SALEM TOWNSHIP HOSPITAL

FINANCIAL STATEMENTS

AND SUPPLEMENTARY INFORMATION

MARCH 31, 2025 AND 2024

CPAs / ADVISORS

blue

SALEM TOWNSHIP HOSPITAL

TABLE OF CONTENTS
MARCH 31, 2025 AND 2024

CPAs / ADVISORS

blue

Blue & Co., LLC / 2650 Eastpoint Parkway, Suite 300 / Louisville, KY 40223
main 502.992.3500 *fax* 502.992.3509 *email* blue@blueandco.com

blueandco.com

REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Salem Township Hospital
Salem, Illinois

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Salem Township Hospital (the "Hospital"), which comprise the statement of net position as of March 31, 2025, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital as of March 31, 2025, and the respective changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The financial statements of the Hospital as of March 31, 2024, were audited by other auditors whose reported was dated October 29, 2024, expressed an unmodified opinion on those financial statements.

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 twelve months beyond the statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* 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 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 generally accepted auditing standards and *Government Auditing Standards*, 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.

Board of Trustees
Salem Township Hospital
Salem, Illinois

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by Governmental Accounting Standards Board ("GASB"), which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2025, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Blue & Co., LLC

Louisville, Kentucky
December 16, 2025

SALEM TOWNSHIP HOSPITAL

STATEMENTS OF NET POSITION
MARCH 31, 2025 AND 2024

ASSETS

	2025	2024
Current assets		
Cash and cash equivalents	$ 50,631,347	$ 56,302,387
Patient accounts receivable, net of estimated uncollectibles of $9,160,972 in 2025 and $5,295,382 in 2024	5,100,621	1,865,207
Inventories	513,028	459,093
Prepaid expenses and other current assets	1,244,516	628,774
Total current assets	57,489,512	59,255,461
Assets whose use is limited	1,982,787	1,954,329
Capital assets, net	34,849,470	30,556,063
Other assets	25,000	25,000
Total assets	$ 94,346,769	$ 91,790,853

See accompanying notes to financial statements.

SALEM TOWNSHIP HOSPITAL

STATEMENTS OF NET POSITION
MARCH 31, 2025 AND 2024

LIABILITIES AND NET POSITION

	2025	2024
Current liabilities		
Accounts payable	$ 1,771,585	$ 4,306,817
Accrued personnel costs	2,427,475	2,254,649
Accrued expenses	185,379	194,137
Estimated third-party payor settlements	4,798,897	10,320,665
Current portion of intangible right-of-use lease liabilities	527,366	654,745
Current portion of long-term debt	735,912	773,291
Total current liabilities	10,446,614	18,504,304
Long-term liabilities		
Intangible right-of-use lease liabilities, net of current portion	614,635	227,921
Long-term debt, net of current portion	12,039,855	12,769,557
Total long-term liabilities	12,654,490	12,997,478
Total liabilities	23,101,104	31,501,782
Deferred inflows	-0-	7,300
Total liabilities and deferred inflows	23,101,104	31,509,082
Net position		
Net investment in capital assets	20,931,702	16,130,549
Restricted - bond redemption fund	827,467	844,509
Restricted - USDA reserve fund	1,147,912	1,102,699
Restricted - equipment trust	7,408	7,121
Unrestricted	48,331,176	42,196,893
Total net position	71,245,665	60,281,771
Total liabilities, deferred inflows, and net position	$ 94,346,769	$ 91,790,853

See accompanying notes to financial statements.

SALEM TOWNSHIP HOSPITAL

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED MARCH 31, 2025 AND 2024

	2025	2024
Operating revenues		
Net patient service revenue	$ 55,712,422	$ 49,747,733
Other operating revenue	739,718	470,546
Total operating revenues	56,452,140	50,218,279
Operating expenses		
Salaries and wages	17,439,418	16,407,790
Employee benefits and payroll taxes	6,193,891	5,283,510
Drugs and medical supplies	4,520,231	3,951,328
Other supplies	1,912,744	1,486,002
Purchased services	11,584,119	9,420,971
Utilities	781,611	612,127
Insurance	803,831	742,564
Repairs and maintenance	1,030,300	916,926
Depreciation and amortization	3,630,015	3,344,368
Other operating expenses	822,391	961,724
Total operating expenses	48,718,551	43,127,310
Income from operations	7,733,589	7,090,969
Nonoperating revenues (expenses)	3,230,305	2,699,518
Change in net position	10,963,894	9,790,487
Net position, beginning of year	60,281,771	50,491,284
Net position, end of year	$ 71,245,665	$ 60,281,771

See accompanying notes to financial statements.

