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STOUGHTON HEALTH

BUDGET

Fiscal Year Ending September 30, 2023

**STOUGHTON HOSPITAL ASSOCIATION
BUDGET NARRATIVE
Fiscal Year Ending September 30, 2023**

BACKGROUND

Stoughton Health has experienced significant turbulence during the last three fiscal years due to the COVID-19 pandemic. The theme of the FY2023 budget is a slight cooling down of volumes from the unprecedented increases seen during FY2022 as a result of delayed healthcare and sicker patients as well as an uptick in preventative services during the year.

Overarching assumptions include:

- No further grant funding and provider relief funds available for COVID 19 testing and mitigation expenses and lost revenues.
- Lower volumes in several areas as outlined below. Overall a ~4.6% volume driven increase in gross revenue.
- Increased compensation and benefit costs in order to remain competitive in the market as well as an assumption that open positions will be filled in the coming year.
- Continued increased expenses as a result of supply cost increases as well as professional fees increasing at a greater rate than the past few years as a result of the rising consumer price index (CPI).

OPERATING ACTIVITIES

A 4.0% overall increase in Hospital charges is planned for and was approved by the Governing Board effective October 1, 2022.

The FY2023 inpatient services budgeted numbers represent a decrease in inpatient days from FY22 of (150) days or (4%). This represents the net result from a predicted decrease in Medical/Surgical volumes and an increase in Geriatric Psychiatry (GP) volumes as we plan to be able to increase the GP capacity back up to eight beds following Labor Day. Staffing has stabilized for that unit such that they can safely care for more than the five patient capacity they have been handling since they re-opened following the pandemic shutdown in 2020.

Outpatient service revenues are projected to increase by 8.6% or \$10,879,000 from what is projected for FY2022. This increase is a combination of factors as follows:

- Surgical services cases budgeted to increase 9%. Service lines with the greatest budgeted growth are as follows:

Stoughton Health Surgical Cases Budget FY2023								
Specialty	Final FY19	Final FY20	Final FY21	YTD FY22 thru Jul	Annualized FY2022	% Change from LY	FY23 Budget	% Change from Annualized FY2022
Orthopedics	381	282	277	257	309	12%	375	18%
Gynecology	8	1	0	0	0	0%	35	100%
Urology	9	11	7	6	7	0%	10	30%
General	307	250	255	203	233	-9%	265	12%
Ophthalmology (Phaco)	290	211	225	185	223	-1%	225	1%
Podiatry	11	44	58	65	85	47%	90	6%
Dental	34	130	199	132	156	-22%	170	8%
ENT	52	37	30	28	32	7%	40	20%
Total Surgical Procedures	1092	966	1051	876	1045	-1%	1210	14%
GI Endoscopy	517	379	423	514	601	42%	605	1%
Total OR Procedures	1609	1345	1474	1390	1646	12%	1815	9%

- Combined emergency room and urgent care visits at all three sites are expected to decline (4.8%) from 32,560 visits projected for FY2022 to 30,990 visits projected for FY2023. This decline is budgeted as a result of not expecting the COVID-19 surges and testing visits that have been seen in the last year.

Compensation and benefits are projected to increase \$3,277,000 or 12% from projected FY2022. Key assumptions include:

- Maintaining the changes in staffing of departments so that 80% of departments are in the upper quartile for their productivity standards.
- 5.0% wage increase effective January 2023, if feasible.
- Increased shift differential rates for employees working nights and weekends which were effective July 31, 2022, thus will have a full year impact of approximately \$115,000.
- The FY2023 budget is based on 253 full time equivalent employees (FTE) which is an increase of 16 FTEs from the projected FTEs for FY2022 of 237. This expected increase is the result of the assuming that open positions will be filled as well as openings that we had during FY2022 but which were filled during FY2022 will be in place for the entire year of 2023. Included within the budget are FTEs for services provided by Hospital staff to other organizations for which the Hospital is reimbursed. These organizations include the Stoughton Hospital Foundation, SSM Health Dean Clinic, Stoughton Hospital Imaging and Partners of Stoughton Hospital.
- Both of our health insurance vendors are projecting increases in premiums for calendar year 2023 which is reflected as an increase to benefits expense in January 2023.

