

Hillboro Area Hospital, Inc. d/b/a Hillboro Health

Financial Statements

Years Ended June 30, 2024 and 2023



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Hillsideboro Area Hospital, Inc. d/b/a Hillsideboro Health
Years Ended June 30, 2024 and 2023

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Independent Auditor's Report

Board of Directors
Hillsideboro Area Hospital, Inc. d/b/a Hillsideboro Health
Hillsideboro, Illinois

Opinion

We have audited the financial statements of Hillsideboro Area Hospital, Inc. d/b/a Hillsideboro Health (the "Hospital"), which comprise the balance sheets as of June 30, 2024 and 2023, 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 June 30, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America ("GAAP").

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 the 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 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 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.

Wipfli LLP

Wipfli LLP

Eau Claire, Wisconsin
December 2, 2024

Hillsboro Area Hospital, Inc. d/b/a Hillsboro Health Balance Sheets

	June 30,	
	2024	2023
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,445,664	\$ 459,704
Short-term investments	21,050,433	17,305,727
Patient accounts receivable - Net	4,750,884	3,234,630
Amounts receivable from State of Illinois health care programs	16,761	16,761
Other receivables	353,511	285,417
Inventories	605,602	950,821
Prepaid expenses and other	631,772	658,411
Total current assets	30,854,627	22,911,471
Assets limited as to use:		
Board designated for capital expenditures - Not designated as funded depreciation	10,470,128	9,245,033
Restricted by donors	478,401	461,185
Total assets limited as to use	10,948,529	9,706,218
Property and equipment - Net	11,526,826	11,036,382
Other assets:		
Interest in net assets of Hillsboro Area Health Foundation, Inc.	656,645	552,472
Long-term investments	9,015,000	11,785,780
Investment in unconsolidated affiliate	93,537	98,361
Total other assets	9,765,182	12,436,613
Total assets	\$ 63,095,164	\$ 56,090,684

Hillsboro Area Hospital, Inc. d/b/a Hillsboro Health Balance Sheets (Continued)

	June 30,	
	2024	2023
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of long-term debt	\$ 359,316	\$ 373,729
Accounts payable and accrued expenses	3,149,657	3,004,730
Accrued payroll and payroll deductions	401,664	305,644
Accrued vacation pay	531,302	535,026
Accrued medical claims payable	400,000	200,000
Amounts payable to third-party reimbursement programs	1,602,907	321,894
Deferred revenue	39,607	176,123
Total current liabilities	6,484,453	4,917,146
Long-term liabilities:		
Long-term debt - Less current maturities	2,711,542	3,070,997
Asset retirement obligation	81,638	81,638
Total long-term liabilities	2,793,180	3,152,635
Total liabilities	9,277,633	8,069,781
Net assets:		
Without donor restrictions	52,685,699	47,009,938
With donor restrictions	1,131,832	1,010,965
Total net assets	53,817,531	48,020,903
Total liabilities and net assets	\$ 63,095,164	\$ 56,090,684

See accompanying notes to financial statements.

Hillsboro Area Hospital, Inc. d/b/a Hillsboro Health Statements of Operations

Years Ended June 30,		
2024	2023	
Revenue:		
Net patient service revenue	\$ 36,523,872	\$ 31,039,836
Other operating revenue	451,085	542,852
Total revenue	36,974,957	31,582,688
Expenses:		
Salaries and wages	12,462,742	11,233,668
Employee benefits	3,512,362	3,361,625
Physician services	3,623,139	3,286,195
Other professional services	5,525,521	5,163,839
Supplies and pharmaceuticals	3,523,312	3,186,215
Other	3,263,088	3,196,813
Depreciation	1,368,724	1,245,512
Interest	123,969	136,241
Total expenses	33,402,857	30,810,108
Income from operations	3,572,100	772,580
Other income (loss):		
Investment income	2,587,361	1,380,896
Loss on disposal of property and equipment	(2,626)	(6,806)
Revenue in excess of expenses	6,156,835	2,146,670
Other changes in net assets without donor restrictions:		
Contributions for property and equipment additions	18,926	-
Transfers to Hillsboro Area Health System NFP	(500,000)	(500,000)
Total other changes in net assets without donor restrictions	(481,074)	(500,000)
Increase in net assets without donor restrictions	\$ 5,675,761	\$ 1,646,670

See accompanying notes to financial statements.

Hillsboro Area Hospital, Inc. d/b/a Hillsboro Health Statements of Changes in Net Assets

Years Ended June 30,			
	2024	2023	
Net assets without donor restrictions:			
Revenue in excess of expenses	\$ 6,156,835	\$ 2,146,670	
Other changes:			
Contributions for property and equipment additions	18,926	-	
Transfers to Hillsboro Area Health System NFP	(500,000)	(500,000)	
Increase in net assets without donor restrictions	5,675,761	1,646,670	
Net assets with donor restrictions:			
Investment income	17,216	8,721	
Net assets released from restrictions	(522)	(1,199)	
Change in interest in net assets of Foundation	104,173	(3,332)	
Increase in net assets with donor restrictions	120,867	4,190	
Increase in net assets	5,796,628	1,650,860	
Net assets, beginning of year	48,020,903	46,370,043	
Net assets, end of year	\$ 53,817,531	\$ 48,020,903	

See accompanying notes to financial statements.

Hillsboro Area Hospital, Inc. d/b/a Hillsboro Health Statements of Cash Flows

Years Ended June 30,	2024	2023
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Increase in net assets	\$ 5,796,628	\$ 1,650,860
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,368,724	1,245,512
Loss on disposal of property and equipment	2,626	6,806
Accretion of asset retirement obligation	-	2,323
Net unrealized gain on investments	(755,214)	(491,855)
Change in equity of unconsolidated affiliate	4,824	1,639
Undistributed change in interest in net assets of Foundation	(104,173)	3,332
Transfers to Hillsboro Area Health System NFP	500,000	500,000
Changes in operating assets and liabilities:		
Patient, State of Illinois, and other accounts receivable	(1,584,348)	(969,981)
Inventories, prepaid expenses, and other current assets	371,858	(229,052)
Accounts payable	144,927	(375,287)
Accrued compensation and other	292,296	(288,504)
Deferred revenue	(136,516)	47,256
Amounts payable to third-party reimbursement programs	1,281,013	(1,877,552)
Total adjustments	1,386,017	(2,425,363)
Net cash provided by (used in) operating activities	7,182,645	(774,503)
Cash flows from investing activities:		
Increase in investments	(973,926)	(1,302,936)
Increase in assets limited as to use	(487,097)	(188,526)
Purchases of property and equipment - Net	(1,861,794)	(1,242,346)
Net cash used in investing activities	(3,322,817)	(2,733,808)
Cash flows from financing activities:		
Principal payments on long-term debt	(373,868)	(361,595)
Transfers to Hillsboro Area Health System NFP	(500,000)	(500,000)
Net cash used in financing activities	(873,868)	(861,595)
Net increase (decrease) in cash and cash equivalents	2,985,960	(4,369,906)
Cash and cash equivalents, beginning of year	459,704	4,829,610
Cash and cash equivalents, end of year	\$ 3,445,664	\$ 459,704
Supplemental cash flow information:		
Cash paid for interest	\$ 123,969	\$ 136,241

See accompanying notes to financial statements.

Hillsboro Area Hospital, Inc. d/b/a Hillsboro Health Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

The Entity

Hillsboro Area Hospital, Inc. d/b/a Hillsboro Health (the "Hospital") is a not-for profit Illinois corporation which operates a 25-bed Critical Access Hospital ("CAH") primarily providing inpatient and outpatient health care services to patients in Hillsboro, Illinois and surrounding communities. The Hospital also operates an assisted living facility in Hillsboro, Illinois which provides services to residents in the same geographic area. Hillsboro Area Health System NFP, a not-for-profit Illinois corporation, is the sole corporate member of the Hospital.

Financial Statement Presentation

The Hospital follows accounting standards set by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The ASC is the single source of authoritative accounting principles generally accepted in the United States (GAAP) to be applied to nongovernmental entities in the preparation of financial statements in conformity with GAAP.

Use of Estimates

The preparation of the accompanying financial statements in conformity with GAAP requires management to make certain estimates and assumptions that directly affect the reported amounts of assets and liabilities and disclose contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Cash and Cash Equivalents

The Hospital considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents, excluding amounts included in assets limited as to use.

Investments, Assets Limited as to Use, and Investment Income

Investments, including assets limited as to use, are recorded at fair value in the accompanying balance sheets.

Assets limited as to use consist of assets designated by the Board of Directors for future capital improvements, over which the Board of Directors retains control and may at its discretion subsequently be used for other purposes, and amounts restricted by donors.

Hillsboro Area Hospital, Inc. d/b/a Hillsboro Health

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Investments, Assets Limited as to Use, and Investment Income (Continued)

Investment income or loss (including realized gains and losses on investments, interest, and dividends) is reported as other income (loss) and is included in revenue in excess of expenses unless the income is restricted by donor or law. During 2024, the Hospital evaluated its investment portfolios and determined the investments are considered to be trading securities and, as such, effective July 1, 2022 through retrospective review and application, all unrealized gains and losses are included in revenue in excess of expenses. Realized gains or losses are determined by specific identification.

The Hospital monitors the difference between the cost and fair value of its investments. If investments experience a decline in value that the Hospital determines is other than temporary, the Hospital records a realized loss in investment income.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. The Hospital measures fair value of its financial instruments using a three-tier hierarchy that prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as quoted market prices in active markets; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Patient Accounts Receivable and Credit Policy

Patient accounts receivable is reported at the amount that reflects the consideration to which the Hospital expects to be entitled, in exchange for providing patient care services. Patient accounts receivable are recorded in the accompanying balance sheet net of contractual adjustments and implicit price concessions which reflects management's estimate of the transaction price. The Hospital estimates the transaction price based on negotiated contractual agreements, 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 and is recorded through a reduction of gross revenue and a credit to patient accounts receivable. 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 Hospital does not have a policy to charge interest on past due accounts.

Inventories

Inventories consist primarily of medical supplies, general supplies, and pharmaceuticals used in the delivery of health care services. Inventories are stated at the lower of cost or net realizable value.

Hillsboro Area Hospital, Inc. d/b/a Hillsboro Health

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Property, Equipment, and Depreciation

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Estimated useful lives range from three to twenty years for major movable equipment and from five to forty years for land improvements and buildings.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from revenue in excess of expenses, 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 restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Impairment of Long-Lived Assets

The Hospital evaluates the recoverability of its long-lived assets, which consist primarily of property and equipment with estimated useful lives, whenever events or changes in circumstance indicate that the carrying value may not be recoverable. If the recoverability of these assets is unlikely because of the existence of factors indicating impairment, an impairment analysis is performed using a projected undiscounted cash flow method. Management must make assumptions regarding estimated future cash flows and other factors to determine the fair value of these respective assets. If the carrying amounts of the assets exceed their respective fair values, the carrying value of the underlying assets would be adjusted to fair value and an impairment loss would be recognized. During 2024 and 2023, the Hospital determined that no evaluations of recoverability were necessary.

Interest in Net Assets of Hillsboro Area Health Foundation

Accounting guidance establishes standards of financial accounting and reporting for transactions in which an entity makes contributions to another entity or an entity that accepts contributions from a donor and agrees to use those assets on behalf of or transfer those assets and the return on those assets to another entity. Hillsboro Area Health Foundation, Inc. (the "Foundation") holds and accepts contributions on behalf of the Hospital, and accordingly the Hospital recognizes its interest in the net assets of the Foundation for specific funds the Foundation holds which are designated for the benefit of the Hospital, and adjusts that interest for its share of the change in the net assets of the Hospital's designated funds held by the Foundation.

Investment in Unconsolidated Affiliate

Investments in an unconsolidated affiliate are recorded on the equity method.

Hillsboro Area Hospital, Inc. d/b/a Hillsboro Health

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Asset Retirement Obligation

Management annually assesses its existing properties to determine if there is a need to recognize a liability for a conditional asset retirement, specifically as it relates to its legal obligation to perform asset retirement activities, such as asbestos removal, on its existing properties. The asset retirement obligation represents the obligation to dispose of assets that are legally required to be removed at a future date. This obligation is recorded at the net present value using a risk-free interest rate and an inflationary rate. The liability will be adjusted annually over the term of the estimated life of the asset.

Net Assets

Net assets without donor restrictions consist of investments and otherwise unrestricted amounts that are available for use in carrying out the mission of the Hospital. Net assets with donor restrictions are those whose use by the Hospital has been limited by donors to a specific time period or purpose, or those assets restricted by donors to be maintained by the Hospital in perpetuity.

Revenue in Excess of Expenses

The accompanying statements of operations and statements of changes in net assets include the classification revenue in excess of expenses, which is considered the operating indicator. Changes in net assets, which are excluded from the operating indicator, would include contributions for property and equipment, unrealized gains and losses on certain types of investments other than trading securities, permanent transfers to and from affiliates for other than goods and services, and contributions of long-lived assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets.

Net 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 are due from patients, third-party payors (including health insurers and government programs), and others and include 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 or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided. Revenue from performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. Generally, the majority of patient care services provided in or by the Hospital, the performance obligation is satisfied as the patient simultaneously receives and consumes the benefits provided as the services are performed and recognition of the obligation over time yields the same result as recognizing the obligation at a point in time. The Hospital believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation.

Hillsboro Area Hospital, Inc. d/b/a Hillsboro Health

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (Continued)

Because the Hospital's performance obligations relate to contracts with a duration of less than one year, the Hospital has elected to apply the optional exemption and therefore is not required to 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 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 uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The Hospital used the following factors to develop portfolios: major payor classes and type of service (e.g., inpatient, outpatient, emergency, assisted living, etc.) and geographical location. Using historical collection trends and other analysis, the Hospital evaluated the accuracy of its estimates and determined that recognizing revenue by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach was used.

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, other insurances, patients, etc.) have different reimbursement/payment methodologies
- Length of the patient's or resident's service/episode of care
- Geography of the service location
- Lines of business that provided the service (for example, hospital, assisted living, etc.)

The Hospital determines the transaction price, which involves significant estimates and judgment, 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 implicit price concessions provided to patients. The Hospital determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policy, and historical experience. The Hospital determines its estimate of implicit price concessions based on its historical collection experience for each patient portfolio based on payor class and service type.

Hillsboro Area Hospital, Inc. d/b/a Hillsboro Health

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (Continued)

The Hospital has agreements with third-party payors that provide for reimbursement at amounts that vary from its established rates. A summary of the basis of reimbursement with major third-party payors follows for hospital services:

- **Medicare:** The Hospital is designated as a critical access hospital (CAH). As such, all inpatient, swing bed, and outpatient hospital services are paid based on a cost-reimbursement methodology, except for certain types of laboratory, radiology, and professional services provided to Medicare beneficiaries, which are reimbursed on prospectively determined fee schedules.
- **Medicaid:** Hospital services rendered to Illinois Public Aid beneficiaries are paid at prospectively determined rates based on a patient classification system. These rates are not subject to retroactive adjustment; however, in order to receive proper reimbursement, the Hospital must file a cost report annually with the State of Illinois.

On November 21, 2006, the Centers for Medicare & Medicaid Services (CMS) approved state of Illinois (the "State") legislation for a Medicaid Hospital Assessment Program (the "Program"). The Program was extended through June 30, 2019, and a redesignated program has been approved and extended through June 30, 2024. Under the Program, the Hospital receives additional Medicaid reimbursement from the State. Additional funding and reimbursement, through sharing in cost savings in the Medicaid program, was also available and distributed to participating hospitals through the development by the State of an Accountable Care Entity ("ACE") which started in 2017. Total reimbursement revenue recognized by the Hospital relating to the Program amounted to \$1,820,116 and \$1,961,319 during 2024 and 2023, respectively, and is included in net patient service revenue in the accompanying statements of operations. During 2024 and 2023, the Hospital incurred expense of \$614,835 and \$572,954, respectively, related to amounts paid to the state of Illinois for participation in the Program, and these amounts are included in supplies and other expenses in the accompanying statements of operations.