SALEM TOWNSHIP HOSPITAL

STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2025 AND 2024

	2025	2024
Operating activities		
Cash received for patient services	$ 46,955,240	$ 56,300,509
Cash paid to/for employees	(23,467,783)	(21,720,380)
Cash paid to vendors and suppliers	(24,175,585)	(16,027,594)
Other receipts, net	739,718	470,546
Net cash flows from operating activities	51,590	19,023,081
Noncapital financing activities		
Grant revenue	530,660	308,424
Rental income	79,811	84,577
Contribution revenue	78,850	-0-
Net cash flows from noncapital financing activities	689,321	393,001
Capital and related financing activities		
Principal payments on intangible right-to-use lease liabilities	(597,914)	(666,150)
Principal payments on long-term debt	(767,081)	(636,943)
Interest paid for long-term debt	(475,824)	(538,922)
Purchases of capital assets	(7,563,482)	(10,702,147)
Proceeds from sale of capital assets	3,000	13,500
Loss on disposal of capital assets	1,000	7,591
Ad valorem tax	272,653	282,827
Net cash flows from capital and related financing activities	(9,127,648)	(12,240,244)
Investing activities		
Change in assets whose use is limited	(28,458)	826,478
Investment income	2,728,397	2,555,161
Other	15,758	7,451
Net cash flows from investing activities	2,715,697	3,389,090
Net change in cash and cash equivalents	(5,671,040)	10,564,928
Cash and cash equivalents, beginning of year	56,302,387	45,737,459
Cash and cash equivalents, end of year	$ 50,631,347	$ 56,302,387

See accompanying notes to financial statements.

SALEM TOWNSHIP HOSPITAL

STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2025 AND 2024

	2025	2024
Reconciliation of income from operations to net cash flows from operating activities		
Income from operations	$ 7,733,589	$ 7,090,969
Adjustments to reconcile income from operations to net cash flows from operating activities		
Depreciation and amortization	3,630,015	3,344,368
Provision for bad debts	9,790,582	2,154,577
Changes in operating assets and liabilities		
Patient accounts receivable	(13,025,996)	(490,887)
Inventories	(53,935)	54,178
Prepaid expenses and other current assets	(615,742)	253,929
Accounts payable	(2,041,923)	1,763,385
Accrued personnel costs	172,826	19,516
Accrued expenses	(8,758)	(7,444)
Estimated third-party payor settlements	(5,521,768)	4,889,086
Deferred inflows	(7,300)	(48,596)
Net cash flows from operating activities	$ 51,590	$ 19,023,081
Supplemental disclosures of noncash operating and capital and related financing activities		
Property and equipment acquired included in accounts payable	$ 250,810	$ 744,119
Property and equipment acquired under intangible right-of-use lease liabilities	$ 857,249	$ -0-

See accompanying notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Salem Township Hospital ("the Hospital") is 25-bed acute-care, critical access hospital ("CAH") facility based in Salem, Illinois. The Hospital's primary sources of revenue are from providing inpatient, outpatient, and emergency care services to patients in the region. The Hospital also owns and operates two rural health clinics and other physician clinics.

The significant accounting policies followed by the Hospital in the preparation of the financial statements are summarized below:

Reporting Entity

The accompanying financial statements include the accounts of the Hospital. The Hospital is considered a township hospital under Illinois Statute 60, Article 170. Salem, Illinois Township (the "Township") trustees are responsible for the appointment of members to the Hospital's Board of Directors. However, the Township is not financially accountable for the Hospital, and as such, the Hospital is not considered a component unit of the Township under Government Accounting Standards Board ("GASB") Statements No. 14 and No. 61.

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Financial Statement Presentation

The GASB is the independent, private-sector organization that establishes accounting and financial reporting standards for U.S. state and local governments that follow accounting principles generally accepted in the United States of America ("GAAP"). The Hospital follows GASB accounting and financial reporting standards in the preparation of their financial statements.

Management's Estimates

Management uses estimates and assumptions in preparing the financial statements in accordance with GAAP. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, if any, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The Hospital is insured for medical malpractice claims and judgments.

Cash and Cash Equivalents

Cash and cash equivalents include petty cash and other cash on hand, checking accounts, and savings accounts that are readily available for use and other investments in highly liquid assets with original maturity dates of 90 days or less excluding amounts reported in assets whose use is limited.

Patient Accounts Receivable and Net Patient Service Revenue

The Hospital recognizes net patient service revenues on the accrual basis of accounting in the reporting period in which services are performed based on the current gross charge structure, less actual adjustments and estimated discounts for contractual allowances, principally for patients covered by Medicare, Medicaid, managed care, and other health plans. Gross patient service revenue is recorded in the accounting records using the established rates for the types of service provided to the patient. The Hospital recognizes an estimated contractual allowance to reduce gross patient charges to the estimated net realizable amount for service rendered based upon previously agreed-to rates with a payor. The Hospital utilizes the patient accounting system to calculate contractual allowances on a payor-by-payor basis based on the rates in effect for each primary third-party payor. Another factor that is considered and could further influence the level of the contractual reserve includes the status of accounts receivable balances as inpatient or outpatient. The Hospital's management continually reviews the contractual estimation process to consider and incorporate updated laws and regulations and the frequent changes in managed care contractual terms that result from contract negotiations and renewals.