Inflationary increases coupled with surgical services volume increases drive increases in other expense line items.

Contractual discounts are projected to increase to 62.4% from the projected 61.2% for FY2022. Continued critical access hospital (CAH) status was assumed in estimating Medicare and Medicaid reimbursements. Payer mix was assumed to remain consistent with previous year, however, on average commercial payers cap increased reimbursement at 3%, thus the entire 4% rate increase doesn't flow down to the bottom line. In addition, Medicare reimbursement will be decreased by the return of sequestration as well as the increased revenues in Geri-Psych will depress Medicare Critical Access Hospital (CAH) reimbursement.

Net Patient Service Revenue is budgeted to be \$58,351,000 which is a 5.4% increase from projected FY2022 results. Operating Income is budgeted at \$4,500,000 which results in an operating margin of 7.4%. The total excess of revenues over expenses for the year is budgeted at \$5,500,000 representing a 9.0% total margin.

BALANCE SHEET ASSUMPTIONS

Capital expenditures are budgeted at \$3,000,000 for routine equipment purchases/replacements, facilities upgrades and information technology investments and \$500,000 for the EUA design fees for the medical office building approved at the August Executive Committee meeting. The other portion of design fees will occur in FY2024 based upon the timelines currently in place.

Financing activities include monthly principal and interest payments on outstanding debt. The budget does not contemplate prepayment of debt this fiscal year as rising interest rates plus cost reimbursement of interest expense makes maintaining the current debt structure advantageous in planning for financing the medical office building in the next couple of years.

Investing activities assumes another \$1,000,000 investment quarterly into the investment account as well as increasing certificates of deposit by \$3,000,000 during the course of the year. The rate of return on investments is assumed to be 4.5% with increases on the CD rates as they renew of 2-3%.

STOUGHTON HEALTH

BALANCE SHEETS
Budget 2022 - 2023

ASSETS	Balances as of September 30,		
	Budget 2023	Projected 2022	Audited 2021
ASSETS			
Current Assets			
Cash	\$ 29,685,000	\$ 30,374,000	\$ 33,874,000
Patient accounts receivable, net of allowances	7,194,000	6,827,000	6,759,000
Supplies	1,165,000	1,008,000	537,000
Other current assets	889,000	847,000	781,000
Total current assets	38,933,000	39,056,000	41,951,000
Assets Limited as to Use			
Certificates of deposit	11,000,000	8,000,000	7,000,000
Board designated and other investments	12,730,000	11,390,000	10,630,000
Property and Equipment	67,731,000	64,231,000	62,870,000
Less accumulated depreciation	(41,424,000)	(38,389,000)	(35,632,000)
Net property and equipment	26,307,000	25,842,000	27,238,000
Other Assets			
Interest in net assets of Foundation	1,407,000	1,357,000	1,374,000
Other non-current assets	3,024,000	3,012,000	-
Investment in MRI Joint Venture	1,222,000	1,192,000	1,169,000
Total assets	\$ 94,623,000	\$ 89,849,000	\$ 89,362,000
LIABILITIES AND NET ASSETS			
Current Liabilities			
Current portion of long-term debt	\$ 1,138,000	\$ 1,200,000	\$ 1,317,000
Accounts payable	1,612,000	1,496,000	1,106,000
Accrued salaries and related withholdings	1,146,000	1,245,000	1,061,000
Accrued vacation compensation	1,541,000	1,380,000	1,194,000
Accrued interest	26,000	29,000	37,000
Deferred revenue	101,000	101,000	103,000
CMS advance payments, current portions	-	-	4,591,000
Estimated third-party payor settlements	2,015,000	2,015,000	1,450,000
Total current liabilities	7,579,000	7,466,000	10,859,000
Deferred compensation liability	473,000	415,000	431,000
Long-Term Debt, net of current portion	7,558,000	8,720,000	10,923,000
Total liabilities	15,610,000	16,601,000	22,213,000
Net Assets			
Unrestricted	77,452,000	71,737,000	65,621,000
Temporarily restricted	1,561,000	1,511,000	1,528,000
Total net assets	79,013,000	73,248,000	67,149,000
Total liabilities and net assets	\$ 94,623,000	\$ 89,849,000	\$ 89,362,000

