



Creating Excellence Together

REPORT TO THE FINANCE COMMITTEE OF THE GOVERNING BOARD

September 30, 2022



STOUGHTON HEALTH

Independent Auditor's Report

- An unmodified opinion is anticipated to be issued on the financial statements.
- New format
 - Management's responsibilities
 - Auditor's responsibilities

SIGNIFICANT RISKS IDENTIFIED IN PLANNING AND PERFORMING THE AUDIT

Management Override of Controls

Revenue Recognition

Allowance for Implicit and Explicit Price Concessions on Patient Receivables

Estimated Third-Party Payor Settlements

Stimulus Funds

SIGNIFICANT ESTIMATES AND DISCLOSURES

Collectability of Patient Receivables

Estimated Third-Party Payor Settlements

- 2022 – estimated liability of \$1,875,000
 - Medicare cost reports finalized through 2018
 - Reserves removed 3 years post Notice of Provider Reimbursement

Paycheck Protection Program Loan (Note 1)

- Full amount forgiven in 2021
- Recognized as other revenue in 2021 - \$4,065,000 (Loan \$4,015,000 and interest \$50,000)
- Loan at 9.30.20

Stimulus Funds (Note 16)

- CARES Act PRF and other sources – total received over three years - \$5,431,000
 - Recognized into other operating revenue
 - June 30, 2022 - \$407,000
 - June 30, 2021 - \$5,024,000

Medicare Advanced Payments (Contract liability) (Note 1)

- Received in 2020 - \$5,828,000
- Liability at 9.30.22 - \$-0-
- Liability at 9.30.21 - \$4,591,000

BALANCE SHEETS

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 31,855,000	\$ 33,874,000
Patient receivables	6,936,000	6,759,000
Supplies	742,000	537,000
Other current assets	<u>731,000</u>	<u>781,000</u>
Total current assets	<u>40,264,000</u>	<u>41,951,000</u>
Assets Limited as to Use	18,026,000	17,630,000
Property and Equipment, Net	25,939,000	27,238,000
Investments	2,992,000	-
Interest in net assets of the Stoughton Hospital Foundation	1,179,000	1,374,000
Investment in Stoughton Hospital Imaging, LLC	1,191,000	1,169,000
Other assets	<u>12,000</u>	<u>-</u>
Total assets	<u>\$ 89,603,000</u>	<u>\$ 89,362,000</u>

BALANCE SHEETS

	<u>2022</u>	<u>2021</u>
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 1,174,000	\$ 1,317,000
Accounts payable	1,475,000	1,106,000
Estimated third-party payor settlements	1,875,000	1,450,000
Accrued salaries, vacation and related withholdings	1,691,000	2,255,000
Other current liabilities	134,000	140,000
CMS advanced payments, current portion	-	4,591,000
Total current liabilities	<u>6,349,000</u>	<u>10,859,000</u>
Deferred Compensation	379,000	431,000
Long-Term Debt, Net of Current Maturities	<u>8,639,000</u>	<u>10,923,000</u>
Total liabilities	<u>15,367,000</u>	<u>22,213,000</u>
Net Assets		
Without donor restrictions	72,990,000	65,621,000
With donor restrictions	<u>1,246,000</u>	<u>1,528,000</u>
Total net assets	<u>74,236,000</u>	<u>67,149,000</u>
Total liabilities and net assets	<u>\$ 89,603,000</u>	<u>\$ 89,362,000</u>

CASH AND INVESTMENTS

	<u>2022</u>	<u>2021</u>
Provided by operations	\$ 7,199,000	\$ 4,382,000
Purchase of property and equipment	(2,040,000)	(1,562,000)
Payment of accounts payable for equipment	(85,000)	(151,000)
Proceeds from sale of property and equipment	-	58,000
Payments of principal on long-term debt	(2,456,000)	(1,298,000)
Contributions received from the Foundation	182,000	195,000
Investment income (loss)	<u>(1,431,000)</u>	<u>1,554,000</u>
Change in cash and investments	<u>\$ 1,369,000</u>	<u>\$ 3,178,000</u>
Balance at End of Year	<u>\$ 52,873,000</u>	<u>\$ 51,504,000</u>

	<u>2022</u>	<u>2021</u>
Current		
Cash and cash equivalents	\$ 31,855,000	\$ 33,874,000
Noncurrent		
Assets limited as to use		
Board designated for capital improvements and deferred compensation	18,026,000	17,630,000
Other assets - investments	<u>2,992,000</u>	<u>-</u>
Balance at End of Year	<u>\$ 52,873,000</u>	<u>\$ 51,504,000</u>

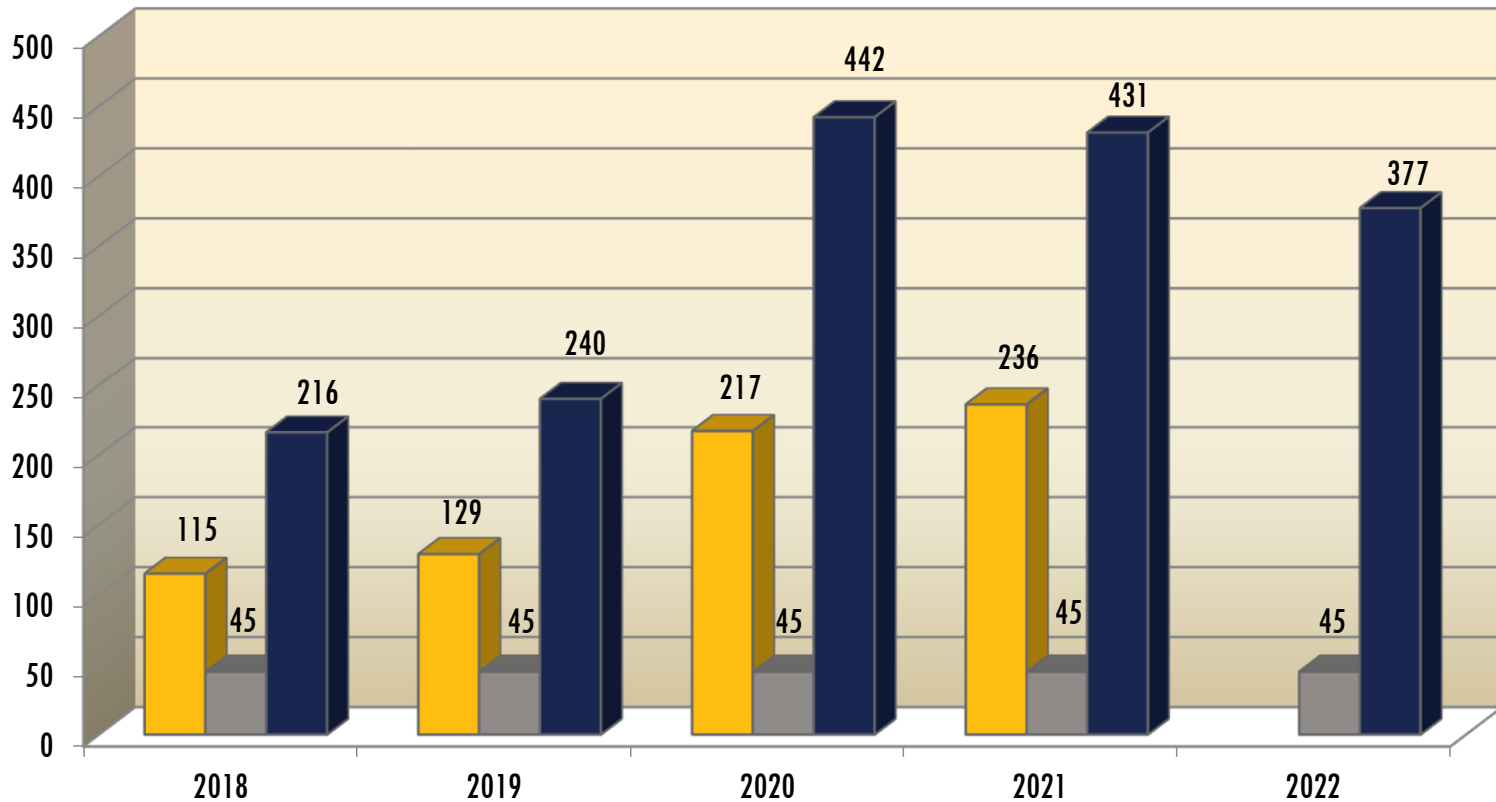
NET ASSETS

Ending Net Assets are as follows:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Without donor restrictions	\$ 72,990,000	\$ 65,621,000	\$ 52,001,000
With donor restrictions	<u>1,246,000</u>	<u>1,528,000</u>	<u>1,457,000</u>
	<u><u>\$ 74,236,000</u></u>	<u><u>\$ 67,149,000</u></u>	<u><u>\$ 53,458,000</u></u>
Increase from prior year	\$ 7,087,000	\$ 13,691,000	\$ 1,824,000
% Change	10.55%	25.61%	3.53%

LIQUIDITY RATIO – DAYS CASH AVAILABLE

Measures number of days of average cost expenses maintained in unrestricted cash and investments.



