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STOUGHTON HOSPITAL ASSOCIATION

BUDGET

Fiscal Year Ending September 30, 2022

STOUGHTON HOSPITAL ASSOCIATION

Budget 2021 - 2022

TABLE OF CONTENTS	Page
Budget Narrative	1-3
Balance sheets	4
Income statements	5
Statements of changes in net assets	6
Statements of cash flows	7
Statistical analysis	8
Budget assumptions	9

**STOUGHTON HOSPITAL ASSOCIATION
BUDGET NARRATIVE
Fiscal Year Ending September 30, 2022**

BACKGROUND

Stoughton Health has experienced significant turbulence during FY2020 and FY2021 due to the COVID-19 pandemic. The theme of the FY2022 budget is to continue on an upward growth trajectory coming out of the pandemic while still being realistic to the effects of the pandemic on operations. FY2022 is the year to find a new “normal.”

PATIENT SERVICES

The FY2022 budgeted numbers represent an increase in inpatient days from FY21 of 712 days or 20% which is primarily from an increase in Geriatric Psychiatry Unit (GP) Days from 1,477 days projected for FY2021 to a budget of 2,237 days in FY2022. In August 2021, the GP unit has increased its capacity to 8 patients on the unit from the 5 patient unit it has been since it re-opened after the COVID-19 shutdown in 2020. Medical/surgical and ICU units volumes are budgeted to remain unchanged from FY2021 projections.

Outpatient service revenues are projected to increase by 33.9% or \$8,723,000 from what is projected for FY2021. This increase is a combination of factors as follows:

- 4.0% rate increase effective October 1, 2021 which was approved by the Governing Board in July.
- Surgical services cases budgeted to increase of 13%. Service lines with the greatest budgeted growth are as follows:

Specialty	Final FY19	Final FY20	Annualized FY2021	FY22 Budget	% Change from Annualized FY2021
Orthopedics	382	283	271	320	15%
Gynecology	8	1	0	0	0%
Urology	9	11	7	12	40%
General	307	250	240	275	13%
Ophthalmology (Phaco)	290	211	228	290	21%
Podiatry	11	0	58	96	40%
Dental	34	130	212	225	6%
ENT	52	37	31	45	31%
Total Surgical Procedures	1093	923	1047	1263	17%
GI Endoscopy	517	379	400	400	0%
Total OR Procedures	1609	1345	1447	1663	13%

- Stoughton Emergency & Urgent Care and McFarland Urgent Care volumes returning to fiscal year 2019 pre-pandemic volumes was budgeted which results in an increase from projected FY2021.
- McFarland Urgent Care will be open for the full year budgeted to result in 5,460 visits.
- Medical imaging budgeted for volume growth as a result of additional emergency room and surgical services volumes as well as growth in outpatient volumes as patients resume preventative care exams.

OPERATING ACTIVITIES

A 4.0% overall increase in Hospital charges is planned for and was approved by the Governing Board effective October 1, 2021.

Net Patient Service Revenue is budgeted to be \$49,487,000 which is a 6.9% increase from projected FY2021 results. Continued critical access hospital (CAH) status was assumed in estimating Medicare and Medicaid reimbursements.

The Days Revenue in Net Accounts Receivable goal is 43 days, which targets an improvement over the 48 days which is the 2020 Rural Wisconsin Health Cooperative (RWHC) CAH comparative average.

Compensation and benefits are projected to increase \$976,000 or 4.3% from projected FY2021. Key assumptions include:

- Maintaining the changes in staffing of departments so that 80% of departments are in the upper quartile for their productivity standards.
- 3.0% wage increase effective April 2022, if feasible.
- The FY2022 budget is based on 241 FTE's which includes 8.2 FTE's for services provided by Hospital staff to other organizations for which the Hospital is reimbursed. These organizations include the Stoughton Hospital Foundation, SSM Dean Clinic, Stoughton Hospital Imaging and Partners of Stoughton Hospital.
- Both of our health insurance vendors are projecting increases in premiums for calendar year 2022 which is reflected as an increase to benefits expense in January 2022.