RWHC 2021 CAH Avg	RATIOS	Budget 2023	Projected 2022	Actual 2021
4.1	Current ratio	5.1	5.2	3.9
52	Days revenue in AR (net)	45	45	53
343	Days cash & investments on hand	388	401	435
9.2	Age of plant (years)	13.6	12.6	11.3
8.1	Debt service coverage ratio	5.9	5.8	3.9
0.5	Long term debt to equity	0.1	0.1	0.2

STOUGHTON HOSPITAL ASSOCIATION
INCOME STATEMENTS

Budget 2022 - 2023

	%			Percent of Total Gross Revenues				
	Budget 2023	Change from Projected 2022	Projected 2022	Budget 2022	Audited 2021	Budget 2023	Budget 2022	Audited 2021
REVENUES								
Patient service revenues:								
Inpatient	22,781,000	9.0%	20,898,000	20,742,000	18,670,000	14.2%	16.0%	15.1%
Outpatient	138,076,000	8.6%	127,197,000	108,830,000	104,576,000	85.8%	84.0%	84.9%
Total gross patient services revenues	160,857,000	8.6%	148,095,000	129,572,000	123,246,000	100.0%	100.0%	100.0%
Less contractual discounts	(100,327,000)	10.7%	(90,634,000)	(78,345,000)	(74,727,000)	-62.4%	-60.5%	-60.6%
Less charity care	(632,000)	4.3%	(606,000)	(355,000)	(376,000)	-0.4%	-0.3%	-0.3%
	59,898,000	5.4%	56,855,000	50,872,000	48,143,000	37.2%	39.3%	39.1%
Less allowance for uncollectible accounts	(1,547,000)	4.7%	(1,478,000)	(1,385,000)	(1,356,000)	-1.0%	-1.1%	-1.1%
Net patient service revenues	58,351,000	5.4%	55,377,000	49,487,000	46,787,000	36.3%	38.2%	38.0%
Contractual discounts %	-62.4%		-61.2%	-60.5%	-60.6%			
Other operating revenue	985,000	9.4%	900,000	781,000	917,000	0.6%	0.6%	0.7%
Contributions and grants	439,000	-29.5%	623,000	345,000	344,000	0.3%	0.3%	0.3%
Rental income	897,000	6.7%	841,000	838,000	844,000	0.6%	0.6%	0.7%
TOTAL REVENUES	60,672,000	5.1%	57,741,000	51,451,000	48,892,000	37.7%	39.7%	39.7%
EXPENSES								
Salaries	22,012,000	11.6%	19,716,000	18,961,000	18,366,000	13.7%	14.6%	14.9%
Employee Benefits	5,184,000	23.3%	4,203,000	4,940,000	4,322,000	3.2%	3.8%	3.5%
Professional fees	6,848,000	7.6%	6,365,000	6,250,000	5,567,000	4.3%	4.8%	4.5%
Purchased services	7,620,000	-0.7%	7,673,000	6,183,000	6,252,000	4.7%	4.8%	5.1%
Supplies	8,335,000	15.6%	7,211,000	6,345,000	6,023,000	5.2%	4.9%	4.9%
Interest	359,000	-13.5%	415,000	451,000	538,000	0.2%	0.3%	0.4%
Administrative and general	2,504,000	10.4%	2,268,000	2,207,000	1,990,000	1.6%	1.7%	1.6%
Insurance	275,000	22.8%	224,000	234,000	184,000	0.2%	0.2%	0.1%
Depreciation	3,035,000	-0.7%	3,056,000	3,080,000	3,151,000	1.9%	2.4%	2.6%
Total expenses	56,172,000	9.9%	51,131,000	48,651,000	46,393,000	34.9%	37.5%	37.6%
Operating income	4,500,000	-31.9%	6,610,000	2,800,000	2,499,000	2.8%	2.2%	2.0%
Other income (expense):								
Investment income	438,000	33.5%	328,000	238,000	758,000			
Unrealized gains (losses) on investments	282,000	-133%	(850,000)	296,000	796,000			
Equity in earnings of MRI joint venture	280,000	2.6%	273,000	229,000	265,000			
Gain (loss) on disposal of assets	-	-100.0%	(420,000)	-	-			
Paycheck Protection Program Loan Forgiveness	-	0%	-	-	4,065,000			
Provider Relief Funds	-	-100.0%	407,331	-	5,023,000			
Excess of revenues over expenses	\$ 5,500,000	-7.4%	\$ 5,941,000	\$ 3,563,000	\$ 13,406,000			
<i>Operating Margin</i>	7.4%		11.4%	5.4%	5.1%			
<i>Total Margin</i>	9.0%		10.2%	6.9%	26.9%			
Net patient revenue per APD	\$2,299	10.2%	\$2,087	\$1,839	\$2,580			
Salaries per APD	\$867	16.7%	\$743	\$705	\$1,013			
Benefits per APD	\$204	29.0%	\$158	\$184	\$238			
Supplies per APD	\$328	20.8%	\$272	\$236	\$332			
Other expenses per APD	\$874	8.0%	\$810	\$719	\$1,258			

