

Daviess Community Hospital

Report to the Board of Governors

Results of the 2017 financial statement audit, selected ratios,
internal control matters and other required communications

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Board of Governors
Daviess Community Hospital
Washington, Indiana

Dear Board of Governors:

We have completed our audit of the financial statements of Daviess Community Hospital (Hospital), as of and for the year ended December 31, 2017. This report includes communication required under auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, as well as other matters. Our audit completed in accordance with *Government Auditing Standards* complies with the Uniform Compliance *Guideline for Audit of Hospital and State and Local Governments by Authorized Independent Public Accountants* established by the Indiana State Board of Accounts (State Board) as referenced by State Examiner Directive 2015-02.

Our audit plan represented an approach responsive to the assessment of risk of material misstatement in financial reporting for the Hospital. Specifically, auditing standards require us to:

- Express an opinion on the December 31, 2017 financial statements of Daviess Community Hospital
- Issue a report on internal control over financial reporting and on compliance and other matters based on the audit of the Hospital's financial statements performed in accordance with *Government Auditing Standards*
- Issue communications required under auditing standards generally accepted in the United States of America to assist those charged with governance in overseeing management's financial reporting and disclosure process

This report also presents an overview of areas of audit emphasis, as well as selected financial statement indicators and information regarding future accounting standards and industry developments for the health care environment.

This communication is intended solely for the information and use of management, the Board of Governors and others within the Hospital and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

September 4, 2018



Opinion and Reconciliation of Changes in Net Position

Unmodified, or “Clean,” Opinion Issued on Financial Statements

We have issued an unmodified opinion as to whether the financial statements of Daviess Community Hospital (Hospital), as of and for the year ended December 31, 2017, included at *Tab 1*, are fairly presented, in all material respects. We proposed and recorded adjustments during the audit, and management provided entries that it determined were necessary to prevent the financial statements from being materially misstated. A summary of adjustments impacting the change in net position is presented below:

Change in net position, as internally reported	\$ 3,716,237
Adjustments	
Inclusion of Daviess Community Hospital Foundation	17,960
Management proposed entries	(178,977)
Audit adjustments:	
Various nursing home adjustments	3,308,083
Change in net position, per audited financial statements	\$ 6,863,303

Reclassification adjustments were also proposed and recorded related to the presentation and classification of long-term care facility financial statements.

We also proposed the following adjustment that was determined by management to be immaterial to the financial statements as a whole. A schedule of this uncorrected misstatement is located in *Tab 2*.

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Total Assets & Deferred Outflows or Resources	106,984,698	(500,000)	106,484,698	-0.47%
Total Liabilities	(76,965,613)	500,000	(76,465,613)	-0.65%
Total Net Position	(30,019,085)	-	(30,019,085)	0.00%
Operating Revenues	(248,540,316)	500,000	(248,040,316)	-0.20%
Operating Expenses	239,895,394	(500,000)	239,395,394	-0.21%
Nonoperating (Revenues) Exp	1,781,619	-	1,781,619	0.00%
Change in Net Position	(6,863,303)	-	(6,863,303)	0.00%

Required Communications

Generally accepted auditing standards require the auditor to provide to those charged with governance, additional information regarding the scope and results of the audit that may assist you in overseeing management’s financial reporting and disclosure process. Below, we summarize these required communications.

Auditor’s Responsibilities Under Auditing Standards Generally Accepted in the United States of America (GAAS) and the Standards Applicable to Financial Audits Contained in *Government Auditing Standards* Issued by the Comptroller General of the United States

An audit performed 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 is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this communication or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management, or those charged with governance, of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Area	Comments
<p>Significant Accounting Policies</p> <p>Significant accounting policies are described in <i>Note 1</i> of the financial statements.</p>	<ul style="list-style-type: none"> • The audited financial statements include the Hospital’s blended component unit - Daviess Community Hospital Foundation. • The audited financial statements include the operations of the Hospital’s leased long-term care facilities. • The Hospital’s investment in Daviess Community Hospital Pain Management, LLC (Pain Management) is accounted for as a joint venture under the equity method of accounting.

Area	Comments
<p>Alternative Accounting Treatments</p> <p>We had discussions with management regarding alternative accounting treatments within accounting principles generally accepted in the United States of America for policies and practices for material items, including recognition, measurement and disclosure considerations related to the accounting for specific transactions as well as general accounting policies listed in the adjacent comments section.</p>	<ul style="list-style-type: none"> • No matters are reportable.
<p>Management Judgments & Accounting Estimates</p> <p>Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. Areas involving significant areas of such estimates for which we are prepared to discuss management’s estimation process and our procedures for testing the reasonableness of those estimates are listed in the adjacent comments section.</p>	<p>We evaluated the adequacy of the following estimates:</p> <ul style="list-style-type: none"> • Allowance for uncollectible receivables and estimated contractual allowances • Estimated amounts due to/from third-party payers including: <ul style="list-style-type: none"> ○ Estimate for current year cost report settlement ○ Reserves established for open cost reports ○ Estimated amounts due to and from Indiana Medicaid under the Disproportionate Share Hospital (DSH) and Hospital Assessment Fee (HAF) programs ○ Estimated amounts due from Indiana Medicaid for Rural Health Clinic settlements • Estimate of Upper Payment Limit (UPL) revenue recorded by the long-term care operations and recording of contract expenses under these relationships • Accrual for incurred, but not reported, employee health insurance expense

Area	Comments
<p>Financial Statement Disclosures</p> <p>The areas listed in the adjacent comments section involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures.</p>	<ul style="list-style-type: none"> • Net patient service revenue and patient accounts receivable • Effect of supplemental Indiana Medicaid payment programs, including the HAF, DSH and UPL programs • Joint venture reporting for Pain Management • Long-term debt and capital lease obligations • Fair value measurement • Long-term care nursing facility lease and management agreements • Subsequent events
<p>Audit Adjustments</p> <p>During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments that, in its judgment, are required to prevent the financial statements from being materially misstated.</p>	<ul style="list-style-type: none"> • Audit adjustments both recorded and unrecorded, all related to long-term care operations, were presented on page 2 above.
<p>Auditor’s Judgments About the Quality of the Hospital’s Accounting Policies</p> <p>During the course of the audit, we made observations regarding the Hospital’s application of accounting principles listed in the adjacent comments section.</p>	<ul style="list-style-type: none"> • No matters are reportable.
<p>Disagreements With Management</p> <p>Certain matters listed in the adjacent comments section involved disagreements, which if not satisfactorily resolved, would have caused a modified auditor’s opinion on the financial statements.</p>	<ul style="list-style-type: none"> • There were no disagreements with management.

Area	Comments
<p>Significant Issues Discussed With Management</p> <p>During the audit process, issues were discussed or were the subject of correspondence with management and are listed in the adjacent comments section.</p>	<ul style="list-style-type: none">• Accounting and reporting for long-term care facilities owned by the Hospital.
<p>Difficulties Encountered in Performing the Audit</p> <p>Our audit requires cooperative effort between management and the audit team. During our audit, we found significant difficulties in working effectively on matters listed in the adjacent comments section.</p>	<ul style="list-style-type: none">• With the growth in long-term care operations, consolidation of information from all managers in a consistent manner required several reclassification entries and the audit adjustments identified above.• There were no difficulties in performing the audit of Hospital operations, and we received excellent cooperation from Hospital staff.

Other Material Written Communications

Other material written communications between management and us related to the audit include:

- Management representation letter (*Tab 2*)

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of Daviess Community Hospital (Hospital) as of and for the year ended December 31, 2017, 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, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

Deficiency—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 of the Hospital's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

Significant Deficiency—A significant deficiency is a deficiency, or 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.

Material Weakness—A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

We observed the following matters that we consider to be deficiencies or a material weakness.

Material Weakness

Long-Term Care Financial Reporting

The Hospital's growth in long-term care operations has led to significant changes and complexities in financial reporting. Routine monitoring of the operations of the individual facilities is imperative to ensure that the Hospital is exercising its fiduciary and regulatory responsibility and performing appropriate reviews of financial measures, quality measures and manager performance and compliance under the various management agreements.