Professional fees increase of 13.8% over projected FY2020 due to expected service provider contract changes, additional orthopedic and general surgery call coverage, a full year of professional services for McFarland Urgent Care and audit fees related to the federal funds received.

Purchased Services increase of 3.7% due to higher anticipated costs for information technology as well as other provider increases.

Supply costs are budgeted to increase 11.3% from Projected FY2021 primarily due to higher implant and drug costs as a result of more surgical procedures being budgeted for FY2022 than were performed in FY2021.

Interest expense is budgeted at \$451,000 compared to \$544,000 projected for FY21. The decrease is the result of not having the SBA Loan interest due to the forgiveness of that loan in July 2021.

Administrative & General expenses are budgeted to increase 8.3% as the result of additional rent expense for McFarland Urgent Care which begins in December 2021, budgeting for in-person seminars and other normal vendor increases.

Insurance expenses are budgeted to increase 22.5% from projected FY2021 due to normal increases in insurance premiums. The property and casualty markets have been particularly hard hit and are passing increases along to customers this year.

Depreciation expense is budgeted to decrease \$54,000 or (1.7%) as a result of more assets from the emergency room/day surgery project from 2015 becoming fully depreciated as well as lower capital investment in fiscal years 2020 & 2021 as a result of the pandemic.

Investment Income is budgeted to be \$238,000. Other non-operating income includes \$229,000 representing the Hospital's proportionate share of Stoughton Hospital Imaging, LLC (MRI Joint Venture).

Operating Income is budgeted at \$2,800,000 which results in an operating margin of 5.4%. The total excess of revenues over expenses for the year is projected at \$3,563,000 representing a 6.9% total margin.

INVESTING ACTIVITIES

Capital expenditures are budgeted at \$3,000,000 for routine equipment purchases/replacements, facilities upgrades and information technology investments of which \$2.4M is already identified and \$600,000 in contingency funds. The pharmacy renovation, which is over \$500,000 of the \$2.4M already identified, is the largest item on the list and was approved prior to moving forward with the project.

FINANCING ACTIVITIES

Financing activities include monthly principal and interest payments on outstanding debt. In addition, the budget assumes prepaying approximately \$1,000,000 as allowed by the 2015 & 2018 bonds without penalty. The budget also provides for \$200,000 of funds to be contributed by the Stoughton Hospital Foundation as that entity has budgeted for. The Debt Service Coverage (DSC) Ratio underlying the budget is 4.5, which exceeds the DSC ratio of 1.25 required by the master trust indenture.