STOUGHTON HOSPITAL ASSOCIATION
STATEMENTS OF CHANGES IN NET ASSET
Budget 2022 - 2023

	Budget	Projected	Audited
	2023	2022	2021
Unrestricted net assets:			
Excess of revenues over expenses	\$ 5,500,000	\$ 5,941,000	13,406,000
Net assets released from restrictions used for property and equipment	-	-	66,000
Contributions and grants for property and equipment	215,000	175,000	149,000
Increase (decrease) in unrestricted net assets	<u>5,715,000</u>	<u>6,116,000</u>	<u>13,621,000</u>
Temporarily restricted net assets:			
Restricted contributions	-	-	46,000
Change in interest in net assets of Foundation	50,000	(17,000)	91,000
Net assets released from restrictions used for property and equipment	-	-	(66,000)
Increase (decrease) in temporarily restricted net assets	<u>50,000</u>	<u>(17,000)</u>	<u>71,000</u>
Change in net assets	5,765,000	6,099,000	13,692,000
Net assets, beginning	<u>73,248,000</u>	<u>67,149,000</u>	<u>53,457,000</u>
Net assets, ending	<u>\$ 79,013,000</u>	<u>\$ 73,248,000</u>	<u>\$ 67,149,000</u>

STOUGHTON HOSPITAL ASSOCIATION
STATEMENTS OF CASH FLOWS
Budget 2022 - 2023

	Budget	Projected	Audited
	2023	2022	2021
Cash Flows From Operating Activities			
Increase (decrease) in net assets	\$ 5,765,000	\$ 6,099,000	\$ 13,692,000
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)	17,000	(91,000)
Depreciation	3,035,000	3,056,000	3,151,000
Amortization of debt issuance costs	26,000	28,000	31,000
Change in net unrealized gains and losses	(282,000)	850,000	(1,308,000)
Loss (gain) on disposal of property and equipment	-	420,000	(15,000)
Forgiveness of Paycheck Protection Program Loan	-	-	(4,065,000)
Uncollectible accounts	1,547,000	1,478,000	1,356,000
Contributions restricted for equipment acquisitions	(215,000)	(175,000)	(195,000)
Change in investment in Stoughton Hospital Imaging LLC	(280,000)	(273,000)	(265,000)
Distribution from SHI	250,000	250,000	200,000
Increase (decrease) from changes in:			
Patient accounts receivable, net	(1,914,000)	(1,546,000)	(3,500,000)
Supplies	(157,000)	(471,000)	158,000
Estimated third-party payor settlements	-	565,000	1,575,000
Other assets	(54,000)	(3,078,000)	(107,000)
Refundable advance	-	-	(5,023,000)
CMS advance payments	-	(4,591,000)	(1,238,000)
Accounts payable, accrued expenses and deferred revenue	233,000	847,000	272,000
Net cash provided by (used in) operating activities	7,904,000	3,476,000	4,628,000
Cash Flows From Investing Activities			
Acquisition of property and equipment	(3,500,000)	(2,080,000)	(1,562,000)
Proceeds from sale of property and equipment	-	-	58,000
Net sales (purchases) of certificates of deposit	(3,000,000)	(1,000,000)	-
Net change in assets limited as to use	(1,058,000)	(1,610,000)	768,000
Net cash provided by (used in) investing activities	(7,558,000)	(4,690,000)	(736,000)
Cash Flows From Financing Activities		29,000	
Proceeds from issuance of debt	-	-	-
Repayment of long-term debt	(1,250,000)	(2,348,000)	(1,298,000)
Contributions restricted for property & equipment	215,000	175,000	195,000
Payment of accounts payable for equipment & financing costs	-	(113,000)	(151,000)
Net cash provided by (used in) financing activities	(1,035,000)	(2,286,000)	(1,254,000)
Net increase (decrease) in cash	(689,000)	(3,500,000)	2,638,000
Cash, beginning	30,374,000	33,874,000	31,236,000
Cash, ending	\$ 29,685,000	\$ 30,374,000	\$ 33,874,000