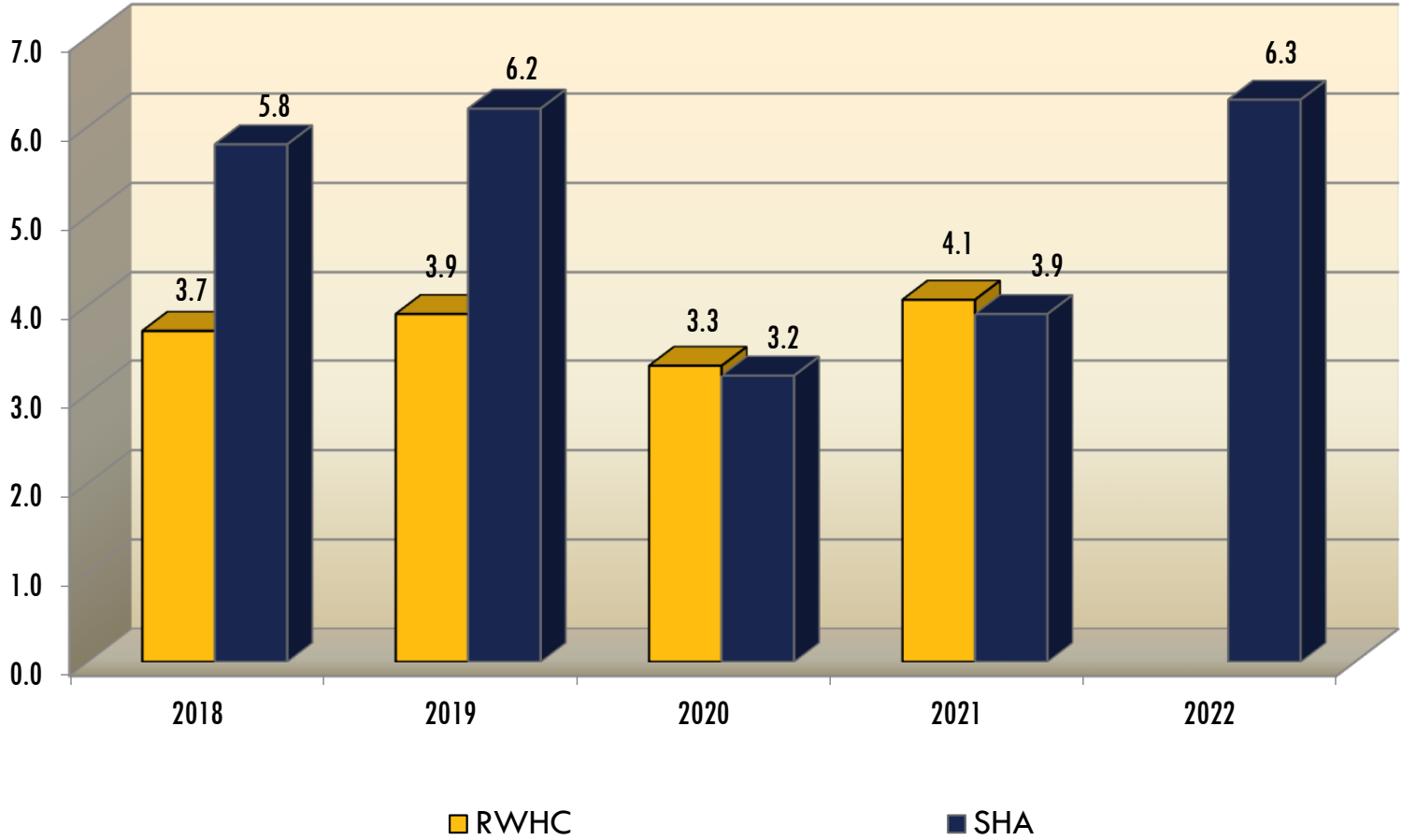
Desired Trend - Increase

Calculation includes all unrestricted cash and investment sources (short-term and long-term).

■ Rural WI Health Coop (RWHC) ■ Debt Covenant ■ Stoughton Hospital Association (SHA)

LIQUIDITY RATIO – CURRENT RATIO

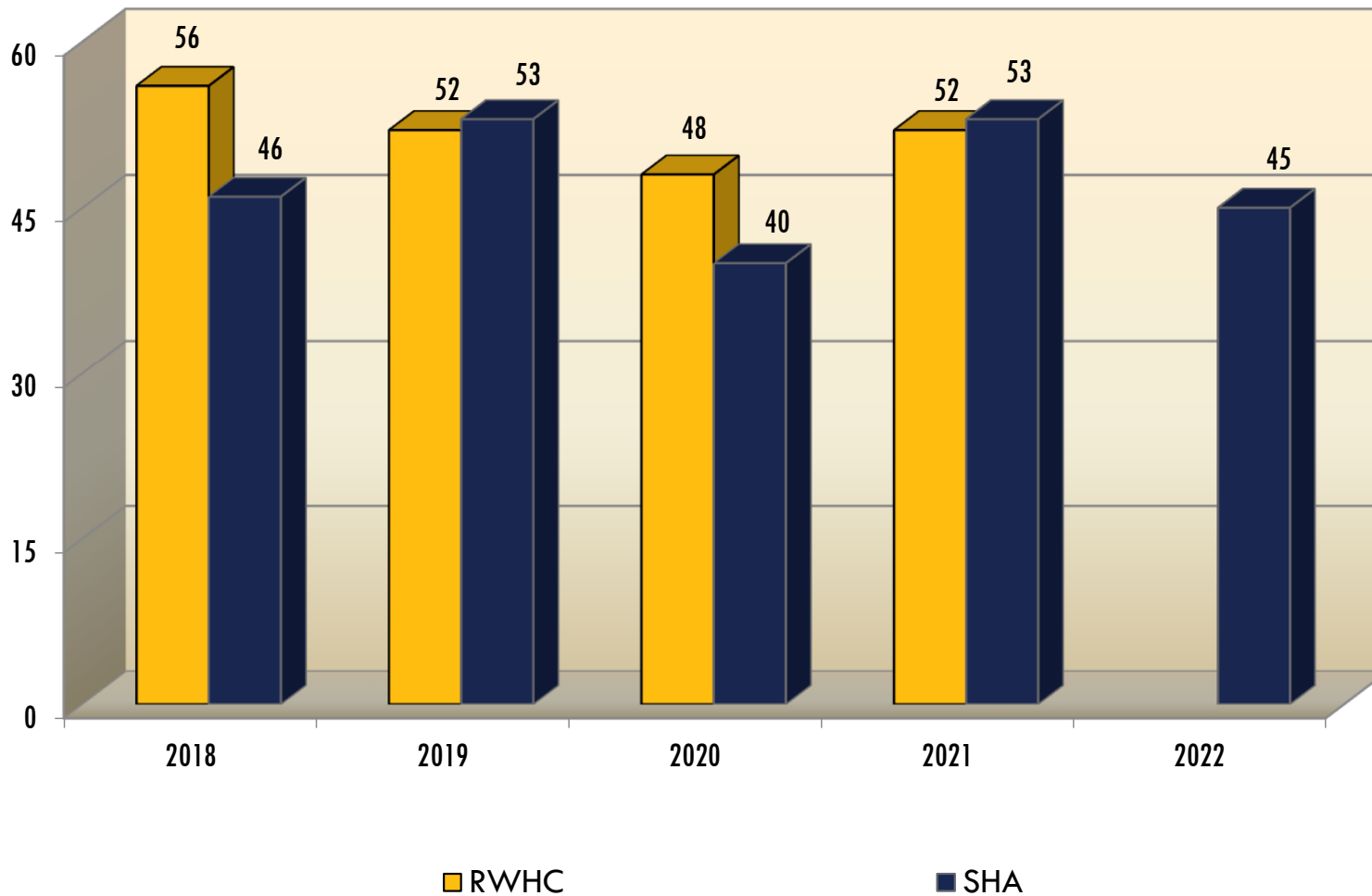
Number of dollars held in current assets per dollar of current liabilities.



Desired Trend – Increase

LIQUIDITY RATIO - DAYS IN NET PATIENT ACCOUNTS RECEIVABLE

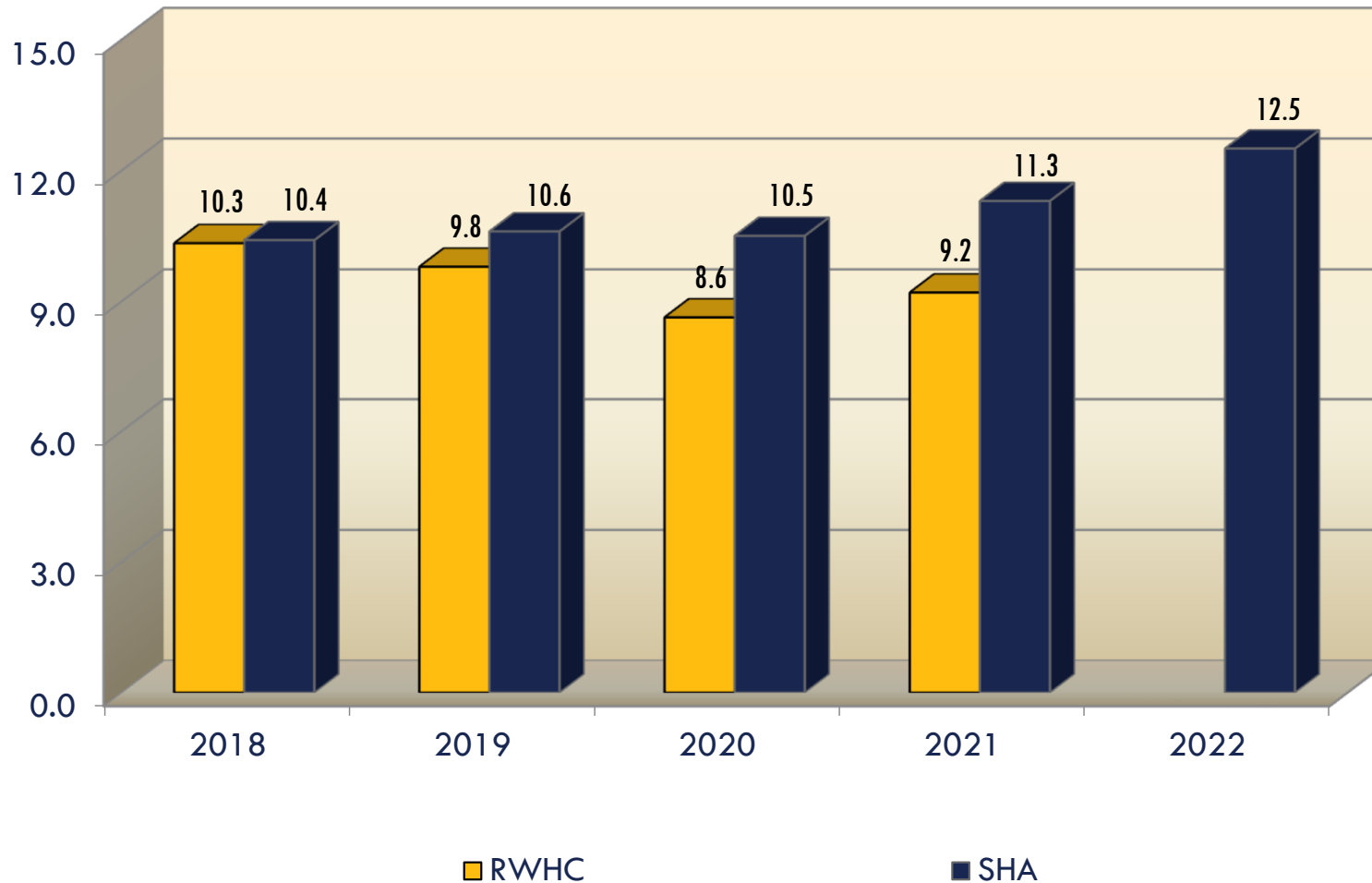
Average time that receivables are outstanding, or the average collection period.



Desired Trend –
Decrease

COST INDICATOR RATIO - AVERAGE AGE OF PLANT

Measures the average age of the Hospital's property and equipment.