Payors include federal and state agencies, including Medicare and Medicaid, managed care health plans, commercial insurance companies, and patients. These third-party payors provide payments to the Hospital at amounts different from its established rates based on negotiated reimbursement agreements. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and fee schedule payments. Retroactive adjustments under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Allowance for Doubtful Accounts

Accounts receivable are reduced by an allowance for doubtful accounts based on the Hospital's evaluation of its major payor sources of revenue, the aging of the accounts, historical losses, current economic conditions, and other factors unique to the service area and the healthcare industry. Management regularly reviews data about the major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party payor coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulty that make the realization of amounts due unlikely). For receivables associated with self-pay payments, which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. The March 31, 2025 and 2024 allowance for doubtful accounts balances were comprised of the following:

	2025	2024
Reserve for third-party payor balances	$ 3,153,491	$ 2,442,192
Reserve for self-pay balances	6,007,481	2,853,190
Total allowance for doubtful accounts	$ 9,160,972	$ 5,295,382

Inventories

Inventories consist of medical supplies, pharmaceuticals, and office supplies and are stated at the lower of cost or net realizable value. Cost is determined on the first-in, first-out ("FIFO") method.

Assets Whose Use Is Limited

Assets whose use is limited are required for obligations classified as current liabilities are reported in current assets. Assets whose use is limited are comprised of cash and cash equivalents. Cash and cash equivalents are stated at cost, which approximates fair value and are registered in the Hospital's name. Assets whose use is limited include assets required to be set aside under a debt agreement to fund debt service obligations due within the year.

Capital Assets

The Hospital's capital assets are reported at historical cost and include expenditures for additions and repairs which substantially increase the useful lives of capital assets. Maintenance, repairs, and minor improvements are expensed as incurred. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land and construction in progress are depreciated using the straight-line method of depreciation over their estimated useful lives based upon the American Hospital Association Guide for Estimated Useful Lives for Fixed Assets.

Cost of Borrowing

Interest costs incurred on borrowed funds during the period of construction of capital assets, if any, are expensed in the period in which they were incurred.

Classification of Net Position

The net position of the Hospital is classified into three components. (1) *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. (2) *Restricted expendable net position*, if any, is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures, if applicable. (3) *Unrestricted net position* is the remaining net position that does not meet the definition of *net invested in capital assets* or *restricted*. When both restricted and unrestricted resources are available for use, the Hospital's policy is to use restricted resources first, then unrestricted resources as they are needed.

Statements of Operations and Changes in Net Position

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as revenues and expenses. Peripheral and incidental transactions are reported as nonoperating revenues (expenses). Nonoperating revenues (expenses) which are excluded from income from operations include investment income, interest expense, and contribution income.

Advertising Costs

Advertising costs are charged to operations when incurred. Advertising costs charged to operations were $73,466 and $86,943 for the years ended March 31, 2025 and 2024, respectively, and are included within the line item other operating expenses on the statement of revenues, expenses, and changes in net position.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Amounts determined to qualify as charity care are reported as reductions of gross patient service revenue.

Income Taxes

The Hospital has been granted exemption from taxation as a not-for-profit organization under Section 115 of the Internal Revenue Code ("IRC"), which excludes income derived from the exercise of any essential government function and accruing to a state or any political subdivision thereof, from gross income. Therefore, no provision for federal income taxes has been provided in the statements of operations and changes in net position.

GAAP requires management to evaluate tax positions taken and recognize a tax liability if the Hospital has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken, and has concluded that as of March 31, 2025 and 2024, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. The Hospital is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Ad Valorem Taxes

The Hospital recognized $272,653 and $282,827 in ad valorem tax revenue for the years ended March 31, 2025 and 2024, respectively. Such tax revenues are available to be used for operations of the Hospital as management deems necessary.

Grants and Contributions

From time to time, the Hospital receives grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues.

Reclassifications

Certain reclassifications have been made to the 2024 financial statements to correspond to the current year presentation. Total net position and change in net position are unchanged due to these reclassifications.

Subsequent Events

The Hospital has evaluated events or transactions occurring subsequent to the date of the financial statements for recognition and disclosure in the accompanying financial statements through the date the financial statements were available to be issued, which is December 16, 2025.

2. BANK DEPOSITS

Deposits and investments are comprised of the following at March 31, 2025 and 2024:

	2025	2024
Carrying amount		
Cash and cash equivalents	$ 51,466,222	$ 57,154,017
Money market funds	1,147,912	1,102,699
Total	$ 52,614,134	$ 58,256,716

	2025	2024
Included in the statement of net position captions:		
Cash and cash equivalents	$ 50,631,347	$ 56,302,387
Assets whose use is limited	1,982,787	1,954,329
Total	$ 52,614,134	$ 58,256,716

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital does not have a deposit policy for custodial credit risk. Deposits with financial institutions are insured by the Federal Depository Insurance Corporation ("FDIC") up to FDIC limits. This includes any deposit accounts issued or offered by a qualifying financial institution.

Illinois state statutes authorize the Hospital to make deposits and investments in interest-bearing depository accounts in federally insured and/or state-chartered banks and savings and loan associations or other financial institutions, as designed by ordinances, and to invest available funds in direct obligations of, or obligations guaranteed by, the U.S. Treasury or agencies of the United States, money market mutual funds whose portfolios consist of governmental securities, the Illinois Public Treasury's Investment Pool, and the Illinois Funds Investment Pool. The Hospital's investments consist entirely of cash depository accounts and money market funds.

