In 2020, of a total of 48 Hospital inpatients receiving charity care, 39 received their entire episode of service on a charity care basis and 9 received partial subsidy. In 2019, of a total of 104 inpatients receiving charity care, 88 received their entire episode of service on a charity care basis and 16 received partial subsidy.

In 2020, of a total of 1,568 Hospital outpatients receiving charity care, 1,225 received their entire episode of service on a charity care basis and 343 received partial subsidy. In 2019, of a total of 2,107 outpatients receiving charity care, 1,737 received their entire episode of service on a charity care basis and 370 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.

	2020	2019
Cash and short-term investments	**$ 359,297**	$ 356,526
Total investments	**$ 359,297**	$ 356,526

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

	2020	2019
Assets limited as to use, internally designated for capital acquisition and operations	**$ 359,297**	$ 356,526
	$ 359,297	$ 356,526

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

	2020	2019
Interest and dividend income	**$ 13,996**	$ 93,158
Realized gains on sales of securities	**-**	223,205
Net change in unrealized gains on investments	**-**	(1,363,187)
	$ 13,996	$ (1,046,824)

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	
	2020	2019
Investments:		
Cash and short-term investments	**$ 359,297**	$ 356,526
Total assets	**$ 359,297**	$ 356,526
Investments - held by defined benefit pension plan (Note 14):		
Mutual funds:		
Fixed income	**$ 6,166,487**	$ 6,679,738
Equities	**3,913,561**	4,283,975
Total investments - held by defined benefit pension plan	**$ 10,080,048**	$ 10,963,713

7. Property and Equipment

A summary of property and equipment follows:

	2020	2019
Land and land improvements	**$ 2,083,694**	$ 2,083,694
Buildings and improvements	**14,291,064**	14,275,585
Leasehold improvements	**948,319**	948,319
Fixed equipment	**6,009,558**	5,993,584
Major moveable equipment	**17,254,974**	17,244,679
Construction in progress	**680,436**	123,447
	41,268,045	40,669,308
Less accumulated depreciation and amortization	**30,313,414**	28,717,709
Property and equipment, net	**$ 10,954,631**	$ 11,951,599

8. Liabilities Subject to Compromise

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

	2020	2019
Line of credit	**$ 947,504**	$ 947,504
Long-term debt	**5,714,419**	5,685,026
Estimated third-party payor settlements	**3,473,165**	3,473,165
Accounts payable and accrued expenses	**7,867,910**	7,867,910
Other current liabilities	**1,000,000**	1,000,000
	$ 19,002,998	$ 18,973,605

9. Borrowings

The State of Vermont Agency of Human Services provided $1 million in short-term financial assistance in late January 2019 and $1.3 million in short-term financial assistance in April 2020 to stabilize operations due to cash shortfalls resulting from COVID-19. The repayment of the $1 million was anticipated to be through future Medicaid payments, and the $1.3 million to be payable in full upon the earlier of 1) eighteen months after the loan proceeds were disbursed or 2) commencement of liquidation of the debtor, termination of the debtor's operations, or conversion of this case to one under Chapter 7 of the Bankruptcy Code. The amounts are included in other current liabilities and liabilities subject to compromise. See Note 17 for further discussion.

Long-Term Debt

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

	2020	2019
Term note payable due in monthly principal and interest installments of $73,031 through December 2031. Interest is variable, equal to the July 15 amortizing Federal Home Loan Bank of Boston Rate plus 2.70% (5.19% at September 30, 2020). The term note is collateralized by real property and investments.	**$ 5,714,419**	$ 5,685,026
Capital leases payable in equal monthly installments of $40,255 at fixed rates between 2.85% and 5.27%, maturing through 2023.	**994,393**	1,408,207
	6,708,812	7,093,233
Less liabilities subject to compromise	**5,714,419**	5,685,026
Less current portion	**463,825**	438,254
Long-term debt, net of current portion, unamortized debt issuance costs and liabilities subject to compromise	**$ 530,568**	$ 969,953

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.

Unamortized debt issuance costs as of September 30, 2020 and 2019 were $328,220 and $357,613, respectively, and are presented as a direct reduction of the related debt. In addition, the amortization of the debt issuance costs of $29,393 for the years ended September 30, 2020 and 2019 is classified as interest expense.