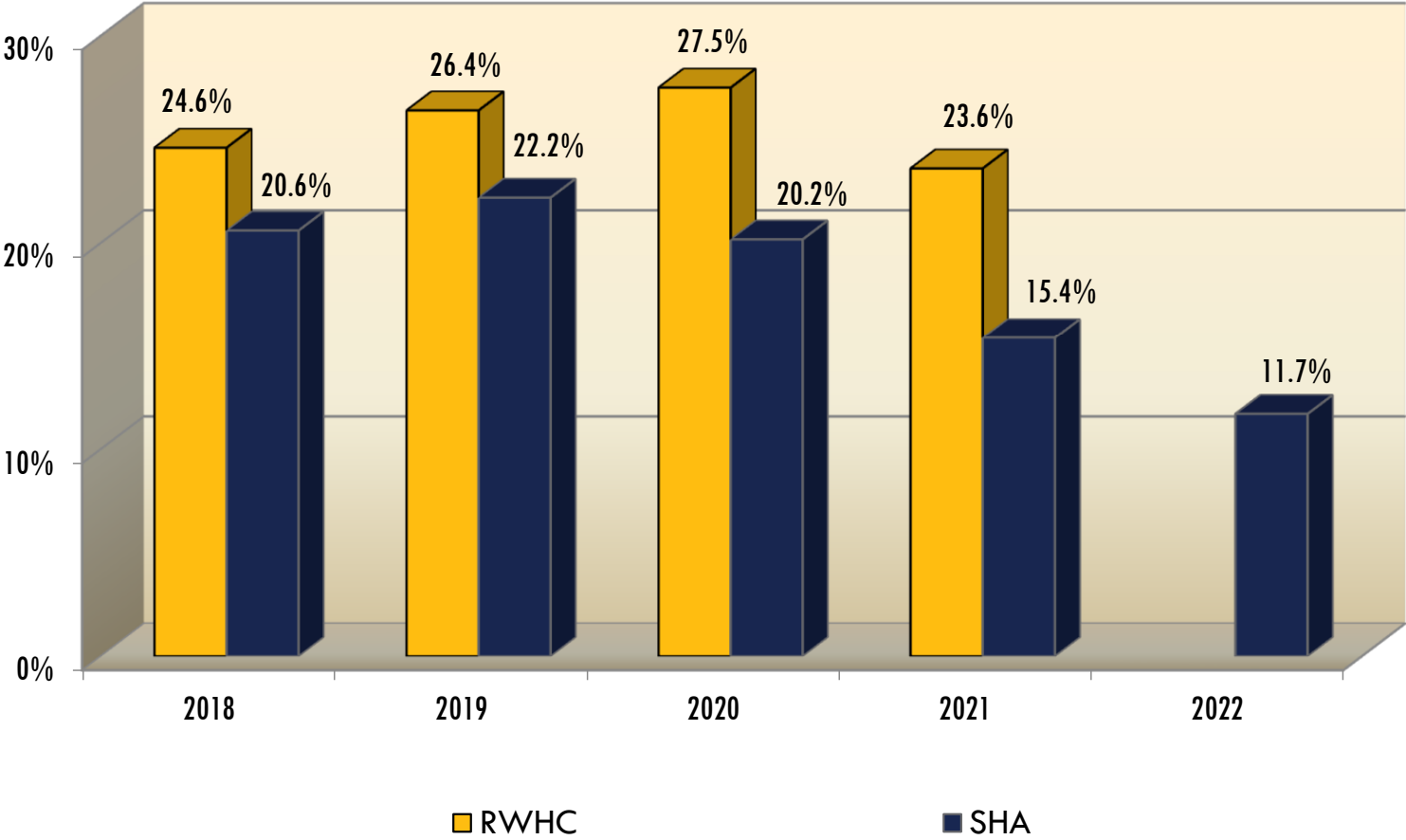
Desired Trend – Decrease

Depreciation expense:

2022 - \$3,084,000
2021 - \$3,151,000
2020 - \$3,256,000
2019 - \$3,049,000
2018 - \$2,890,000

CAPITAL STRUCTURE RATIO – LONG-TERM DEBT TO CAPITAL (CAPITALIZATION RATIO)

Measures debt component of an organization’s capital structure. Lower values indicate the ability of an organization to finance future operations with potential borrowings.



Desired Trend –
Decrease

Ratio excludes Paycheck Protection Loan.

HOSPITAL VOLUMES

	<u>2022</u>	Change	<u>2021</u>	Change	<u>2020</u>	Change	<u>2019</u>	Change	<u>2018</u>
Acute	1,983		1,731		2,046		1,977		2,250
Swing-bed	224		203		228		506		313
Intensive Care	253		166		68		80		82
Geriatric Psych Unit	<u>1,288</u>		<u>1,558</u>		<u>1,714</u>		<u>2,722</u>		<u>2,917</u>
Total Days	<u>3,748</u>		<u>3,658</u>		<u>4,056</u>		<u>5,285</u>		<u>5,562</u>
		2.5%		-9.8%		-23.3%		-5.0%	
ER/UC Services Outpatient									
Visits (including Oregon and McFarland)	<u>33,216</u>		<u>20,824</u>		<u>20,811</u>		<u>23,139</u>		<u>21,032</u>
*McFarland opened June 2021)		59.5%		0.1%		-10.1%		10.0%	
Other Outpatient Visits (excluding									
General Surgery and Ortho Clinic visits)	<u>45,369</u>		<u>43,712</u>		<u>33,062</u>		<u>39,628</u>		<u>35,484</u>
		3.8%		32.2%		-16.6%		11.7%	

STATEMENTS OF OPERATIONS

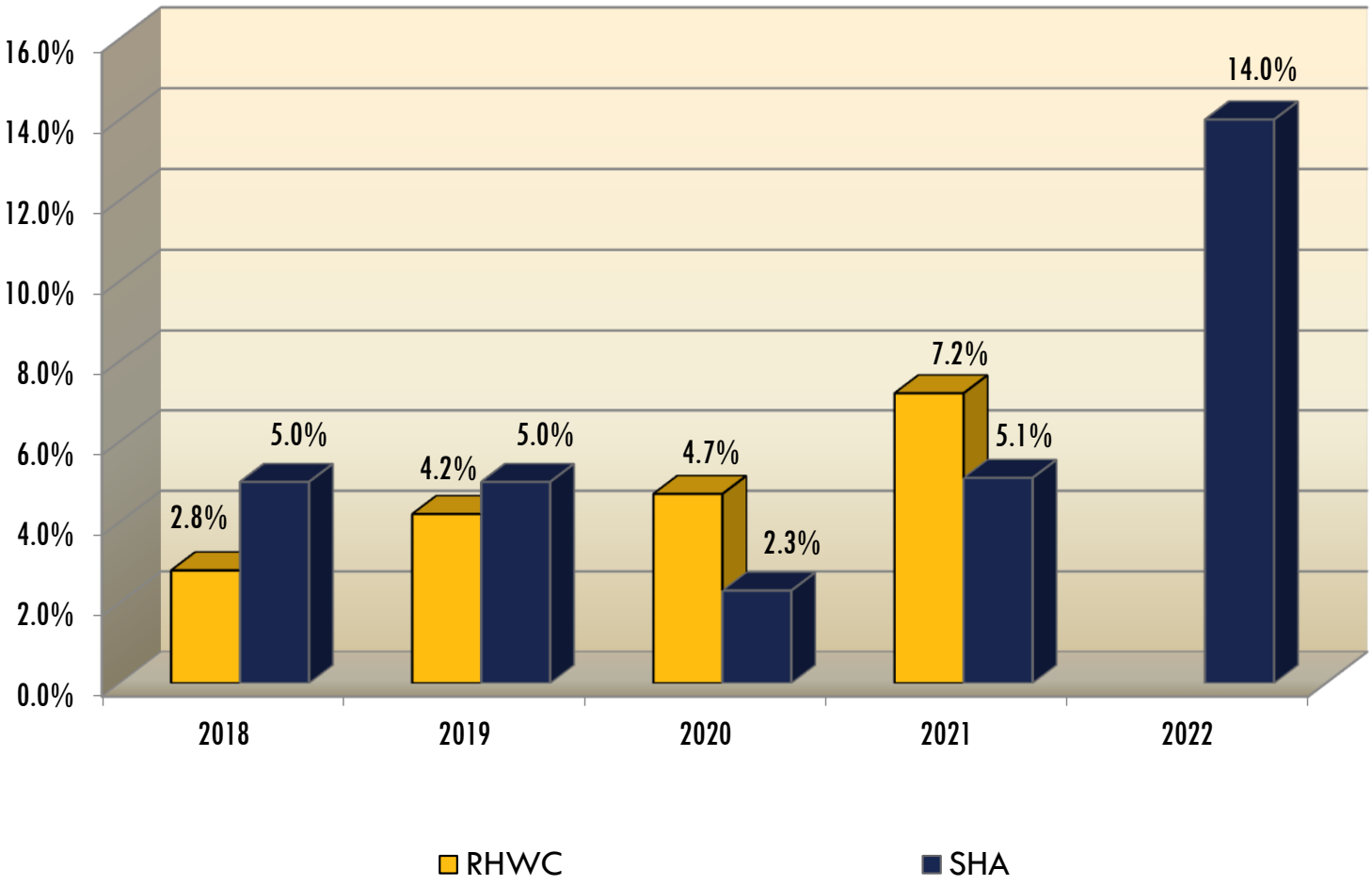
	Change	<u>2022</u>	Change	<u>2021</u>
Revenues, Gains, and Other Support Without Donor Restrictions				
Patient service revenue	21.3%	\$ 56,773,000	11.6%	\$ 46,787,000
Other revenue		1,793,000		1,761,000
Contributions and grants		702,000		457,000
		<u>59,268,000</u>		<u>49,005,000</u>
Total revenues, gains, and other support	20.9%		11.3%	
Expenses				
Salaries and wages	7.4%	19,797,000	8.4%	18,429,000
Employee benefits	-2.4%	4,223,000	-11.2%	4,329,000
Supplies and other expenses	17.0%	23,475,000	16.0%	20,059,000
Depreciation		3,084,000		3,151,000
Interest and amortization		415,000		538,000
		<u>50,994,000</u>		<u>46,506,000</u>
Total expenses	9.7%		8.1%	
Operating Income		<u>8,274,000</u>		<u>2,499,000</u>
		14.0%		5.1%
Other Income				
Investment income - realized		353,000		758,000
Investment income - unrealized		(1,784,000)		796,000
Earnings in Stoughton Hospital Imaging, LLC		272,000		265,000
Loss on disposal of property		(421,000)		-
Paycheck Protection Program loan forgiveness		-		4,065,000
Stimulus funds		407,000		5,023,000
		<u>(1,173,000)</u>		<u>10,907,000</u>
Total other income, net				
Revenues in Excess of Expenses		<u>\$ 7,101,000</u>		<u>\$ 13,406,000</u>

CHANGES IN NET ASSETS

	<u>2022</u>	<u>2021</u>
Net Assets Without Donor Restrictions		
Revenues in excess of expenses	\$ 7,101,000	\$ 13,406,000
Contributions for and of long-lived assets	179,000	149,000
Net assets released from restrictions used for capital purchases	<u>89,000</u>	<u>66,000</u>
Change in net assets without donor restrictions	<u>7,369,000</u>	<u>13,621,000</u>
Net Assets With Donor Restrictions		
Restricted contributions	3,000	46,000
Change in interest in net assets of the Foundation	(196,000)	91,000
Net assets released from restrictions	<u>(89,000)</u>	<u>(66,000)</u>
Change in net assets with donor restrictions	<u>(282,000)</u>	<u>71,000</u>
Change in Net Assets	7,087,000	13,692,000
Net Assets, Beginning of Year	<u>67,149,000</u>	<u>53,457,000</u>
Net Assets, End of Year	<u><u>\$ 74,236,000</u></u>	<u><u>\$ 67,149,000</u></u>