- **Other:** Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, prospectively determined daily rates, and fee schedules.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. Because of investigations by governmental agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Hospital's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Hospital.

Hillsboro Area Hospital, Inc. d/b/a Hillsboro Health

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (Continued)

The Centers for Medicare and Medicaid Services (CMS) uses recovery audit contractors (RACs) to search for potentially inaccurate Medicare payments that may have been made to healthcare providers and were not detected through existing CMS program integrity efforts. Once the RAC identifies a claim it believes is inaccurate, the RAC makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The Hospital has not been notified by the RAC of any potential significant reimbursement adjustments. In addition, contracts the Hospital has with third-party payors also provide for retroactive audit and review of claims.

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.

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. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended June 30, 2024 and 2023, was not significant.

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. The Hospital's policy provides for approximately 10% discounts from established charges to uninsured patients for making prompt pay for services rendered, and after this initial discount, further discounts are available for patients that qualify through the hospital's charity care or financial assistance policy. The uninsured prompt pay discount percentage remained consistent in 2024 and 2023.

Hillsboro Area Hospital, Inc. d/b/a Hillsboro Health

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (Continued)

For uninsured patients who do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital includes price concessions related to uninsured patients in the period the services are provided.

The promised amount of consideration from patients and third-party payors has not been adjusted 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 a third-party payor pays for that service will be one year or less. However, the Hospital does, in certain instances, enter into payment agreements 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.

All incremental customer contract acquisition costs are expensed as they are incurred as the amortization period of the asset that the Hospital otherwise would have recognized is one year or less in duration.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care/uninsured patient discount policy without charge or at amounts less than its established rates. Eligible patients are identified based on analysis of financial information obtained from the patients. The Hospital maintains records to identify the amount of charges forgone for services and supplies furnished under the charity care/uninsured patient discount policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue in the accompanying statements of operations.

Contributions and Donor-Restricted Gifts

Contributions are considered available for unrestricted use unless specifically restricted by the donor.

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as donor-restricted contributions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported as net assets released from restrictions.

Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions.

Hillsboro Area Hospital, Inc. d/b/a Hillsboro Health
Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Income Taxes

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Hospital is also exempt from state income taxes on related income under similar state laws.

Advertising Costs

Advertising costs are expensed as incurred.

Real Estate Taxes

The State of Illinois previously enacted legislation that clarifies when hospitals are eligible to receive exemption from property tax requirements. As part of the legislation, hospitals, including the Hospital, must submit to the State of Illinois annual property tax exemption applications, which include information on the amount of benefits provided to low-income, charity care, and Illinois Public Aid (Medicaid) beneficiaries. As of June 30, 2024, the majority of the real estate of the Hospital has been granted property tax exemption by the State of Illinois.

Subsequent Events

Subsequent events have been evaluated through December 2, 2024, which is the date the financial statements were available to be issued.

Hillsboro Area Hospital, Inc. d/b/a Hillsboro Health

Notes to Financial Statements

Note 2: Available Resources and Liquidity

The Hospital does not have a formal liquidity policy but generally strives to maintain financial assets in liquid form such as cash and cash equivalents for at least three to six months of operating expenses. Other funds, included in long-term investments and assets limited as to use in the accompanying balance sheets, are considered available for operational or capital needs, except for investments with restrictive redemption requirements. Occasionally, the Board of Directors designates a portion of operating surplus to be appropriated at its discretion for future operational initiatives and capital expenditures. These funds, at the discretion of the Board of Directors, could be released immediately or sold and redeemed prior to their maturity and are not considered available under the Hospital's general liquidity management. At June 30, 2024 and 2023, the balance of these funds was \$10,470,128 and \$9,245,033, respectively.

Financial assets available for general expenditure, such as operating expenses, and purchases of property and equipment, within one year of the balance sheet date, comprise the following at June 30:

	2024	2023
Cash and cash equivalents	\$ 3,445,664	\$ 459,704
Short-term investments	21,050,433	17,305,727
Patient accounts receivable - Net	4,750,884	3,234,630
Amounts receivable from State of Illinois health care programs	16,761	16,761
Other receivables	353,511	285,417
Totals	\$ 29,617,253	\$ 21,302,239

Patient accounts receivable - net becomes available as an available resource to the Hospital generally as operating cash as it is billed and collected based on the policies and procedures described in Note 1, and its opening balance at July 1, 2022 was \$2,451,177.

Note 3: Investments and Assets Limited as to Use

Investments

Investments consisted of the following at June 30:

	2024	2023
Short-term investments - Certificates of deposit	\$ 10,018,780	\$ 6,359,998
Short-term investments - U.S. Treasury securities	10,632,764	10,945,729
Short-term investments - Mutual funds	398,889	-
Long-term investments - Certificates of deposit	9,015,000	11,785,780
Total investments	\$ 30,065,433	\$ 29,091,507

Hillsboro Area Hospital, Inc. d/b/a Hillsboro Health

Notes to Financial Statements

Note 3: Investments and Assets Limited as to Use (Continued)

Assets Limited as to Use

Assets limited as to use consisted of the following at June 30:

	2024	2023
Board designated for capital expenditures - Not designated as funded depreciation:		
Money market funds	\$ 120,480	\$ 152,222
Certificates of deposit	5,209,383	4,997,383
Common stock	35	35
Mutual funds	5,099,121	4,071,782
Accrued interest receivable	41,109	23,611
Total board designated for capital expenditures - Not designated as funded depreciation	10,470,128	9,245,033
Restricted by donors:		
Money market funds	25,804	12,567
Certificates of deposit	445,614	445,614
Accrued interest receivable	6,983	3,004
Total restricted by donors	478,401	461,185
Total assets limited as to use	\$ 10,948,529	\$ 9,706,218

Investment Income

Investment income, including realized and unrealized gains and losses on investments and assets limited as to use, consisted of the following for the years ended June 30:

	2024	2023
Interest and dividends	\$ 1,832,147	\$ 889,041
Interest on restricted net assets with donor restrictions	17,216	8,721
Change in net unrealized gain on investments	755,214	491,855
Total investment income	\$ 2,604,577	\$ 1,389,617

Note 3: Investments and Assets Limited as to Use (Continued)

Management assesses individual investment securities as to whether declines in market value are other than temporary and result in impairment. For equity securities and mutual funds, the Hospital considers whether it has the ability and intent to hold the investment until a market price recovery. Evidence considered in this includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, the issuer's financial condition, and the general market condition in the geographic area or industry in which the investee operates. For debt securities, if the Hospital has made a decision to sell the security, or if it is more likely than not the Hospital will sell the security before the recovery of the security's cost basis, an other-than-temporary impairment is considered to have occurred. If the Hospital has not made a decision or does not have an intent to sell the debt security, but the debt security is not expected to recover its value due to a credit loss, an other-than-temporary impairment is considered to have occurred. At June 30, 2024 and 2023, the Hospital did not consider any individual investments other than temporarily impaired.

Investments, 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 investments, it is reasonably possible that changes in the values of certain investments will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Note 4: Fair Value Measurements

The following is a description of the valuation methodologies used for assets measured at fair value:

Money market funds are valued using a net asset value (NAV) of \$1.00. Fixed income securities are primarily invested in U.S. Government securities such as bonds and are valued using quotes from pricing vendors for identical or similar assets based on recent trading activity and other observable market data. Quoted market prices are used to determine the fair value of investments in marketable equity securities, which are primarily invested in common stock. Mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by the Hospital are open-end mutual funds that are registered with the Securities and Exchange Commission. The mutual funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Hospital are deemed to be actively traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Hospital believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Hillsboro Area Hospital, Inc. d/b/a Hillsboro Health

Notes to Financial Statements

Note 4: Fair Value Measurements (Continued)

The following tables set forth by level, within the fair value hierarchy, the Hospital's assets measured at fair value on a recurring basis as of June 30:

2024				
Total Assets at	Level 1	Level 2	Level 3	Fair Value
Money market funds	\$ -	\$ 146,284	\$ -	\$ 146,284
Mutual funds - Equity and fixed income	5,498,010	-	-	5,498,010
Marketable equity securities - Common stock	35	-	-	35
U.S. Treasury securities	-	10,632,764	-	10,632,764
Total	\$ 5,498,045	\$ 10,779,048	\$ -	\$ 16,277,093

2023				
Total Assets at	Level 1	Level 2	Level 3	Fair Value
Money market funds	\$ -	\$ 164,789	\$ -	\$ 164,789
Mutual funds - Equity and fixed income	4,071,782	-	-	4,071,782
Marketable equity securities - Common stock	35	-	-	35
U.S. Treasury securities	-	10,945,729	-	10,945,729
Total	\$ 4,071,817	\$ 11,110,518	\$ -	\$ 15,182,335

The assets included in the fair value measurements table above at both June 30, 2024 and 2023, include all assets within investments and assets limited as to use as described in Note 3, with the exception of certificates of deposit and accrued interest receivable, which are excluded from the fair value measurement table.

Hillsboro Area Hospital, Inc. d/b/a Hillsboro Health

Notes to Financial Statements

Note 5: Property and Equipment

Property and equipment consisted of the following at June 30:

	2024	2023
Land	\$ 330,860	\$ 330,860
Land improvements	1,848,191	1,828,208
Buildings	18,354,968	18,070,843
Movable equipment	18,843,678	17,316,767
Construction in progress	77,090	139,299
Total property and equipment	39,454,787	37,685,977
Less - Accumulated depreciation	27,927,961	26,649,595
Property and equipment - Net	\$ 11,526,826	\$ 11,036,382

Note 6: Interest in Net Assets of Hillsboro Area Health Foundation

Hillsboro Area Health Foundation, Inc. (the "Foundation") was established to benefit the general public and the Hospital. The Foundation's Board of Directors determines the amount, timing, and purpose of the distribution of Foundation funds. The Hospital recognizes its interest in the net assets held by the Foundation. At June 30, 2024 and 2023, \$656,645 and \$552,472, respectively, is recognized as the Hospital's interest in the total net assets of the Foundation, which includes contributions received by the Foundation that are donor restricted to be used for Hospital purposes.

The Foundation also holds certain funds under terms of an endowment agreement for the benefit of the Hospital which is included in the amounts above and further described in Note 9.

Hillsboro Area Hospital, Inc. d/b/a Hillsboro Health

Notes to Financial Statements

Note 7: Investment in Unconsolidated Affiliate

Investment in South Central Hospital Alliance LLC

During 2022, the Hospital became a founding member of the South Central Hospital Alliance LLC (the "Alliance") and contributed an initial equity investment of \$100,000. As of June 30, 2024, the Alliance has three other member hospitals. All of the member hospitals are non-profit hospitals located in the South Central region of Illinois.

The goal of the Alliance is to facilitate the development of a cooperative rural health care network which will be operated exclusively for the benefit of, to perform functions of, and carry out the respective charitable missions of the member hospitals. A common working goal of the members through the Alliance will be to develop, establish, and operate both clinic and non-clinical shared services and programs as well as other collaborative functions which are aimed at expanding access to high-quality patient care, improving the overall quality of patient care, and utilizing economies of scale to increase the efficiencies and lower the costs of healthcare delivery in the communities served by the member hospitals.

The Hospital accounts for the investment in the Alliance under the equity method of accounting. Earnings or losses of the Alliance are allocated to the members based on the terms of the operating agreement, and the Hospital adjusts its investment in the Alliance based on its respective allocated profits and losses. There has been limited financial activity of the Alliance in both 2024 and 2023.

Hillsboro Area Hospital, Inc. d/b/a Hillsboro Health
Notes to Financial Statements

Note 8: Long-Term Debt

Long-term debt consisted of the following at June 30:

	2024	2023
City of Hillsboro, Illinois, capital improvement Revenue Bonds, Series 2008, bearing interest at 3.79%. The bonds are payable in monthly installments of \$41,486, including principal and interest. Final principal payment due October 1, 2031. Secured by the new building construction, which was completed during the year ended June 30, 2011, and net revenues of the Hospital.	\$ 3,070,858	\$ 3,444,726
Less - Current maturities	359,316	373,729
Long-term maturities	\$ 2,711,542	\$ 3,070,997

The Series 2008 bond agreement provides for various restrictive covenants, including required annual financial reporting.

Scheduled payments of principal on long-term debt at June 30, 2024, including current maturities, are summarized as follows:

2025	\$ 359,316
2026	403,111
2027	418,657
2028	434,803
2029	451,571
Thereafter	1,003,400
Total	\$ 3,070,858

Hillsboro Area Hospital, Inc. d/b/a Hillsboro Health

Notes to Financial Statements

Note 9: Net Assets with Donor Restrictions and Endowments

Net assets with donor restrictions include assets set aside in accordance with donor restrictions as to time or use. Net assets with donor restrictions are available for the following purposes at June 30:

	2024	2023
Hospital programs including those supporting the treatment of childhood obesity	\$ 465,187	\$ 448,493
Scholarships and education	10,000	10,000
Funds held by Foundation	371,645	267,472
Total	\$ 846,832	\$ 725,965

In addition to the above donor-restricted funds, the Hospital has an endowment of \$285,000 as of both June 30, 2024 and 2023, which has been restricted by donors to be maintained in perpetuity, the income of which is expendable to support maintenance and equipment needs of the Hospital.

The Hospital's endowment consists of one fund that is invested and maintained by the Foundation in U.S. Treasury securities at financial institutions. The endowment includes only donor-restricted endowment funds. Net assets associated with the endowment funds are classified and reported on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Hospital have interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the Illinois state legislature, as requiring the preservation of the fair value of the original gift to an endowment fund absent any explicit donor stipulations that would otherwise dictate the contributed funds. As a result of this interpretation, the Hospital classifies as permanently restricted net assets (a) the original value of the donor's gifts to the permanent endowment, (b) the original value of a donor's subsequent gifts to the permanently restricted endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Hospital in a manner consistent with the standard of prudence prescribed by UPMIFA. The Hospital relies on the adopted investment and spending policies of the Foundation for endowment assets that attempt to provide a dependable method of funding programs supported by the endowment funds while seeking to preserve the purchasing power of the endowment assets. Under this policy, the Foundation invests the endowment assets it maintains for the Hospital only in interest-bearing bank depository accounts that are not expected to decline in value in the future. This method of investing will maintain the purchasing power of the endowment assets that are required to be held in perpetuity as well as to provide additional purchasing ability through new contributions and investment returns.

Hillsboro Area Hospital, Inc. d/b/a Hillsboro Health

Notes to Financial Statements

Note 12: Net Assets with Donor Restrictions and Endowments (Continued)

Changes in endowment net assets for the years ended June 30 consisted of the following:

Portion Available For Appropriation	Original Gifts With Restrictions to be Held in Perpetuity	Restrictions With Donor Restrictions	Net Assets
Total			Endowment

Beginning balance at July 1, 2022 \$ 285,000 \$ 148,479 \$ 433,479

Interest income - 2,430 2,430

Ending balance as of June 30, 2023 285,000 150,909 435,909

Interest income - 6,113 6,113

Ending balance as of June 30, 2024 \$ 285,000 \$ 157,022 \$ 442,022

Note 10: Net Patient Service Revenue

The composition of net patient service revenue based on the geographic region the Hospital operates in as outlined in Note 1, its lines of business, and timing of revenue recognition for the years ended June 30 are as follows:

2024 2023

Service lines:
Hospital services \$ 34,720,320 \$ 29,803,820
Assisted living services 1,803,552 1,236,016

Totals \$ 36,523,872 \$ 31,039,836

The majority of all patient service revenue was recognized at the time of service by the Hospital during the years ended June 30, 2024 and 2023 due to the types of hospital and assisted living services provided and their respective contractual terms.