STOUGHTON HOSPITAL ASSOCIATION

BALANCE SHEETS
Budget 2021 - 2022

	Balances as of September 30,		
	Budget 2022	Projected 2021	Audited 2020
ASSETS			
Current Assets			
Cash	\$ 27,336,000	\$ 32,330,000	\$ 31,236,000
Patient accounts receivable, net of allowances	5,830,000	5,451,000	4,615,000
Supplies	887,000	796,000	695,000
Estimated third-party payor settlements	-	-	125,000
Other current assets	1,031,000	1,001,000	674,000
Total current assets	35,084,000	39,578,000	37,345,000
Assets Limited as to Use			
Certificates of deposit	7,000,000	7,000,000	9,000,000
Board designated and other investments	12,611,000	11,219,000	8,090,000
Property and Equipment	68,006,000	65,006,000	62,953,000
Less accumulated depreciation	(40,382,000)	(37,302,000)	(34,168,000)
Net property and equipment	27,624,000	27,704,000	28,785,000
Other Assets			
Interest in net assets of Foundation	1,535,000	1,485,000	1,283,000
Investment in MRI Joint Venture	1,374,000	1,345,000	1,104,000
Total assets	\$ 85,228,000	\$ 88,331,000	\$ 85,607,000
LIABILITIES AND NET ASSETS			
Current Liabilities			
Current portion of long-term debt	\$ 1,143,000	\$ 1,315,000	\$ 1,268,000
PPP Loan, current portion	-	-	890,000
Accounts payable	1,337,000	1,221,000	1,147,000
Accrued salaries and related withholdings	1,244,000	1,193,000	908,000
Accrued vacation compensation	1,298,000	1,284,000	1,215,000
Accrued interest	33,000	37,000	59,000
Deferred revenue	94,000	94,000	97,000
Refundable advance- COVID Provider Relief funds	-	-	5,023,000
CMS advance payments, current portions	-	4,983,000	1,211,000
Estimated third-party payor settlements	(420,000)	(420,000)	-
Total current liabilities	4,729,000	9,707,000	11,818,000
Deferred compensation liability	543,000	447,000	350,000
Long-Term Debt, net of current portion	8,861,000	10,895,000	12,240,000
PPP loan, net of current portion	-	-	3,125,000
CMS advance payments, net of current portion	-	-	4,617,000
Total liabilities	14,133,000	21,049,000	32,150,000
Unrestricted	69,386,000	65,623,000	19,740,000
Temporarily restricted	1,709,000	1,659,000	1,457,000
Total net assets	71,095,000	67,282,000	53,457,000
Total liabilities and net assets	\$ 85,228,000	\$ 88,331,000	\$ 85,607,000

RWHC 2020 CAH Avg	RATIOS	Budget 2022	Projected 2021	Actual 2020
3.3	Current ratio	7.4	4.1	3.2
48	Days revenue in AR (net)	43	43	40
309	Days cash & investments on hand	376	431	445
8.6	Age of plant (years)	13.1	11.9	10.5
5.3	Debt service coverage ratio	4.5	9.4	4.1
0.4	Long term debt to equity	0.1	0.2	0.2