The Hospital has entered various equipment lease agreements. Assets, net of accumulated amortization, recorded under capital leases totaled $1,155,660 and $1,592,703 at September 30, 2020 and 2019, respectively. The present value of these assets has been included with property and equipment, net. Amortization expense for assets under capital lease was $437,043 and $384,175 for the years ended September 30, 2020 and 2019, respectively, and has been included with depreciation and amortization expense in the accompanying financial statements. Accumulated amortization associated with the lease totaled $1,282,161 and $845,118 at September 30, 2020 and 2019, respectively.

The Hospital and SMCS are required to comply with financial debt covenants related to the term note payable. As of September 30, 2020 and 2019, the Hospital and SMCS were not in compliance.

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% (2.90% as of September 30, 2020). The Hospital's outstanding balance was $947,504 at September 30, 2020 and 2019 and is included in liabilities subject to compromise. 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.

10. Net Assets

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

	2020	2019
Funds with donor restrictions temporary in nature:		
Purchase of equipment and departmental expenses	$ 445,797	$ 387,671
Health education	2,910	2,610
Total funds maintained with donor restrictions temporary in nature	448,707	390,281
Investments to be held in perpetuity, the income from which is expendable to support health care services	493,491	493,491
Total funds maintained with donor restrictions held in perpetuity	493,491	493,491
Total net assets with donor restrictions	$ 942,198	$ 883,772

In early fiscal year 2019, $228,322 in donor-restricted funds were utilized by the Organization to meet its obligations.

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:

	2020	2019
Medicare	35 %	26 %
Medicaid	12	13
Commercial	32	37
Self pay	21	24
	100 %	100 %

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

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

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 $160,000 with an aggregate limit of 125% of the group expected claims. At September 30, 2020 and 2019, the Hospital had accrued $475,642 and $272,727, respectively, under the self-insurance contract.

The Hospital is also partially self-funded for its workers' compensation policy. The deductibles associated with this policy are $75,000 for an individual claim and $400,000 in the aggregate. At September 30, 2020 and 2019, 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, 2020 and 2019.

13. Supplemental Cash Flow Information

Cash paid for interest for the years ended September 30, 2020 and 2019 was $408,785 and $479,021, respectively.

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

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:

	2020	2019
Benefit obligation	**$ (15,243,076)**	$ (14,958,191)
Fair value of plan assets	**10,080,048**	10,963,713
Funded status	**$ (5,163,028)**	$ (3,994,478)

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:

	2020	2019
Change in benefit obligation		
Benefit obligation at beginning of year	**$ 14,958,191**	$ 14,573,342
Interest cost	**411,517**	588,136
Actuarial loss	**1,110,037**	1,400,809
Benefits paid	**(771,267)**	(753,665)
Settlement	**(465,402)**	(850,431)
Benefit obligation at end of year	**$ 15,243,076**	$ 14,958,191
Change in plan assets		
Fair value of plan assets at beginning of year	**$ 10,963,713**	$ 12,313,165
Actual return on plan assets	**353,004**	254,644
Benefits paid	**(771,267)**	(753,665)
Settlement	**(465,402)**	(850,431)
Fair value of plan assets at end of year	**$ 10,080,048**	$ 10,963,713
Components of net periodic benefit cost		
Interest cost	**$ 411,517**	$ 588,136
Expected return on plan assets	**(659,173)**	(744,485)
Immediate recognition of settlement	**201,040**	330,149
Amortization of unrecognized net actuarial loss	**458,577**	303,770
Net periodic benefit cost	**$ 411,961**	$ 477,570

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:

	2020	2019
Net actuarial loss	**$ 1,416,206**	$ 1,890,650
Reclassification adjustment for amortization of net unrecognized actuarial loss	**(458,577)**	(303,770)
Immediate recognition of settlement	**(200,217)**	(330,149)
Change in net assets to recognize funded status of the Pension Plan	**$ 757,412**	$ 1,256,731

Charged against net assets without donor restrictions at September 30, 2020 and 2019 are unrecognized actuarial losses of $6,563,855 and $5,806,443, 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 $611,596.

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

	2020	2019
Weighted average assumptions at or for the year ended September 30		
Discount rate		
For determining net periodic benefit cost	**2.83 %**	4.15 %
For determining benefit obligation	**2.14**	2.83
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 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.