Hillsboro Area Hospital, Inc. d/b/a Hillsboro Health

Notes to Financial Statements

Note 10: Net Patient Service Revenue (Continued)

Patient service revenue (net of contractual allowances, discounts, and implicit price concessions) by payor consisted of the following for the year ended June 30:

	2024	2023
Medicare and Medicare Advantage plans	\$ 13,495,925	\$ 12,580,333
Medicaid and Medicaid HMO plans	7,572,902	6,786,252
Other third-party payors	13,888,890	10,756,248
Uninsured patients	1,566,155	917,003
Totals	\$ 36,523,872	\$ 31,039,836

Note 11: Charity Care and Community Benefits

The Hospital provides health care services and other financial support through various programs that are designed, among other matters, to enhance the health of the community, including the health of low-income patients. Consistent with the mission of the Hospital, care is provided to patients regardless of their ability to pay, including providing services to those persons who cannot afford health insurance because of inadequate resources or who are underinsured.

Patients who meet certain criteria for charity care, generally based on federal poverty guidelines, are provided care without charge or at a reduced rate, determined based on qualifying criteria as defined in the Hospital's charity care/uninsured patient discount policy and from applications completed by patients and their families. The Hospital is also required to provide additional discounts to uninsured hospital patients under the Hospital Uninsured Patient Discount Act as required by Illinois state law.

The estimated cost of providing care to patients under the Hospital's charity care/uninsured patient discount policy was approximately \$203,000 and \$128,000 in 2024 and 2023, respectively. The cost was calculated by multiplying the ratio of cost to gross charges for the Hospital times the gross uncompensated charges associated with providing the charity care.

During each year the Hospital accumulates the amount of shortfalls from payments from providing the services previously described under its charity care/uninsured patient discount policy, as well as health care services to patients who are covered under government health insurance programs including the Medicaid program and patients unable or unwilling to pay a portion or all of their charges to the Hospital which are considered bad debts to the Hospital. These shortfalls are measured in a method consistent with the determination of the charity care shortfalls above, less any reimbursement received from patients and others. During 2024 and 2023, the total costs of providing these services was approximately \$1,802,000 and \$1,636,000, respectively, and is considered a significant benefit to the community and surrounding area the Hospital serves.

Hillsboro Area Hospital, Inc. d/b/a Hillsboro Health

Notes to Financial Statements

Note 11: Charity Care and Community Benefits (Continued)

As a part of its mission to provide health care services to those in need in the community, as well as to support the general well-being of the community, the Hospital also commits significant time and resources to activities and services that meet unmet community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include, but are not limited to, health fairs and events, health screenings and assessments, space for health care occupation classes and daycare programs offered by the local school system and Lincoln Land Community College, support for vital community services, trauma care, and various community educational services. The Hospital also participates with Southern Illinois University (SIU) School of Medicine on community research projects, providing funding, information, staffing, and supplies.

Note 12: Retirement Plan

The Hospital sponsors a defined contribution tax-deferred annuity plan, which covers all employees. Employees may contribute a percentage of their compensation to the annuity plan on a tax-deferred or after-tax basis. The Hospital may contribute discretionary amounts up to 50% of employees' tax-deferred contribution, up to 6% of compensation. Total retirement plan expense was \$304,784 and \$278,935 for the years ended June 30, 2024, and 2023, respectively.

Note 13: Self-Funded Health Insurance

The Hospital has a self-funded health care plan to provide medical benefits to employees and their dependents. Employees share in the cost of health benefits. Health care expense is based upon actual claims paid, reinsurance premiums, administration fees, and unpaid claims at year-end. The Hospital buys reinsurance to cover catastrophic individual claims over specific individual and aggregate amounts. Health care expense totaled \$1,998,825 and \$1,927,976 in 2024 and 2023, respectively. A liability of \$400,000 and \$200,000 for claims outstanding for each of the years ended June 30, 2024 and 2023, respectively, has been recorded in accrued liabilities in the accompanying balance sheets. Management believes this liability is sufficient to cover estimated claims, including claims incurred but not yet reported, as of June 30, 2024 and 2023.

Hillsboro Area Hospital, Inc. d/b/a Hillsboro Health

Notes to Financial Statements

Note 14: Malpractice Insurance

The Hospital purchases medical malpractice insurance under a claims-made policy. Under such a policy, only claims made and reported to the insurer are covered during the policy term, regardless of when the incident giving rise to the claim occurred. The Hospital would be able to purchase tail coverage from its insurance carrier if it chose to do so. The Hospital has primary commercial insurance coverage for individual claims up to \$1,000,000 and \$3,000,000 in the aggregate during the policy period. In addition, the Hospital carries a claims-made hospital professional liability supplement of \$4,000,000 for each claim and in the aggregate. The professional liability insurance policy is renewable annually and has been renewed by the insurance carrier for the annual period extending to November 19, 2024.

Under a claims-made policy, the risk for claims and incidents not asserted within the policy period remains with the Hospital. Although there exists the possibility of claims arising from services provided to patients through June 30, 2024, which have not yet been asserted even if covered by insurance policies, the Hospital has not been given notice of any such material possible claims, and accordingly no provision or related insurance recoveries have been made for them.

Note 15: Functional Classification of Expenses

The accompanying statements of operations present certain expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis. Employee benefits are allocated based on factors of either salary expense or actual employee expense. Overhead costs that include things such as professional services, office expenses, information technology, insurance, and other similar expenses are allocated on a variety of factors including revenues and departmental expense.

The expenses reported in the statements of operations for the years ended June 30 supported the following programs and functions:

2024			2023		
Healthcare	Administrative	Total	Healthcare	Administrative	Total
Salaries and wages	\$ 10,469,618	\$ 1,993,124	\$ 12,462,742	\$ 9,254,479	\$ 1,979,189
Employee benefits	2,924,934	587,428	3,512,362	2,712,195	649,430
Physician services	3,623,139	-	3,623,139	3,286,195	-
Other professional services	3,420,530	2,104,991	5,525,521	3,475,804	1,688,035
Supplies and pharmaceuticals	2,181,079	1,342,233	3,523,312	2,144,656	1,041,559
Other	2,019,989	1,243,099	3,263,088	2,151,789	1,045,024
Depreciation	1,014,874	353,850	1,368,724	923,515	321,997
Interest	123,969	-	123,969	136,241	136,241
	\$ 25,778,132	\$ 7,624,725	\$ 33,402,857	\$ 24,084,874	\$ 6,725,234
					\$ 30,810,108

Hillsboro Area Hospital, Inc. d/b/a Hillsboro Health

Notes to Financial Statements

Note 16: Concentration of Credit Risk

Financial instruments that potentially subject the Hospital to credit risk consist principally of patient accounts receivable and cash deposits in excess of insured limits.

Patient accounts receivable consist of amounts due from patients, their insurers, or governmental agencies (primarily Medicare and Medicaid) for health care provided to patients. The majority of the Hospital's patients are from Hillsboro, Illinois, and the surrounding area.

The mix of receivables from patients and third-party payors is as follows at June 30:

	2024	2023
Medicare	36 %	39 %
Medicaid	23 %	19 %
Commercial insurance	21 %	24 %
Self-pay	20 %	18 %
Totals	100 %	100 %

The Hospital maintains depository relationships with area financial institutions that are Federal Deposit Insurance Corporation (FDIC) insured institutions. Depository accounts are insured by the FDIC up to \$250,000. Operating cash needs often require that amounts on hand exceed FDIC limits. Management has entered into pledging agreements or obtained additional depository agreements with financial institutions to provide collateral on amounts in excess of the FDIC-insured limits.

Note 17: Related-Party Transactions

Hillsboro Area Health System NFP ("System") is the sole corporate member of the Hospital, Foundation, and Hillsboro Area Health Services, Inc. ("Health Services").

The Hospital leases land, on which the Health Services operates a wellness center, to Health Services for a nominal amount. The lease term is for 99 years and expires in August 2103. Health Services provides a workplace wellness program for the benefit of Hospital staff and families. The Hospital paid \$125,000 and \$125,000 in connection with this program to Health Services for the years ended June 30, 2024 and 2023, respectively.

The Hospital also leases physical therapy and other clinical space from Health Services on an annual contract basis. Rental expense paid to Health Services was \$38,528 and \$40,663 for the years ended June 30, 2024 and 2023, respectively.

The Hospital transferred \$500,000 and \$500,000 to the System in the years ended June 30, 2024 and 2023, respectively. The Hospital also leases land to the System for a specialty clinic facility and classrooms for a nominal amount. The lease term is for 99 years and expires in May 2112. Finally, the Hospital leases space for certain administrative and finance services from the System on an annual basis. Total leased space from the system was \$10,282 and \$10,306 for the years ended June 30, 2024 and 2023, respectively.

Hillsboro Area Hospital, Inc. d/b/a Hillsboro Health

Notes to Financial Statements

Note 18: Reclassifications

Certain reclassifications have been made to the 2023 financial statements to conform to the 2024 classifications.

Hillboro Area Hospital, Inc.

Financial Statements

Years Ended June 30, 2023 and 2022



WIPFLL

Hillsboro Area Hospital, Inc.
Years Ended June 30, 2023 and 2022

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Independent Auditor's Report

Board of Directors
Hillsboro Area Hospital, Inc.
Hillsboro, Illinois

Opinion

We have audited the financial statements of Hillsboro Area Hospital, Inc. (the "Hospital"), which comprise the balance sheets as of June 30, 2023 and 2022, 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 June 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America ("GAAP").

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 the 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 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 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.

Wipfli LLP

Wipfli LLP
Eau Claire, Wisconsin
October 2, 2023

Hillsboro Area Hospital, Inc.

Balance Sheets

June 30,	2023	2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 459,704	\$ 4,829,610
Short-term investments	17,305,725	22,132,455
Patient accounts receivable - Net	3,234,630	2,451,177
Amounts receivable from State of Illinois health care programs	16,761	16,761
Other receivables	285,417	98,889
Inventories	950,821	908,482
Prepaid expenses and other	658,411	471,698
Total current assets	22,911,469	30,909,072
Assets limited as to use:		
Board designated for capital expenditures - Not designated as funded depreciation	9,245,033	8,569,953
Restricted by donors	461,185	455,884
Total assets limited as to use	9,706,218	9,025,837
Property and equipment - Net	11,036,382	11,046,354
Other assets:		
Interest in net assets of Hillsboro Area Health Foundation, Inc.	552,472	555,804
Long-term investments	11,785,780	5,656,114
Investment in unconsolidated affiliate	98,361	100,000
Total other assets	12,436,613	6,311,918
Total assets	\$ 56,090,682	\$ 57,293,181

Hillsboro Area Hospital, Inc.

Balance Sheets (Continued)

June 30,	2023	2022
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of long-term debt	\$ 373,729	\$ 359,784
Accounts payable and accrued expenses	3,004,728	3,380,015
Accrued payroll and payroll deductions	305,644	672,038
Accrued vacation pay	535,026	462,136
Accrued medical claims payable	200,000	195,000
Amounts payable to third-party reimbursement programs	321,894	2,199,446
Deferred revenue	176,123	128,867
Total current liabilities	4,917,144	7,397,286
Long-term liabilities:		
Long-term debt - Less current maturities	3,070,997	3,446,537
Asset retirement obligation	81,638	79,315
Total long-term liabilities	3,152,635	3,525,852
Total liabilities	8,069,779	10,923,138
Net assets:		
Without donor restrictions	47,009,938	45,363,268
With donor restrictions	1,010,965	1,006,775
Total net assets	48,020,903	46,370,043
Total liabilities and net assets	\$ 56,090,682	\$ 57,293,181

See accompanying notes to financial statements.

Hillsboro Area Hospital, Inc.

Statements of Operations

Years Ended June 30,	2023	2022
Revenue:		
Net patient service revenue	\$ 31,039,836	\$ 30,347,462
Other operating revenue	542,852	1,524,313
Total revenue	31,582,688	31,871,775
Expenses:		
Salaries and wages	11,233,668	10,730,413
Employee benefits	3,361,625	3,175,708
Physician services	3,286,195	2,986,021
Other professional services	5,163,839	4,237,744
Supplies and pharmaceuticals	3,186,215	3,052,244
Other	3,196,813	2,897,064
Depreciation	1,245,512	1,186,744
Interest	136,241	151,412
Total expenses	30,810,108	28,417,350
Income from operations	772,580	3,454,425
Other income:		
Investment income	889,041	423,757
Loss on disposal of property and equipment	(6,806)	-
Revenue in excess of expenses	1,654,815	3,878,182
Other changes in net assets without donor restrictions:		
Change in net unrealized gain (loss) on investments other than trading securities	491,855	(953,125)
Transfers to Hillsboro Area Health System NFP	(500,000)	(500,000)
Total other changes in net assets without donor restrictions	(8,145)	(1,453,125)
Increase in net assets without donor restrictions	\$ 1,646,670	\$ 2,425,057

See accompanying notes to financial statements.

Hillsboro Area Hospital, Inc.

Statements of Changes in Net Assets

Years Ended June 30,	2023	2022
Net assets without donor restrictions:		
Revenue in excess of expenses	\$ 1,654,815	\$ 3,878,182
Other changes:		
Change in net unrealized gain (loss) on investments other than trading securities	491,855	(953,125)
Transfers to Hillsboro Area Health System NFP	(500,000)	(500,000)
Increase in net assets without donor restrictions	1,646,670	2,425,057
Net assets with donor restrictions:		
Investment income	8,721	1,888
Net assets released from restrictions	(1,199)	(582)
Change in interest in net assets of Foundation	(3,332)	9,171
Increase in net assets with donor restrictions	4,190	10,477
Increase in net assets	1,650,860	2,435,534
Net assets, beginning of year	46,370,043	43,934,509
Net assets, end of year	\$ 48,020,903	\$ 46,370,043

See accompanying notes to financial statements.

Hillsboro Area Hospital, Inc.

Statements of Cash Flows

Years Ended June 30,

	2023	2022
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Increase in net assets	\$ 1,650,860	\$ 2,435,534
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,245,512	1,186,744
Loss on disposal of property and equipment	6,806	-
Accretion of asset retirement obligation	2,323	2,254
Net unrealized gain (loss) on investments other than trading securities	(491,855)	953,125
Change in equity of unconsolidated affiliate	1,639	-
Undistributed change in interest in net assets of Foundation	3,332	(9,171)
Transfers to Hillsboro Area Health System NFP	500,000	500,000
Changes in operating assets and liabilities:		
Patient, State of Illinois, and other accounts receivable	(969,981)	373,161
Inventories, prepaid expenses, and other current assets	(229,052)	(44,324)
Accounts payable	(375,287)	1,474,751
Accrued compensation and other	(288,504)	31,457
Deferred revenue	47,256	104,260
Amounts payable to third-party reimbursement programs	(1,877,552)	(2,173,948)
Total adjustments	(2,425,363)	2,398,309
Net cash provided by (used in) operating activities	(774,503)	4,833,843
Cash flows from investing activities:		
Increase in investments	(1,302,936)	(8,317,967)
Increase in assets limited as to use	(188,526)	(309,100)
Investment in unconsolidated affiliate	-	(100,000)
Purchases of property and equipment - Net	(1,242,346)	(908,179)
Net cash used in investing activities	(2,733,808)	(9,635,246)
Cash flows from financing activities:		
Principal payments on long-term debt	(361,595)	(346,424)
Transfers to Hillsboro Area Health System NFP	(500,000)	(500,000)
Net cash provided by (used in) financing activities	(861,595)	(846,424)
Net decrease in cash and cash equivalents	(4,369,906)	(5,647,827)
Cash and cash equivalents, beginning of year	4,829,610	10,477,437
Cash and cash equivalents, end of year	\$ 459,704	\$ 4,829,610
Supplemental cash flow information:		
Cash paid for interest	\$ 136,241	\$ 151,412

See accompanying notes to financial statements.