As the Hospital contracts with several companies to manage the operations of various long-term care facilities, internal financial reports provided to Hospital management varied in presentation and accounting for certain transactions. This led to inconsistent financial reporting when operations were consolidated, resulting in material reclassifications in the presentation and classification of internally consolidated financial statements and recorded and unrecorded adjustments to net patient service revenue, Upper Payment Limit revenue amounts and contract fees. We recommend the Hospital reconcile financial statements provided by third-party managers in a consistent manner and review calculations of Upper Payment Limit revenue and contract fees so that amounts can be reported consistently between long-term care facilities homes. Similarly, we recommend management come to formal agreements with managers on contract fees on an annual basis. As operations continue to grow, management may consider additional resources within the accounting department to allow for more timely review and improved consolidation of the long-term care operations.

Deficiencies

Segregation of Duties - Payroll

Certain accounting staff have conflicting duties in access, recording and monitoring portions of the payroll cycle. The employees have the ability to issue payroll checks, record payroll data, i.e., hours worked, and adjust employee pay rates, direct deposit information, etc. without a secondary approval or review by management. This creates a situation where intentional or unintentional errors could occur and not be detected timely. Although budgets are sent to directors each month and the Chief Financial Officer reviews payroll monthly, the Hospital should consider implementing a secondary review of all changes to payroll data and continue to review payroll duties among the accounting staff.

Long-Term Care Capital Assets

Ownership of capital assets during the tenure of the long-term care agreements is outlined within individual management agreements and can vary among the various agreements and managers. The accounting for capital assets with certain managers is inconsistent with the terms outlined in these agreements, resulting in adjustments recorded. Similarly, certain managers failed to record depreciation expense. While amounts are immaterial in the current year, Hospital management should review statements prepared by managers to ensure the accounting is consistent with the underlying agreements.

Other Matters

Although not considered material weaknesses, significant deficiencies or deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements if you require.

Accounts Receivable Valuation

Effective valuation of patient accounts receivable for a health care provider is a complex concept. The estimations of reserves for contractual allowances and uncollectible accounts required disciplined modeling. Management utilizes collection rates for commercial payers, which are based on a historical hindsight analysis. Bad debt percentages are recorded based on the age of individual accounts, which is a common practice. While we believe amounts recorded were materially accurate at year-end, we recommend management continue to evaluate the current models and test inputs via evaluation of subsequent collections to validate inputs and methodologies.

Long-Term Care Incentive Management Fees

Management agreements for the long-term care facilities include various provisions including base, subordinate and incentive management fees. Incentive management fees are established to reward the manager for performance of the individual facility. Several facilities acquired in 2018 recorded incentive management fees in excess of cap amounts established within the individual agreements. Management of both parties agree that these fees are owed based on the underlying agreements and amounts recorded are accurate. We recommend that agreements be modified to increase cap amounts.

GASB Statement No. 87, *Leases*

GASB Statement No. 87, *Leases* (GASB 87): GASB 87 provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and nonlease components will need to be separated so each component is accounted for accordingly.

GASB 87 is effective for financial statements for fiscal years beginning after December 15, 2019. Earlier application is encouraged. Governments will be allowed to transition using the facts and circumstances in place at the time of adoption, rather than retroactive to the time each lease was begun.



2017 Audit Results

This communication is intended solely for the information and use of management, the Board of Governors and others within the Hospital and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

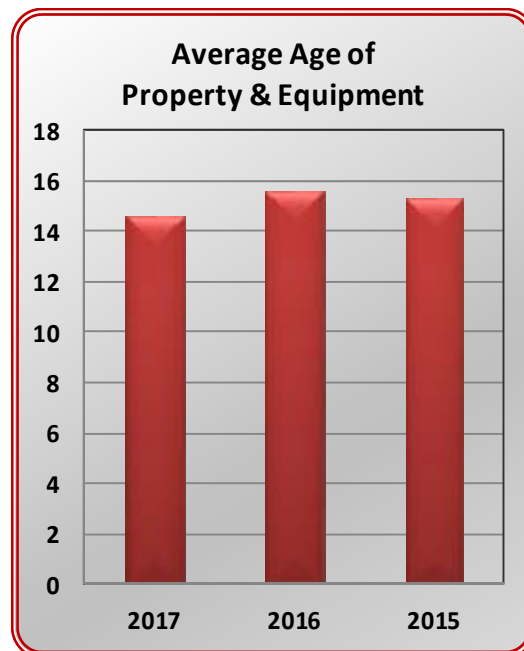
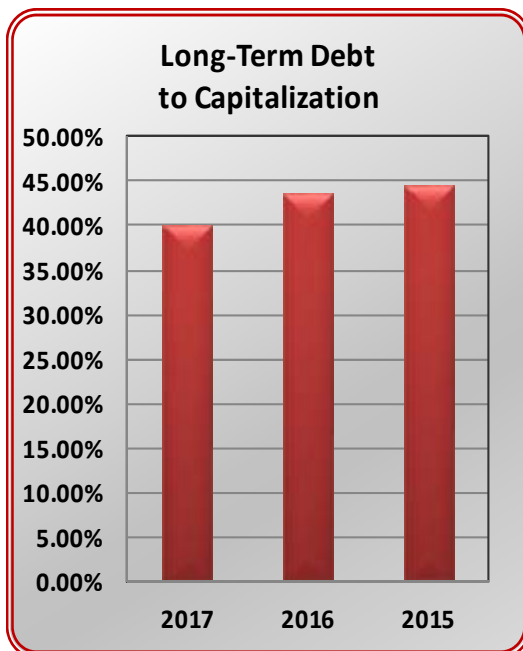
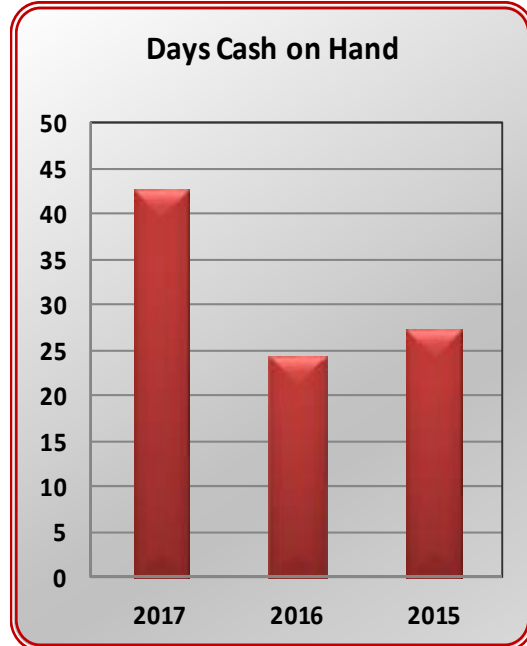
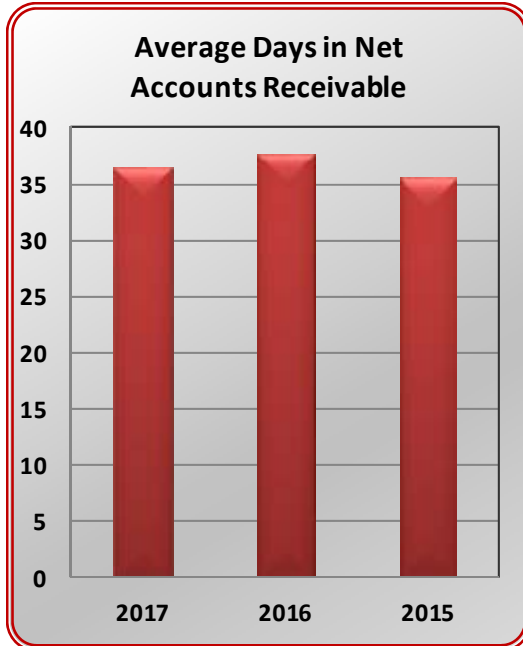
September 4, 2018