As of March 31, 2025 and 2024, the Hospital's bank balances were exposed to custodial credit risk as follows:

	2025	2024
Cash and cash equivalents	$ 52,702,658	$ 56,045,734
Less: FDIC coverage (insured amounts)	947,441	1,000,000
Less: Collateralized with pledged securities held in the Hospital's name	51,755,217	55,045,734
Total uninsured and uncollateralized	$ -0-	$ -0-

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Hospital's investment portfolio shall be structured in such manner as to provide sufficient liquidity to pay obligations as they come due.

Investments

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies ad instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

Fair Value Measurements and Disclosures

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active market for identical assets or liabilities ("Level 1") and the lowest priority to unobservable inputs ("Level 3"). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.

- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset 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. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at March 31, 2025 and 2024.

- Money market mutual funds: Generally transact subscription and redemption activity at a $1 stable net asset value ("NAV"). However, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.

Assets measured at fair value on a recurring basis as of March 31, 2025 and 2024 are as follows:

	2025			
	Level 1	Level 2	Level 3	Total
Money market funds	$ -0-	$ 1,147,912	$ -0-	$ 1,147,912

	2024			
	Level 1	Level 2	Level 3	Total
Money market funds	$ -0-	$ 1,102,699	$ -0-	$ 1,102,699

Concentrations of Credit Risk

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

3. PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable reported as current assets at March 31, 2025 and 2024, consist of the following:

	2025	2024
Medicare	$ 22,548,076	$ 11,232,506
Medicaid	6,871,470	2,477,663
Blue Cross	3,708,391	2,003,402
Other third-party payors	8,399,075	10,928,437
Self pay	5,802,062	5,766,998
Total patient accounts receivable	47,329,074	32,409,006
Less allowance for contractual discounts	(33,067,481)	(25,248,417)
Less allowance for uncollectible amounts	(9,160,972)	(5,295,382)
Patient accounts receivable, net	$ 5,100,621	$ 1,865,207

4. CAPITAL ASSETS

Capital asset activity for the years ended March 31, 2025 and 2024, was as follows:

	2025			
	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Non-depreciable capital assets				
Land	$ 203,353	$ -0-	$ -0-	$ 203,353
Construction in progress	3,762,225	841,391	(3,698,220)	905,396
Total non-depreciable capital assets	3,965,578	841,391	(3,698,220)	1,108,749
Depreciable capital assets				
Buildings	41,920,551	445,754	(328,824)	42,037,481
Departmental equipment	13,414,037	887,066	(4,995)	14,296,108
Fixed equipment	2,851,681	-0-	370,394	3,222,075
Land improvements	1,191,840	106,062	-0-	1,297,902
Software	-0-	4,789,900	3,763,488	8,553,388
Total depreciable capital assets	59,378,109	6,228,782	3,800,063	69,406,954
Less accumulated depreciation for				
Buildings	(20,508,455)	(1,673,168)	(3,393)	(22,185,016)
Departmental equipment	(9,919,053)	(874,502)	-0-	(10,793,555)
Fixed equipment	(2,163,161)	(117,193)	-0-	(2,280,354)
Land improvements	(1,081,493)	(43,417)	18,995	(1,105,915)
Software	-0-	(427,670)	-0-	(427,670)
Total accumulated depreciation	(33,672,162)	(3,135,950)	15,602	(36,792,510)
Total depreciable capital assets, net	25,705,947	3,092,832	3,815,665	32,614,444
Intangible right-to-use assets				
Equipment	4,786,171	857,249	(2,884,577)	2,758,843
Total intangible right-to-use assets	4,786,171	857,249	(2,884,577)	2,758,843
Less accumulated amortization for				
Equipment	(3,901,633)	(494,065)	2,763,132	(1,632,566)
Total accumulated amortization	(3,901,633)	(494,065)	2,763,132	(1,632,566)
Total intangible right-to-use assets, net	884,538	363,184	(121,445)	1,126,277
Capital assets, net	$ 30,556,063	$ 4,297,407	$ (4,000)	$ 34,849,470

	2024			
	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Non-depreciable capital assets				
Land	$ 203,353	$ -0-	$ -0-	$ 203,353
Construction in progress	843,977	2,918,248	-0-	3,762,225
Total non-depreciable capital assets	1,047,330	2,918,248	-0-	3,965,578
Depreciable capital assets				
Buildings	35,375,964	6,544,587	-0-	41,920,551
Departmental equipment	11,883,149	1,960,945	(430,057)	13,414,037
Fixed equipment	2,829,195	22,486	-0-	2,851,681
Land improvements	1,191,840	-0-	-0-	1,191,840
Total depreciable capital assets	51,280,148	8,528,018	(430,057)	59,378,109
Less accumulated depreciation for				
Buildings	(18,906,046)	(1,602,409)	-0-	(20,508,455)
Departmental equipment	(9,471,922)	(856,096)	408,965	(9,919,053)
Fixed equipment	(2,010,198)	(152,963)	-0-	(2,163,161)
Land improvements	(1,026,273)	(55,220)	-0-	(1,081,493)
Total accumulated depreciation	(31,414,439)	(2,666,688)	408,965	(33,672,162)
Total depreciable capital assets, net	19,865,709	5,861,330	(21,092)	25,705,947
Intangible right-to-use assets				
Equipment	4,786,171	-0-	-0-	4,786,171
Total intangible right-to-use assets	4,786,171	-0-	-0-	4,786,171
Less accumulated amortization for				
Equipment	(3,223,953)	(677,680)	-0-	(3,901,633)
Total accumulated amortization	(3,223,953)	(677,680)	-0-	(3,901,633)
Total intangible right-to-use assets, net	1,562,218	(677,680)	-0-	884,538
Capital assets, net	$ 22,475,257	$ 8,101,898	$ (21,092)	$ 30,556,063