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

The Entity

Hillsboro Area Hospital, Inc. (the "Hospital") is a not-for-profit Illinois corporation which operates a 25-bed Critical Access Hospital ("CAH") primarily providing inpatient and outpatient health care services to patients in Hillsboro, Illinois and surrounding communities. The Hospital also operates an assisted living facility in Hillsboro, Illinois which provides services to residents in the same geographic area. Hillsboro Area Health System NFP, a not-for-profit Illinois corporation, is the sole corporate member of the Hospital.

Financial Statement Presentation

The Hospital follows accounting standards set by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The ASC is the single source of authoritative accounting principles generally accepted in the United States (GAAP) to be applied to nongovernmental entities in the preparation of financial statements in conformity with GAAP.

Use of Estimates

The preparation of the accompanying financial statements in conformity with GAAP requires management to make certain estimates and assumptions that directly affect the reported amounts of assets and liabilities and disclosure contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Cash and Cash Equivalents

The Hospital considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents, excluding amounts included in assets limited as to use.

Investments, Assets Limited as to Use, and Investment Income

Investments, including assets limited as to use, are recorded at fair value in the accompanying balance sheets.

Assets limited as to use consist of assets designated by the Board of Directors for future capital improvements, over which the Board of Directors retains control and may at its discretion subsequently be used for other purposes, and amounts restricted by donors.

Investment income or loss (including realized gains and losses on investments, interest, and dividends) is reported as other income (loss) and is included in revenue in excess of expenses unless the income is restricted by donor or law. Unrealized gains and losses are excluded from revenue in excess of expenses unless the investments are trading securities or restricted by donor or law. Realized gains or losses are determined by specific identification.

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Investments, Assets Limited as to Use, and Investment Income (Continued)

The Hospital monitors the difference between the cost and fair value of its investments. If investments experience a decline in value that the Hospital determines is other than temporary, the Hospital records a realized loss in investment income.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. The Hospital measures fair value of its financial instruments using a three-tier hierarchy that prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Patient Accounts Receivable and Credit Policy

Patient accounts receivable is reported at the amount that reflects the consideration to which the Hospital expects to be entitled, in exchange for providing patient care services. Patient accounts receivable are recorded in the accompanying balance sheets net of contractual adjustments and implicit price concessions which reflects management's estimate of the transaction price. The Hospital estimates the transaction price based on negotiated contractual agreements, 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 and is recorded through a reduction of gross revenue and a credit to patient accounts receivable. 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 Hospital does not have a policy to charge interest on past due accounts.

Inventories

Inventories consist primarily of medical supplies, general supplies, and pharmaceuticals used in the delivery of health care services. Inventories are stated at the lower of cost or net realizable value.

Property, Equipment, and Depreciation

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Estimated useful lives range from three to twenty years for major movable equipment and from five to forty years for land improvements and buildings.

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Property, Equipment, and Depreciation (Continued)

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from revenue in excess of expenses, 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 restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Impairment of Long-Lived Assets

The Hospital evaluates the recoverability of its long-lived assets, which consist primarily of property and equipment with estimated useful lives, whenever events or changes in circumstance indicate that the carrying value may not be recoverable. If the recoverability of these assets is unlikely because of the existence of factors indicating impairment, an impairment analysis is performed using a projected undiscounted cash flow method. Management must make assumptions regarding estimated future cash flows and other factors to determine the fair value of these respective assets. If the carrying amounts of the assets exceed their respective fair values, the carrying value of the underlying assets would be adjusted to fair value and an impairment loss would be recognized. During 2023 and 2022, the Hospital determined that no evaluations of recoverability were necessary.

Interest in Net Assets of Hillsboro Area Health Foundation

Accounting guidance establishes standards of financial accounting and reporting for transactions in which an entity makes contributions to another entity or an entity that accepts contributions from a donor and agrees to use those assets on behalf of or transfer those assets and the return on those assets to another entity. Hillsboro Area Health Foundation, Inc. (the "Foundation") holds and accepts contributions on behalf of the Hospital, and accordingly the Hospital recognizes its interest in the net assets of the Foundation for specific funds the Foundation holds which are designated for the benefit of the Hospital, and adjusts that interest for its share of the change in the net assets of the Hospital's designated funds held by the Foundation.

Investment in Unconsolidated Affiliate

Investments in an unconsolidated affiliate are recorded on the equity method.

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Asset Retirement Obligation

Management annually assesses its existing properties to determine if there is a need to recognize a liability for a conditional asset retirement, specifically as it relates to its legal obligation to perform asset retirement activities, such as asbestos removal, on its existing properties. The asset retirement obligation represents the obligation to dispose of assets that are legally required to be removed at a future date. This obligation is recorded at the net present value using a risk-free interest rate and an inflationary rate. The liability will be adjusted annually over the term of the estimated life of the asset.

Net Assets

Net assets without donor restrictions consist of investments and otherwise unrestricted amounts that are available for use in carrying out the mission of the Hospital. Net assets with donor restrictions are those whose use by the Hospital has been limited by donors to a specific time period or purpose, or those assets restricted by donors to be maintained by the Hospital in perpetuity.

Revenue in Excess of Expenses

The accompanying statements of operations and statements of changes in net assets include the classification revenue in excess of expenses, which is considered the operating indicator. Changes in net assets, which are excluded from the operating indicator, would include contributions for property and equipment, unrealized gains and losses on certain types of investments other than trading securities, permanent transfers to and from affiliates for other than goods and services, and contributions of long-lived assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets.

Net 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 are due from patients, third-party payors (including health insurers and government programs), and others and include 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 or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided. Revenue from performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. Generally, the majority of patient care services provided in or by the Hospital, the performance obligation is satisfied as the patient simultaneously receives and consumes the benefits provided as the services are performed and recognition of the obligation over time yields the same result as recognizing the obligation at a point in time. The Hospital believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation.

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (Continued)

Because the Hospital's performance obligations relate to contracts with a duration of less than one year, the Hospital has elected to apply the optional exemption and therefore is not required to 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 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 uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The Hospital used the following factors to develop portfolios: major payor classes and type of service (e.g., inpatient, outpatient, emergency, assisted living, etc.) and geographical location. Using historical collection trends and other analysis, the Hospital evaluated the accuracy of its estimates and determined that recognizing revenue by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach was used.

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, other insurances, patients, etc.) have different reimbursement/payment methodologies
- Length of the patient's or resident's service/episode of care
- Geography of the service location
- Lines of business that provided the service (for example, hospital, assisted living, etc.)

The Hospital determines the transaction price, which involves significant estimates and judgment, 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 implicit price concessions provided to patients. The Hospital determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policy, and historical experience. The Hospital determines its estimate of implicit price concessions based on its historical collection experience for each patient portfolio based on payor class and service type.

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (Continued)

The Hospital has agreements with third-party payors that provide for reimbursement at amounts that vary from its established rates. A summary of the basis of reimbursement with major third-party payors follows for hospital services:

- Medicare: The Hospital is designated as a critical access hospital (CAH). As such, all inpatient, swing bed, and outpatient hospital services are paid based on a cost-reimbursement methodology, except for certain types of laboratory, radiology, and professional services provided to Medicare beneficiaries, which are reimbursed on prospectively determined fee schedules.
- Medicaid: Hospital services rendered to Illinois Public Aid beneficiaries are paid at prospectively determined rates based on a patient classification system. These rates are not subject to retroactive adjustment; however, in order to receive proper reimbursement, the Hospital must file a cost report annually with the State of Illinois.
- Medicare & Medicaid Services (CMS) approved state of Illinois (the "State") legislation for a Medicaid Hospital Assessment Program (the "Program"). The Program was extended through June 30, 2019, and a redesigned program has been approved and extended through June 30, 2024. Under the Program, the Hospital receives additional Medicaid reimbursement from the State. Additional funding and reimbursement, through sharing in cost savings in the Medicaid program, was also available and distributed to participating hospitals through the development by the State of an Accountable Care Entity ("ACE") which started in 2017. Total reimbursement revenue recognized by the Hospital relating to the Program amounted to \$1,961,319 and \$1,713,472 during 2023 and 2022, respectively, and is included in net patient service revenue in the accompanying statements of operations. During 2023 and 2022, the Hospital incurred expense of \$572,954 and \$465,123, respectively, related to amounts paid to the state of Illinois for participation in the Program, and these amounts are included in supplies and other expenses in the accompanying statements of operations.
- Other: Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, prospectively determined daily rates, and fee schedules.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. Because of investigations by governmental agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Hospital's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Hospital.

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (Continued)

The Centers for Medicare and Medicaid Services (CMS) uses recovery audit contractors (RACs) to search for potentially inaccurate Medicare payments that may have been made to healthcare providers and were not detected through existing CMS program integrity efforts. Once the RAC identifies a claim it believes is inaccurate, the RAC makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The Hospital has not been notified by the RAC of any potential significant reimbursement adjustments. In addition, contracts the Hospital has with third-party payors also provide for retroactive audit and review of claims.

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.

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. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended June 30, 2023 and 2022, was not significant.

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. The Hospital's policy provides for approximately 10% discounts from established charges to uninsured patients for making prompt pay for services rendered, and after this initial discount, further discounts are available for patients that qualify through the hospital's charity care or financial assistance policy. The uninsured prompt pay discount percentage remained consistent in 2023 and 2022.

Hillsboro Area Hospital, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (Continued)

For uninsured patients who do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital includes price concessions related to uninsured patients in the period the services are provided.

The promised amount of consideration from patients and third-party payors has not been adjusted 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 a third-party payor pays for that service will be one year or less. However, the Hospital does, in certain instances, enter into payment agreements 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.

All incremental customer contract acquisition costs are expensed as they are incurred as the amortization period of the asset that the Hospital otherwise would have recognized is one year or less in duration.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care/uninsured patient discount policy without charge or at amounts less than its established rates. Eligible patients are identified based on analysis of financial information obtained from the patients. The Hospital maintains records to identify the amount of charges forgone for services and supplies furnished under the charity care/uninsured patient discount policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue in the accompanying statements of operations.

Contributions and Donor-Restricted Gifts

Contributions are considered available for unrestricted use unless specifically restricted by the donor.

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as donor-restricted contributions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported as net assets released from restrictions.

Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions.

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Income Taxes

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Hospital is also exempt from state income taxes on related income under similar state laws.

Advertising Costs

Advertising costs are expensed as incurred.

Real Estate Taxes

The State of Illinois previously enacted legislation that clarifies when hospitals are eligible to receive exemption from property tax requirements. As part of the legislation, hospitals, including the Hospital, must submit to the State of Illinois annual property tax exemption applications, which include information on the amount of benefits provided to low-income, charity care, and Illinois Public Aid (Medicaid) beneficiaries. As of June 30, 2023, the majority of the real estate of the Hospital has been granted property tax exemption by the State of Illinois.

Subsequent Events

Subsequent events have been evaluated through October 2, 2023, which is the date the financial statements were available to be issued.

Adoption of Accounting Pronouncement

In February 2016, FASB issued Accounting Standards Update ("ASU") No. 2016-02, *Leases* (Topic 842). This ASU modifies lease accounting to increase transparency and comparability by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing information. The most significant change for lessees is the recognition of both a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term for those leases classified as operating leases under current GAAP. Certain accounting policy elections are permitted for leases with terms of 12 months or less. FASB ASC Topic 842, *Leases*, supersedes current lease requirements in FASB ASC Topic 840, *Leases*. The Hospital has elected to adopt and apply this accounting pronouncement effective July 1, 2022, and applied the adoption of this pronouncement using a modified retrospective approach. The Hospital elected to utilize practical expedients made available, including the package of practical expedients not to reassess whether a contract is or contains a lease, the lease classification, and initial direct costs for any existing leases. Adoption of this standard did not have a material impact on the results of operations reported in the accompanying statements of operations, and had no impact on accompanying statements of cash flows.

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 2: COVID-19

Starting in March 2020, the nation in general, and healthcare-related entities specifically, were faced with a global pandemic. As healthcare entities prepared for the crisis, operational changes were made to delay routine visits and elective procedures and reevaluate the entire care delivery model to care for patient needs, specifically those affected by COVID-19. These operational changes continued and adjustments were made in operations and business plans throughout the pandemic. The declared public health emergency ended in May 2023 related to the COVID-19 pandemic, and even with this ending the complete financial impact on the economy in general and healthcare-related entities specifically still remains undeterminable at this time. Management of the Hospital continues to note that both operational performance and cash flows for healthcare-related entities have been and will continue to be impacted into the future even though the declared public health emergency period and pandemic have ended.

The federal and state governments, as well as other agencies, assisted many healthcare organizations to prevent significant financial constraints by providing supplemental payment programs in the forms of distributions which are intended to help in offsetting lost revenues as well as the cost of staffing, supplies, and equipment from treating patients impacted by or preparing for the pandemic's healthcare needs. Through June 30, 2022, the Hospital received approximately \$5,055,000 in funding from these programs and had recognized approximately \$946,000 of these funds as other operating revenue during the year ended June 30, 2022, in the accompanying statements of operations. The hospital had also previously recognized approximately \$4,109,000 in operating revenue of these amounts received collectively between 2021 and 2020. No additional funds had been received from these programs during the year ended June 30, 2023. Funding was primarily received from the U.S. Department of Health and Human Services ("HHS"), Coronavirus Aid, Relief, and Economic Security ("CARES") and American Rescue Plan ("ARP") Acts, and the State of Illinois related to COVID-19 assistance.

These funds are subject to various financial and compliance guidelines for intended uses as published by the federal and state governments. Management is continuing to monitor compliance with the terms and conditions of these grants as new guidance and clarification is released from HHS, the State of Illinois, and other agencies. The Hospital has completed all required attestations to the federal government as well as all required audits to date to or comply with the current terms and conditions of the programs; however, as more information becomes available or the federal or state government would perform any additional audits in the future, the Hospital's ability to retain some or all of the distributions received could be impacted.

The Hospital also received approximately \$4,481,000 of accelerated and advanced payments from the Medicare program in 2021 to be repaid interest free over approximately an eighteen month period of time starting in 2022. During 2023 and 2022, the Hospital repaid approximately \$2,002,000 and \$2,022,000, respectively, in funds to the Medicare program from this advance. The Hospital had also previously repaid approximately \$457,000 in funds to the Medicare program in 2021. The remaining liabilities from these accelerated and advanced program payments were included in amounts payable to third-party payor settlements in the accompanying balance sheets at June 30, 2022. No amounts are remaining to be repaid to the Medicare program related to these accelerated and advanced payments at June 30, 2023.

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 3: Available Resources and Liquidity

The Hospital does not have a formal liquidity policy but generally strives to maintain financial assets in liquid form such as cash and cash equivalents for at least three to six months of operating expenses. Other funds, included in long-term investments and assets limited as to use in the accompanying balance sheets, are considered available for operational or capital needs, except for investments with restrictive redemption requirements. Occasionally, the Board of Directors designates a portion of operating surplus to be appropriated at its discretion for future operational initiatives and capital expenditures. These funds, at the discretion of the Board of Directors, could be released immediately or sold and redeemed prior to their maturity and are not considered available under the Hospital's general liquidity management. At June 30, 2023 and 2022, the balance of these funds was \$9,245,033 and \$8,569,953, respectively.

Financial assets available for general expenditure, such as operating expenses, and purchases of property and equipment, within one year of the balance sheet date, comprise the following at June 30:

	2023	2022
Cash and cash equivalents	\$ 459,704	\$ 4,829,610
Short-term investments	17,305,725	22,132,455
Patient accounts receivable - Net	3,234,630	2,451,177
Amounts receivable from State of Illinois health care programs	16,761	16,761
Other receivables	285,417	98,889
Totals	\$ 21,302,237	\$ 29,528,892

Patient accounts receivable - net becomes available as an available resource to the Hospital generally as operating cash as it is billed and collected based on the policies and procedures described in Note 1, and its opening balance at July 1, 2021 was \$2,759,278.