2017 Audit Results

Condensed Balance Sheets

	<u>2017</u>	<u>2016</u>	<u>2015</u>
ASSETS			
Current Assets			
Cash	\$ 27,316,062	\$ 9,959,228	\$ 4,848,201
Patient accounts receivable, net	24,930,220	17,797,363	11,846,541
Other current assets	14,205,392	11,969,732	9,359,046
Total current assets	<u>66,451,674</u>	<u>39,726,323</u>	<u>26,053,788</u>
Capital Assets, net	32,626,401	28,364,596	28,573,304
Noncurrent Assets and Deferred Outflows of Resources	<u>7,906,623</u>	<u>6,558,362</u>	<u>6,730,938</u>
Total assets and deferred outflows of resources	<u>\$ 106,984,698</u>	<u>\$ 74,649,281</u>	<u>\$ 61,358,030</u>
LIABILITIES AND NET POSITION			
Current Liabilities	\$ 58,236,679	\$ 34,906,349	\$ 19,868,604
Long-Term Debt	18,728,934	16,587,150	17,905,498
Net Position	<u>30,019,085</u>	<u>23,155,782</u>	<u>23,583,928</u>
Total liabilities and net position	<u>\$ 106,984,698</u>	<u>\$ 74,649,281</u>	<u>\$ 61,358,030</u>

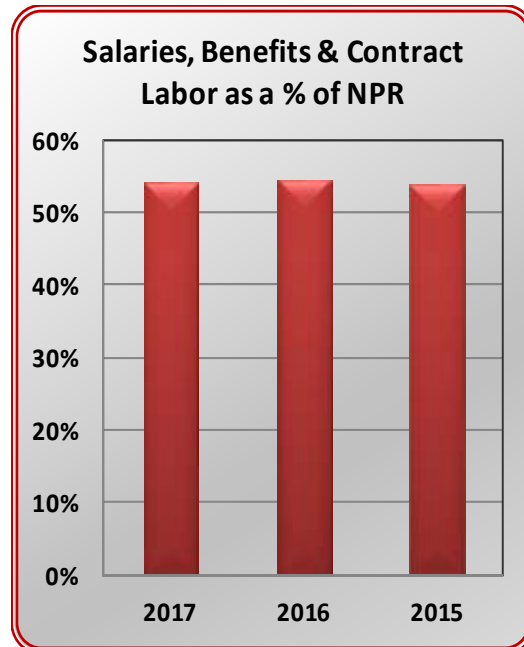
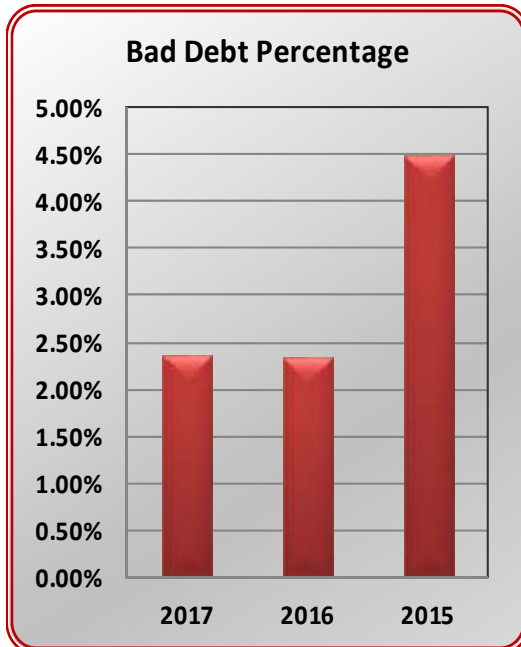
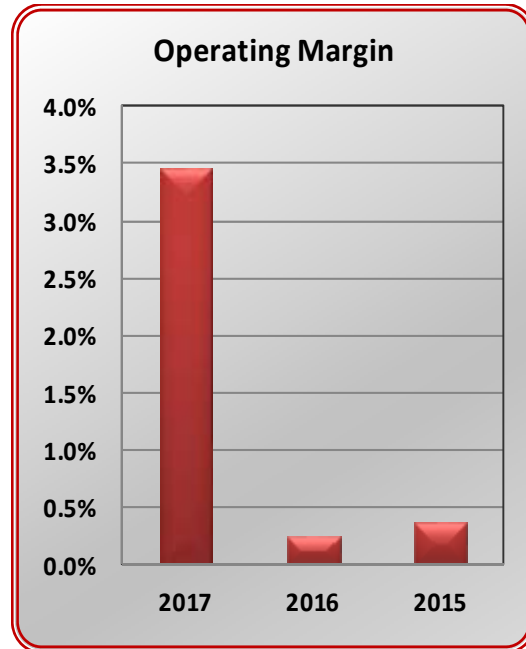
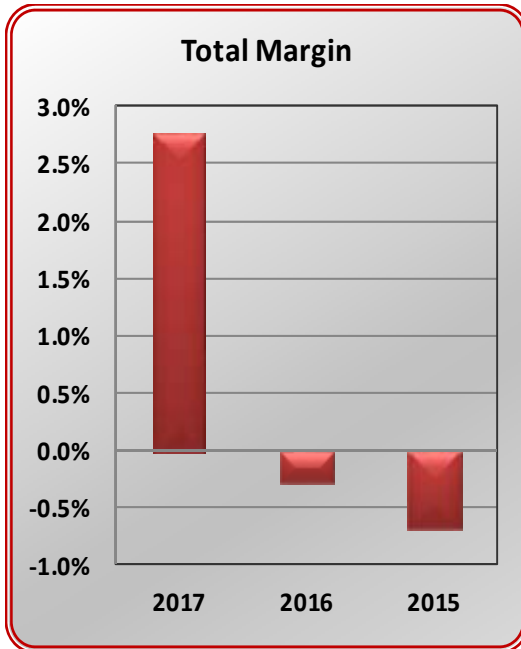
Selected Balance Sheet Ratios



2017 Audit Results

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating Revenues			
Net patient service revenue less provision for uncollectible accounts	\$ 214,054,817	\$ 143,445,639	\$ 95,923,449
Other operating revenues	34,485,499	15,434,547	6,765,112
Total unrestricted revenues, gains and other support	<u>248,540,316</u>	<u>158,880,186</u>	<u>102,688,561</u>
Operating Expenses			
Salaries, wages, contract labor and benefits	116,297,141	78,565,667	52,056,098
Purchased services and professional fees	37,701,130	19,726,627	14,509,023
Depreciation and amortization	3,588,170	3,168,910	3,014,084
Provider hospital assessment fee	2,808,515	2,277,328	2,010,528
Other operating expenses	79,500,438	54,751,317	30,714,319
Total operating expenses	<u>239,895,394</u>	<u>158,489,849</u>	<u>102,304,052</u>
Operating Income	8,644,922	390,337	384,509
Net Nonoperating Expenses	<u>(1,781,619)</u>	<u>(818,483)</u>	<u>(1,072,578)</u>
Excess (Deficiency) of Revenues Over Expenses	6,863,303	(428,146)	(688,069)
Other Changes in Net Position	<u>-</u>	<u>-</u>	<u>45,113</u>
Change in Net Position	6,863,303	(428,146)	(642,956)
Net Position, Beginning of Year	<u>23,155,782</u>	<u>23,583,928</u>	<u>24,226,884</u>
Net Position, End of Year	<u>\$ 30,019,085</u>	<u>\$ 23,155,782</u>	<u>\$ 23,583,928</u>

Selected Statement of Revenues, Expenses and Changes in Net Position Ratios

TAB 1

Daviess Community Hospital
A Component Unit of Daviess County, Indiana

Independent Auditor's Report and Financial Statements

December 31, 2017 and 2016

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
December 31, 2017 and 2016

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Independent Auditor's Report

Board of Governors
Daviess Community Hospital
Washington, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of Daviess Community Hospital (Hospital), a component unit of Daviess County, Indiana, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Daviess Community Hospital as of December 31, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The combining schedules listed in the table of contents and the report to the board of governors summarizing the 2017 audit results are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining schedule information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The report to the board of governors summarizing the 2017 audit results has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2018, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That 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.