Intangible right-to-use assets

As of March 31, 2025 and 2024, the Hospital had various lease agreements in place for medical equipment. The equipment is being amortized over the various lease terms, ranging from three years to six years. Terms of the leases can be seen in note 9.

5. OTHER ASSETS

Effective January 22, 2022, the Hospital purchased a membership interest in the Illinois Rural Community Care Organization, LLC ("IRCCO"). As part of the purchase, the Hospital paid $25,000 for their membership interest, which is less than 5%. The IRCCO is an accountable care organization whose purpose is to ensure the best quality care for their patients. The IRCCO was originally started in 2014 by the Illinois Critical Access Hospital Network ("ICAHN"). Due to a Medicare Advantage product and other payor options made available through the IRCCO, ICAHN passed ownership of the IRCCO to various investors in 2022. As an investor, the Hospital paid an annual assessment fee of $10,000 through

December 31, 2022. Effective January 1, 2023, the assessment fee increased to $20,000 per year. The Hospital accounts for this investment using the cost method.

6. DEFERRED INFLOWS

During the year ended March 31, 2024, the Hospital received a grant from the Illinois Critical Access Hospital Network, which was recorded as a deferred inflow as the related performance obligations had not yet been fulfilled. During the year ended March 31, 2025, the Hospital expended the grant funds in accordance with the grant terms and recognized the full amount as revenue. The deferred inflows balance at March 31, 2025 and 2024, was $-0- and $7,300, respectively.

7. COMPENSATED ABSENCES

The Hospital's policy on paid days off (which includes vacation, sick leave, personal leave, and holidays) allow full-time employees and regular part-time employees to accrue paid days off, to a maximum of 30 days. Paid days off are accrued when incurred and reported as a liability. The paid days off accrual at March 31, 2025 and 2024 was $803,950 and $726,006, respectively, and is reported in accrued personnel costs in the financial statements.

8. DEFINED CONTRIBUTION PLANS

Salem Township Hospital Pension Plan provides retirement and death benefits to plan members and beneficiaries. The Hospital provides this service to employees as administered by Copeland Associates, Inc. The plan was intended to be an eligible deferred compensation plan within the meaning of IRC section 457)b). The purpose of the plan is to provide employees with a convenient way to save for retirement. In conjunction with the deferred compensation plan, the Hospital has also implemented a 401(a) plan. The Hospital provides this service to employees as administered by MetLife Associates LLC.

The 457(b) plan consists solely of discretionary contributions from the employees. The Hospital provides matching contributions into the 401(a) plan of an amount up to 100% of such eligible participants employee basic contributions up to 2% of the participant's eligible compensation which are made under the Hospital's 401(a) plan. Employees are 100% vested immediately in their own contributions to the 457(b) plan and the 401(a) plan. After achieving 5 years of service, employees become 100% vested in matching contributions made by the Hospital into the 401(a) plan. Employees also become 100% vested in matching contributions by the Hospital into the 401(a) plan if they become disabled or reach normal retirement age as defined in the plan documents.

For the years ended March 31, 2025 and 2024, the Hospital incurred expenses relating to these plans in the amount of $202,627 and $169,321, respectively.

9. INTANGIBLE RIGHT-TO-USE LEASE LIABILITIES

Equipment Leases

The Hospital leases a variety of surgical and lab equipment from various vendors for terms ranging from 36 to 72 months. The leases require monthly payments ranging from $1,510 to $35,500 expiring through July 2027. The present value of the leased equipment was determined using discount rates ranging from 4.25% to 8.50% based on the incremental borrowing rate. The Hospital has no plans to renew any of the leases at the expiration of the current lease terms. The leased equipment and accumulated amortization of the right-to-use assets are outlined in Note 4.