Note 4: Investments and Assets Limited as to Use

Investments

Investments consisted of the following at June 30:

	2023	2022
Short-term investments - Certificates of deposit	\$ 6,359,998	\$ 15,190,001
Short-term investments - U.S. Treasury securities	10,945,727	6,942,454
Long-term investments - Certificates of deposit	11,785,780	1,755,780
Long-term investments - U.S. Treasury securities	-	3,900,334
Total investments	\$ 29,091,505	\$ 27,788,569

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 4: Investments and Assets Limited as to Use (Continued)

Assets limited as to Use

Assets limited as to use consisted of the following at June 30:

	2023	2022
Board designated for capital expenditures - Not designated as funded depreciation:		
Money market funds	\$ 152,222	\$ 303,622
Certificates of deposit	4,997,383	4,767,384
Common stock	35	35
U.S. Treasury securities	-	60,984
Mutual funds	4,071,782	3,433,851
Accrued interest receivable	23,611	4,077
Total board designated for capital expenditures - Not designated as funded depreciation	9,245,033	8,569,953
Restricted by donors:		
Money market funds	12,567	9,445
Certificates of deposit	445,614	445,614
Accrued interest receivable	3,004	825
Total restricted by donors	461,185	455,884
Total assets limited as to use	\$ 9,706,218	\$ 9,025,837

Investment Income

Realized investment income, including realized gains and losses on investments and assets limited as to use, consisted of the following for the years ended June 30:

	2023	2022
Interest and dividends	\$ 889,041	\$ 423,757
Interest on restricted net assets with donor restrictions	8,721	1,888
Total investment income	\$ 897,762	\$ 425,645

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 4: Investments and Assets Limited as to Use (Continued)

Management assesses individual investment securities as to whether declines in market value are other than temporary and result in impairment. For equity securities and mutual funds, the Hospital considers whether it has the ability and intent to hold the investment until a market price recovery. Evidence considered in this includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, the issuer's financial condition, and the general market condition in the geographic area or industry in which the investee operates. For debt securities, if the Hospital has made a decision to sell the security, or if it is more likely than not the Hospital will sell the security before the recovery of the security's cost basis, an other-than-temporary impairment is considered to have occurred. If the Hospital has not made a decision or does not have an intent to sell the debt security, but the debt security is not expected to recover its value due to a credit loss, an other-than-temporary impairment is considered to have occurred. At June 30, 2023 and 2022, the Hospital did not consider any individual investments other than temporarily impaired.

Investments, 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 investments, it is reasonably possible that changes in the values of certain investments will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Note 5: Fair Value Measurements

The following is a description of the valuation methodologies used for assets measured at fair value:

Money market funds are valued using a net asset value (NAV) of \$1.00. Fixed income securities are primarily invested in U.S. Government securities such as bonds and are valued using quotes from pricing vendors for identical or similar assets based on recent trading activity and other observable market data. Quoted market prices are used to determine the fair value of investments in marketable equity securities, which are primarily invested in common stock. Mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by the Hospital are open-end mutual funds that are registered with the Securities and Exchange Commission. The mutual funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Hospital are deemed to be actively traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Hospital believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Hillsboro Area Hospital, Inc.

Notes to Financial Statements

Note 5: Fair Value Measurements (Continued)

The following tables set forth by level, within the fair value hierarchy, the Hospital's assets measured at fair value on a recurring basis as of June 30:

2023				
Total Assets at	Level 1	Level 2	Level 3	Fair Value
Money market funds	\$ -	\$ 164,789	\$ -	\$ 164,789
Mutual funds:				
Blend	1,085,506	-	-	1,085,506
Growth	1,550,853	-	-	1,550,853
Value	936,123	-	-	936,123
Intermediate government	10,247	-	-	10,247
International allocation	167,813	-	-	167,813
Other international	321,240	-	-	321,240
Marketable equity securities - Common stock	35	-	-	35
U.S. Treasury securities	-	10,945,727	-	10,945,727
Total	\$ 4,071,817	\$ 11,110,516	\$ -	\$ 15,182,333

2022				
Total Assets at	Level 1	Level 2	Level 3	Fair Value
Money market funds	\$ -	\$ 313,067	\$ -	\$ 313,067
Mutual funds:				
Blend	894,255	-	-	894,255
Growth	1,272,871	-	-	1,272,871
Value	826,392	-	-	826,392
Intermediate government	10,502	-	-	10,502
International allocation	157,538	-	-	157,538
Other international	272,293	-	-	272,293
Marketable equity securities - Common stock	35	-	-	35
U.S. Treasury securities	-	10,903,773	-	10,903,773
Total	\$ 3,433,886	\$ 11,216,840	\$ -	\$ 14,650,726

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 5: Fair Value Measurements (Continued)

The assets included in the fair value measurements table above at both June 30, 2023 and 2022, include all assets within investments and assets limited as to use as described in Note 4, with the exception of certificates of deposit and accrued interest receivable, which are excluded from the fair value measurement table.

Note 6: Property and Equipment

Property and equipment consisted of the following at June 30:

	2023	2022
Land	\$ 330,860	\$ 355,860
Land improvements	1,828,208	1,814,732
Buildings	18,070,843	17,955,388
Movable equipment	17,316,767	16,208,291
Construction in progress	139,299	122,401
Total property and equipment	37,685,977	36,456,672
Less - Accumulated depreciation	26,649,595	25,410,318
Property and equipment - Net	\$ 11,036,382	\$ 11,046,354

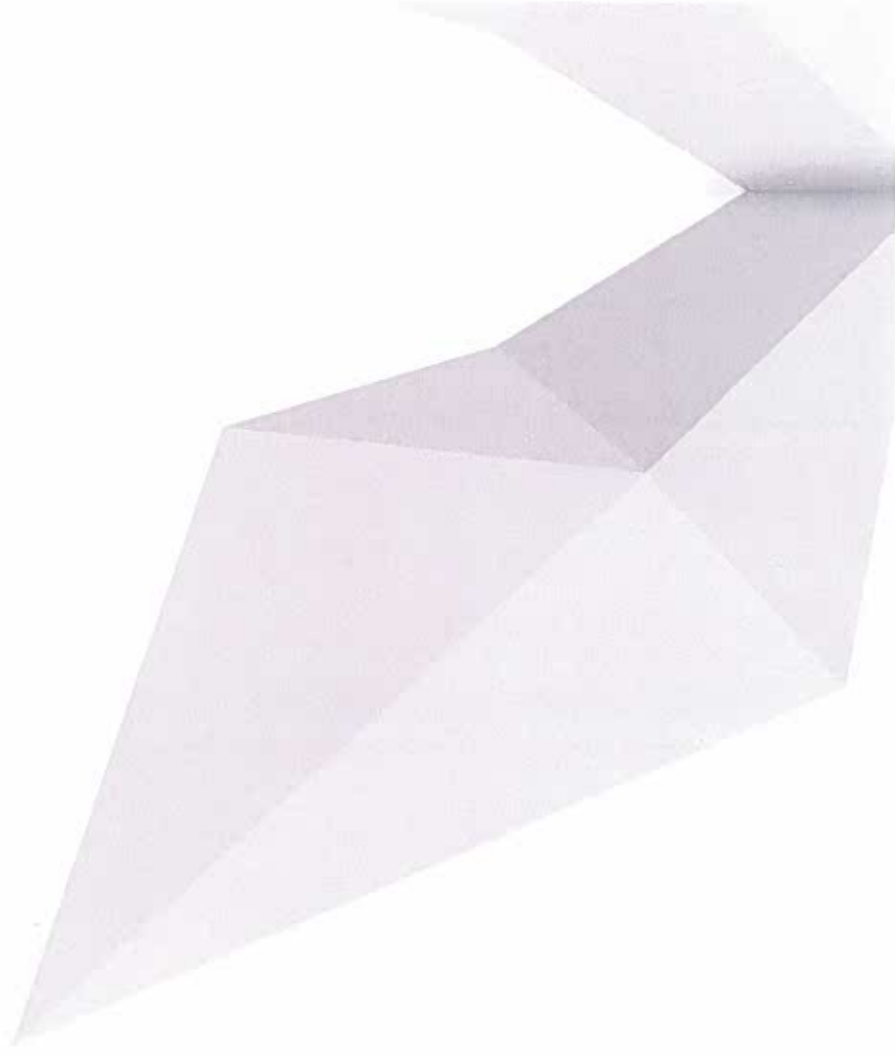
Note 7: Interest in Net Assets of Hillsboro Area Health Foundation

Hillsboro Area Health Foundation, Inc. (the "Foundation") was established to benefit the general public and the Hospital. The Foundation's Board of Directors determines the amount, timing, and purpose of the distribution of Foundation funds. The Hospital recognizes its interest in the net assets held by the Foundation. At June 30, 2023 and 2022, \$552,472 and \$555,804, respectively, is recognized as the Hospital's interest in the total net assets of the Foundation, which includes contributions received by the Foundation that are donor restricted to be used for Hospital purposes.

The Foundation also holds certain funds under terms of an endowment agreement for the benefit of the Hospital which is included in the amounts above and further described in Note 9.

Hillboro Area Hospital, Inc.

Financial Statements
Years Ended June 30, 2022 and 2021



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Hillsboro Area Hospital, Inc.
Years Ended June 30, 2022 and 2021

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Independent Auditor's Report

Board of Director
Hillsboro Area Hospital, Inc.
Hillsboro, Illinois

Opinion

We have audited the financial statements of Hillsboro Area Hospital, Inc. (the "Hospital"), which comprise the balance sheets as of June 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 June 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America ("GAAP").

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 the 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 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 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, 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.

Wipfli LLP

Wipfli LLP

Eau Claire, Wisconsin
October 20, 2022

Hillsboro Area Hospital, Inc.

Balance Sheets

June 30,	2022	2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,829,610	\$ 10,477,437
Short-term investments	22,132,455	17,469,822
Patient accounts receivable - Net	2,451,177	2,759,278
Amounts receivable from State of Illinois health care programs	16,761	115,778
Other receivables	98,889	64,932
Inventories	908,482	896,227
Prepaid expenses and other	471,698	439,629
Total current assets	30,909,072	32,223,103
Assets limited as to use:		
Board designated for capital expenditures - Not designated as funded depreciation	8,569,953	9,215,866
Restricted by donors	455,884	453,996
Total assets limited as to use	9,025,837	9,669,862
Property and equipment - Net	11,046,354	11,324,919
Other assets:		
Interest in net assets of Hillsboro Area Health Foundation, Inc.	555,804	546,633
Long-term investments	5,656,114	2,000,780
Investment in unconsolidated affiliate	100,000	-
Total other assets	6,311,918	2,547,413
Total assets	\$ 57,293,181	\$ 55,765,297

Hillsboro Area Hospital, Inc.

Balance Sheets (Continued)

	June 30,	2022	2021
LIABILITIES AND NET ASSETS			
Current liabilities:			
Current maturities of long-term debt	\$	359,784	\$ 346,424
Accounts payable and accrued expenses		3,380,015	1,905,264
Accrued payroll and payroll deductions		672,038	609,991
Accrued vacation pay		462,136	492,726
Accrued medical claims payable		195,000	195,000
Amounts payable to third-party reimbursement programs		2,199,446	4,373,394
Deferred revenue		128,867	24,607
Total current liabilities		7,397,286	7,947,406
Long-term liabilities:			
Long-term debt - Less current maturities		3,446,537	3,806,321
Asset retirement obligation		79,315	77,061
Total long-term liabilities		3,525,852	3,883,382
Total liabilities		10,923,138	11,830,788
Net assets:			
Without donor restrictions		45,363,268	42,938,211
With donor restrictions		1,006,775	996,298
Total net assets		46,370,043	43,934,509
Total liabilities and net assets	\$	57,293,181	\$ 55,765,297

See accompanying notes to financial statements.

Hillsboro Area Hospital, Inc.

Statements of Operations

Years Ended June 30,	2022	2021
Revenue:		
Net patient service revenue	\$ 30,347,462	\$ 29,053,504
Other operating revenue	1,524,313	1,513,736
Total revenue	31,871,775	30,567,240
Expenses:		
Salaries and wages	10,730,413	9,813,495
Employee benefits	3,175,708	2,891,737
Physician services	2,986,021	2,722,375
Other professional services	4,237,744	4,952,342
Supplies and pharmaceuticals	3,052,244	2,798,076
Other	2,897,064	2,717,187
Depreciation	1,186,744	1,171,848
Interest	151,412	164,276
Total expenses	28,417,350	27,231,336
Income from operations	3,454,425	3,335,904
Other income:		
Investment income	423,757	355,302
Gain on forgiveness of long-term debt	-	1,835,100
Revenue in excess of expenses	3,878,182	5,526,306
Other changes in net assets without donor restrictions:		
Change in net unrealized gain (loss) on investments other than trading securities	(953,125)	979,591
Transfers to Hillsboro Area Health System NFP	(500,000)	(500,000)
Total other changes in net assets without donor restrictions	(1,453,125)	479,591
Increase in net assets without donor restrictions	\$ 2,425,057	\$ 6,005,897

See accompanying notes to financial statements.

Hillsboro Area Hospital, Inc.

Statements of Changes in Net Assets

Years Ended June 30,	2022	2021
Net assets without donor restrictions:		
Revenue in excess of expenses	\$ 3,878,182	\$ 5,526,306
Other changes:		
Change in net unrealized gain (loss) on investments other than trading securities	(953,125)	979,591
Transfers to Hillsboro Area Health System NFP	(500,000)	(500,000)
Increase in net assets without donor restrictions	2,425,057	6,005,897
Net assets with donor restrictions:		
Investment income	1,888	2,766
Net assets released from restrictions	(582)	(206)
Change in interest in net assets of Foundation	9,171	(330)
Increase in net assets with donor restrictions	10,477	2,230
Increase in net assets	2,435,534	6,008,127
Net assets, beginning of year	43,934,509	37,926,382
Net assets, end of year	\$ 46,370,043	\$ 43,934,509

See accompanying notes to financial statements.

Hillsboro Area Hospital, Inc.

Statements of Cash Flows

Years Ended June 30,	2022	2021
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Increase in net assets	\$ 2,435,534	\$ 6,008,127
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	1,186,744	1,171,848
Accrion of asset retirement obligation	2,254	4,114
Net unrealized gain (loss) on investments other than trading securities	953,125	(979,591)
Undistributed change in interest in net assets of Foundation	(9,171)	330
Transfers to Hillsboro Area Health System NFP	500,000	500,000
Gain on forgiveness of long-term debt	-	(1,835,100)
Changes in operating assets and liabilities:		
Patient, State of Illinois, and other accounts receivable	373,161	(429,232)
Inventories, prepaid expenses, and other current assets	(44,324)	(299,422)
Accounts payable	1,474,751	413,091
Accrued compensation and other	31,457	129,020
Deferred revenue	104,260	(1,076,244)
Amounts payable to third-party reimbursement programs	(2,173,948)	(1,209,258)
Total adjustments	2,398,309	(3,610,444)
Net cash provided by operating activities	4,833,843	2,397,683
Cash flows from investing activities:		
Increase in investments	(8,317,967)	(321,186)
Increase in assets limited as to use	(309,100)	(166,977)
Investment in unconsolidated affiliate	(100,000)	-
Purchases of property and equipment - Net	(908,179)	(1,042,046)
Net cash used in investing activities	(9,635,246)	(1,530,209)
Cash flows from financing activities:		
Principal payments on long-term debt	(346,424)	(333,560)
Transfers to Hillsboro Area Health System NFP	(500,000)	(500,000)
Net cash provided by (used in) financing activities	(846,424)	(833,560)
Net increase in cash and cash equivalents	(5,647,827)	33,914
Cash and cash equivalents, beginning of year	10,477,437	10,443,523
Cash and cash equivalents, end of year	\$ 4,829,610	\$ 10,477,437
Supplemental cash flow information:		
Cash paid for interest	\$ 151,412	\$ 164,276

See accompanying notes to financial statements.