PROFITABILITY RATIO – OPERATING MARGIN

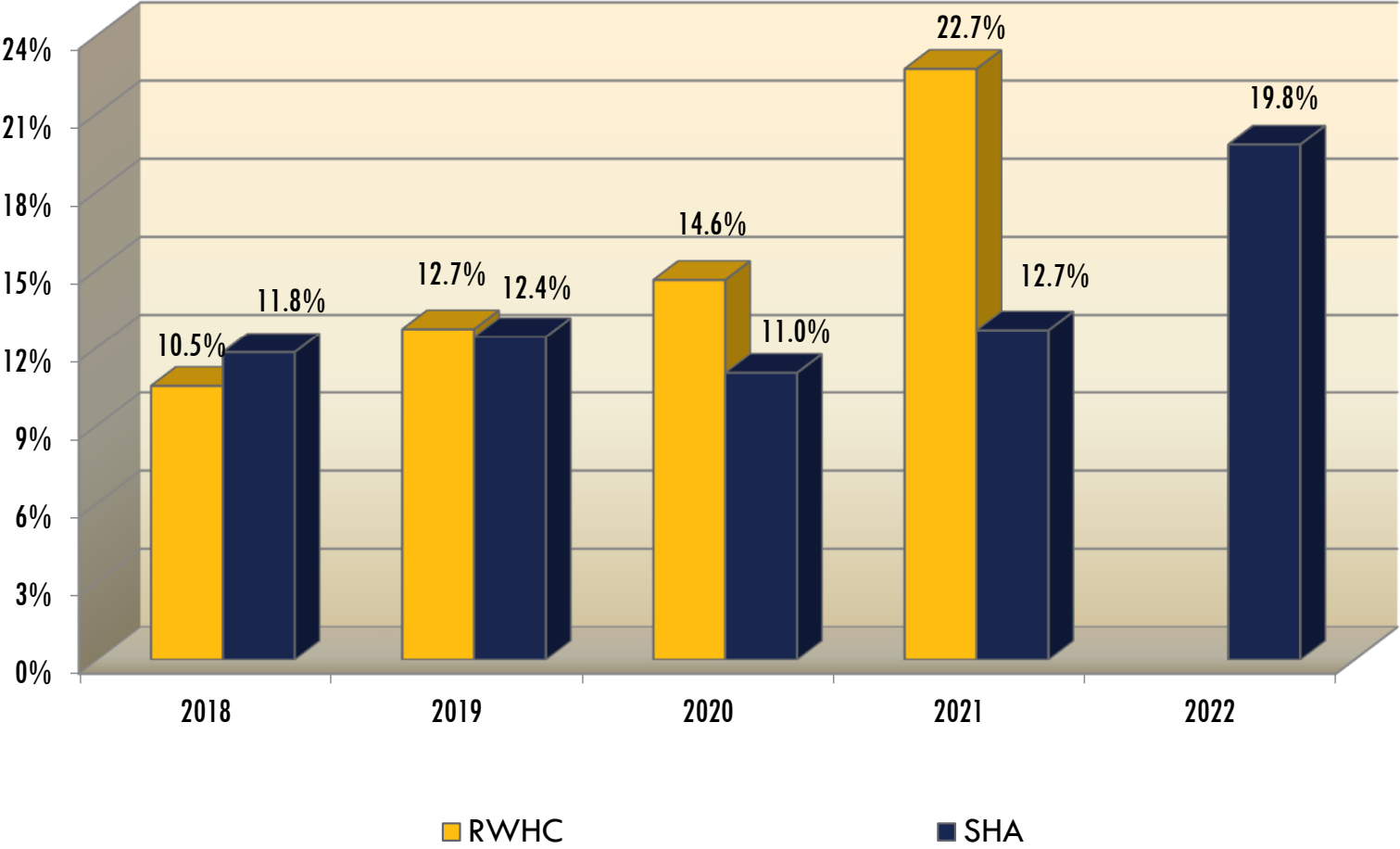
Defined as the proportion of total operating revenue that has been realized in income from operations.



Desired Trend – Increase

PROFITABILITY RATIO – OPERATING EARNINGS BEFORE INTEREST/ DEPRECIATION/AMORTIZATION (EBIDA)

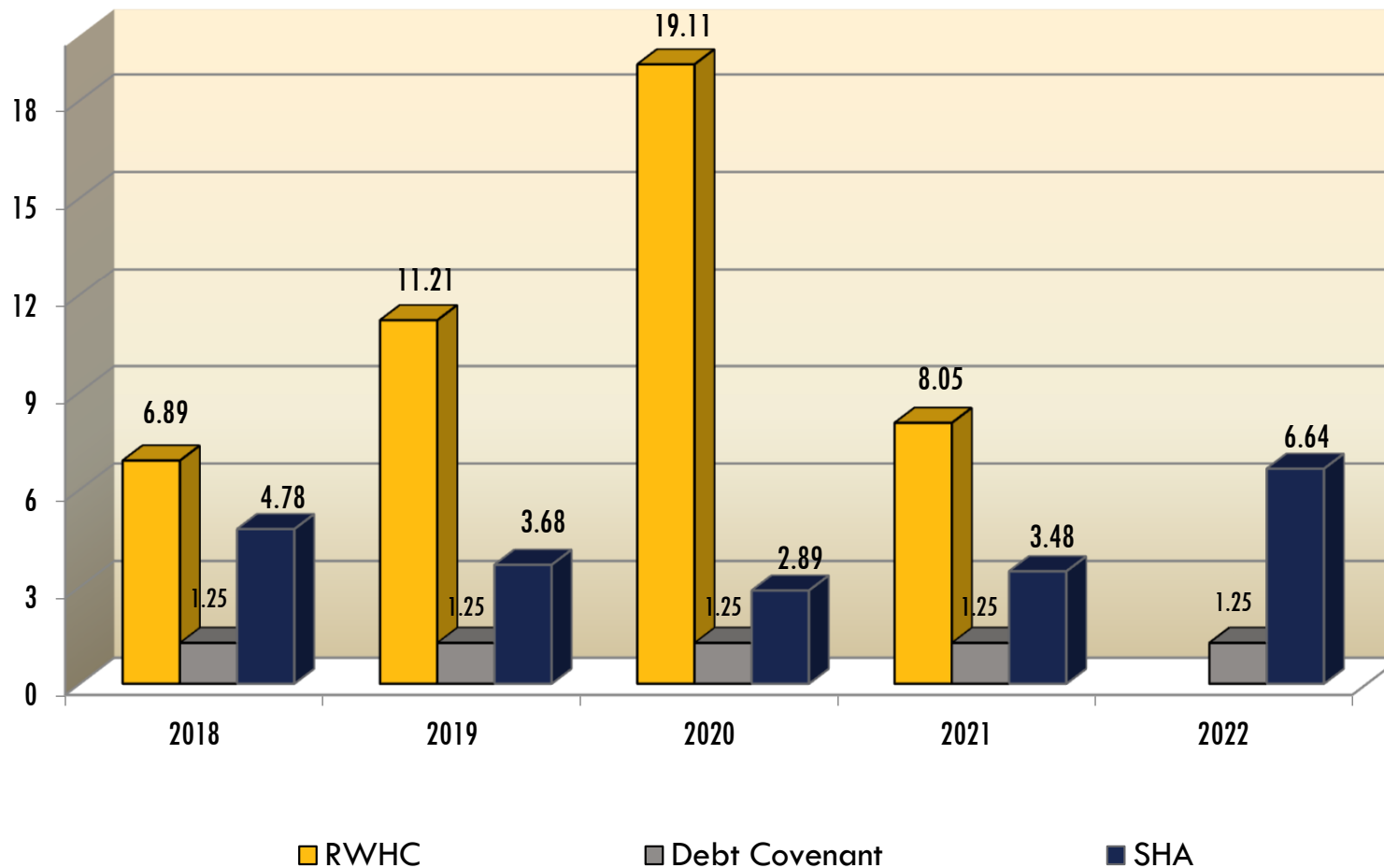
Measures profitability from operations, excluding capital costs of interest, depreciation, and amortization expense. Ratio is a rough measure of cash flow.



Desired Trend – Increase

CAPITAL STRUCTURE RATIO – DEBT SERVICE COVERAGE

Measures the ability to meet debt service payments (principal and interest) from annual cash flow.



Desired Trend - Increase

Ratio excludes contributions, grants for property and equipment and PRF/PPP.

Ratio calculated based on maximum principal and interest.

Proceeds - \$-0-

Payments made - \$2,456,000.

Total outstanding debt 2022 - \$9,813,000.

COMMUNICATIONS TO THOSE CHARGED WITH GOVERNANCE

Significant Accounting Policies

- No new significant accounting policies adopted nor changes in accounting policies.
- Noted no transactions entered into for which there is a lack of authoritative guidance.
- All significant transactions have been recognized in the financial statements.

Significant Risks

Significant Estimates

Significant Financial Statement Disclosures

Corrected and Uncorrected Misstatements

- No misstatements detected as a result of audit procedures.

No Difficulties Encountered in Performing Audit.

No Disagreements with Management over any financial accounting, reporting or auditing matter.

We are not aware of any consultations management may have had with other accountants.

We will obtain certain representations from management as part of the audit process.

QUESTIONS?



Creating Excellence Together



CPAs & BUSINESS ADVISORS

[Date]

To the Board of Directors
Stoughton Hospital Association
d/b/a Stoughton Health
Stoughton, Wisconsin

We have audited the financial statements of Stoughton Hospital Association d/b/a Stoughton Health (Hospital) as of and for the year ended September 30, 2022 and have issued our report thereon dated **Report Date**, 2022. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our letter dated August 9, 2022, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Hospital solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Significant Risks Identified

As stated in our auditor’s report, professional standards require us to design our audit to provide reasonable assurance that the financial statements are free of material misstatement whether caused by fraud or error. In designing our audit procedures, professional standards require us to evaluate the financial statements and assess the risk that a material misstatement could occur. Areas that are potentially more susceptible to misstatements, and thereby require special audit considerations, are designated as “significant risks”. We have identified the following as significant risks.

Management Override of Controls – Professional standards require auditors to address the possibility of management overriding controls. Accordingly, we identified as a significant risk that management of the Hospital may have the ability to override controls that the Hospital has implemented.

Revenue Recognition – We identified revenue recognition as a significant risk due to the complexity associated with the recognition of patient revenue and the stimulus funds.