Remaining payments on these leases include:

	Equipment leases		
	Principal	Interest	Total
2026	$ 527,366	$ 43,034	$ 570,400
2027	473,882	18,537	492,419
2028	140,753	1,248	142,001
	$ 1,142,001	$ 62,819	$ 1,204,820

Lease activity for the years ended March 31, 2025 and 2024 was as follows:

	2025				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Equipment leases	$ 882,666	$ 857,249	$ (597,914)	$ 1,142,001	$ 527,366

	2024				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Equipment leases	$ 1,548,816	$ -0-	$ (666,150)	$ 882,666	$ 654,745

10. LONG-TERM DEBT

At March 31, 2025 and 2024, the Hospital was obligated for long-term debt agreements as follows:

	2025	2024
United States Department of Agriculture ("U.S.D.A.") Revenue bonds, dated November 21, 2008, with interest at 4.5% per annum, principal paid annually, interest due semiannually, maturing May 1, 2011 through May 1, 2038. The U.S.D.A. Rural Development Loan Resolution Security Agreement requires the Hospital to deposit a total of $3,200 each month into a reserve account until $382,000 has been accumulated in the account. The reserve fund can only be expended for specific purposes as outlined in the Security Agreement. Secured by essentialy all revenues of the Hospital.	$ 4,140,000	$ 4,380,000
Revenue bonds, dated March 28, 2013, with interest at 3.125% per annum, principal paid annually, maturing May 1, 2042. The bonds will be used for the purpose of paying costs of a Hospital addition and renovations for the Hospital. The U.S.D.A Rural Development Loan Resolution Security Agreement requires the Hospital to deposit a total of $5,200 each month into a reserve account until $614,000 has been accumulated in the account. The reserve fund can only be expended to the extent necessary to prevent or remedy a default in the payment of the bonds to the issuer. Secured by essentially all revenues of the Hospital.	8,272,500	8,602,500
Note payable to physician under a settlement agreement and mutual release, which included a refinancing of two prior notes for an asset purchase agreement dated April 18, 2018, with interest at 3.0556% per annum, principal and interest paid monthly in equal installments of $14,558 starting May 1, 2018, with two lump sum payments in the amount of $424,740 due and paid on March 1, 2022 and January 1, 2023; with final payment due in May 1, 2027. Note payable is unsecured.	363,267	560,348
Total long-term debt	12,775,767	13,542,848
Less current portion	(735,912)	(773,291)
Long-term debt, net of current portion	$ 12,039,855	$ 12,769,557

Long-term debt activity for the years ended March 31, 2025 and 2024 was as follows:

	2025				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Direct placements:					
Revenue bonds, 2008	$ 4,380,000	$ -0-	$ (240,000)	$ 4,140,000	$ 240,000
Revenue bonds, 2013	8,602,500	-0-	(330,000)	8,272,500	330,000
Other debt:					
Note payable	560,348	-0-	(197,081)	363,267	165,912
Total long-term debt	$ 13,542,848	$ -0-	$ (767,081)	$ 12,775,767	$ 735,912

	2024				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Direct placements:					
Revenue bonds, 2008	$ 4,560,000	$ -0-	$ (180,000)	$ 4,380,000	$ 240,000
Revenue bonds, 2013	8,932,500	-0-	(330,000)	8,602,500	330,000
Other debt:					
Note payable	687,291	-0-	(126,943)	560,348	203,291
Total long-term debt	$ 14,179,791	$ -0-	$ (636,943)	$ 13,542,848	$ 773,291

Debt service requirements on long-term debt at March 31, 2025, are as follows:

Year Ending March 31,	Principal	Interest
2026	$ 735,912	$ 443,048
2027	741,053	416,795
2028	641,302	391,428
2029	615,000	368,813
2030	615,000	346,294
2031-2035	3,355,000	1,340,875
2036-2040	4,290,000	611,397
2041-2045	1,782,500	83,438
Total	$ 12,775,767	$ 4,002,088

The Series 2008 revenue bonds agreement requires that certain funds be established with the trustee for future debt service requirements. Accordingly, these funds are included as assets whose use is limited on the statements of net position.

The Hospital's debt agreements contain various restrictive covenants. The Hospital believes it is in compliance with all covenants as of March 31, 2025.

11. NET PATIENT SERVICE REVENUE

For the years ended March 31, 2025 and 2024, net patient service revenue was as follows:

	2025	2024
Gross patient service revenue		
Inpatient services	$ 8,656,699	$ 9,746,031
Outpatient services	186,374,275	174,768,484
Total gross patient service revenue	195,030,974	184,514,515
Deductions from revenue		
Contractual allowances	(129,243,576)	(129,458,611)
Provision for bad debts	(9,790,582)	(2,154,577)
Charity care	(284,394)	(3,153,594)
Total deductions from revenue	(139,318,552)	(134,766,782)
Total net patient service revenue	$ 55,712,422	$ 49,747,733

The Hospital grants credit without collateral to its patients, most of who are local residents and insured under third-party payor agreements. The mix of gross revenues and receivables from patients and third-party payors at March 31, 2025 and 2024 is as follows:

	2025		2024	
	Revenues	Receivables	Revenues	Receivables
Medicare	51 %	48 %	49 %	35 %
Medicaid	20	14	22	18
Blue Cross	13	8	12	7
Other third-party payors	14	18	14	23
Self Pay	2	12	3	17
	100 %	100 %	100 %	100 %

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- ***Medicare***. The Hospital is designated as a Critical Access Hospital ("CAH"). This designation provides for most inpatient and outpatient services to be reimbursed on a cost basis methodology. The Hospital has clinics which are designated as rural health clinics, which are also reimbursed on a cost basis methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

- ***Medicaid***. Inpatient and substantially all outpatient services rendered to Medicaid program beneficiaries and reimbursed at prospectively determined rates. The State of Illinois previously enacted legislation that provides for a hospital assessment program intended to qualify for federal matching funds under the Illinois Medicaid program. The legislation provides that no additional Medicaid payments are to be paid until the program receives the required federal government approval through the Center for Medicare and Medicaid Services ("CMS").