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

The Entity

Hillsboro Area Hospital, Inc. (the "Hospital") is a not-for-profit Illinois corporation which operates a 25-bed Critical Access Hospital ("CAH") primarily providing inpatient and outpatient health care services to patients in Hillsboro, Illinois and surrounding communities. The Hospital also operates an assisted living facility in Hillsboro, Illinois which provides services to residents in the same geographic area. Hillsboro Area Health System NFP, a not-for-profit Illinois corporation, is the sole corporate member of the Hospital.

Financial Statement Presentation

The Hospital follows accounting standards set by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The ASC is the single source of authoritative accounting principles generally accepted in the United States (GAAP) to be applied to nongovernmental entities in the preparation of financial statements in conformity with GAAP.

Use of Estimates

The preparation of the accompanying financial statements in conformity with GAAP requires management to make certain estimates and assumptions that directly affect the reported amounts of assets and liabilities and disclosure contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Cash and Cash Equivalents

The Hospital considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents, excluding amounts included in assets limited as to use.

Investments, Assets Limited as to Use, and Investment Income

Investments, including assets limited as to use, are recorded at fair value in the accompanying balance sheets.

Assets limited as to use consist of assets designated by the Board of Directors for future capital improvements, over which the Board of Directors retains control and may at its discretion subsequently be used for other purposes, and amounts restricted by donors.

Investment income or loss (including realized gains and losses on investments, interest, and dividends) is reported as other income (loss) and is included in revenue in excess of expenses unless the income is restricted by donor or law. Unrealized gains and losses are excluded from revenue in excess of expenses unless the investments are trading securities or restricted by donor or law. Realized gains or losses are determined by specific identification.

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Investments, Assets Limited as to Use, and Investment Income (Continued)

The Hospital monitors the difference between the cost and fair value of its investments. If investments experience a decline in value that the Hospital determines is other than temporary, the Hospital records a realized loss in investment income.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. The Hospital measures fair value of its financial instruments using a three-tier hierarchy that prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Patient Accounts Receivable and Credit Policy

Patient accounts receivable is reported at the amount that reflects the consideration to which the Hospital expects to be entitled, in exchange for providing patient care services. Patient accounts receivable are recorded in the accompanying balance sheets net of contractual adjustments and implicit price concessions which reflects management's estimate of the transaction price. The Hospital estimates the transaction price based on negotiated contractual agreements, 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 and is recorded through a reduction of gross revenue and a credit to patient accounts receivable. 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 Hospital does not have a policy to charge interest on past due accounts.

Inventories

Inventories consist primarily of medical supplies, general supplies, and pharmaceuticals used in the delivery of health care services. Inventories are stated at the lower of cost or net realizable value.

Property, Equipment, and Depreciation

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Estimated useful lives range from three to twenty years for major movable equipment and from five to forty years for land improvements and buildings.

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Property, Equipment, and Depreciation (Continued)

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from revenue in excess of expenses, 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 restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Impairment of Long-Lived Assets

The Hospital evaluates the recoverability of its long-lived assets, which consist primarily of property and equipment with estimated useful lives, whenever events or changes in circumstance indicate that the carrying value may not be recoverable. If the recoverability of these assets is unlikely because of the existence of factors indicating impairment, an impairment analysis is performed using a projected undiscounted cash flow method. Management must make assumptions regarding estimated future cash flows and other factors to determine the fair value of these respective assets. If the carrying amounts of the assets exceed their respective fair values, the carrying value of the underlying assets would be adjusted to fair value and an impairment loss would be recognized. During 2022 and 2021, the Hospital determined that no evaluations of recoverability were necessary.

Interest in Net Assets of Hillsboro Area Health Foundation

Accounting guidance establishes standards of financial accounting and reporting for transactions in which an entity makes contributions to another entity or an entity that accepts contributions from a donor and agrees to use those assets on behalf of or transfer those assets and the return on those assets to another entity. Hillsboro Area Health Foundation, Inc. (the "Foundation") holds and accepts contributions on behalf of the Hospital, and accordingly the Hospital recognizes its interest in the net assets of the Foundation for specific funds the Foundation holds which are designated for the benefit of the Hospital, and adjusts that interest for its share of the change in the net assets of the Hospital's designated funds held by the Foundation.

Investment in Unconsolidated Affiliate

Investments in an unconsolidated affiliate are recorded on the equity method.

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Asset Retirement Obligation

Management annually assesses its existing properties to determine if there is a need to recognize a liability for a conditional asset retirement, specifically as it relates to its legal obligation to perform asset retirement activities, such as asbestos removal, on its existing properties. The asset retirement obligation represents the obligation to dispose of assets that are legally required to be removed at a future date. This obligation is recorded at the net present value using a risk-free interest rate and an inflationary rate. The liability will be adjusted annually over the term of the estimated life of the asset.

Net Assets

Net assets without donor restrictions consist of investments and otherwise unrestricted amounts that are available for use in carrying out the mission of the Hospital. Net assets with donor restrictions are those whose use by the Hospital has been limited by donors to a specific time period or purpose, or those assets restricted by donors to be maintained by the Hospital in perpetuity.

Revenue in Excess of Expenses

The accompanying statements of operations and statements of changes in net assets include the classification revenue in excess of expenses, which is considered the operating indicator. Changes in net assets, which are excluded from the operating indicator, would include contributions for property and equipment, unrealized gains and losses on certain types of investments other than trading securities, permanent transfers to and from affiliates for other than goods and services, and contributions of long-lived assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets.

Net 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 are due from patients, third-party payors (including health insurers and government programs), and others and include 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 or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided. Revenue from performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. Generally, the majority of patient care services provided in or by the Hospital, the performance obligation is satisfied as the patient simultaneously receives and consumes the benefits provided as the services are performed and recognition of the obligation over time yields the same result as recognizing the obligation at a point in time. The Hospital believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation.

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (Continued)

Because the Hospital's performance obligations relate to contracts with a duration of less than one year, the Hospital has elected to apply the optional exemption and therefore is not required to 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 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 uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The Hospital used the following factors to develop portfolios: major payor classes and type of service (e.g., inpatient, outpatient, emergency, assisted living, etc.) and geographical location. Using historical collection trends and other analysis, the Hospital evaluated the accuracy of its estimates and determined that recognizing revenue by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach was used.

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, other insurances, patients, etc.) have different reimbursement/payment methodologies
- Length of the patient's or resident's service/episode of care
- Geography of the service location
- Lines of business that provided the service (for example, hospital, assisted living, etc.)

The Hospital determines the transaction price, which involves significant estimates and judgment, 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 implicit price concessions provided to patients. The Hospital determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policy, and historical experience. The Hospital determines its estimate of implicit price concessions based on its historical collection experience for each patient portfolio based on payor class and service type.

Hillsboro Area Hospital, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (Continued)

The Hospital has agreements with third-party payors that provide for reimbursement at amounts that vary from its established rates. A summary of the basis of reimbursement with major third-party payors for hospital services:

- Medicare: The Hospital is designated as a critical access hospital (CAH). As such, all inpatient, swing bed, and outpatient hospital services are paid based on a cost-reimbursement methodology, except for certain types of laboratory, radiology, and professional services provided to Medicare beneficiaries, which are reimbursed on prospectively determined fee schedules.

- Medicaid: Hospital services rendered to Illinois Public Aid beneficiaries are paid at prospectively determined rates based on a patient classification system. These rates are not subject to retroactive adjustment; however, in order to receive proper reimbursement, the Hospital must file a cost report annually with the State of Illinois.

On November 21, 2006, the Centers for Medicare & Medicaid Services (CMS) approved state of Illinois (the "State") legislation for a Medicaid Hospital Assessment Program (the "Program"). The Program was extended through June 30, 2019, and a redesigned program has been approved and extended through June 30, 2024. Under the Program, the Hospital receives additional Medicaid reimbursement from the State. Additional funding and reimbursement, through sharing in cost savings in the Medicaid program, was also available and distributed to participating hospitals through the development by the State of an Accountable Care Entity ("ACE") which started in 2017. Total reimbursement revenue recognized by the Hospital relating to the Program amounted to \$1,713,472 and \$1,644,613 during 2022 and 2021, respectively, and is included in net patient service revenue in the accompanying statements of operations. During 2022 and 2021, the Hospital incurred expense of \$465,123 and \$504,313, respectively, related to amounts paid to the state of Illinois for participation in the Program, and these amounts are included in supplies and other expenses in the accompanying statements of operations.

- Other: Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, prospectively determined daily rates, and fee schedules.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. Because of investigations by governmental agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Hospital's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Hospital.

Hillsboro Area Hospital, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (Continued)

The Centers for Medicare and Medicaid Services (CMS) uses recovery audit contractors (RACs) to search for potentially inaccurate Medicare payments that may have been made to healthcare providers and were not detected through existing CMS program integrity efforts. Once the RAC identifies a claim it believes is inaccurate, the RAC makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The Hospital has not been notified by the RAC of any potential significant reimbursement adjustments. In addition, contracts the Hospital has with third-party payors also provide for retroactive audit and review of claims.

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.

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. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended June 30, 2022 and 2021, was not significant.

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. The Hospital's policy provides for approximately 10% discounts from established charges to uninsured patients for making prompt pay for services rendered, and after this initial discount, further discounts are available for patients that qualify through the hospital's charity care or financial assistance policy. The uninsured prompt pay discount percentage remained consistent in 2022 or 2021.

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (Continued)

For uninsured patients who do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital includes price concessions related to uninsured patients in the period the services are provided.

The promised amount of consideration from patients and third-party payors has not been adjusted 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 a third-party payor pays for that service will be one year or less. However, the Hospital does, in certain instances, enter into payment agreements 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.

All incremental customer contract acquisition costs are expensed as they are incurred as the amortization period of the asset that the Hospital otherwise would have recognized is one year or less in duration.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care/uninsured patient discount policy without charge or at amounts less than its established rates. Eligible patients are identified based on analysis of financial information obtained from the patients. The Hospital maintains records to identify the amount of charges forgone for services and supplies furnished under the charity care/uninsured patient discount policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue in the accompanying statements of operations.

Contributions and Donor-Restricted Gifts

Contributions are considered available for unrestricted use unless specifically restricted by the donor.

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as donor-restricted contributions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported as net assets released from restrictions.

Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions.

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Income Taxes

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Hospital is also exempt from state income taxes on related income under similar state laws.

Advertising Costs

Advertising costs are expensed as incurred.

Real Estate Taxes

The State of Illinois previously enacted legislation that clarifies when hospitals are eligible to receive exemption from property tax requirements. As part of the legislation, hospitals, including the Hospital, must submit to the State of Illinois annual property tax exemption applications, which include information on the amount of benefits provided to low-income, charity care, and Illinois Public Aid (Medicaid) beneficiaries. As of June 30, 2022, the majority of the real estate of the Hospital has been granted property tax exemption by the State of Illinois.

New Accounting Pronouncement

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). The objective of this ASU is to assist organizations in recognizing the right to the use of an asset and its related liability or obligation when there is a contract in place which includes the right to control or direct the use of an identifiable asset. This ASU also includes provisions where the majority of leases that have lease terms greater than one year are to be recorded as capital leases on the balance sheet, whereas in the past, these leases may have been recorded as either capital leases or operating leases. This ASU is effective for the Hospital's year ending June 30, 2023.

Management is evaluating the impact the new accounting pronouncement will have on the Hospital.

Subsequent Events

Subsequent events have been evaluated through October 20, 2022, which is the date the financial statements were available to be issued.

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 2: COVID-19

Starting in March 2020, the nation in general, and healthcare-related entities specifically, have been faced with a global pandemic. As healthcare entities prepared for the crisis, operational changes were made to delay routine visits and elective procedures and reevaluate the entire care delivery model to care for patient needs, specifically those affected by COVID-19. The complete financial impact on the economy in general and healthcare-related entities specifically is undeterminable at this time; however, it was noted and is anticipated by the Hospital that both operational performance and cash flows for healthcare-related entities have been and will be impacted in fiscal years 2022 and 2021, as well as future periods until the pandemic ends.

The federal and state governments, as well as other agencies, have been assisting many healthcare organizations to prevent significant financial constraints by providing supplemental payment programs in the forms of distributions which are intended to help in offsetting lost revenues as well as the cost of staffing, supplies, and equipment from treating patients impacted by or preparing for the pandemic's healthcare needs.

Through June 30, 2022, the Hospital received approximately \$5,055,000 in funding from these programs and has recognized approximately \$946,000 and \$1,101,000 of these funds as other operating revenue during the years ended June 30, 2022 and 2021, respectively, in the accompanying statements of operations. The hospital had also previously recognized approximately \$3,008,000 in operating revenue of these amounts received in 2020. Funds unexpended at each respective year end which may be utilized in subsequent years are included in deferred revenue in the accompanying balance sheets. Funding was primarily received from the U.S. Department of Health and Human Services ("HHS") Coronavirus Aid, Relief, and Economic Security ("CARES") and American Rescue Plan ("ARP") Acts and the State of Illinois related to COVID-19 assistance.

These funds are subject to various financial and compliance guidelines for intended uses as published by the federal and state governments. Management is continuing to monitor compliance with the terms and conditions of these grants as new guidance and clarification is released from HHS, the State of Illinois, and other agencies. If the Hospital is unable to attest to or comply with current or future terms and conditions as more information becomes available, the Hospital's ability to retain some or all of the distributions received may be impacted.

The Hospital also received approximately \$4,481,000 of accelerated and advanced payments from the Medicare program in 2021 to be repaid interest free over approximately an eighteen month period of time starting in 2022. During 2022 and 2021, the Hospital repaid approximately \$2,022,000 and \$457,000, respectively, in funds to the Medicare program from this advance. The remaining liabilities from these accelerated and advanced program payments are included in amounts payable to third-party payor settlements in the accompanying balance sheets at each of the years ended June 30, 2022 and 2021.

In addition, the Hospital previously received approximately \$1,835,000 of funding from the U.S. Small Business Administration ("SBA") Paycheck Protection Program ("PPP") in the form of a loan as part of the CARES Act in 2020. The PPP loan program allowed for forgiveness of a portion of all of the loan balance based on the level of employee retention during either an eight or twenty-four week period following the issuance of the loan, plus certain other qualifying expenses in addition to payroll costs. The Hospital received formal notice of forgiveness from the SBA in 2021 that the loan, including any accrued interest, was fully forgiven, and as such recognized a gain on forgiveness of long-term debt in the accompanying statements of operations in 2021.

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 3: Available Resources and Liquidity

The Hospital does not have a formal liquidity policy but generally strives to maintain financial assets in liquid form such as cash and cash equivalents for at least three to six months of operating expenses. Other funds, included in long-term investments and assets limited as to use in the accompanying balance sheets, are considered available for operational or capital needs, except for investments with restrictive redemption requirements. Occasionally, the Board of Directors designates a portion of operating surplus to be appropriated at its discretion for future operational initiatives and capital expenditures. These funds, at the discretion of the Board of Directors, could be released immediately or sold and redeemed prior to their maturity and are not considered available under the Hospital's general liquidity management. At June 30, 2022 and 2021, the balance of these funds was \$8,569,953 and \$9,215,866, respectively.