Allowance for Implicit and Explicit Price Concessions – We identified the allowance for implicit and explicit price concessions on patient accounts receivable as a significant risk as the allowance is a significant estimate for the Hospital. Accounting guidance requires management to estimate the net realizable value of outstanding patient receivables. To establish the allowance, management uses historical loss levels applied to portfolios of accounts based on underlying insurance payor arrangements, their current knowledge of facts, and assumptions about the future.

Estimated Third-Party Settlements – We identified estimated third-party settlements as a significant risk since the laws and regulations governing the settlement program(s) are extremely complex and subject to interpretation. Accounting guidance requires management to estimate the remaining settlements based on both final and tentatively settled cost reports.

Stimulus Funds – We identified the stimulus funds as a significant risk as the funds are subject to various terms and conditions imposed by the Department of Health and Human Services. The recognition of the funds as revenue requires the Hospital to have met the required terms and conditions.

Qualitative Aspects of the Entity’s Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Hospital is included in Note 1 to the financial statements. There have been no initial selection of significant accounting policies and no changes in significant accounting policies or their application during 2022. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

Collectability of Patient Receivables – Management's estimate of the allowance for explicit and implicit price concessions from contractual discounts, charity care, and doubtful accounts on patient receivables is based on historical loss levels and an analysis of the collectability of individual accounts or portfolios of accounts based on the applicable insurance payor, service type, and location.

Estimated Third-Party Payor Settlements – Management's estimate of the amounts either owed to or receivable from third-party payors is based on both final and tentatively settled cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Management believes that the estimates for all open years are adequate. Any differences between the estimates and the final settlements will be recorded in the period the final settlements are made and will not be treated as prior period adjustments. Any differences between the estimates and the final settlements or other adjustments have been recorded in the period the final settlements or other adjustments are made and are disclosed in the financial statements.

Stimulus Funds – Amounts received from the Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Fund and American Rescue Plan (ARP) Rural are subject to terms and conditions imposed by the Department of Health and Human Services (HHS), which state payments will only be used to prevent, prepare for, and respond to coronavirus and shall reimburse the recipient only for healthcare related expenses or lost revenues that are attributable to the coronavirus. Recipients may not use the payments to reimburse expenses, or losses that have been reimbursed from other sources or that other sources are obligated to reimburse. Management's estimate of the funds recognized as revenue is based on estimates associated with such terms and conditions and the terms and conditions are subject to interpretation and potential future guidance.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Hospital's financial statements relate to:

Paycheck Protection Program (Note 1) – The Hospital received funds under the Paycheck Protection Program administered by the Small Business Administration in FY 2020. Note 1 discusses this amount received which was forgiven during fiscal year 2021.

Medicare Advanced Payments (Note 3) – The Hospital received Medicare advanced payments from the Center for Medicare & Medicaid Services (CMS). Note 3 includes details regarding the payments received from CMS, amounts recorded by the Hospital in the financial statements, and the recoupment process by CMS.

Long-Term Debt (Note 10) – The disclosure of the Hospital’s long-term debt mentions required debt covenants, which could present risks to the Hospital if the covenants are not met.

Stimulus funds (Note 16) – The Hospital received relief funds administered by HHS as part of the CARES Act. Note 16 includes details regarding the related amounts recognized by the Hospital in the financial statements.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit. There were no uncorrected or corrected misstatements identified as a result of our audit procedures.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Hospital’s financial statements or the auditor’s report. No such disagreements arose during the course of the audit.

Circumstances that Affect the Form and Content of the Auditor’s Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor’s report. We did not identify and circumstances that affect the form and content of the auditor’s report.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated **Report Date**, 2022.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Hospital, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Hospital's auditors.

Accounting Standards Update

Leases

In February 2016, the FASB issued Accounting Standard Update (ASU) No. 2016-02, *Leases* (Topic 842), which requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the statement of financial position for most leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of the expense recognition in the statement of operations. The effective date for this standard has been delayed to annual reporting periods beginning after December 15, 2021. The standard is effective for Stoughton Health's fiscal year ended September 30, 2023.

This information is intended solely for the use of the Board of Directors and management of Stoughton Health and is not intended to be, and should not be, used by anyone other than these specified parties.

"Eide Bailly Signature"

Dubuque, Iowa



Independent Auditor's Report on Debt Agreement Covenants

To the Board of Directors
Stoughton Hospital Association
d/b/a Stoughton Health
Stoughton, Wisconsin

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Stoughton Health (Hospital), which comprise the balance sheet as of September 30, 2022, and the related statements of operations and changes in net assets and cash flows for the year ended, and the related notes to the financial statements, and have issued our report thereon dated **Report Date**, 2022.

In connection with our audit, nothing came to our attention that caused us to believe that the Hospital failed to comply with the terms, covenants, provisions, or conditions of the Master Trust Indenture dated October 1, 2012 for the Revenue Bonds, Series 2012, between Clayton Holdings, LLC and Stoughton Hospital Association, the Bond Indenture and Loan Agreement dated September 1, 2015, for the Revenue Bonds, Series 2015, between First Business Bank and Stoughton Hospital Association and the Bond Indenture and Loan Agreement dated November 1, 2018 for the Revenue Bonds, Series 2018, between First Madison Investment Corporation and Stoughton Hospital Association, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Hospital's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the Indentures, insofar as they relate to accounting matters.

This report is intended solely for the information and use of the Board of Directors, management of the Hospital, Bank of New York Mellon Trust Company, N.A., Clayton Holdings, LLC, First Business Bank, and First Madison Investment Corporation and is not intended to be, and should not be, used by anyone other than these specified parties.

Dubuque, Iowa
Report Date, 2022

Financial Statements
September 30, 2022 and 2021



Creating Excellence Together

Draft 11/15/22

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Draft 11/15/22



Independent Auditor's Report

The Board of Directors
Stoughton Hospital Association
d/b/a Stoughton Health
Stoughton, Wisconsin

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Stoughton Hospital Association, d/b/a Stoughton Health (Hospital), which comprise the balance sheets as of September 30, 2022 and 2021, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of September 30, 2022 and 2021, and the results of its operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Eide Bailly Signature

Dubuque, Iowa
Report Date, 2022

Stoughton Health
Balance Sheets
September 30, 2022 and 2021

	2022	2021
Assets		
Current Assets		
Cash and cash equivalents	\$ 31,855,002	\$ 33,873,549
Patient receivables	6,935,566	6,759,089
Supplies	742,411	536,876
Other current assets	731,431	781,327
Total current assets	40,264,410	41,950,841
Assets Limited as to Use		
Board designated for capital improvements and deferred compensation	18,025,673	17,629,724
Property and Equipment, Net	25,938,609	27,237,551
Other Assets		
Investments	2,992,282	-
Interest in net assets of the Stoughton Hospital Foundation	1,178,577	1,374,175
Investment in Stoughton Hospital Imaging, LLC	1,191,232	1,169,397
Other assets	11,845	-
Total other assets	5,373,936	2,543,572
Total assets	\$ 89,602,628	\$ 89,361,688

Stoughton Health
Balance Sheets
September 30, 2022 and 2021

	2022	2021
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 1,174,073	\$ 1,317,080
Accounts payable	1,474,730	1,105,863
Estimated third-party payor settlements	1,875,000	1,450,000
Accrued salaries and related withholdings	476,282	1,061,195
Accrued vacation	1,214,812	1,193,641
Accrued interest	29,479	37,109
Other current liabilities	104,527	102,881
Contract liability - advanced payments, current portion	-	4,590,548
Total current liabilities	6,348,903	10,858,317
Deferred Compensation	379,269	431,106
Long-Term Debt, Net of Current Maturities and Unamortized Debt Issuance Costs of \$107,907 in 2022 and \$136,319 in 2021	8,638,464	10,923,308
Total liabilities	15,366,636	22,212,731
Net Assets		
Without donor restrictions	72,990,152	65,621,345
With donor restrictions	1,245,840	1,527,612
Total net assets	74,235,992	67,148,957
Total liabilities and net assets	\$ 89,602,628	\$ 89,361,688

Stoughton Health
Statements of Operations
Years Ended September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Revenues, Gains, and Other Support Without Donor Restrictions		
Patient service revenue	\$ 56,773,443	\$ 46,787,079
Other revenue	1,792,900	1,760,575
Contributions and grants	<u>702,152</u>	<u>457,470</u>
Total revenues, gains, and other support	<u>59,268,495</u>	<u>49,005,124</u>
Expenses		
Salaries and wages	19,797,343	18,428,717
Employee benefits	4,222,876	4,329,514
Supplies and other expenses	23,475,785	20,058,872
Depreciation	3,083,870	3,150,926
Interest and amortization	<u>414,860</u>	<u>538,199</u>
Total expenses	<u>50,994,734</u>	<u>46,506,228</u>
Operating Income	<u>8,273,761</u>	<u>2,498,896</u>
Other Income		
Investment income - realized	353,059	757,568
Investment income (loss) - unrealized	(1,784,066)	796,264
Earnings on Investment in Stoughton Hospital Imaging, LLC	271,835	265,082
Loss on disposal of property	(420,900)	-
Paycheck Protection Program loan and interest forgiveness	-	4,064,937
Stimulus funds	<u>407,331</u>	<u>5,023,434</u>
Total other income (loss), net	<u>(1,172,741)</u>	<u>10,907,285</u>
Revenues in Excess of Expenses	<u>\$ 7,101,020</u>	<u>\$ 13,406,181</u>

Stoughton Health
 Statements of Changes in Net Assets
 Years Ended September 30, 2022 and 2021

	2022	2021
Net Assets Without Donor Restrictions		
Revenues in excess of expenses	\$ 7,101,020	\$ 13,406,181
Contributions for and of long-lived assets	178,462	148,521
Net assets released from restrictions used for capital purchases	89,325	65,901
Change in net assets without donor restrictions	7,368,807	13,620,603
Net Assets With Donor Restrictions		
Restricted contributions	3,151	46,291
Change in interest in net assets of the Foundation	(195,598)	90,707
Net assets released from restrictions	(89,325)	(65,901)
Change in net assets with donor restrictions	(281,772)	71,097
Change in Net Assets	7,087,035	13,691,700
Net Assets, Beginning of Year	67,148,957	53,457,257
Net Assets, End of Year	\$ 74,235,992	\$ 67,148,957

Stoughton Health
Statements of Cash Flows
Years Ended September 30, 2022 and 2021