STOUGHTON HOSPITAL ASSOCIATION
STATISTICAL ANALYSIS
Budget 2022 - 2023

	Budgeted		Projected		
	2023	2022	2021	2020	2019
Inpatient revenue	22,781,000	20,898,000	18,670,000	23,420,000	27,476,000
Outpatient revenue	138,076,000	127,197,000	104,576,000	81,293,000	86,348,000
Total gross patient service revenue	160,857,000	148,095,000	123,246,000	104,713,000	113,824,000
Contractual discounts	(100,327,000)	(90,634,000)	(74,727,000)	(60,685,000)	(66,053,000)
<i>Contractual discount %</i>	<i>-62.4%</i>	<i>-61.2%</i>	<i>-60.6%</i>	<i>-58.0%</i>	<i>-58.0%</i>
Allowance for uncollectible accounts and charity care	(2,179,000)	(2,084,000)	(1,732,000)	(2,092,000)	(2,104,000)
Net patient service revenue	57,719,000	55,377,000	46,787,000	41,936,000	45,667,000
<i>Overall Collection %</i>	<i>35.9%</i>	<i>37.4%</i>	<i>38.0%</i>	<i>40.0%</i>	<i>40.1%</i>
PATIENT SERVICES STATISTICS:					
Inpatient admissions (Med Surg/ICU)	537	604	616	670	721
Inpatient admissions (GeriPsych)	147	102	100	103	133
	684	706	716	773	854
Inpatient admissions per day (excluding Observation)	1.9	1.9	2.0	2.1	2.3
Average daily census (excluding Observation)	9.8	10.3	10.0	11.1	14.5
Average length of stay - Med/Surg/ICU	3.4	3.4	3.5	3.5	3.6
Average length of stay - GeriPsych	12.0	11.6	15.6	16.6	20.5
Inpatient days - Med Surg/ICU	1,830	2,557	2,100	2,342	2,563
Inpatient days - GeriPsych	1,764	1,187	1,558	1,714	2,722
	3,594	3,744	3,658	4,056	5,285
Equivalent outpatient days **	21,783	22,788	20,490	14,079	16,609
Adjusted patient days (IP days + Equivalent OP days)	25,377	26,532	24,148	18,135	21,894
Adjusted admissions	4,827	5,003	4,727	3,456	3,538
ER/Urgent Care Visits (including Oregon & McFarland)	30,990	32,560	20,126	20,811	23,141
** Equivalent outpatient days = Outpatient revenue/(Inpatient revenue/Inpatient days)					29,000
OPERATING STATISTICS:					
Net patient revenue per adjusted patient day	\$ 2,274	\$ 2,087	\$ 1,938	\$ 2,338	\$ 2,107
Compensation and benefits as a % of net patient service revenue	46.6%	43.2%	48.5%	52.0%	52.8%
Full-time equivalent employees (FTE'S)	253	237	227	222	261
Paid hours per adjusted patient day	20.70	18.57	19.57	25.45	24.81
Paid hours per adjusted admission	108.82	98.49	99.98	133.56	159.55
Supplies as a % of net patient service revenue	14.3%	13.0%	12.9%	11.6%	11.4%
Adjusted Occupied Beds	69.5	72.7	66.2	49.7	60.0
FTEs per Adjusted Occupied Beds	3.63	3.26	3.43	4.47	4.35