Financial assets available for general expenditure, such as operating expenses, and purchases of property and equipment, within one year of the balance sheet date, comprise the following at June 30:

	2022	2021
Cash and cash equivalents	\$ 4,829,610	\$ 10,477,437
Short-term investments	22,132,455	17,469,822
Patient accounts receivable - Net	2,451,177	2,759,278
Amounts receivable from State of Illinois health care programs	16,761	115,778
Other receivables	98,889	64,932
Total	\$ 29,528,892	\$ 30,887,247

Note 4: Investments and Assets Limited as to Use

Investments

Investments consisted of the following at June 30:

	2022	2021
Short-term investments - Certificates of deposit	\$ 15,190,001	\$ 13,720,000
Short-term investments - U.S. Treasury securities	6,942,454	3,749,822
Long-term investments - Certificates of deposit	1,755,780	2,000,780
Long-term investments - U.S. Treasury securities	3,900,334	-
Total investments	\$ 27,788,569	\$ 19,470,602

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 4: Investments and Assets Limited as to Use (Continued)

Assets Limited as to Use

Assets limited as to use consisted of the following at June 30:

2022 2021

Board designated for capital expenditures - Not designated as funded depreciation:

Money market funds	\$ 303,622	\$ 297,581
Certificates of deposit	4,767,384	4,767,384
Common stock	35	35
U.S. Treasury securities	60,984	58,620
Mutual funds	3,433,851	4,091,378
Accrued interest receivable	4,077	868

Total board designated for capital expenditures - Not designated as funded depreciation

8,569,953 9,215,866

Restricted by donors:

Money market funds	9,445	89,226
Certificates of deposit	445,614	359,427
Accrued interest receivable	825	5,343
Total restricted by donors	455,884	453,996

Total assets limited as to use

\$ 9,025,837 \$ 9,669,862

Investment Income

Realized investment income, including realized gains and losses on investments and assets limited as to use, consisted of the following for the years ended June 30:

2022 2021

Interest and dividends	\$ 423,757	\$ 355,302
Interest on temporarily restricted net assets	1,888	2,766

Total investment income

\$ 425,645 \$ 358,068

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 4: Investments and Assets Limited as to Use (Continued)

Management assesses individual investment securities as to whether declines in market value are other than temporary and result in impairment. For equity securities and mutual funds, the Hospital considers whether it has the ability and intent to hold the investment until a market price recovery. Evidence considered in this includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, the issuer's financial condition, and the general market condition in the geographic area or industry in which the investee operates. For debt securities, if the Hospital has made a decision to sell the security, or if it is more likely than not the Hospital will sell the security before the recovery of the security's cost basis, an other-than-temporary impairment is considered to have occurred. If the Hospital has not made a decision or does not have an intent to sell the debt security, but the debt security is not expected to recover its value due to a credit loss, an other-than-temporary impairment is considered to have occurred. At June 30, 2022 and 2021, the Hospital did not consider any individual investments other than temporarily impaired.

Investments, 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 investments, it is reasonably possible that changes in the values of certain investments will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Note 5: Fair Value Measurements

The following is a description of the valuation methodologies used for assets measured at fair value:

Money market funds are valued using a net asset value (NAV) of \$1.00. Fixed income securities are primarily invested in U.S. Government securities such as bonds and are valued using quotes from pricing vendors for identical or similar assets based on recent trading activity and other observable market data. Quoted market prices are used to determine the fair value of investments in marketable equity securities, which are primarily invested in common stock. Mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by the Hospital are open-end mutual funds that are registered with the Securities and Exchange Commission. The mutual funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Hospital are deemed to be actively traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Hospital believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 5: Fair Value Measurements (Continued)

The following tables set forth by level, within the fair value hierarchy, the Hospital's assets measured at fair value on a recurring basis as of June 30:

2022				
Total Assets at	Level 1	Level 2	Level 3	Fair Value
Money market funds				
\$	-	\$ 313,067	-	\$ 313,067
Mutual funds:				
Blend	894,255	-	-	-
Growth	1,272,871	-	-	-
Value	826,392	-	-	-
Intermediate government	10,502	-	-	-
International allocation	157,538	-	-	-
Other international	272,293	-	-	-
Marketable equity securities - Common stock	35	-	-	-
U.S. Treasury securities	-	10,903,773	-	10,903,773
Total	\$ 3,433,886	\$ 11,216,840	-	\$ 14,650,726

2021				
Total Assets at	Level 1	Level 2	Level 3	Fair Value
Money market funds				
\$	-	\$ 386,807	-	\$ 386,807
Mutual funds:				
Blend	1,012,605	-	-	-
Growth	1,715,762	-	-	-
Value	852,856	-	-	-
Intermediate government	11,515	-	-	-
International allocation	166,554	-	-	-
Other international	332,086	-	-	-
Marketable equity securities - Common stock	35	-	-	-
U.S. Treasury securities	-	3,808,442	-	3,808,442
Total	\$ 4,091,413	\$ 4,195,249	-	\$ 8,286,662

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 6: Property and Equipment

Property and equipment consisted of the following at June 30:

	2022	2021
Land	\$ 355,860	\$ 355,860
Land improvements	1,814,732	1,804,831
Buildings	17,955,388	17,812,327
Movable equipment	16,208,291	15,468,793
Construction in progress	122,401	104,584
Total property and equipment	36,456,672	35,546,395
Less - Accumulated depreciation	25,410,318	24,221,476
Property and equipment - Net	\$ 11,046,354	\$ 11,324,919

Note 7: Interest in Net Assets of Hillsboro Area Health Foundation

Hillsboro Area Health Foundation, Inc. (the "Foundation") was established to benefit the general public and the Hospital. The Foundation's Board of Directors determines the amount, timing, and purpose of the distribution of Foundation funds. The Hospital recognizes its interest in the net assets held by the Foundation. At June 30, 2022 and 2021, \$555,804 and \$546,633, respectively, is recognized as the Hospital's interest in the total net assets of the Foundation, which includes contributions received by the Foundation that are donor restricted to be used for Hospital purposes.

During the years ended June 30, 2022 and 2021, the Foundation transferred \$- and \$- to the Hospital to support the mission and benefit of the Hospital, respectively.

The Foundation also holds certain funds under terms of an endowment agreement for the benefit of the Hospital which is included in the amounts above and further described in Note 9.

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 8: Investment in Unconsolidated Affiliate

Investment in South Central Hospital Alliance LLC

During 2022, the Hospital became a founding member of the South Central Hospital Alliance LLC (the "Alliance") and contributed an initial equity investment of \$100,000. As of June 30, 2022, the Alliance had three other member hospitals. All of the member hospitals are non-profit hospitals located in the South Central region of Illinois.

The goal of the Alliance is to facilitate the development of a cooperative rural health care network which will be operated exclusively for the benefit of, to perform functions of, and carry out the respective charitable missions of the member hospitals. A common working goal of the members through the Alliance will be to develop, establish, and operate both clinic and non-clinical shared services and programs as well as other collaborative functions which are aimed at expanding access to high-quality patient care, improving the overall quality of patient care, and utilizing economies of scale to increase the efficiencies and lower the costs of healthcare delivery in the communities served by the member hospitals. The investment in CMDI is accounted for under the equity method for financial reporting purposes.

The Hospital accounts for the investment in the Alliance under the equity method of accounting. Earnings or losses of the Alliance are allocated to the members based on the terms of the operating agreement, and in the future the Hospital will adjust its investment in the Alliance based on its respective allocated profits and losses. There has been limited financial activity other than the initial member equity contributions through June 30, 2022.

Note 9: Long-Term Debt

Long-term debt consisted of the following at June 30:

	2022	2021
City of Hillsboro, Illinois, capital improvement Revenue Bonds, Series 2008, bearing interest at 3.79%. The bonds are payable in monthly installments of \$41,486, including principal and interest. Final principal payment due October 1, 2031. Secured by the new building construction, which was completed during the year ended June 30, 2011, and net revenues of the Hospital.	\$ 3,806,321	\$ 4,152,745
Less - Current maturities	359,784	346,424
Long-term maturities	\$ 3,446,537	\$ 3,806,321

The Series 2008 bond agreement provides for various restrictive covenants, including required annual financial reporting.

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 9: Long-Term Debt (Continued)

Scheduled payments of principal on long-term debt at June 30, 2022, including current maturities, are summarized as follows:

2023	\$ 359,784
2024	373,659
2025	388,070
2026	403,036
2027	418,579
Thereafter	1,863,193
Total	\$ 3,806,321

Note 10: Net Assets with Donor Restrictions and Endowments

Net assets with donor restrictions include assets set aside in accordance with donor restrictions as to time or use. Net assets with donor restrictions are available for the following purposes at June 30:

	2022	2021
Hospital programs including those supporting the treatment of childhood obesity	\$ 440,971	\$ 439,665
Scholarships and education	10,000	10,000
Funds held by Foundation	270,804	261,633
Total	\$ 721,775	\$ 711,298

In addition to the above donor-restricted funds, the Hospital has an endowment of \$285,000 as of both June 30, 2022 and 2021, which has been restricted by donors to be maintained in perpetuity, the income of which is expendable to support maintenance and equipment needs of the Hospital.

The Hospital's endowment consists of one fund that is invested and maintained by the Foundation in certificates of deposit at financial institutions. The endowment includes only donor-restricted endowment funds. Net assets associated with the endowment funds are classified and reported on the existence or absence of donor-imposed restrictions.

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 12: Net Assets with Donor Restrictions and Endowments (Continued)

The Board of Directors of the Hospital have interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the Illinois state legislature, as requiring the preservation of the fair value of the original gift to an endowment fund absent any explicit donor stipulations that would otherwise dictate the contributed funds. As a result of this interpretation, the Hospital classifies as permanently restricted net assets (a) the original value of the donor's gifts to the permanent endowment, (b) the original value of a donor's subsequent gifts to the permanently restricted endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Hospital in a manner consistent with the standard of prudence prescribed by UPMIFA. The Hospital relies on the adopted investment and spending policies of the Foundation for endowment assets that attempt to provide a dependable method of funding programs supported by the endowment funds while seeking to preserve the purchasing power of the endowment assets. Under this policy, the Foundation invests the endowment assets it maintains for the Hospital only in interest-bearing bank depository accounts that are not expected to decline in value in the future. This method of investing will maintain the purchasing power of the endowment assets that are required to be held in perpetuity as well as to provide additional purchasing ability through new contributions and investment returns.

Changes in endowment net assets for the years ended June 30 consisted of the following:

	Original Gifts	Portion Available	For Appropriation	With Donor	Restrictions	Endowment	Total	Net Assets
	to be Held in	Perpetuity						
Beginning balance at July 1, 2020	\$	285,000	\$	141,926	\$	426,926		
Interest income	-			3,469		3,469		
Ending balance as of June 30, 2021		285,000		145,395		430,395		
Interest income	-			3,084		3,084		
Ending balance as of June 30, 2022	\$	285,000	\$	148,479	\$	433,479		

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 11: Net Patient Service Revenue

The composition of net patient service revenue based on the geographic region the Hospital operates in as outlined in Note 1, its lines of business, and timing of revenue recognition for the years ended June 30 are as follows:

	2022	2021
Service lines:		
Hospital services	\$ 27,920,681	\$ 27,920,681
Assisted living services	904,862	1,132,823
Totals	\$ 30,347,462	\$ 29,053,504

The majority of all patient service revenue was recognized at the time of service by the Hospital during the years ended June 30, 2022 and 2021 due to the types of hospital and assisted living services provided and their respective contractual terms.

Patient service revenue (net of contractual allowances, discounts, and implicit price concessions) by payor consisted of the following for the year ended June 30:

	2022	2021
Medicare and Medicare Advantage plans	\$ 15,816,209	\$ 15,203,696
Medicaid and Medicaid HMO plans	5,605,913	5,069,223
Other third-party payors	8,001,675	6,852,989
Uninsured patients	923,665	1,927,596
Totals	\$ 30,347,462	\$ 29,053,504

Note 12: Charity Care and Community Benefits

The Hospital provides health care services and other financial support through various programs that are designed, among other matters, to enhance the health of the community, including the health of low-income patients. Consistent with the mission of the Hospital, care is provided to patients regardless of their ability to pay, including providing services to those persons who cannot afford health insurance because of inadequate resources or who are underinsured.

Patients who meet certain criteria for charity care, generally based on federal poverty guidelines, are provided care without charge or at a reduced rate, determined based on qualifying criteria as defined in the Hospital's charity care/uninsured patient discount policy and from applications completed by patients and their families. The Hospital is also required to provide additional discounts to uninsured hospital patients under the Hospital Uninsured Patient Discount Act as required by Illinois state law.

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 12: Charity Care and Community Benefits (Continued)

The estimated cost of providing care to patients under the Hospital's charity care/uninsured patient discount policy was approximately \$229,000 and \$143,000 in 2022 and 2021, respectively. The cost was calculated by multiplying the ratio of cost to gross charges for the Hospital times the gross uncompensated charges associated with providing the charity care.

During each year the Hospital accumulates the amount of shortfalls from payments from providing the services previously described under its charity care/uninsured patient discount policy, as well as health care services to patients who are covered under government health insurance programs including the Medicaid program and patients unable or unwilling to pay a portion or all of their charges to the Hospital which are considered bad debts to the Hospital. These shortfalls are measured in a method consistent with the determination of the charity care shortfalls above, less any reimbursement received from patients and others. During 2022 and 2021, the total costs of providing these services was approximately \$2,054,000 and \$1,296,000, respectively, and is considered a significant benefit to the community and surrounding area the Hospital serves.

As a part of its mission to provide health care services to those in need in the community, as well as to support the general well-being of the community, the Hospital also commits significant time and resources to activities and services that meet unmet community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include, but are not limited to, health fairs and events, health screenings and assessments, space for health care occupation classes and daycare programs offered by the local school system and Lincoln Land Community College, support for vital community services, trauma care, and various community educational services. The Hospital also participates with Southern Illinois University (SIU) School of Medicine on community research projects, providing funding, information, staffing, and supplies.

Note 13: Retirement Plan

The Hospital sponsors a defined contribution tax-deferred annuity plan, which covers all employees. Employees may contribute a percentage of their compensation to the annuity plan on a tax-deferred or after-tax basis. The Hospital may contribute discretionary amounts up to 50% of employees' tax-deferred contribution, up to 6% of compensation. Total retirement plan expense was \$275,488 and \$248,543 for the years ended June 30, 2022, and 2021, respectively.

Note 14: Self-Funded Health Insurance

The Hospital has a self-funded health care plan to provide medical benefits to employees and their dependents. Employees share in the cost of health benefits. Health care expense is based upon actual claims paid, reinsurance premiums, administration fees, and unpaid claims at year-end. The Hospital buys reinsurance to cover catastrophic individual claims over specific individual and aggregate amounts.

Health care expense totaled \$1,866,953 and \$1,710,128 in 2022 and 2021, respectively. A liability of \$195,000 and \$195,000 for claims outstanding for each of the years ended June 30, 2022 and 2021, respectively, has been recorded in accrued liabilities in the accompanying balance sheets. Management believes this liability is sufficient to cover estimated claims, including claims incurred but not yet reported, as of June 30, 2022 and 2021.

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 15: Malpractice Insurance

The Hospital purchases medical malpractice insurance under a claims-made policy. Under such a policy, only claims made and reported to the insurer are covered during the policy term, regardless of when the incident giving rise to the claim occurred. The Hospital would be able to purchase tail coverage from its insurance carrier if it chose to do so. The Hospital has primary commercial insurance coverage for individual claims up to \$1,000,000 and \$3,000,000 in the aggregate during the policy period. In addition, the Hospital carries a claims-made hospital professional liability supplement of \$4,000,000 for each claim and in the aggregate. The professional liability insurance policy is renewable annually and has been renewed by the insurance carrier for the annual period extending to November 19, 2022.

Under a claims-made policy, the risk for claims and incidents not asserted within the policy period remains with the Hospital. Although there exists the possibility of claims arising from services provided to patients through June 30, 2022, which have not yet been asserted even if covered by insurance policies, the Hospital has not been given notice of any such material possible claims, and accordingly no provision or related insurance recoveries have been made for them.

Note 16: Functional Classification of Expenses

The accompanying statements of operations present certain expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis. Employee benefits are allocated based on factors of either salary expense or actual employee expense. Overhead costs that include things such as professional services, office expenses, information technology, insurance, and other similar expenses are allocated on a variety of factors including revenues and departmental expense.