STOUGHTON HOSPITAL ASSOCIATION
INCOME STATEMENTS

Budget 2021 - 2022

	Budget 2022	%	Projected 2021			Percent of Total Gross Revenues		
			Change from Projected 2021	with Federal Funding	Budget 2021	Audited 2020	Budget 2022	Budget 2021
REVENUES								
Patient service revenues:								
Inpatient	20,742,000	14.6%	18,093,000	22,165,000	23,420,000	16.0%	18.8%	22.4%
Outpatient	108,830,000	8.7%	100,107,000	95,889,000	81,293,000	84.0%	81.2%	77.6%
Total gross patient services revenues	129,572,000	9.6%	118,200,000	118,054,000	104,713,000	100.0%	100.0%	100.0%
Less charity care	(355,000)	1.1%	(351,000)	(524,000)	(462,000)	-0.3%	-0.4%	-0.4%
Less contractual discounts	(78,345,000)	11.5%	(70,244,000)	(68,928,000)	(60,685,000)	-60.5%	-58.4%	-58.0%
	50,872,000	6.9%	47,605,000	48,602,000	43,566,000	39.3%	41.2%	41.6%
Less allowance for uncollectible accounts	(1,385,000)	4.0%	(1,332,000)	(1,868,000)	(1,630,000)	-1.1%	-1.6%	-1.6%
Net patient service revenues	49,487,000	6.9%	46,273,000	46,734,000	41,936,000	38.2%	39.6%	40.0%
Contractual discounts %	-60.5%		-59.4%	-58.4%	-58.0%			
Other operating revenue	781,000	-15.7%	927,000	877,000	794,000	0.6%	0.7%	0.8%
Contributions and grants	345,000	1.5%	340,000	4,000	275,000	0.3%	0.0%	0.3%
Rental income	838,000	-0.9%	846,000	880,000	889,000	0.6%	0.7%	0.8%
TOTAL REVENUES	51,451,000	6.3%	48,386,000	48,495,000	43,894,000	39.7%	41.1%	41.9%
EXPENSES								
Compensation and benefits	23,901,000	4.3%	22,925,000	23,706,000	21,811,000	18.4%	20.1%	20.8%
Professional fees	6,250,000	13.8%	5,492,000	5,380,000	4,914,000	4.8%	4.6%	4.7%
Purchased services	6,183,000	3.7%	5,964,000	5,628,000	5,188,000	4.8%	4.8%	5.0%
Supplies	6,345,000	11.3%	5,699,000	6,134,000	4,899,000	4.9%	5.2%	4.7%
Interest	451,000	-17.1%	544,000	542,000	577,000	0.3%	0.5%	0.6%
Administrative and general	2,207,000	8.3%	2,037,000	2,258,000	2,059,000	1.7%	1.9%	2.0%
Insurance	234,000	22.5%	191,000	221,000	183,000	0.2%	0.2%	0.2%
Depreciation	3,080,000	-1.7%	3,134,000	3,129,000	3,256,000	2.4%	2.7%	3.1%
Total expenses	48,651,000	5.8%	45,986,000	46,998,000	42,887,000	37.5%	39.8%	41.0%
Operating income	2,800,000	16.7%	2,400,000	1,497,000	1,007,000	2.2%	1.3%	1.0%
Other income (expense):								
Investment income	238,000	-59.3%	585,000	317,000	395,000			
Unrealized gains (losses) on investments	296,000	-74%	1,158,000	257,000	317,000			
Equity in earnings of MRI joint venture	229,000	-5.0%	241,000	176,000	167,000			
Gain (loss) on disposal of assets	-	-100.0%	(27,000)	(27,000)	(247,000)			
Paycheck Protection Program Loan Forgiveness	-	#DIV/0!	4,065,000	-	-			
Provider Relief Funds	-	-100.0%	5,023,000	-	-			
Excess of revenues over expenses	\$ 3,563,000	-18.2%	\$ 13,445,000	\$ 1,990,000	\$ 1,639,000			
<i>Operating Margin</i>	5.4%		5.0%	3.1%	2.3%			
<i>Total Margin</i>	6.9%		27.3%	4.1%	3.7%			
Net patient revenue per APD	\$1,585	-7.2%	\$1,708	\$2,021	\$1,890			
Compensation and benefits per APD	\$766	-9.5%	\$846	\$1,025	\$983			
Supplies per APD	\$203	-3.4%	\$210	\$265	\$221			
Other expenses per APD	\$619	-7.5%	\$670	\$799	\$776			

STOUGHTON HOSPITAL ASSOCIATION
STATEMENTS OF CHANGES IN NET ASSET
Budget 2021 - 2022

	Budget	Projected	Audited
	2022	2021	2020
Unrestricted net assets:			
Excess of revenues over expenses	\$ 3,563,000	\$ 13,445,000	1,639,000
Net assets released from restrictions used for property and equipment	-	-	117,000
Contributions and grants for property and equipment	200,000	178,000	244,000
Increase (decrease) in unrestricted net assets	3,763,000	13,623,000	2,000,000
Temporarily restricted net assets:			
Restricted contributions	-	-	66,000
Change in interest in net assets of Foundation	50,000	202,000	(126,000)
Net assets released from restrictions used for property and equipment	-	-	(117,000)
Increase (decrease) in temporarily restricted net assets	50,000	202,000	(177,000)
Change in net assets	3,813,000	13,825,000	1,823,000
Net assets, beginning	67,282,000	53,457,000	51,634,000
Net assets, ending	\$ 71,095,000	\$ 67,282,000	\$ 53,457,000