  In addition, the State of Illinois passed legislation in State Fiscal Year 2012 that expanded the program by providing additional Hospital Access Improvement Payments to qualifying hospitals, also referred to as Enhanced Hospital Assessment. CMS approved the program on October 1, 2013, with a retroactive date of June 10, 2012.

  In 2014, CMS approved an additional supplemental payment to Illinois' hospitals for services provided to newly eligible Medicaid beneficiaries under the Affordable Care Act ("ACA"). The supplemental payment to hospitals was retroactive to March 1, 2014. The assessments were effective until June 30, 2018 to align with the transition periods of both rate reform and the ACA Medicaid expansion payments.

  In fiscal year 2017, CMS extended the ACA Access Payments for adults in managed care organizations ("MCOs") to address the shift to MCOs for services provided to newly eligible Medicaid beneficiaries under the ACA. The supplemental payment to hospitals was retroactive to January 1, 2016. The assessments were effective until June 30, 2018 to align with transition periods of both rate reform and the ACA Medicaid expansion payments.

  The effects of the programs in the statements of revenues, expenses, and changes in net position for the years ended March 31, 2025 and 2024 are as follows:

	2025	2024
Additional Medicaid payment included in net patient service revenue	$ 1,402,628	$ 1,930,309

  These additional reimbursement programs represented approximately 3% and 4% of the Hospital's net patient service revenue for both of the years ended March 31, 2025 and 2024, respectively. The programs are subject to future modification through legislative action, specifically related to Medicaid reform initiatives that are ongoing with the State of Illinois. Given the impact of these programs on the Hospital's net patient service revenue, dependency on these programs is a significant concentration of revenue risk for the Hospital.

- ***Other.*** The Hospital has also entered into preferred provider agreements with certain commercial insurance carriers. The basis for payment to the Hospital under these agreements is a discount from established charges.

- ***Charity Care.*** The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of costs to charges is calculated based on the Hospital's total operating expenses divided by gross patient service revenue. For the years ended March 31, 2025 and 2024, the Hospital incurred estimated costs of $71,041 and $737,102, respectively.

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigation and/or allegations concerning possible violations of fraud and abuse statutes and/or regulations by health care providers. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

CMS has been granted authority to suspend payments, in whole or in part, to Medicare providers if CMS possess reliable information on overpayment, fraud or if willful misrepresentation exists. If CMS suspects payments are being made as the result of fraud or misrepresentation, CMS may suspend payment at any time without providing prior notice to the Hospital. The initial suspension period is limited to 180 days. However, the payment suspension period can be extended indefinitely is the matter is under investigation by the United States Department of Health and Human Services Office of Inspector General or the United States Department of Justice. Therefore, the Hospital is unable to predict if or when it may be subject to a suspension of payments by the Medicare and/or Medicaid programs, the possible length of the suspension period, or the potential cash flow impact of a payment suspension. Any such suspension would adversely impact the Hospital's financial position, results of operations, and cash flows. The Hospital believes that it is in compliance with all applicable laws and regulations.

14. NONOPERATING REVENUES

For the years ended March 31, 2025 and 2024, nonoperating revenues (expenses) were as follows:

	2025	2024
Grant revenue	$ 530,660	$ 308,424
Investment income	2,728,397	2,555,161
Rental income	79,811	84,577
Interest expense	(467,066)	(531,478)
Ad valorem tax revenue	272,653	282,827
Contributions	78,850	-0-
Other	7,000	7
Total nonoperating revenues (expenses)	$ 3,230,305	$ 2,699,518

15. MALPRACTICE

The Hospital has joined together with other providers of health care services to form the Illinois Provider Trust ("IPT") and a risk pool self-insurance trust program organized under Illinois Statutes for the purpose of providing general and professional liability. The Hospital pays annual premiums to the pools for its general liability torts, medical malpractice, and employee injuries insurance coverage. The pools' governing agreements specify that the pools will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop-loss amounts. The pool provides liability coverage on a claims-made basis of $2,000,000 per occurrence, with no annual aggregate. In addition, the Hospital has purchased excess coverage that provides for an additional $3,000,000 per coverage in addition to the primary coverage provided by the IPT program.

The Hospital is insured against professional liability claims on a claims-made basis. Liabilities for incurred but not reported losses at March 31, 2025 and 2024, are not determinable; however, in management's opinion, such liabilities, if any, will not have a material effect on the Hospital's financial position and its malpractice and general liability insurance is adequate to cover losses, if any. Should the claims-made policies not be renewed or replaced with appropriate insurance coverage, claims based upon occurrences during these terms, but reported subsequently, will be uninsured. The Hospital intends to continue carrying such insurance.