The expenses reported in the statements of operations for the years ended June 30 supported the following programs and functions:

2022			2021		
Healthcare	Administrative	Total	Healthcare	Administrative	Total
Salaries and wages	\$ 8,963,196	\$ 1,767,217	\$ 10,730,413	\$ 8,201,100	\$ 1,612,395
Employee benefits	2,604,938	570,770	3,175,708	2,389,142	502,595
Physician services	2,986,021	-	2,986,021	2,722,375	-
Other professional services	2,939,451	1,298,293	4,237,744	3,694,567	1,257,775
Supplies and pharmaceuticals	2,117,146	935,098	3,052,244	2,087,433	710,643
Other	2,009,507	887,557	2,897,064	2,027,087	690,100
Depreciation	873,706	313,038	1,186,744	862,302	309,546
Interest	151,412	-	151,412	164,276	-
	\$ 22,645,377	\$ 5,771,973	\$ 28,417,350	\$ 22,148,282	\$ 5,083,054
					\$ 27,231,336

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 17: Concentration of Credit Risk

Financial instruments that potentially subject the Hospital to credit risk consist principally of patient accounts receivable and cash deposits in excess of insured limits.

Patient accounts receivable consist of amounts due from patients, their insurers, or governmental agencies (primarily Medicare and Medicaid) for health care provided to patients. The majority of the Hospital's patients are from Hillsboro, Illinois, and the surrounding area.

The mix of receivables from patients and third-party payors is as follows at June 30:

	2022	2021
Medicare	33 %	26 %
Medicaid	11 %	23 %
Commercial insurance	30 %	31 %
Self-pay	26 %	20 %
Totals	100 %	100 %

The Hospital maintains depository relationships with area financial institutions that are Federal Deposit Insurance Corporation (FDIC) insured institutions. Depository accounts are insured by the FDIC up to \$250,000. Operating cash needs often require that amounts on hand exceed FDIC limits. Management has entered into pledging agreements or obtained additional depository agreements with financial institutions to provide collateral on amounts in excess of the FDIC-insured limits.

Note 18: Related-Party Transactions

Hillsboro Area Health System NFP ("System") is the sole corporate member of the Hospital, Foundation, and Hillsboro Area Health Services, Inc. ("Health Services").

The Hospital leases land, on which the Health Services operates a wellness center, to Health Services for a nominal amount. The lease term is for 99 years and expires in August 2103. Health Services provides a workplace wellness program for the benefit of Hospital staff and families. The Hospital paid \$125,000 and \$98,083 in connection with this program to Health Services for the years ended June 30, 2022 and 2021, respectively.

The Hospital also leases physical therapy space from Health Services. Rental expense paid to Health Services was \$48,582 and \$26,082 for the years ended June 30, 2022 and 2021, respectively.

The Hospital transferred \$500,000 and \$500,000 to the System in the years ended June 30, 2022 and 2021, respectively. The Hospital also leases land to the System for a specialty clinic facility and classrooms for a nominal amount. The lease term is for 99 years and expires in May 2112.

Note 19: Reclassifications

Certain reclassifications have been made to the 2021 financial statements to conform to the 2022 classifications.

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 8: Investment in Unconsolidated Affiliate

Investment in South Central Hospital Alliance LLC

During 2022, the Hospital became a founding member of the South Central Hospital Alliance LLC (the "Alliance") and contributed an initial equity investment of \$100,000. As of June 30, 2023, the Alliance had three other member hospitals. All of the member hospitals are non-profit hospitals located in the South Central region of Illinois.

The goal of the Alliance is to facilitate the development of a cooperative rural health care network which will be operated exclusively for the benefit of, to perform functions of, and carry out the respective charitable missions of the member hospitals. A common working goal of the members through the Alliance will be to develop, establish, and operate both clinic and non-clinical shared services and programs as well as other collaborative functions which are aimed at expanding access to high-quality patient care, improving the overall quality of patient care, and utilizing economies of scale to increase the efficiencies and lower the costs of healthcare delivery in the communities served by the member hospitals.

The Hospital accounts for the investment in the Alliance under the equity method of accounting. Earnings or losses of the Alliance are allocated to the members based on the terms of the operating agreement, and the Hospital adjusts its investment in the Alliance based on its respective allocated profits and losses. There has been limited financial activity of the Alliance in both 2023 and 2022.

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 9: Long-Term Debt

Long-term debt consisted of the following at June 30:

	2023	2022
City of Hillsboro, Illinois, capital improvement Revenue Bonds, Series 2008, bearing interest at 3.79%. The bonds are payable in monthly installments of \$41,486, including principal and interest. Final principal payment due October 1, 2031. Secured by the new building construction, which was completed during the year ended June 30, 2011, and net revenues of the Hospital.	\$ 3,444,726	\$ 3,806,321
Less - Current maturities	373,729	359,784
Long-term maturities	\$ 3,070,997	\$ 3,446,537

The Series 2008 bond agreement provides for various restrictive covenants, including required annual financial reporting.

Scheduled payments of principal on long-term debt at June 30, 2023, including current maturities, are summarized as follows:

2024	\$ 373,729
2025	388,142
2026	403,111
2027	418,657
2028	434,803
Thereafter	1,426,284
Total	\$ 3,444,726

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 10: Net Assets with Donor Restrictions and Endowments

Net assets with donor restrictions include assets set aside in accordance with donor restrictions as to time or use. Net assets with donor restrictions are available for the following purposes at June 30:

	2023	2022
Hospital programs including those supporting the treatment of childhood obesity	\$ 448,493	\$ 440,971
Scholarships and education	10,000	10,000
Funds held by Foundation	267,472	270,804
Total	\$ 725,965	\$ 721,775

In addition to the above donor-restricted funds, the Hospital has an endowment of \$285,000 as of both June 30, 2023 and 2022, which has been restricted by donors to be maintained in perpetuity, the income of which is expendable to support maintenance and equipment needs of the Hospital.

The Hospital's endowment consists of one fund that is invested and maintained by the Foundation in U.S. Treasury securities at financial institutions. The endowment includes only donor-restricted endowment funds. Net assets associated with the endowment funds are classified and reported on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Hospital have interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the Illinois state legislature, as requiring the preservation of the fair value of the original gift to an endowment fund absent any explicit donor stipulations that would otherwise dictate the contributed funds. As a result of this interpretation, the Hospital classifies as permanently restricted net assets (a) the original value of the donor's gifts to the permanent endowment, (b) the original value of a donor's subsequent gifts to the permanently restricted endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Hospital in a manner consistent with the standard of prudence prescribed by UPMIFA. The Hospital relies on the adopted investment and spending policies of the Foundation for endowment assets that attempt to provide a dependable method of funding programs supported by the endowment funds while seeking to preserve the purchasing power of the endowment assets. Under this policy, the Foundation invests the endowment assets it maintains for the Hospital only in interest-bearing bank depository accounts that are not expected to decline in value in the future. This method of investing will maintain the purchasing power of the endowment assets that are required to be held in perpetuity as well as to provide additional purchasing ability through new contributions and investment returns.

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 10: Net Assets with Donor Restrictions and Endowments (Continued)

Changes in endowment net assets for the years ended June 30 consisted of the following:

Portion Available For Appropriation With Donor Restrictions	Original Gifts With Restrictions to be Held in Perpetuity	Total Endowment Net Assets	Beginning balance at July 1, 2021	
			\$	\$
			285,000	145,395
			3,084	3,084
			285,000	148,479
			-	2,430
			2,430	2,430
			285,000	150,909
			\$	\$
			285,000	435,909

Note 11: Net Patient Service Revenue

The composition of net patient service revenue based on the geographic region the Hospital operates in as outlined in Note 1, its lines of business, and timing of revenue recognition for the years ended June 30 are as follows:

	2023	2022
Service lines:		
Hospital services	\$ 29,803,820	\$ 29,442,600
Assisted living services	1,236,016	904,862
Totals	\$ 31,039,836	\$ 30,347,462

The majority of all patient service revenue was recognized at the time of service by the Hospital during the years ended June 30, 2023 and 2022 due to the types of hospital and assisted living services provided and their respective contractual terms.

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 11: Net Patient Service Revenue (Continued)

Patient service revenue (net of contractual allowances, discounts, and implicit price concessions) by payor consisted of the following for the year ended June 30:

	2023	2022
Medicare and Medicare Advantage plans	\$ 12,580,333	\$ 15,816,209
Medicaid and Medicaid HMO plans	6,786,252	5,605,913
Other third-party payors	10,756,248	8,001,675
Uninsured patients	917,003	923,665
Totals	\$ 31,039,836	\$ 30,347,462

Note 12: Charity Care and Community Benefits

The Hospital provides health care services and other financial support through various programs that are designed, among other matters, to enhance the health of the community, including the health of low-income patients. Consistent with the mission of the Hospital, care is provided to patients regardless of their ability to pay, including providing services to those persons who cannot afford health insurance because of inadequate resources or who are underinsured.

Patients who meet certain criteria for charity care, generally based on federal poverty guidelines, are provided care without charge or at a reduced rate, determined based on qualifying criteria as defined in the Hospital's charity care/uninsured patient discount policy and from applications completed by patients and their families. The Hospital is also required to provide additional discounts to uninsured hospital patients under the Hospital Uninsured Patient Discount Act as required by Illinois state law.

The estimated cost of providing care to patients under the Hospital's charity care/uninsured patient discount policy was approximately \$128,000 and \$229,000 in 2023 and 2022, respectively. The cost was calculated by multiplying the ratio of cost to gross charges for the Hospital times the gross uncompensated charges associated with providing the charity care.

During each year the Hospital accumulates the amount of shortfalls from payments from providing the services previously described under its charity care/uninsured patient discount policy, as well as health care services to patients who are covered under government health insurance programs including the Medicaid program and patients unable or unwilling to pay a portion or all of their charges to the Hospital which are considered bad debts to the Hospital. These shortfalls are measured in a method consistent with the determination of the charity care shortfalls above, less any reimbursement received from patients and others. During 2023 and 2022, the total costs of providing these services was approximately \$1,636,000 and \$2,054,000, respectively, and is considered a significant benefit to the community and surrounding area the Hospital serves.

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 12: Charity Care and Community Benefits (Continued)

As a part of its mission to provide health care services to those in need in the community, as well as to support the general well-being of the community, the Hospital also commits significant time and resources to activities and services that meet unmet community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include, but are not limited to, health fairs and events, health screenings and assessments, space for health care occupation classes and daycare programs offered by the local school system and Lincoln Land Community College, support for vital community services, trauma care, and various community educational services. The Hospital also participates with Southern Illinois University (SIU) School of Medicine on community research projects, providing funding, information, staffing, and supplies.

Note 13: Retirement Plan

The Hospital sponsors a defined contribution tax-deferred annuity plan, which covers all employees. Employees may contribute a percentage of their compensation to the annuity plan on a tax-deferred or after-tax basis. The Hospital may contribute discretionary amounts up to 50% of employees' tax-deferred contribution, up to 6% of compensation. Total retirement plan expense was \$278,935 and \$275,488 for the years ended June 30, 2023, and 2022, respectively.

Note 14: Self-Funded Health Insurance

The Hospital has a self-funded health care plan to provide medical benefits to employees and their dependents. Employees share in the cost of health benefits. Health care expense is based upon actual claims paid, reinsurance premiums, administration fees, and unpaid claims at year-end. The Hospital buys reinsurance to cover catastrophic individual claims over specific individual and aggregate amounts.

Health care expense totaled \$1,927,976 and \$1,866,953 in 2023 and 2022, respectively. A liability of \$200,000 and \$195,000 for claims outstanding for each of the years ended June 30, 2023 and 2022, respectively, has been recorded in accrued liabilities in the accompanying balance sheets. Management believes this liability is sufficient to cover estimated claims, including claims incurred but not yet reported, as of June 30, 2023 and 2022.

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 15: Malpractice Insurance

The Hospital purchases medical malpractice insurance under a claims-made policy. Under such a policy, only claims made and reported to the insurer are covered during the policy term, regardless of when the incident giving rise to the claim occurred. The Hospital would be able to purchase tail coverage from its insurance carrier if it chose to do so. The Hospital has primary commercial insurance coverage for individual claims up to \$1,000,000 and \$3,000,000 in the aggregate during the policy period. In addition, the Hospital carries a claims-made hospital professional liability supplement of \$4,000,000 for each claim and in the aggregate. The professional liability insurance policy is renewable annually and has been renewed by the insurance carrier for the annual period extending to November 19, 2023.

Under a claims-made policy, the risk for claims and incidents not asserted within the policy period remains with the Hospital. Although there exists the possibility of claims arising from services provided to patients through June 30, 2023, which have not yet been asserted even if covered by insurance policies, the Hospital has not been given notice of any such material possible claims, and accordingly no provision or related insurance recoveries have been made for them.

Note 16: Functional Classification of Expenses

The accompanying statements of operations present certain expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis. Employee benefits are allocated based on factors of either salary expense or actual employee expense. Overhead costs that include things such as professional services, office expenses, information technology, insurance, and other similar expenses are allocated on a variety of factors including revenues and departmental expense.

The expenses reported in the statements of operations for the years ended June 30 supported the following programs and functions:

2023			2022		
Healthcare	General	Administrative	Healthcare	General	Administrative
Services	Total	Total	Services	Total	Total
Salaries and wages	\$ 9,254,479	\$ 1,979,189	\$ 8,963,196	\$ 1,767,217	\$ 10,730,413
Employee benefits	2,712,195	649,430	2,604,938	570,770	3,175,708
Physician services	3,286,195	-	2,986,021	-	2,986,021
Other professional services	3,475,804	1,688,035	2,939,451	1,298,293	4,237,744
Supplies and pharmaceuticals	2,144,656	1,041,559	2,117,146	935,098	3,052,244
Other	2,151,789	1,045,024	2,009,507	887,557	2,897,064
Depreciation	923,515	321,997	873,706	313,038	1,186,744
Interest	136,241	-	151,412	-	151,412
	\$ 24,084,874	\$ 6,725,234	\$ 22,645,377	\$ 5,771,973	\$ 28,417,350

Hillsboro Area Hospital, Inc. Notes to Financial Statements

Note 17: Concentration of Credit Risk

Financial instruments that potentially subject the Hospital to credit risk consist principally of patient accounts receivable and cash deposits in excess of insured limits.

Patient accounts receivable consist of amounts due from patients, their insurers, or governmental agencies (primarily Medicaid and Medicaid) for health care provided to patients. The majority of the Hospital's patients are from Hillsboro, Illinois, and the surrounding area.

The mix of receivables from patients and third-party payors is as follows at June 30:

	2023	2022
Medicare	39 %	33 %
Medicaid	19 %	11 %
Commercial insurance	24 %	30 %
Self-pay	18 %	26 %
Totals	100 %	100 %

The Hospital maintains depository relationships with area financial institutions that are Federal Deposit Insurance Corporation (FDIC) insured institutions. Depository accounts are insured by the FDIC up to \$250,000. Operating cash needs often require that amounts on hand exceed FDIC limits. Management has entered into pledging agreements or obtained additional depository agreements with financial institutions to provide collateral on amounts in excess of the FDIC-insured limits.

Note 18: Related-Party Transactions

Hillsboro Area Health System NFP ("System") is the sole corporate member of the Hospital, Foundation, and Hillsboro Area Health Services, Inc. ("Health Services").

The Hospital leases land, on which the Health Services operates a wellness center, to Health Services for a nominal amount. The lease term is for 99 years and expires in August 2103. Health Services provides a workplace wellness program for the benefit of Hospital staff and families. The Hospital paid \$125,000 and \$125,000 in connection with this program to Health Services for the years ended June 30, 2023 and 2022, respectively.

The Hospital also leases physical therapy space from Health Services on an annual contract basis. Rental expense paid to Health Services was \$40,663 and \$48,582 for the years ended June 30, 2023 and 2022, respectively.

The Hospital transferred \$500,000 and \$500,000 to the System in the years ended June 30, 2023 and 2022, respectively. The Hospital also leases land to the System for a specialty clinic facility and classrooms for a nominal amount. The lease term is for 99 years and expires in May 2112.