BKD, LLP

Indianapolis, Indiana
September 4, 2018

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Management's Discussion and Analysis
December 31, 2017 and 2016

Introduction

This management's discussion and analysis of the financial performance of Daviess Community Hospital, a component unit of Daviess County, Indiana (Hospital), provides an overview of the Hospital's financial activities for the years ended December 31, 2017 and 2016. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and investments increased in 2017 by \$17,393,113 or 127.8% and increased in 2016 by \$5,127,079 or 60.4%.
- The Hospital's net position increased in 2017 by \$6,863,303 or 29.6% and decreased in 2016 by \$428,146 or 1.8%.
- The Hospital reported operating income in 2017 and 2016 of \$8,644,922 and \$390,337, respectively. The operating results in 2017 improved by \$8,254,585 or 2,114.7% over the operating income reported in 2016.
- Net nonoperating expenses decreased by \$963,136 or 117.7% in 2017 compared to the decrease of \$254,095 or 23.7% in 2016.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in net position. The Hospital's total net position—the difference between assets, deferred outflows of resources and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position is an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

Statements of Cash Flows

The statements of cash flows reports cash receipts, cash payments and net changes in cash resulting from our defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

Hospital's Net Position

The Hospital's net position is the difference between its assets, deferred outflows of resources and liabilities reported in the balance sheets. The Hospital's net position increased by \$6,863,303 or 29.6% in 2017 over 2016 compared to the \$428,146 or 1.8% decrease in 2016 over 2015, as shown in Table 1.

	2017	2016	2015
Assets and Deferred Outflows of Resources			
Patient accounts receivable, net	\$ 24,930,220	\$ 17,797,363	\$ 11,846,541
Other current assets	41,521,454	21,928,960	14,207,247
Capital assets, net	32,626,401	28,364,596	28,573,304
Other noncurrent assets and deferred outflows of resources	7,906,623	6,558,362	6,730,938
	<u>\$ 106,984,698</u>	<u>\$ 74,649,281</u>	<u>\$ 61,358,030</u>
Liabilities			
Long-term debt (including current portion)	\$ 20,984,014	\$ 17,936,647	\$ 19,211,224
Other current and noncurrent liabilities	55,981,599	33,556,852	18,562,878
Total liabilities	<u>76,965,613</u>	<u>51,493,499</u>	<u>37,774,102</u>
Net Position			
Net investment in capital assets	11,642,387	10,427,949	9,362,080
Restricted for debt service	3,236,331	3,197,128	3,167,413
Unrestricted	15,140,367	9,530,705	11,054,435
Total net position	<u>30,019,085</u>	<u>23,155,782</u>	<u>23,583,928</u>
	<u>\$ 106,984,698</u>	<u>\$ 74,649,281</u>	<u>\$ 61,358,030</u>

The most significant change in assets during 2017 were current assets. Current assets increased by approximately 26.7 million (67.3%) in 2017 primarily as a result of the lease agreements related to the operations of eighteen additional long-term care facilities. The most significant change in assets during 2016 were current assets. Current assets increased by approximately \$13.7 million (52.5%) in 2016 primarily as a result of the lease agreements related to the operations of eight additional long-term care facilities.

Operating Results and Changes in the Hospital's Net Position

In 2017, the Hospital's net position increased by \$6,863,303 or 29.6% as shown in Table 2. This increase is made up of several components and represents an improvement of 17.0% compared with the decrease in net position for 2016 of \$428,146 (1.8)%. Of note, during 2017 and 2016, the Hospital recognized revenue approximating \$32.0 million and \$12.4 million, respectively, related to its participation in the Indiana Medicaid Upper Payment Limit (UPL) program with its expanded nursing home operations. These amounts are recorded in other operating revenues.

	2017	2016	2015
Operating Revenues			
Net patient service revenue	\$ 214,054,817	\$ 143,445,639	\$ 95,923,449
Other operating revenues	34,485,499	15,434,547	6,765,112
Total operating revenues	<u>248,540,316</u>	<u>158,880,186</u>	<u>102,688,561</u>
Operating Expenses			
Salaries, wages, contract labor and employee benefits	116,297,141	78,565,667	52,056,098
Purchased services and professional fees	37,701,130	19,726,627	14,509,023
Depreciation and amortization	3,588,170	3,168,910	3,014,084
Provider hospital assessment fee	2,808,515	2,277,328	2,010,528
Other operating expenses	79,500,438	54,751,317	30,714,319
Total operating expenses	<u>239,895,394</u>	<u>158,489,849</u>	<u>102,304,052</u>
Operating Income	<u>8,644,922</u>	<u>390,337</u>	<u>384,509</u>
Nonoperating Revenues (Expenses)			
Investment income	78,442	71,696	51,331
Interest expense	(1,363,180)	(1,140,572)	(1,131,657)
Noncapital grants and contributions	85,068	65,815	-
Other nonoperating revenues and expenses, net	(581,949)	184,578	7,748
Total nonoperating expenses	<u>(1,781,619)</u>	<u>(818,483)</u>	<u>(1,072,578)</u>
Capital Grants and Contributions	<u>-</u>	<u>-</u>	<u>45,113</u>
Increase (Decrease) in Net Position	<u>\$ 6,863,303</u>	<u>\$ (428,146)</u>	<u>\$ (642,956)</u>

Operating Results

The first component of the overall change in the Hospital's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the Hospital has reported improved operating results, with an operating income each year.

Operating income for 2017 improved by \$8,254,585 or 2,114.7% as compared to operating income of \$390,337 recognized in 2016. The primary changes that led to the improvement in operating income are:

- An increase in net patient service revenue of approximately \$70.6 million or 49.2%.
- An increase in other operating revenue of approximately \$19.1 million or 123.4%.
- An increase in total operating expenses of approximately \$81.4 million or 51.4%.

Net patient service revenue increased during 2017 as a result of the leases related to additional long-term care facilities during the year. Increases in other operating revenues are attributed to UPL revenue approximating \$32.0 million recognized with the increase in nursing home operations.

Total operating expenses increased in 2017 as a result of the leases related to additional long-term care facilities during the year. Salaries, wages, contract labor and employee benefits increased approximately \$37.7 million or 48.0% while purchased services and professional fees increased approximately \$19.1 million or 96.9%.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income, interest expense, and losses on disposal of capital assets. Interest expense in 2017 was comparable to that recognized in 2016, increasing \$222,608. The Hospital recognized losses on disposal of capital assets totaling \$579,838 in 2017, which is included in other nonoperating expense.

Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating results and net nonoperating revenues and expenses for 2017 and 2016, discussed earlier. Improvements in operating results led to an increase in cash provided by operating activities of \$6,229,830. Cash provided by capital and related financing activities also increased by \$6,196,894 as a result of additional borrowings on the Hospital's line of credit, which was primarily used to fund the Intergovernmental expense required to draw down Upper Payment Limit revenue (see Note 2).

Capital Asset and Debt Administration

Capital Assets

At the end of 2017 and 2016, the Hospital had \$32,626,401 and \$28,364,596 invested in capital assets, net of accumulated depreciation, respectively, as detailed in Note 6 to the financial statements. The Hospital purchased new capital assets costing approximately \$8.6 million in 2017 and \$3.0 million in 2016. Included in these additions are assets acquired through capital lease obligations totaling approximately \$4,917,000 and \$62,000 in 2017 and 2016, respectively.

Debt

At December 31, 2017, the Hospital had \$15,740,000 in revenue bonds outstanding compared to \$16,695,000 at December 31, 2016. The Hospital issued no new debt other than the capital leases described above in 2017. The Hospital's formal revenue bonds are subject to limitations imposed by state law. See Note 10 to the financial statements for more information regarding long-term debt.

Line of Credit

The Hospital had a \$6,000,000 revolving bank line of credit, which expired in February 2017. This agreement was extended to February 2018 and the total principal available increased to \$20 million (see Note 11). At December 31, 2017, there was \$17,472,288 borrowed against this line. The line is collateralized by certain deposit accounts held with the bank. Interest varies with the bank's prime rate less 1.5%, which was 2.895% on December 31, 2017, and is payable monthly.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Business Administration by telephoning 812.254.2760.