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

	2020	2019
Mutual funds		
Fixed income	**61 %**	61 %
Equities	**39 %**	39 %
Total	**100 %**	100 %

Contributions

Expected employer contributions to the Hospital's defined benefit pension plan are $611,125 in 2021.

Estimated Future Benefit Payments

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

Fiscal year	
2021	$ 856,800
2022	866,900
2023	878,800
2024	887,600
2025	880,800
Years 2026 - 2030	4,283,300

Defined Contribution Pension Plan

In 2006, the Hospital established a 401(k) retirement plan (the Plan) for substantially all of its employees. The Plan was retroactive to October 1, 2005 with regard to eligibility determinations and discretionary matching contributions by the Hospital. Employees are immediately eligible to contribute to the Plan and are 100% vested in their contributions. Employees become eligible for matching and other discretionary contributions once an employee has completed a 90-day probationary employment period. Discretionary contributions made by the Hospital vest to the participants over a five-year period. Total expense under the Plan was approximately $181,000 and $200,000 for the years ended September 30, 2020 and 2019, respectively.

15. Related Party Transactions

The Hospital contracts with SMCS for billing services. The costs to the Hospital were $85,500 and $188,400 during 2020 and 2019, respectively. In 2020, the Hospital and SMCS entered into a Master Shared Services Agreement (MSSA) in which SMCS provides the Hospital with information technology, chief financial officer, and patient registration services and the Hospital provides SMCS with such services as human resources, compliance, infection prevention, medical staff coordinator, accounting and finance, plant engineering, pharmacy, health information management, materials management, central supply, clinical applications, credentialing and coding. The Hospital and SMCS incurred MSSA expenses of $37,115 and $164,558, respectively, in 2020.

SMCS received rent from the Hospital of $67,916 and $84,336 for various ambulatory care centers and physician office spaces for the years ended September 30, 2020 and 2019, respectively.

For the year ended September 30, 2019, the Hospital forgave $6,030,293, 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. 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, and subsequently exited bankruptcy effective December 31, 2020 based on its plan of reorganization approved by the bankruptcy court (see Note 17). The Hospital's ability to continue as a going concern is dependent upon the success of its future efforts. The uncertainty related to COVID-19 may have implications on the Hospital's financial position and results of future operations. These factors raise substantial doubt about the Hospital's ability to continue as a going concern.

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. Contracted with a search firm to recruit a second general surgeon for the Hospital.
2. Effective October 29, 2020, executed an agreement with BlueWater Health to staff and manage the hospitalist program. Annual savings are expected to approximate $200,000.
3. Hired a Revenue Cycle Director in 2020 to coordinate the entire billing department.
4. Completed a reduction in workforce in fiscal year 2019 and have continued to operate at an overall lower staffing level. For the years ended September 30, 2020 and 2019, full time equivalents were 272 and 297, respectively.
5. Reviewed the Hospital's employee benefit programs to better align with the market, enhancing health coverage for employees at a reduced cost. Annual expenses for health and dental benefits for the years ended September 30, 2020 and 2019 were approximately $2,462,000 and $4,835,000, respectively.
6. Effective January 1, 2020, the Hospital is no longer providing employer match on 401(k) contributions.

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.

17. Plan of Reorganization

On December 11, 2020, the Bankruptcy Court confirmed the Hospital's plan for reorganization and the plan became effective December 31, 2020. As of the effective date, the Hospital accounted for the reorganization by stating liabilities compromised by the confirmed plan at the present values of the amounts to be paid. The excess of the reorganization value over the liabilities subject to compromise was recorded as "gain on bankruptcy reorganization." The confirmed plan provided for the following:

- Secured debt – The Hospital's portion of the term note payable and line of credit was settled with a $2 million payment in full satisfaction. In addition, $2 million was paid for SMCS' portion of the secured debt.

- State of Vermont (Class 2) – Aggregate amount of approximately $9.1 million due to the State of Vermont for term loans and unpaid provider taxes was settled for $5 million in loans. Note A is $2 million, payable over 20 years with monthly payments of $10,188 including interest (2% annually) beginning the thirteenth month after the effective date of Hospital's exit from bankruptcy. The remaining balance is due as a balloon payment at the maturity date, which is the 10th anniversary of the first monthly payment. Note B of $3 million also bears interest at 2% annually and is payable in a balloon payment due at the maturity date. Both loans are collateralized by the Hospital's assets.