	2022	2021
Operating Activities		
Change in net assets	\$ 7,087,035	\$ 13,691,700
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	3,083,870	3,150,926
Amortization of debt issuance costs	28,413	30,501
(Gain) loss on disposal of property and equipment	430,776	(14,684)
Change in interest in net assets of the Foundation	195,598	(90,707)
Earnings on investment in Stoughton Hospital Imaging, LLC	(271,835)	(265,082)
Distribution from Stoughton Hospital Imaging, LLC	250,000	200,000
Net realized and unrealized gains and losses on investments	1,785,169	(1,307,892)
Restricted contributions and contributions for and of long-lived assets	(181,613)	(194,812)
Paycheck Protection Program loan forgiveness	-	(4,064,937)
Changes in assets and liabilities		
Patient receivables	(176,477)	(2,143,837)
Supplies	(205,535)	157,584
Estimated third-party payor settlements	425,000	1,575,000
Other assets	38,051	(107,491)
Accounts payable, accrued expenses, deferred revenue, and deferred compensation	(343,789)	273,012
Refundable advance - stimulus funds	-	(5,023,434)
CMS advanced payments	(4,590,548)	(1,237,502)
Net Cash provided by Operating Activities	7,554,115	4,628,345
Investing Activities		
Purchase of property and equipment	(2,124,612)	(1,712,599)
Proceeds from sale of property and equipment	-	57,818
Purchase of assets limited as to use and investments	(18,399,718)	(11,603,172)
Sales/proceeds from maturities of assets limited as to use and investments	13,226,318	12,371,160
Net Cash used in Investing Activities	(7,298,012)	(886,793)
Financing Activities		
Repayment of long-term debt	(2,456,263)	(1,298,318)
Restricted contributions and contributions for long-lived assets	181,613	194,812
Net Cash used in Financing Activities	(2,274,650)	(1,103,506)

Stoughton Health
 Statements of Cash Flows
 Years Ended September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Change in Cash and Cash Equivalents	\$ (2,018,547)	\$ 2,638,046
Cash and Cash Equivalents, Beginning of Year	<u>33,873,549</u>	<u>31,235,503</u>
Cash and Cash Equivalents, End of Year	<u>\$ 31,855,002</u>	<u>\$ 33,873,549</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	<u>\$ 394,077</u>	<u>\$ 529,631</u>
Supplemental Disclosure of Non-cash Investing and Financing Activity		
Property and equipment financed with accounts payable	<u>\$ 175,641</u>	<u>\$ 84,548</u>
Paycheck Protection Program loan and interest forgiveness	<u>\$ -</u>	<u>\$ 4,064,937</u>

Note 1 - Organization and Significant Accounting Policies

Organization

Stoughton Hospital Association, d/b/a Stoughton Health (Hospital) is a general acute care hospital located in Stoughton, Wisconsin. The Hospital is recognized as a non-stock, not-for-profit Wisconsin corporation providing services to Stoughton and the surrounding communities. The financial statements also include the accounts of the Partners of Stoughton Hospital (Auxiliary) and the Hospital's interest in the net assets of the Stoughton Hospital Foundation, Inc. (Foundation).

The Auxiliary is organized as a Wisconsin non-profit and was established to render services to the Hospital and its patients, to provide ways and means of assistance approved by the Hospital and to assist the Hospital in promoting the health and welfare of the community.

The Foundation is a not-for-profit corporation and was incorporated to attract charitable gifts to meet the needs of Stoughton Health.

Income Taxes

The Hospital is organized as a Wisconsin non-profit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Hospital is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Hospital is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose, if applicable. The Hospital believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Hospital would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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. Estimates also affect 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 highly liquid investments with original maturities of three months or less, excluding assets limited as to use. For purposes of the statement of cash flows, the Hospital considers all cash with an original maturity of three months or less to be cash and cash equivalents.

Patient Receivables

Patient receivables are uncollateralized patient and third-party payor obligations. Unpaid patient receivables are not charged interest on amounts owed. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

Patient accounts receivable are stated net of any explicit and implicit price concessions and then further reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes accounts for adverse changes in a patient's or third-party payor's ability to pay that may have occurred subsequent to recognition. Management regularly reviews specific data about receivable balances and its past history with similar cases to estimate the appropriate allowance for doubtful accounts and provision for bad debts.

The Hospital has not adjusted the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Hospital's expectation that the period between the time the service is provided to a patient and the time that the patient or third-party payor pays for that service will be one year or less. However, the Hospital does, in certain instances, enter into payment arrangements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Supplies

Supplies are stated at the lower of cost (first-in, first-out) or net realizable value.

Assets Limited as to Use

Assets limited as to use includes assets set aside by the Board of Directors for future capital improvements and deferred compensation over which the board retains control and may, at its discretion, subsequently use for other purposes. For purposes of the statement of cash flows, restricted cash represents cash and cash equivalent amounts included in assets limited as to use which are restricted for specific purposes.

Property and Equipment

Property and equipment acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Interest expense incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The estimated useful lives of property and equipment are as follows:

Land improvements	10 - 25 years
Buildings and improvements	5 - 40 years
Equipment	3 - 20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to net assets without donor restrictions and are excluded from the performance indicator, 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 net assets with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when donated or when acquired long-lived assets are placed in service.

The Hospital considers whether indicators of impairment are present and performs the necessary analysis to determine if the carrying values of assets are appropriate. No impairment was identified for the years ended September 30, 2022 and 2021.

Investments and Investment Income

Investments with readily determinable market values are stated at fair value. The fair value of all debt and equity securities with readily determinable fair values are based on quotations obtained from national and foreign securities exchanges. Certificates of deposit are recorded at historical cost, plus accrued interest. Substantially all investments are classified as trading securities, therefore, investment income or loss (including interest income, dividends, net changes in unrealized gains and losses, and net realized gains and losses, less external investment expenses) is included in the performance indicator unless the income or loss is restricted by donor or law.

Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term and such changes could materially affect the amounts reported on the balance sheets.

Investment in Stoughton Hospital Imaging, LLC

The Hospital is accounting for its investment in Stoughton Hospital Imaging, LLC, a fifty percent owned affiliate, under the equity method of accounting by which the Hospital's share of the net income of the affiliate is recognized as income in the Hospital's statement of operations and added to the investment balance.

Although the fiscal year of the affiliate ends on December 31, the Hospital recognizes the net income of the affiliate based on the year ending September 30.

Debt Issuance Costs

Costs associated with the issuance of bonds and loans payable are being amortized using the effective interest method over the term of the related debt. Amortization expense is included with interest and amortization expense in the financial statements.

Net Assets with Donor Restrictions

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Unemployment Compensation

The Hospital has elected the reimbursement (self-insured) method to finance the cost of unemployment compensation benefits. Under this method, unemployment benefits are charged to operations when paid or when the amount of claims can be reasonably estimated. In order to guarantee payment of eligible benefits, the Hospital has obtained a letter of credit (see Note 10).

Patient Service Revenue

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

Performance obligations are determined based on the nature of the services provided by the Hospital. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Hospital believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patient in the hospital and clinic settings. The Hospital measures the performance obligation associated with inpatient services from admission into the Hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. The Hospital measures the performance obligation for outpatient and clinic services over the patient encounter, which is generally short in duration. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided, and the Hospital does not believe it is required to provide additional goods or services to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Hospital has elected to not disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute, intensive care unit, swing bed or geriatric psychiatric unit care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Hospital determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Hospital's policy, and/or implicit price concessions provided to uninsured patients. The Hospital determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. The Hospital determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Hospital's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews and investigations.

Consistent with the Hospital's mission, care is provided to patients regardless of their ability to pay. Therefore, the Hospital has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Hospital expects to collect based on its collection history with those patients.

Charity Care

The Hospital provides health care services to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Hospital does not pursue collection of these amounts, they are not reported as revenue. The estimated cost of providing these services was \$182,000 and \$137,000 for the years ended September 30, 2022 and 2021, which was determined based on an average ratio of cost to gross charges related to the services provided. Additionally, the Hospital extends discounts to uninsured patients. The estimated costs of providing services related to the discounts was \$208,000 and \$201,000 for the years ended September 30, 2022 and 2021, which was determined based on an average ratio of cost to gross charges related to the services provided.

Performance Indicator

Revenues in excess of expenses is the performance indicator and excludes contributions of long-lived assets, and grants and contributions restricted for capital purposes, including assets acquired using contributions which were restricted by donors.

Donor-Restricted Gifts

The Hospital reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of changes in net assets as net assets released from restrictions.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in Note 15, which presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, such as depreciation, interest and other occupancy costs, are allocated to a function based on the assets associated with that function while employee benefits are allocated to a function based on salaries.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Hospital incurred \$635,223 and \$493,853 for advertising costs for the years ended September 30, 2022 and 2021.

Paycheck Protection Program (PPP) Loan

The Hospital was granted a \$4,014,562 loan under the PPP administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Hospital initially recorded a note payable and subsequently recorded forgiveness when the loan obligation was legally released by the SBA. The Hospital recognized \$4,064,937 of loan forgiveness income for the year ended September 30, 2021, which included \$50,375 of interest forgiven.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets or changes in net assets.

Subsequent Events

Subsequent events have been evaluated through **Report Date**, 2022, the date the financial statements were available to be issued.

Note 2 - Liquidity and Availability

As of September 30, 2022 and 2021, the Hospital had a working capital of \$33,915,507 and \$31,092,524 and average days cash on hand of 377 and 431. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	2022	2021
Cash and cash equivalents	\$ 31,855,002	\$ 33,873,549
Patient receivables	6,935,566	6,759,089
Other current assets	209,349	104,233
Financial assets available to meet general expenditures within one year	\$ 38,999,917	\$ 40,736,871

The Hospital has certain board-designated assets limited as to use for capital improvements and other investments. These assets limited as to use and other investments, which are more fully described in Notes 1 and 5, are not available for general expenditure within the next year and are not reflected in the amounts above. However, these amounts could be made available, if necessary.

As part of the Hospital's liquidity management plan, cash in excess of daily requirements is invested in certificates of deposits and money market funds. Additionally, the Hospital maintained an available \$1,500,000 line of credit during the year, as discussed in more detail in Note 11.

As of September 30, 2022 and 2021, the Hospital was in compliance with covenants required from its outstanding debt.

Note 3 - 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. A summary of the payment arrangements with major third-party payors follows:

Medicare: The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most inpatient and outpatient services at cost plus one percent with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare Administrative Contractor (MAC). The Hospital's Medicare cost reports have been audited by the MAC through the year ended September 30, 2018.

Medicaid: Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services related to Medicaid beneficiaries are paid based on a prospectively determined rate per visit. These rates vary according to a patient classifications system that is based on clinical, diagnostic, and other factors.

Other Payors: The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Concentration of gross revenues by major payor accounted for the following percentages of the Hospital's patient service revenue for the years ended September 30, 2022 and 2021:

	2022	2021
Medicare	49%	51%
Medicaid	10%	10%
Commercial and other	40%	38%
Self-pay	1%	1%
	100%	100%

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Hospital also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Hospital estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions.

The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. The ability to estimate the collectability of uninsured and other self-pay patients is contingent on the patient's ability or willingness to pay for the services provided. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as a provision for bad debts. The provision for bad debts for the years ended September 30, 2022 and 2021 was not significant.

Hospital services include a variety of services mainly covering inpatient procedures requiring extended stays or outpatient operations that require anesthesia or use of complex diagnostic equipment as well as emergency care for traumas and other critical conditions. Provider services are primarily related to care of outpatients covering primary and specialty healthcare needs.