Daviess Community Hospital
A Component Unit of Daviess County, Indiana

Balance Sheets
December 31, 2017 and 2016

Assets and Deferred Outflows of Resources

	2017	2016
Current Assets		
Cash	\$ 27,316,062	\$ 9,959,228
Patient accounts receivable, net of allowance of \$4,881,715 and \$2,594,019 for 2017 and 2016, respectively	24,930,220	17,797,363
Supplies	1,424,962	1,315,680
Prepaid expenses and other	12,172,258	10,111,328
Estimated amounts due from third-party payers	608,172	542,724
Total current assets	66,451,674	39,726,323
Noncurrent Cash and Investments		
Internally designated	449,333	452,257
Held by trustee for debt service	3,236,331	3,197,128
	3,685,664	3,649,385
Capital Assets, net	32,626,401	28,364,596
Other Assets	1,839,538	312,690
Deferred Outflows of Resources - debt defeasance costs	2,381,421	2,596,287
Total assets and deferred outflows of resources	\$ 106,984,698	\$ 74,649,281

Liabilities and Net Position

Current Liabilities		
Current maturities of long-term debt	\$ 2,255,080	\$ 1,349,497
Line of credit	17,472,288	5,928,502
Interest payable	402,394	417,912
Accounts payable	12,435,129	9,335,532
Accrued expenses	25,512,788	17,245,889
Estimated amounts due to third-party payers	159,000	629,017
Total current liabilities	58,236,679	34,906,349
Long-Term Debt	18,728,934	16,587,150
Total liabilities	76,965,613	51,493,499
Net Position		
Net investment in capital assets	11,642,387	10,427,949
Restricted for debt service	3,236,331	3,197,128
Unrestricted	15,140,367	9,530,705
Total net position	30,019,085	23,155,782
Total liabilities and net position	\$ 106,984,698	\$ 74,649,281

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2017 and 2016

	2017	2016
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts of \$5,929,531 and \$3,740,365 for 2017 and 2016, respectively	\$ 214,054,817	\$ 143,445,639
Other	34,485,499	15,434,547
Total operating revenues	248,540,316	158,880,186
Operating Expenses		
Salaries, wages and contract labor	97,500,241	64,976,022
Employee benefits	18,796,900	13,589,645
Purchased services and professional fees	37,701,130	19,726,627
Supplies	20,889,310	15,085,515
Insurance	2,503,870	1,268,701
Utilities	5,487,828	3,256,218
Rent	22,498,920	12,107,493
Repairs and maintenance	5,306,743	4,141,488
Provider hospital assessment fee	2,808,515	2,277,328
Depreciation and amortization	3,588,170	3,168,910
Other	22,813,767	18,891,902
Total operating expenses	239,895,394	158,489,849
Operating Income	8,644,922	390,337
Nonoperating Revenues (Expenses)		
Investment income	78,442	71,696
Interest expense	(1,363,180)	(1,140,572)
Noncapital grants and contributions	85,068	65,815
Other	(581,949)	184,578
Total nonoperating expenses	(1,781,619)	(818,483)
Increase (Decrease) in Net Position	6,863,303	(428,146)
Net Position, Beginning of Year	23,155,782	23,583,928
Net Position, End of Year	\$ 30,019,085	\$ 23,155,782

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Operating Activities		
Receipts from and on behalf of patients	\$ 234,282,051	\$ 145,970,253
Payments to suppliers and contractors	(82,613,149)	(43,585,862)
Payments to employees	(116,264,506)	(78,251,169)
Other payments, net	(23,173,703)	(18,132,359)
Net cash provided by operating activities	12,230,693	6,000,863
Noncapital Financing Activity - Noncapital grants and contributions	85,068	65,815
Capital and Related Financing Activities		
Principal paid on capital leases	(909,638)	(422,235)
Principal paid on long-term debt	(955,000)	(910,000)
Borrowings on line of credit	18,072,288	3,983,515
Repayments on line of credit	(6,528,502)	-
Interest paid on long-term debt and capital leases	(1,168,504)	(953,128)
Purchase of capital assets	(3,679,523)	(2,910,815)
Other capital and related financing activities	169,900	16,790
Net cash provided by (used in) capital and related financing activities	5,001,021	(1,195,873)
Investing Activities		
Interest and dividends on investments	78,442	71,696
Purchase of investments	(43,615)	-
Proceeds from sale of investments	-	84,393
Other investing activities	(2,111)	184,578
Net cash provided by investing activities	32,716	340,667
Increase in Cash	17,349,498	5,211,472
Cash, Beginning of Year	10,059,673	4,848,201
Cash, End of Year	\$ 27,409,171	\$ 10,059,673
Reconciliation of Cash to the Balance Sheets		
Cash	\$ 27,316,062	\$ 9,959,228
Noncurrent cash and investments - internally designated	93,109	100,445
	\$ 27,409,171	\$ 10,059,673

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Statements of Cash Flows (Continued)
Years Ended December 31, 2017 and 2016

	2017	2016
Reconciliation of Net Operating Income to		
Net Cash Provided by Operating Activities		
Operating income	\$ 8,644,922	\$ 390,337
Depreciation and amortization	3,588,170	3,168,910
Provision for uncollectible accounts	5,929,531	3,740,365
Changes in operating assets and liabilities:		
Patient accounts receivable	(13,062,388)	(9,691,187)
Estimated amounts due to/from third-party payers	(535,465)	425,959
Accounts payable and accrued expenses	11,366,496	10,404,192
Other assets and liabilities	<u>(3,700,573)</u>	<u>(2,437,713)</u>
Net cash provided by operating activities	<u>\$ 12,230,693</u>	<u>\$ 6,000,863</u>
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	\$ 4,916,677	\$ 62,329

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Notes to Financial Statements
December 31, 2017 and 2016

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Daviess Community Hospital (Hospital) is an acute care hospital located in Washington, Indiana. The Hospital is a component unit of Daviess County (County) and the Board of County Commissioners appoints members to the Board of Governors of the Hospital, pursuant to the provisions of Indiana Code 16-22-2-2. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Daviess County area.

The Hospital operates thirty-four long-term care facilities (LTC) through various lease arrangements. This represents an increase from 16 LTC facilities operated in 2016. These facilities provide inpatient and therapy services in its geographic area and supports the Hospital's mission to provide quality care and services to the facility's residents. The facilities are managed by third parties under various management agreements. The revenues from operations are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements.

In accordance with GASB Statement No. 61, the financial statements include the financial statements of the Daviess Community Hospital Foundation (Foundation). The Foundation's purpose is to provide philanthropic support through fundraising and other activities for the acquisition of equipment, facility development and support of programs at the Hospital, and has therefore been reported as a blended component unit.

During 2014, the Hospital invested in a 51% ownership in Daviess Community Hospital Pain Management, LLC (Pain Management), which is organized to offer pain management services in the Hospital's primary service area. The Hospital's ownership interest is accounted for under the equity method. Separate audited financial statements are not issued for Pain Management.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses.

Daviess Community Hospital

A Component Unit of Daviess County, Indiana

Notes to Financial Statements **December 31, 2017 and 2016**

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Investments and Investment Income

Investments in nonnegotiable certificates of deposit are carried at amortized cost. The investment in equity investee is reported on the equity method of accounting. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Daviness Community Hospital

A Component Unit of Daviness County, Indiana

Notes to Financial Statements December 31, 2017 and 2016

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

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

Deferred Outflows of Resources

The Hospital reports the consumption of net position that is applicable to a future period as deferred outflows of resources in a separate section of its balance sheets.

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date. The estimated compensated absences liability is expected to be paid within one year of the balance sheet date, and is therefore included in current liabilities.

Net Position

Net position of the Hospital is classified in three components. Net investment in capital assets, consist of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. The restricted component of net position is noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining assets, less remaining liabilities that do not meet the definition of investment in capital assets, or restricted.