16. COMMITMENTS AND CONTINGENCIES

Commitments

As of March 31, 2025, the Hospital has construction and renovation project commitments as follows:

Project	Expected Date of Completion	Estimated Total Cost of Project	As of March 31, 2025
Surgery and Emergency Department renovation	August 2027	$ 15,000,000	$ 654,586
Information Technology switches	December 2025	500,000	250,810
Total		$ 15,500,000	$ 905,396

Contingencies

Legal Matters

The Hospital is susceptible to a variety of legal proceedings and claims by others against the Hospital in a variety of matters arising out of the conduct of the Hospital's business. The ultimate resolution of such claims would not, in the opinion of management, have a material adverse effect on the financial statements.

HIPAA

Management continues to implement policies, procedures, and a compliance-monitoring organizational structure to enforce and monitor compliance with the Health Insurance Portability Accountability Act of 1996 ("HIPAA") and other government statutes and regulations. The Hospital's compliance with such laws and regulations is subject to future government review and interpretations, as well as regulatory actions which are unknown or unasserted at this time.

CPAs / ADVISORS

blue

Blue & Co., LLC / 2650 Eastpoint Parkway, Suite 300 / Louisville, KY 40223
main 502.992.3500 *fax* 502.992.3509 *email* blue@blueandco.com

blueandco.com

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Salem Township Hospital
Salem, Illinois

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Salem Township Hospital (the "Hospital"), , which comprise the statement of net position as of March 31, 2025, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 16, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) as a basis for determining audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Board of Trustees
Salem Township Hospital
Salem, Illinois

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blue & Co., LLC

Louisville, Kentucky
December 16, 2025

CPAs / ADVISORS

blue

Blue & Co., LLC / 2650 Eastpoint Parkway, Suite 300 / Louisville, KY 40223
main 502.992.3500 *fax* 502.992.3509 *email* blue@blueandco.com

blueandco.com

Report of Independent Auditors on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

Board of Trustees
Salem Township Hospital
Salem, Illinois

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Salem Township Hospital (the "Hospital") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended March 31, 2025. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Hospital complied, in all material respects, with the compliance requirements referred to above is that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2025.

Basis for Opinion on Each Major Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Hospital and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of the Hospital's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Hospital's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. 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 generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal

program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Blue & Co., LLC

Louisville, Kentucky
December 16, 2025

SALEM TOWNSHIP HOSPITAL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED MARCH 31, 2025

Section I - Summary of Auditor's Results

Consolidated Financial Statements

Type of auditor's report issued:	Unmodified		
Internal control over financial reporting:			
Material weakness(es) identified?	____ yes	X	none reported
Significant deficiency(ies) identified that are not considered to be material weaknesses?	____ yes	X	none reported
Noncompliance material to financial statements noted?	____ yes	X	no

Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	____ yes	X	none reported
Significant deficiency(ies) identified that are not considered to be material weaknesses?	____ yes	X	none reported
Type of auditor's report issued on compliance for major programs:	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	____ yes	X	no

Identification of major programs:

CFDA Number	*Name of Federal Program*
10.766	Community Facilities Loans and Grants

Dollar threshold used to distinguish between type A and type B programs:	$750,000		
Auditee qualified as low-risk auditee?	X yes	____	no

SALEM TOWNSHIP HOSPITAL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED MARCH 31, 2025

Section II – Financial Statement Findings

No findings were noted during 2025.

SALEM TOWNSHIP HOSPITAL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED MARCH 31, 2025

Section III – Federal Award Findings and Questioned Costs

No findings were noted during 2025.

SALEM TOWNSHIP HOSPITAL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED MARCH 31, 2025

Section IV – Prior Year Financial Statement Findings

No findings were noted during 2024.

SALEM TOWNSHIP HOSPITAL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED MARCH 31, 2025

Section II – Prior Year Federal Award Findings and Questioned Costs

No findings were noted during 2024.

SALEM TOWNSHIP HOSPITAL

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED MARCH 31, 2025

Federal Grantor/Pass-through/Program Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Major programs				
U.S. Department of Agriculture				
Community Facilities Loan Program - Emergency Rural Healthcare Grant	10.766	Not applicable	-0-	$ 511,331
Community Facilities Loan Program (Cluster)	10.766	Not applicable	-0-	12,982,500
Non-major programs				
U.S. Department of Health and Human Services				
Small Rural Hospital Improvement Grant Program	93.301	4117A	-0-	$ 12,028
Total Expenditures of Federal Awards				$ 13,505,859

See Report of Independent Auditors and notes to the schedule of expenditures of federal awards.

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Salem Township Hospital (the "Hospital") under programs of the federal government for the year ended March 31, 2025. The information in this Schedule is presented in accordance with requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the schedule presents only a selected portion of the operations of the Hospital, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Hospital.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. LOANS OUTSTANDING

The federal programs listed subsequently are administered directly by the Hospital, and balances and transactions relating to these programs are included in the Hospital's financial statements. Loans outstanding as of the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at March 31, 2025, consist of:

Assistance Listing Number	Program Name	Outstanding Balance at March 31, 2025
10.766	Communities Facilities Loans and Grants	$ 12,412,500

4. DONATED PERSONAL PROTECTIVE EQUIPMENT

During 2025, the Hospital did not receive material donated personal protective equipment from federal sources.

5. INDIRECT COST RATE

The Hospital has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.