Other revenue is recognized at an amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing goods and services. The amounts recognized reflect consideration due from customers, third-party payors and others. Primary categories of other revenue include income from cafeteria revenue, rental income, grants and management fees.

The nature, amount, timing and uncertainty of revenue and cash flows are affected by several factors that the Hospital considers in its recognition of revenue. Following are some of the factors considered:

- Payors (for example, Medicare, Medicaid, managed care or other insurance, patient) have different reimbursement/payment methodologies
- Length of the patient's service/episode of care
- Geography of the service location
- Hospital's line of business that provided the service (for example, hospital, physician services, etc.)

For the years ended September 30, 2022 and 2021, the Hospital recognized revenue of \$56,773,443 and \$46,787,079 over time as the services were provided.

Wisconsin Hospital Medicaid Assessment Program

Wisconsin legislation titled the Rural Health Care Access Act provides for a CAH assessment program. The assessment program provides additional "access payments" (a uniform amount) to CAHs for each Medicaid inpatient discharge and outpatient visit. Additionally, Medicaid HMOs will also pay "access payments" to CAHs for services that are reimbursed under a Medicaid managed care contract.

As a result of this program, "access payments" received were \$80,269 and \$83,463 and are included in net patient service revenue for the years ended September 30, 2022 and 2021. Program assessment fees of \$116,048 and \$154,171 were paid by the Hospital and are included in expenses on the statements of operations for the years ended September 30, 2022 and 2021.

Contract Liability – Advanced Payments

The contract liability balance consisted of the remaining unpaid advanced payments received from the Centers for Medicare & Medicaid Services (CMS) in order to increase cash flow for Medicare Part A providers who were impacted by the COVID-19 pandemic. The Hospital received \$5,828,050 in advanced payments during 2020, which was recouped through the Medicare claims processed beginning 365 days after the date of issuance of the advanced payments. The recoupment process continued until the balance of the advanced payments had been recouped. The advanced payments balance was non-interest bearing through the 29-month repayment period. All advanced payments were recouped by CMS as of September 30, 2022. Therefore, the Hospital's contract liability balance as of September 30, 2022 was \$-0-. The Hospital's contract liability balance as of September 30, 2021 was \$4,590,548.

In addition to CMS advance payments, contract assets (liabilities) also represent estimated settlements related to Medicare cost reports not yet finalized. The beginning and ending balances for patient receivables and contract assets and liabilities were as follows for the years ended September 30, 2022 and 2021:

	2022	
	October 1	September 30
	Patient receivables	\$ 6,759,089
Contract assets and liabilities, net	(6,040,548)	(1,875,000)
	\$ 718,541	\$ 5,060,566
	2021	
	October 1	September 30
	Patient receivables	\$ 4,615,252
Contract assets and liabilities, net	(5,703,050)	(6,040,548)
	\$ (1,087,798)	\$ 718,541

Note 4 - Fair Value Measurements

The Hospital reports certain assets and liabilities at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available.

A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, inputs are developed using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to an assessment of the quality, risk or liquidity profile of the asset or liability.

A significant portion of investments are classified within Level 1 because they are comprised of U.S. Treasury obligations, common stock, and mutual funds with readily determinable fair values based on daily redemption values. Fixed income securities such as municipal and corporate bonds are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions, and are classified within Level 2.

The Hospital's deferred compensation assets are invested in a managed fund and participant directed funds. The managed fund has a target allocation intended to achieve moderate to conservative risk. The underlying investments in this fund primarily consist of fixed income securities and equities. The value of the Hospital's share in the managed fund is based on a statement provided by the investment advisor. The valuations of the underlying investments in the fund are determined by reference to quoted market prices.

Draft 11/15/22

The following table presents assets measured at fair value on a recurring basis, except those measured at cost as identified below, at September 30, 2022:

	Total	Quoted Prices in Active Markets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets Limited as to Use				
Board designated for capital improvements				
Money market funds (at cost)	\$ 153,684	\$ -	\$ -	\$ -
Certificates of deposit (at cost)	8,000,000	-	-	-
Fixed income				
U.S. Treasury obligations	2,481,679	2,432,244	49,435	-
Corporate bonds	1,103,145	-	1,103,145	-
Asset-backed securities	462,350	-	462,350	-
Mutual and exchange traded funds				
Equities	1,587,529	1,587,529	-	-
Fixed income	419,971	419,971	-	-
Common stock	3,285,387	3,285,387	-	-
Real estate investment trusts	152,059	152,059	-	-
Deferred compensation				
Managed funds - moderate - conservative	266,930	-	266,930	-
Mutual funds				
Equities	54,198	54,198	-	-
Money market funds (at cost)	58,741	-	-	-
	<u>\$ 18,025,673</u>	<u>\$ 7,931,388</u>	<u>\$ 1,881,860</u>	<u>\$ -</u>
Other Assets				
Money market funds (at cost)	\$ 104,857	\$ -	\$ -	\$ -
Fixed income				
U.S. Treasury obligations	296,027	296,027	-	-
Corporate bonds	2,185,069	-	2,185,069	-
Asset-backed securities	406,329	-	406,329	-
	<u>\$ 2,992,282</u>	<u>\$ 296,027</u>	<u>\$ 2,591,398</u>	<u>\$ -</u>

The following table presents assets measured at fair value on a recurring basis, except those measured at cost as identified below, at September 30, 2021:

	Total	Quoted Prices in Active Markets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets Limited as to Use				
Board designated for capital improvements				
Money market funds (at cost)	\$ 174,510	\$ -	\$ -	\$ -
Certificates of deposit (at cost)	7,000,000	-	-	-
Fixed income				
U.S. Treasury obligations	1,825,316	1,740,998	84,318	-
Corporate bonds	1,831,348	-	1,831,348	-
Asset-backed securities	397,521	-	397,521	-
Mutual and exchange traded funds				
Equities	818,019	818,019	-	-
Fixed income	436,344	436,344	-	-
Common stock	4,714,960	4,714,960	-	-
Deferred compensation				
Managed funds -				
moderate - conservative	348,992	-	348,992	-
Mutual funds				
Equities	48,500	48,500	-	-
Money market funds (at cost)	34,214	-	-	-
	<u>\$ 17,629,724</u>	<u>\$ 7,758,821</u>	<u>\$ 2,662,179</u>	<u>\$ -</u>

Note 5 - Investment Income

Investment income consisted of the following for the years ended September 30, 2022 and 2021:

	2022	2021
Other Income		
Investment income - realized		
Interest and dividend income	\$ 354,162	\$ 245,940
Net realized gains and losses	(1,103)	511,628
	<u>\$ 353,059</u>	<u>\$ 757,568</u>
Investment income - unrealized		
Change in unrealized gains and losses on investments	<u>\$ (1,784,066)</u>	<u>\$ 796,264</u>

Note 6 - Property and Equipment

A summary of property and equipment at September 30, 2022 and 2021 follows:

	2022		2021	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$ 2,305,176	\$ -	\$ 2,270,376	\$ -
Land improvements	2,480,131	1,355,369	2,420,225	1,314,087
Buildings and improvements	41,748,744	23,666,381	40,764,532	22,139,428
Equipment	17,606,031	13,392,703	17,101,886	12,178,504
Construction in progress	212,980	-	312,551	-
	<u>\$ 64,353,062</u>	<u>\$ 38,414,453</u>	<u>\$ 62,869,570</u>	<u>\$ 35,632,019</u>
Property and equipment, net		<u>\$ 25,938,609</u>		<u>\$ 27,237,551</u>

Construction in progress at September 30, 2022 and 2021 represents costs incurred for various, ongoing capital projects.

Note 7 - Investment in Stoughton Hospital Imaging, LLC

A summary of Stoughton Hospital Imaging, LLC's assets, liabilities, profit and loss is shown below:

	2022	2021
Assets, primarily cash and equipment	<u>\$ 2,413,775</u>	<u>\$ 2,374,275</u>
Liabilities, primarily accounts payable	\$ 31,311	\$ 35,481
Equity	<u>2,382,464</u>	<u>2,338,794</u>
Total liabilities and equity	<u>\$ 2,413,775</u>	<u>\$ 2,374,275</u>
Income	\$ 1,157,222	\$ 1,136,148
Expenses	<u>613,552</u>	<u>605,984</u>
Net income before distributions	543,670	530,164
Distribution to owners	(500,000)	(400,000)
Equity, beginning	<u>2,338,794</u>	<u>2,208,630</u>
Equity, ending	<u>\$ 2,382,464</u>	<u>\$ 2,338,794</u>

Note 8 - Interest in Net Assets of the Stoughton Hospital Foundation

The Stoughton Hospital Foundation, Inc. (Foundation) was incorporated pursuant to Chapter 181 of the Wisconsin statutes related to nonstock and not-for-profit corporations. The primary objective of the Foundation is to exclusively benefit, support, promote, and assist the Hospital. Accordingly, the Hospital has recorded an interest in the net assets of the Foundation. Amounts received by the Foundation are recorded as an increase in the interest in net assets of the Foundation. Amounts received by the Hospital from the Foundation are recorded as a decrease in the interest in net assets of the Foundation.

The Foundation is organized as a Wisconsin nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi), and has been determined not to be a private foundation under Section 509(a)(1). The Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Foundation is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. Management has determined that the entity is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

A summary of the Foundation's assets, liabilities, and results of operations and changes in net assets is shown below:

	<u>2022</u>	<u>2021</u>
Assets, primarily cash and investments	\$ 1,273,905	\$ 1,410,823
Liabilities	\$ 95,328	\$ 36,648
Net Assets	<u>1,178,577</u>	<u>1,374,175</u>
 Total liabilities and net assets	 <u>\$ 1,273,905</u>	 <u>\$ 1,410,823</u>
Support and revenue	\$ 145,112	\$ 434,645
Total expenses	<u>340,710</u>	<u>343,938</u>
 Change in net assets	 (195,598)	 90,707
Net assets, beginning	<u>1,374,175</u>	<u>1,283,468</u>
Net assets, ending	<u>\$ 1,178,577</u>	<u>\$ 1,374,175</u>

During the years ended September 30, 2022 and 2021, the Hospital received contributions from the Foundation of \$181,883 and \$194,812. These amounts are shown as contributions of long-lived assets and restricted contributions on the statements of changes in net assets. The Foundation reimburses the Hospital for salaries and other operating expenses. Amounts reimbursed during the years ended September 30, 2022 and 2021 were \$156,564 and \$153,155. Amounts due from the Foundation for reimbursement of expenses were \$93,011 and \$35,892 as of September 30, 2022 and 2021 and are included in other current assets on the balance sheets.