Daviess Community Hospital

A Component Unit of Daviess County, Indiana

Notes to Financial Statements **December 31, 2017 and 2016**

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$673,589 for 2017 and \$676,765 for 2016, respectively. The costs of charity care provided under the Hospital's charity care policy were \$240,178 and \$250,254 for 2017 and 2016, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.]

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. In addition, the Hospital is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

Foundation

Daviess Community Hospital Foundation, Inc. (Foundation) is a legally separate, tax-exempt component unit of the Hospital. The Foundation's primary function is to raise and hold funds to support the Hospital and its programs. The board of the Foundation is self-perpetuating. Separate financial statements of the Foundation may be obtained by contacting its office at 1314 East Walnut Street, Washington, IN 47501.

Daviess Community Hospital

A Component Unit of Daviess County, Indiana

Notes to Financial Statements December 31, 2017 and 2016

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain inpatient nonacute services are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Long-term care services rendered to Medicare program beneficiaries are paid under a prospectively determined payment system on a per diem basis based on each resident's health at admission. Medicare reimburses for 100 days of skilled nursing facility care is subject to certain eligibility requirements.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to the service provided and the patient diagnosis.

Long-term care services rendered to Medicaid program beneficiaries are paid on a per diem basis.

Approximately 67% and 59% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2017 and 2016, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana law and, as such, is eligible to receive supplemental Medicaid payments. The amounts of these supplemental payments are dependent on regulatory approval by agencies of the federal and state governments and is determined by level, extent and cost of uncompensated care and various other factors. Supplemental payments have been made by the State of Indiana, and the Hospital records such amounts as revenue when it has been reasonably determined that the funds will be received. The Hospital recognized approximately \$624,000 within patient service revenue related to this supplemental payment program for each of the years ended December 31, 2017 and 2016. At December 31, 2017 and 2016, \$312,000 and \$936,000 is accrued as a receivable in prepaid expenses and other assets. This represents management's best estimate of DSH funds due to the Hospital, which are typically paid in arrears.

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Notes to Financial Statements
December 31, 2017 and 2016

The Hospital participates in a state-specific provider assessment program to increase Medicaid payments to hospitals. The Hospital paid approximately \$2.8 million and \$2.3 million for 2017 and 2016, respectively, into this Medicaid program, which is recorded as an operating expense in the statements of revenues, expenses and changes in net position. In January 2017, the Hospital received notice that its Medicaid Inpatient Utilization Rate (MIUR) continued to exceed state-wide thresholds, as defined by state regulation. A benefit of having a MIUR exceeding the threshold includes a 25% reduction in the provider assessment fee. The state measures the MIUR no less than every two years and no more than every four years. At each measurement period, the state-defined MIUR changes, which may affect the Hospital. Any changes in the amount of tax dues as a result of eligibility changes will be recorded in the period once the state has made its determination. The provider assessment fee program is subject to further retroactive rate setting by the state of Indiana and its Medicaid program and the amounts expensed represent the current fees that have been assessed to the Hospital, including the 25% benefit.

The long-term care operations of the Hospital qualify for supplemental Medicaid payments through the Upper Payment Limit (UPL) program. The UPL is established to pay qualifying providers the difference between what Medicare would have paid and what Medicaid actually paid. The UPL is distributed through an intergovernmental transfer (IGT) arrangement. The Hospital is responsible for funding the IGT long-term care operations. Revenue associated with the UPL program is recorded net of IGT payments made to the program and are included in other operating revenue. The Hospital recognized approximately \$32,037,000 and \$12,398,000 related to this supplemental payment program for the years ended December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, respectively, approximately \$9,777,000 and \$5,635,000 is accrued and included in prepaid expenses and other assets.

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

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

Deposits with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation (FDIC) or by the Indiana Public Deposit Insurance Fund (IPDIF). This includes any deposit accounts issued or offered by a qualifying financial institution. Accordingly, all deposits in excess of FDIC levels are covered by the IPDIF and are considered collateralized.

Daviness Community Hospital

A Component Unit of Daviness County, Indiana

Notes to Financial Statements December 31, 2017 and 2016

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 and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in certain deposit accounts, mutual funds, repurchase agreements and pooled investment funds as authorized by Indiana Code 16-22-3-20.

At December 31, 2017 and 2016, the Hospital had the following investments and maturities:

		December 31, 2017				
		Maturities in Years				
Type	Fair Value	Less Than 1	1-5	6-10	More Than 10	
Money market mutual funds	\$ 3,340,811	\$ 3,340,811	\$ -	\$ -	\$ -	

		December 31, 2016				
		Maturities in Years				
Type	Fair Value	Less Than 1	1-5	6-10	More Than 10	
Money market mutual funds	\$ 3,297,196	\$ 3,297,196	\$ -	\$ -	\$ -	

Interest Rate Risk - Interest rate risk is the risk that the changes in interest rates will adversely affect the fair value of an investment. The Hospital does not have a formal investment policy for interest rate risk.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Hospital does not have a formal investment policy for credit risk. At December 31, 2017 and 2016, the Hospital's investments were not rated.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Hospital's investment policy does not address how securities underlying repurchase agreements are to be held.

Concentration of Credit Risk - The Hospital places no limit on the amount that may be invested in any one issuer.

Daviess Community Hospital
A Component Unit of Daviess County, Indiana

Notes to Financial Statements
December 31, 2017 and 2016

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	2017	2016
Carrying value:		
Deposits	\$ 27,660,915	\$ 10,311,417
Investments	3,340,811	3,297,196
	\$ 31,001,726	\$ 13,608,613
Included in the following balance sheets captions:		
Cash	\$ 27,316,062	\$ 9,959,228
Noncurrent cash and investments	3,685,664	3,649,385
	\$ 31,001,726	\$ 13,608,613

Nonnegotiable certificates of deposit totaling \$251,744 are included in deposit balances at December 31, 2017 and 2016.

Investment Income

Investment income for the years ended December 31 consisted of:

	2017	2016
Interest and dividend income	\$ 78,442	\$ 71,696

Daviess Community Hospital
A Component Unit of Daviess County, Indiana

Notes to Financial Statements
December 31, 2017 and 2016

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31 consisted of:

	2017	2016
Medicare	\$ 8,622,685	\$ 6,406,154
Medicaid	10,659,378	6,160,799
Other third-party payers	4,694,322	4,240,784
Patients	5,835,550	3,583,645
	29,811,935	20,391,382
Less allowance for uncollectible accounts	(4,881,715)	(2,594,019)
	\$ 24,930,220	\$ 17,797,363

Note 5: Investment in Equity Investee

The investment in equity investee relate to a 51% ownership of Daviess Community Hospital Pain Management, LLC (Pain Management). The Hospital's investment at December 31, 2017 and 2016 was \$36,938 and \$79,626, respectively, and is recorded in other noncurrent assets. The Hospital provides support to the joint venture through labor and supply costs which are billed to Pain Management on a monthly basis. The Hospital also provides billing and collections services for Pain Management and remits patient collections to the joint venture to satisfy operating expenses. Financial positions and results of operations of the investee are summarized below:

	2017	2016
Current and total assets	\$ 135,572	\$ 272,630
Current and total liabilities	63,144	116,501
Members' equity	\$ 72,428	\$ 156,129
Revenues	\$ 347,606	\$ 609,177
Excess of revenues over expenses	\$ 25,024	\$ 198,714

Daviness Community Hospital

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Notes to Financial Statements December 31, 2017 and 2016

Note 7: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 8: Employee Health Claims

Substantially all of the Hospital's employees and their dependents (excluding contract employees through long-term care nursing facility arrangements) are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$90,000 per enrollee. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability, which is included in accrued expenses in the balance sheets, during 2017 and 2016, is summarized as follows:

	2017	2016
Balance, beginning of year	\$ 475,000	\$ 400,000
Current year claims incurred and changes in estimate	3,177,174	3,533,057
Claims and expenses paid	(3,327,114)	(3,458,057)
Balance, end of year	\$ 325,060	\$ 475,000

Note 9: Operating Leases

The Hospital has operating leases for long-term care nursing facilities (see Note 16) and equipment that expire at various dates through 2026. In addition to base monthly rent, certain agreements require the Hospital to pay its proportionate share of excess operating costs associated with the facilities.