STOUGHTON HOSPITAL ASSOCIATION
STATEMENTS OF CASH FLOWS
Budget 2021 - 2022

	Budget	Projected	Audited
	2022	2021	2020
Cash Flows From Operating Activities			
Increase (decrease) in net assets	\$ 3,813,000	\$ 13,825,000	\$ 1,823,000
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:			
Change in interest in net assets of Foundation	(50,000)	(202,000)	125,000
Depreciation	3,080,000	3,134,000	3,256,000
Amortization of debt issuance costs	41,000	31,000	33,000
Change in net unrealized gains and losses	(296,000)	(1,158,000)	(298,000)
Loss (gain) on disposal of property and equipment	-	27,000	318,000
Forgiveness of Paycheck Protection Program Loan	-	(4,015,000)	-
Uncollectible accounts	1,385,000	1,332,000	1,630,000
Contributions restricted for equipment acquisitions	(200,000)	(178,000)	(310,000)
Change in investment in Stoughton Hospital Imaging LLC	(229,000)	(241,000)	(167,000)
Distribution from SHI	200,000	200,000	200,000
Increase (decrease) from changes in:			
Patient accounts receivable, net	(1,764,000)	(2,168,000)	394,000
Supplies	(91,000)	(101,000)	(71,000)
Estimated third-party payor settlements	-	(295,000)	(222,000)
Other assets	(30,000)	(327,000)	193,000
Refundable advance	-	(5,023,000)	5,023,000
CMS advance payments	(4,983,000)	(845,000)	5,828,000
Accounts payable, accrued expenses and deferred revenue	273,000	613,000	183,000
Net cash provided by (used in) operating activities	1,149,000	4,368,000	17,938,000
Cash Flows From Investing Activities			
Acquisition of property and equipment	(3,000,000)	(2,080,000)	(1,507,000)
Proceeds from sale of property and equipment	-	41,000	10,000
Net sales (purchases) of certificates of deposit	-	2,000,000	10,000,000
Net change in assets limited as to use	(1,096,000)	(1,971,000)	(9,954,000)
Net cash provided by (used in) investing activities	(4,096,000)	(2,010,000)	(1,451,000)
Cash Flows From Financing Activities			
Proceeds from issuance of debt	-	-	4,015,000
Repayment of long-term debt	(2,247,000)	(1,329,000)	(1,252,000)
Contributions restricted for property & equipment	200,000	178,000	310,000
Payment of accounts payable for equipment & financing costs	-	(113,000)	(113,000)
Net cash provided by (used in) financing activities	(2,047,000)	(1,264,000)	2,960,000
Net increase (decrease) in cash	(4,994,000)	1,094,000	19,447,000
Cash, beginning	32,330,000	31,236,000	11,789,000
Cash, ending	\$ 27,336,000	\$ 32,330,000	\$ 31,236,000