Note 9 - Leases

The Hospital leases certain equipment under noncancelable long-term operating lease agreements. Total lease expense for the years ended September 30, 2022 and 2021 for all operating leases was \$759,232 and \$691,024. Minimum future lease payments for the operating leases are as follows:

Years Ending September 30,	Amount
2023	\$ 372,740
2024	256,357
2025	253,439
2026	179,527
2027	127,489
Thereafter	49,083
	\$ 1,238,635

Note 10 - Long-Term Debt

Long-term debt consists of the following:

	2022	2021
Wisconsin Health and Educational Facilities Authority, Series 2012 Tax Exempt Revenue Bonds, fixed interest rate of 3.82%, payments due monthly until maturity on October 1, 2025, secured by property and equipment and virtually all revenues earned by the Hospital, net of unamortized debt issuance costs of \$6,240 in 2022 and \$10,837 in 2021 (based upon effective interest rate of 3.82%)	\$ 823,035	\$ 1,076,678
Real estate loan, fixed interest rate of 4.81%, monthly payments of \$24,654, balance due October 1, 2022, secured by property and equipment, net of unamortized debt issuance costs of \$10 in 2022 and \$148 in 2021 (based upon effective interest rate of 4.81%)	74,874	359,371
Wisconsin Health and Educational Facilities Authority, Series 2015 Tax Exempt Revenue Bonds, initial fixed interest rate of 3.47% until September 1, 2025, payments due monthly until maturity on September 1, 2045, secured by property and equipment and virtually all revenues earned by the Hospital, net of unamortized debt issuance costs of \$24,799 in 2022 and \$35,842 in 2021 (based upon effective interest rate of 3.47%), prepayment without penalty is allowed up to 10% of the balance each year	6,835,922	8,120,250

	2022	2021
Wisconsin Health and Educational Facilities Authority, Series 2018 Tax Exempt Revenue Bonds, fixed interest rate of 3.73% payments due monthly until maturity on November 1, 2028, secured by property and equipment and virtually all revenues earned by the Hospital, net of unamortized debt issuance costs of \$76,858 in 2022 and \$89,492 in 2021 (based upon effective interest rate of 3.73%), prepayment without penalty is allowed up to 10% of the balance each year	\$ 2,078,706	\$ 2,684,089
Less current maturities	9,812,537 <u>(1,174,073)</u>	12,240,388 <u>(1,317,080)</u>
Long-term debt, less current maturities	<u>\$ 8,638,464</u>	<u>\$ 10,923,308</u>

Long-term debt maturities are as follows:

Years Ending September 30,	Amount
2023	\$ 1,200,456
2024	1,161,820
2025	1,200,983
2026	984,169
2027	996,533
Thereafter	<u>4,376,483</u>
Unamortized debt issuance costs	9,920,444 <u>(107,907)</u>
	<u>\$ 9,812,537</u>

Under the terms of the revenue bond loan agreements, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use in the financial statements. The loan agreements also place limits on the incurrence of additional borrowings and require that the Hospital satisfy certain measures of financial performance.

The Hospital maintains an irrevocable letter of credit to the benefit of the Treasurer-Wisconsin Unemployment Compensation Division in an amount based upon payroll in order to guarantee payment of eligible benefits. As of September 30, 2022 and 2021, the amount of the letter of credit was approximately \$342,000.

Note 11 - Bank Line of Credit

The Hospital had a business revolving line of credit which allowed for borrowings of up to \$1,500,000 with a floating interest rate equal to the index rate (prime rate set by the bank) and was secured by all inventory, accounts receivable, and equipment. The line of credit expired September 13, 2022. No borrowings were made on the line of credit during the year ended September 30, 2022.

Note 12 - Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at September 30, 2022 and 2021:

	2022	2021
Interest in future distributions of net assets of Stoughton Hospital Foundation	\$ 1,178,577	\$ 1,374,175
Healthcare services (including property and equipment)	67,263	153,437
	\$ 1,245,840	\$ 1,527,612

In 2022 and 2021, net assets were released from donor restrictions by incurring expenditures satisfying the restricted purposes of purchases of property and equipment in the amounts of \$89,325 and \$65,901. These amounts are included in the net assets released from restrictions in the accompanying financial statements.

Note 13 - Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at September 30, 2022 and 2021 were as follows:

	2022	2021
Medicare	42%	42%
Medicaid	9%	10%
Dean care	12%	14%
Other third-party payors	26%	23%
Self pay	11%	11%
	100%	100%

The Hospital's cash balances are maintained in various bank deposit accounts. At times, these deposits may be in excess of federally insured limits. Management believes these financial institutions have strong credit ratings and that credit risk related to these deposits is minimal.

Note 14 - Retirement Plan

The Hospital has a defined contribution plan under which employees become participants upon the date of hire. The employer provides a matching contribution and may make a discretionary nonelective contribution for eligible employees who are over the age of 21, have completed a year of service, and who normally work more than 20 hours per week. Employer matching contributions of 4% of eligible compensation are deposited with the plan trustee who invests the plan assets. Total retirement plan expense for the years ended September 30, 2022 and 2021, was \$525,104 and \$525,013, respectively.

Note 15 - Functional Expenses

The Hospital provides general healthcare services to patients within its geographic location. Expenses related to providing these services by functional class for the year ended September 30, 2022 are as follows:

	Healthcare Services				General and Administrative	Fundraising	Total
	Hospital Services	Home Care Services	Specialty Clinic Services	Rental Properties			
Salaries and wages	\$ 13,936,281	\$ -	\$ 2,129,383	\$ 102,040	\$ 3,538,914	\$ 90,725	\$ 19,797,343
Employee benefits	2,972,681	-	454,208	21,766	754,869	19,352	4,222,876
Supplies and other	18,030,132	-	1,028,183	241,179	4,136,309	39,982	23,475,785
Depreciation	2,336,551	-	17,860	11,251	717,343	865	3,083,870
Interest and amortization	404,236	-	-	10,624	-	-	414,860
	<u>\$ 37,679,881</u>	<u>\$ -</u>	<u>\$ 3,629,634</u>	<u>\$ 386,860</u>	<u>\$ 9,147,435</u>	<u>\$ 150,924</u>	<u>\$ 50,994,734</u>

Expenses related to providing these services by functional class for the year ended September 30, 2021 are as follows:

	Healthcare Services				General and Administrative	Fundraising	Total
	Hospital Services	Home Care Services	Specialty Clinic Services	Rental Properties			
Salaries and wages	\$ 12,984,695	\$ 148,360	\$ 1,841,507	\$ 106,214	\$ 3,252,519	\$ 95,422	\$ 18,428,717
Employee benefits	3,050,534	34,855	432,631	24,953	764,123	22,418	4,329,514
Supplies and other	15,037,096	39,282	842,585	239,605	3,869,765	30,539	20,058,872
Depreciation	2,293,109	8,597	32,095	3,071	813,188	866	3,150,926
Interest and amortization	513,995	-	-	24,204	-	-	538,199
	<u>\$ 33,879,429</u>	<u>\$ 231,094</u>	<u>\$ 3,148,818</u>	<u>\$ 398,047</u>	<u>\$ 8,699,595</u>	<u>\$ 149,245</u>	<u>\$ 46,506,228</u>

Note 16 - Stimulus Funds

The Hospital received \$5,430,765 of Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Funds and American Rescue Plan (ARP) Rural Distribution Funds administered by the Department of Health and Human Services (HHS) over the past three fiscal years. The funds are subject to terms and conditions imposed by HHS. Among the terms and conditions is a provision that payments will only be used to prevent, prepare for, and respond to coronavirus and shall reimburse the recipient only for healthcare-related expenses or lost revenues that are attributable to coronavirus. Recipients may not use the payments to reimburse expenses or losses that have been reimbursed from other sources or that other sources are obligated to reimburse. HHS currently has deadlines for incurring eligible expenses and lost revenues, varying based on the date the Hospital received the funds. Unspent funds will be expected to be repaid.

These funds are recorded as a refundable advance when received and are recognized as revenues in the accompanying statements of operations as all terms and conditions are considered met. The terms and conditions are subject to interpretation, changes and future clarification, the most recent of which have been considered through the date that the financial statements were available to be issued. In addition, this program may be subject to oversight, monitoring and audit. Failure by a provider that received a payment from these funds to comply with any term or condition can subject the provider to recoupment of some or all of the payment. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

As of September 30, 2022 and 2021, the Hospital did not have any remaining refundable advance balances. During the years ended September 30, 2022 and 2021, the Hospital recognized \$407,331 and \$5,023,434 as revenue, included as nonoperating revenue, on the accompanying statements of operations.

Note 17 - Contingencies

Malpractice Insurance

The Hospital has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per incident and an annual aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its terms, but reported subsequently, will be uninsured.

Wisconsin healthcare providers (principally physicians and hospitals) are required to pay a yearly assessment into the Wisconsin Injured Patients and Families Compensation Fund ("Fund") and provide proof of financial responsibility to the Commissioner of Insurance in the form of insurance, an approved plan of self-insurance, or a surety bond. The prescribed limits are \$1 million for each occurrence and \$3 million in the annual aggregate. Healthcare providers are liable only to the extent of the limits of their insurance.

The Fund provides compensation for claimants whose damages exceed the negligent healthcare provider's liability insurance. The Fund must be joined as a party in the case, although the initial duty to defend is that of the underlying insurer or self-insurer.

Excess Liability Umbrella Insurance

The Hospital also has excess liability umbrella coverage on a claims-made basis subject to a limit of \$5 million per occurrence and an annual aggregate limit of \$5 million, and general liability coverage of \$1 million per occurrence and an aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

Litigation, Claims, and Disputes

The Hospital is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Hospital.

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue from patient services.

Paycheck Protection Program (PPP) Loan Review

Loans issued under the PPP were subject to good-faith certifications of the necessity of the loan request. Borrowers with loans issued under the program in excess of \$2 million are subject to review by the SBA for compliance with the program requirements. If the SBA determines that a borrower lacked an adequate basis for the loan or did not meet program requirements, the loan will not be eligible for loan forgiveness and the SBA will seek repayment of the outstanding PPP loan balance. As such, the potential exists that the Hospital may be deemed ineligible for loan forgiveness and be required to repay the loan.

The Hospital applied for and received loan forgiveness from the SBA on its PPP loan in 2021. In accordance with PPP loan requirements, the Hospital is required to maintain PPP loan files and certain underlying supporting documents for periods ranging from three to six years. The Hospital is also required to permit access to such files upon request by the SBA. Accordingly, there is potential the PPP loan could be subject to further review by the SBA and that previously recognized forgiveness could be reversed based on the outcome of this review.

Note 18 - Affiliation Agreement

The Hospital participates in a master agreement and affiliation agreement with SSM Healthcare of Wisconsin (SSM Wisconsin). As part of this affiliation, SSM Wisconsin has the right to appoint two directors to the Hospital's twelve-member Board of Directors. The agreement also specifies certain board resolutions that must be approved by the SSM Wisconsin board members. In the event of liquidation, dissolution or sale of the Hospital, SSM Wisconsin would receive 40 percent of the net proceeds.