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Future minimum lease payments at December 31, 2017 were:

2018	\$ 21,549,166
2019	7,631,066
2020	1,319,643
2021	1,223,808
2022	1,260,522
Thereafter	5,077,080
Future minimum lease payments	\$ 38,061,285

Rental expense for all operating leases amounted to \$22,498,920 and \$12,107,493 for the years ended December 31, 2017 and 2016, respectively.

Note 10: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31:

	2017				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Series 2011 refunding revenue bonds	\$ 16,695,000	\$ -	\$ (955,000)	\$ 15,740,000	\$ 1,000,000
Unamortized bond premium	56,451	-	(4,672)	51,779	-
Capital lease obligations	1,185,196	4,916,677	(909,638)	5,192,235	1,255,080
Total long-term debt	\$ 17,936,647	\$ 4,916,677	\$ (1,869,310)	\$ 20,984,014	\$ 2,255,080
	2016				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Series 2011 refunding revenue bonds	\$ 17,605,000	\$ -	\$ (910,000)	\$ 16,695,000	\$ 955,000
Unamortized bond premium	61,122	-	(4,671)	56,451	-
Capital lease obligations	1,545,102	62,329	(422,235)	1,185,196	394,497
Total long-term debt	\$ 19,211,224	\$ 62,329	\$ (1,336,906)	\$ 17,936,647	\$ 1,349,497

Daviess Community Hospital
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Notes to Financial Statements
December 31, 2017 and 2016

Series 2011 Revenue Refunding Bonds Payable

The Series 2011 revenue refunding bonds payable consist of lease rental revenue bonds (bonds) in the original amount of \$20,135,000 dated May 2011, which bear interest at 3% to 5.25%. Beginning in 2013, the bonds are payable in annual installments through January 15, 2029. The Hospital is required to make monthly deposits to the debt service fund held by the trustee, and interest payments are payable January 15th and July 15th annually. The bonds are secured by the net revenues and accounts receivable of the Hospital and the assets restricted under the bond indenture agreement.

The debt service requirements as of December 31, 2017 are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2018	\$ 1,779,788	\$ 1,000,000	\$ 779,788
2019	1,768,788	1,040,000	728,788
2020	1,770,988	1,090,000	680,988
2021	1,765,813	1,135,000	630,813
2022	1,761,200	1,190,000	571,200
2023-2027	8,783,063	6,960,000	1,823,063
2028-2029	3,501,794	3,325,000	176,794
	<u>\$ 21,131,434</u>	<u>\$ 15,740,000</u>	<u>\$ 5,391,434</u>

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates ranging from 3.42% to 5.00% together with the present value of the future minimum lease payments as of December 31, 2017:

2018	\$ 1,454,089
2019	1,020,610
2020	922,040
2021	734,064
2022	635,805
2023-2027	1,127,000
2028	24,233
Total minimum lease payments	5,917,841
Less amount representing interest	725,606
Present value of future minimum lease payments	\$ 5,192,235

Daviess Community Hospital
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Notes to Financial Statements
December 31, 2017 and 2016

Assets under capital leases at December 31, totaled:

	2017	2016
Machinery and equipment	\$ 6,542,651	\$ 2,066,788
Accumulated depreciation	(1,396,454)	(916,378)
	\$ 5,146,197	\$ 1,150,410

Note 11: Line of Credit

In 2016, the Hospital entered into a \$6,000,000 revolving bank line of credit. The original agreement has been subsequently amended to increase the principal to \$20,000,000 and extend the maturity, which expired in January 2018. At December 31, 2017 and 2016, respectively, there was \$17,472,288 and \$5,928,502 borrowed against this line. The line is collateralized by certain deposit accounts held with the bank. Interest varies with the bank's prime rate less 1.5%, which was 2.895% on December 31, 2017, and is payable monthly. Subsequent to December 31, 2017, the agreement was amended to extend the maturity date to January 2019 and increase the principal available to \$30,000,000.

Note 12: Pension Plan

The Hospital contributes to a defined-contribution 403(b) pension plan covering substantially all employees after one year of service (excluding contract employees through long-term care nursing facility arrangements). Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by a board of governors. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's board of governors. The Hospital will match 50% of the employee's contributions into the plan up to a maximum of 6% contribution by the employee. Employees are 100% vested in their own contributions and are vested on an increasing scale from 0% to 100% over 5 years in Hospital contributions. Hospital contributions aggregated \$326,718 and \$275,633 during 2017 and 2016, respectively.

Daviness Community Hospital

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Notes to Financial Statements December 31, 2017 and 2016

Note 13: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017 and 2016:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Investment by fair value level				
Money market mutual funds	\$ 3,340,811	\$ 3,340,811	\$ -	\$ -
December 31, 2016				
Investment by fair value level				
Money market mutual funds	\$ 3,297,196	\$ 3,297,196	\$ -	\$ -

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Notes to Financial Statements
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Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Hospital does not have any Level 2 or Level 3 assets at December 31, 2017 and 2016.

Note 14: Contingencies

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Daviness Community Hospital

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Notes to Financial Statements December 31, 2017 and 2016

Note 15: Condensed Combining Information

The following tables include condensed combining balance sheet information for the Hospital and its blended component unit as of December 31, 2017 and 2016:

	December 31, 2017		
	Hospital	Foundation	Total
Assets			
Current assets	\$ 66,409,262	\$ 42,412	\$ 66,451,674
Capital assets, net	32,626,401	-	32,626,401
Other assets	5,180,349	344,853	5,525,202
Total assets	<u>104,216,012</u>	<u>387,265</u>	<u>104,603,277</u>
Deferred Outflows of Resources	<u>2,381,421</u>	<u>-</u>	<u>2,381,421</u>
Total assets and deferred outflows of resources	<u>\$ 106,597,433</u>	<u>\$ 387,265</u>	<u>\$ 106,984,698</u>
Liabilities			
Current liabilities	\$ 58,236,679	\$ -	\$ 58,236,679
Noncurrent liabilities	18,728,934	-	18,728,934
Total liabilities	<u>76,965,613</u>	<u>-</u>	<u>76,965,613</u>
Net Position			
Net investment in capital assets	11,642,387	-	11,642,387
Restricted	3,236,331	-	3,236,331
Unrestricted	14,753,102	387,265	15,140,367
Total net position	<u>29,631,820</u>	<u>387,265</u>	<u>30,019,085</u>
Total liabilities and net position	<u>\$ 106,597,433</u>	<u>\$ 387,265</u>	<u>\$ 106,984,698</u>
	December 31, 2016		
	Hospital	Foundation	Total
Assets			
Current assets	\$ 39,709,207	\$ 17,116	\$ 39,726,323
Capital assets, net	28,364,596	-	28,364,596
Other assets	3,609,886	352,189	3,962,075
Total assets	<u>71,683,689</u>	<u>369,305</u>	<u>72,052,994</u>
Deferred Outflows of Resources	<u>2,596,287</u>	<u>-</u>	<u>2,596,287</u>
Total assets and deferred outflows of resources	<u>\$ 74,279,976</u>	<u>\$ 369,305</u>	<u>\$ 74,649,281</u>
Liabilities			
Current liabilities	\$ 34,906,349	\$ -	\$ 34,906,349
Noncurrent liabilities	16,587,150	-	16,587,150
Total liabilities	<u>51,493,499</u>	<u>-</u>	<u>51,493,499</u>
Net Position			
Net investment in capital assets	10,427,949	-	10,427,949
Restricted	3,197,128	-	3,197,128
Unrestricted	9,161,400	369,305	9,530,705
Total net position	<u>22,786,477</u>	<u>369,305</u>	<u>23,155,782</u>
Total liabilities and net position	<u>\$ 74,279,976</u>	<u>\$ 369,305</u>	<u>\$ 74,649,281</u>

Daviness Community Hospital

A Component Unit of Daviness County, Indiana

Notes to Financial Statements December 31, 2017 and 2016

The following tables include condensed combining statements of revenues, expenses and changes in net position information for the Hospital and its blended component unit for the years ended December 31, 2017 and 2016.