STOUGHTON HOSPITAL ASSOCIATION
STATISTICAL ANALYSIS
Budget 2021 - 2022

	Budgeted	Projected	2020	2019	2018	2017
	2022	2021				
Inpatient revenue	20,742,000	18,093,000	23,420,000	27,476,000	28,668,000	30,748,000
Outpatient revenue	108,830,000	100,107,000	81,293,000	86,348,000	80,884,000	74,972,000
Total gross patient service revenue	129,572,000	118,200,000	104,713,000	113,824,000	109,552,000	105,720,000
Contractual discounts	(78,345,000)	(70,244,000)	(60,685,000)	(66,053,000)	(61,043,000)	(59,329,000)
Contractual discount %	-60.5%	-59.4%	-58.0%	-58.0%	-55.7%	-56.1%
Allowance for uncollectible accounts	(1,385,000)	(1,332,000)	(1,630,000)	(1,640,000)	(1,412,000)	(1,216,000)
Net patient service revenue	49,487,000	46,624,000	42,398,000	46,131,000	47,097,000	45,175,000
Overall Collection %	38.2%	39.4%	40.5%	40.5%	43.0%	42.7%
PATIENT SERVICES STATISTICS:						
Inpatient admissions (Med Surg/ICU)	575	584	670	721	776	869
Inpatient admissions (GerPsych)	149	101	103	133	160	153
	724	685	773	854	936	1,022
Inpatient admissions per day (excluding Observation)	2.0	1.9	2.1	2.3	2.6	2.8
Average daily census (excluding Observation)	11.8	9.9	11.1	14.5	15.2	16.1
Average length of stay - Med/Surg/ICU	3.6	3.6	3.5	3.6	3.4	3.5
Average length of stay - GerPsych	15.0	15.0	16.6	20.5	18.2	18.7
Inpatient days - Med Surg/ICU	2,071	2,119	2,342	2,563	2,645	3,017
Inpatient days - GerPsych	2,237	1,477	1,714	2,722	2,917	2,858
	4,308	3,596	4,056	5,285	5,562	5,875
Equivalent outpatient days **	22,603	19,896	14,079	16,609	15,693	14,325
Adjusted patient days (IP days + Equivalent OP days)	31,219	27,088	22,191	27,179	26,817	26,075
Adjusted admissions	4,525	4,475	3,456	3,538	3,577	3,514
ER/Urgent Care Visits (including Oregon & McFarland)	28,570	18,614	20,811	23,141	21,060	22,112
** Equivalent outpatient days = Outpatient revenue/(Inpatient revenue/Inpatient days)						
OPERATING STATISTICS:						
Net patient revenue per adjusted patient day	\$ 1,585	\$ 1,721	\$ 1,911	\$ 2,107	\$ 2,216	\$ 2,236
Compensation and benefits as a % of net patient service revenue	48.3%	49.5%	52.0%	52.8%	52.9%	51.2%
Full-time equivalent employees (FTE'S) See Note.	241	226	222	261	276	268
Paid hours per adjusted patient day	16.06	17.33	20.80	24.81	27.01	27.56
Paid hours per adjusted admission	110.77	104.88	133.56	159.55	160.50	158.40
Supplies as a % of net patient service revenue	12.8%	12.3%	11.6%	11.4%	12.4%	13.6%
Adjusted Occupied Beds	73.7	64.4	49.7	60.0	58.2	55.3
FTEs per Adjusted Occupied Beds	3.27	3.51	4.47	4.35	4.74	4.84

NOTE REGARDING REIMBURSED FTE'S: The Hospital is reimbursed by the Stoughton Hospital Foundation, Dean Clinic, the MRI Joint Venture and Partners of Stoughton Hospital (POSH) for personnel costs incurred providing services to these organizations. FTE's related to these organizations included in the budget are estimated at 8.2 FTE'S.

**STOUGHTON HOSPITAL ASSOCIATION
BUDGET ASSUMPTIONS 2020-2021**

BALANCE SHEET ASSUMPTIONS

Current Assets:

Days outstanding in net accounts receivable
Days supplies in inventory
Other current assets increase FY22

Non-current Assets:

Investments:

Investments projected at end of fiscal year:

Investment portfolio balance
Additional Investment
Fund growth

Property and Equipment:

Total Budgeted Capital expenditures:
Routine capital budget

Current Liabilities:

Days expenses in AP
Days accrued in payroll

INCOME STATEMENT ASSUMPTIONS

Revenues:

Hospital rate increase
Key hospital services growth/retraction from FY20:
Emergency services
Inpatient volumes

Bad debt percentage of gross revenue

Expenses:

Percentage increase in wage rates (effective April 2022)
Note: Salary increases contingent on satisfactory financial performance
403(b) match
Depreciation as a % of fixed asset costs

	Budget 2022	Projected 2021	Audited 2020
	43	43	40
	51	51	52
	3%		
	\$12,068,000	\$10,772,000	\$8,089,820
	\$1,000,000	\$1,000,000	\$750,000
	12.0%	33.2%	18.3%
	\$ 3,000,000	\$ 2,080,000	\$ 1,507,000
	23	23	24
	6	19	18
	4.00%		
	53.5%		
	19.8%		
	-1.1%	-1.1%	-1.6%
	3.0%		
	4.0%		
	4.5%	4.7%	5.2%