  In addition, the State of Vermont provided the Hospital $4 million in exit funding in the form of grants.

  The State of Vermont has the right to review the Hospital's operations and compliance with its plan of reorganization obligations. Reviews are to be conducted by an external audit firm selected by the State of Vermont, on a quarterly basis in the initial year and semi-annually thereafter. Officers and directors of the Board and the impending recruitment of the Chief Executive and Chief Financial Officers of the Hospital are subject to approval by the State of Vermont.

- CMS (Class 3) – Approximately $4.6 million in outstanding Medicare overpayments were settled for $4 million. The $4 million is payable over an extended repayment schedule of sixty months, in equal payment amounts at 2% interest annually beginning March 2021. As part of the approved plan of reorganization, CMS is to expedite review of the 2018 and/or 2019 underpayments, offset them against the principal balance and amortize the reduced balance over the remaining term.

- Other priority tax claims – Penalties for prior late filings of payroll taxes were settled for approximately $12,700.

- General unsecured trade claims – Holders of approximately $5.8 million of trade and other miscellaneous claims received approximately $1.9 million in payment.

The Hospital and SMCS emerged as separate organizations, eliminating SMCS as the parent of the Hospital. Officers and directors of the Board remain the same, except for two additional directors reviewed and approved by the State of Vermont. Medicare and Medicaid provider numbers remain intact, and the Pension Plan and capital lease obligations were not impacted.

The following table summarizes the adjustments required to record the reorganization:

	Outstanding Balances as of Effective Date	Elimination of Debt	New Debt	Cash Payment	Post-bankruptcy Balances
Secured debt	$ 6,669,270	$ (6,669,270)	$ -	$ -	$ -
State of Vermont (Class 2)					
Accounts payable and accrued expenses	6,811,311	(6,811,311)	-	-	-
Debt	2,300,000	(2,300,000)	5,000,000	-	5,000,000
	9,111,311	(9,111,311)	5,000,000	-	5,000,000
CMS (Class 3)	4,603,467	(603,467)	-	-	4,000,000
Other tax priority claims	555,510	(542,781)	-	(12,729)	-
Pre-petition general unsecured accounts payable	5,208,808	(3,319,488)	-	(1,889,320)	-
	$ 26,148,366	$ (20,246,317)	$ 5,000,000	$ (1,902,049)	$ 9,000,000
Cash contribution from State of Vermont to Hospital		(2,000,000)			
Gain on bankruptcy reorganization		$ (17,246,317)			

As part of the bankruptcy court's approval of the reorganization plan, $484,685 was permitted as administrative expenses due from SMCS to the Hospital, payable over twenty-four months beginning July 1, 2021. The amounts due had been previously treated as equity transfers between the two organizations.

SUPPLEMENTARY INFORMATION

SPRINGFIELD HOSPITAL, INC.

Schedule of Expenses

Years Ended September 30, 2020 and 2019

	2020	2019
Salaries and benefits		
Salaries and related payroll taxes	**$ 17,771,351**	$ 19,692,769
Employee benefits	**3,221,209**	5,982,629
Total salaries and benefits	**20,992,560**	25,675,398
Supplies and other		
Supplies	**4,732,104**	5,289,178
Health care provider tax	**3,508,015**	2,831,012
Purchased services	**10,845,604**	11,014,538
Physician fees	**4,898,474**	5,754,175
Accounting and legal fees	**223,039**	247,532
Telephone	**56,496**	72,628
Postage and shipping	**76,519**	117,349
Occupancy	**935,278**	919,483
Equipment rental	**514,095**	511,696
Repairs and maintenance	**475,625**	318,245
Printing and publishing	**4,549**	11,254
Travel	**38,702**	66,510
Dues and subscriptions	**46,386**	108,030
Licenses and taxes	**29,452**	22,053
Advertising	**67,138**	60,124
Education and training	**25,011**	43,878
Recruiting	**99,001**	78,439
Other expenses	**1,166,539**	1,566,727
Total supplies and other	**27,742,027**	29,032,851
Insurance	**741,889**	750,310
Depreciation and amortization	**1,595,703**	1,618,026
Interest	**438,178**	508,414
Total expenses	**$ 51,510,357**	$ 57,584,999