	December 31, 2017		
	Hospital	Foundation	Total
Operating Revenue			
Net patient service revenue	\$ 214,054,817	\$ -	\$ 214,054,817
Other operating revenue	34,485,499	-	34,485,499
Total operating revenue	<u>248,540,316</u>	<u>-</u>	<u>248,540,316</u>
Operating Expenses			
Salaries, wages, contract labor and employee benefits	116,297,141	-	116,297,141
Purchased services and professional fees	37,701,130	-	37,701,130
Depreciation and amortization	3,588,170	-	3,588,170
Other operating expenses	82,241,679	67,274	82,308,953
Total operating expenses	<u>239,828,120</u>	<u>67,274</u>	<u>239,895,394</u>
Operating Income (Loss)	<u>8,712,196</u>	<u>(67,274)</u>	<u>8,644,922</u>
Nonoperating Revenue (Expenses)			
Investment return	78,276	166	78,442
Interest expense	(1,363,180)	-	(1,363,180)
Noncapital grants and contributions	-	85,068	85,068
Other	(581,949)	-	(581,949)
	<u>(1,866,853)</u>	<u>85,234</u>	<u>(1,781,619)</u>
Increase in Net Position	<u>\$ 6,845,343</u>	<u>\$ 17,960</u>	<u>\$ 6,863,303</u>
	December 31, 2016		
	Hospital	Foundation	Total
Operating Revenue			
Net patient service revenue	\$ 143,445,639	\$ -	\$ 143,445,639
Other operating revenue	15,434,547	-	15,434,547
Total operating revenue	<u>158,880,186</u>	<u>-</u>	<u>158,880,186</u>
Operating Expenses			
Salaries, wages, contract labor and employee benefits	78,565,667	-	78,565,667
Purchased services and professional fees	19,726,627	-	19,726,627
Depreciation and amortization	3,168,910	-	3,168,910
Other operating expenses	56,928,803	99,842	57,028,645
Total operating expenses	<u>158,390,007</u>	<u>99,842</u>	<u>158,489,849</u>
Operating Income (Loss)	<u>490,179</u>	<u>(99,842)</u>	<u>390,337</u>
Nonoperating Revenue (Expenses)			
Investment return	70,382	1,314	71,696
Interest expense	(1,140,572)	-	(1,140,572)
Noncapital grants and contributions	-	65,815	65,815
Other	184,578	-	184,578
	<u>(885,612)</u>	<u>67,129</u>	<u>(818,483)</u>
Decrease in Net Position	<u>\$ (395,433)</u>	<u>\$ (32,713)</u>	<u>\$ (428,146)</u>

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Notes to Financial Statements
December 31, 2017 and 2016

Note 16: Long-Term Care Operating Leases and Management Agreements

The Hospital has entered into various agreements to lease the facilities and equipment for the operation of thirty-four nursing homes. Along with the lease agreements, the Hospital also entered into management agreements with the facilities' previous managers (Managers) to continue to operate the facilities. The agreements expire at various times through September 2026 and include optional two to three-year extensions. The management agreements include optional termination clauses by either party if material changes in circumstances, as defined in the agreements, occur. The lease agreements include termination clauses where the leases shall automatically end at the termination of the management agreements between the Hospital and Managers.

The lease agreements call for monthly base rent payments as outlined in the agreements. Certain facilities include annual rent increases of 2% to 5%. Rental expense approximated \$11.6 million and \$22.1 million in 2017 and 2016, respectively. See Note 9 for future minimum lease payments, including those due under these lease agreements.

The management agreements include management fees consisting of base management fees, subordinated management fees and incentive management fees. Base and subordinate management fees are determined on percentages of net patient service revenue of the individual facilities and range from 0.5% to 5.0%. Incentive management fees are to be paid only if sufficient working capital exists. The management agreements also call for quality, royalty and capital improvement fees to be paid to the Managers. Management and other fees approximated \$16.1 million and \$4.4 million in 2017 and 2016, respectively, and included fee reductions as insufficient cash flows existed to fund amounts due. Amounts are included in purchased services and professional fees on the statements of revenues, expenses and changes in net position.

Under the management agreements, the employees necessary to operate the facilities are contracted by the Hospital. The majority of all costs in the ordinary course of business are paid by the Managers who are then reimbursed by the Hospital from operations of the facilities. Similarly, Managers of certain facilities have provided working capital to cover insufficient cash flows from operations. Consequently, the majority of accounts payable and accrued expenses of the long-term care operations approximating \$30.8 million and \$18.4 million at December 31, 2017 and 2016, respectively, reflect amounts due to Managers.

The Hospital has executed security agreements with lenders of certain Managers, allowing for a security interest in certain deposit and receivable accounts approximating \$7.8 million and \$1.4 million at December 31, 2017 and 2016.

Note 17: Subsequent Events

Effective April 2, 2018, the Hospital entered into an additional agreement to lease the facilities and equipment for the operation of four nursing homes. The lease and management agreements have similar terms as nursing home arrangements currently in place.

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Notes to Financial Statements
December 31, 2017 and 2016

Note 18: Future Accounting Standards

In fiscal year 2020, the Hospital will implement GASB Statement No. 87, *Leases*. The statement provides a new framework for accounting for leases under the principal that leases are financings and lessees should recognize an intangible asset and a corresponding liability while the lessor will recognize a lease receivable and related deferred inflow of resources. The Hospital has not determined the impact of this new standard on its financial statements, however, it could have a material future impact.

Supplementary Information

Daviess Community Hospital
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Combining Balance Sheet Information
December 31, 2017

Assets and Deferred Outflows of Resources

	2017			
	Hospital	LTC	Hospital Foundation	Total
Current Assets				
Cash	\$ 375,882	\$ 26,897,768	\$ 42,412	\$ 27,316,062
Patient accounts receivable, net of allowance of \$4,881,715	6,548,257	18,381,963	-	24,930,220
Supplies	1,424,962	-	-	1,424,962
Prepaid expenses and other	1,752,599	10,419,659	-	12,172,258
Estimated amounts due from third-party payers	608,172	-	-	608,172
Total current assets	<u>10,709,872</u>	<u>55,699,390</u>	<u>42,412</u>	<u>66,451,674</u>
Noncurrent Cash and Investments				
Internally designated	104,480	-	344,853	449,333
Held by trustee for debt service	3,236,331	-	-	3,236,331
	<u>3,340,811</u>	<u>-</u>	<u>344,853</u>	<u>3,685,664</u>
Capital Assets, net	<u>28,742,053</u>	<u>3,884,348</u>	<u>-</u>	<u>32,626,401</u>
Other Assets	<u>295,927</u>	<u>1,543,611</u>	<u>-</u>	<u>1,839,538</u>
Deferred Outflows of Resources - debt defeasance costs	<u>2,381,421</u>	<u>-</u>	<u>-</u>	<u>2,381,421</u>
Total assets and deferred outflows of resources	<u>\$ 45,470,084</u>	<u>\$ 61,127,349</u>	<u>\$ 387,265</u>	<u>\$ 106,984,698</u>
Liabilities and Net Position				
Current Liabilities				
Current maturities of long-term debt	\$ 2,255,080	\$ -	\$ -	\$ 2,255,080
Line of credit	3,400,000	14,072,288	-	17,472,288
Interest payable	402,394	-	-	402,394
Accounts payable	2,195,481	10,239,648	-	12,435,129
Accrued expenses	6,010,401	19,502,387	-	25,512,788
Estimated amounts due to third-party payers	159,000	-	-	159,000
Total current liabilities	<u>14,422,356</u>	<u>43,814,323</u>	<u>-</u>	<u>58,236,679</u>
Long-Term Debt	<u>18,728,934</u>	<u>-</u>	<u>-</u>	<u>18,728,934</u>
Total liabilities	<u>33,151,290</u>	<u>43,814,323</u>	<u>-</u>	<u>76,965,613</u>
Net Position				
Net investment in capital assets	7,758,039	3,884,348	-	11,642,387
Restricted for debt service	3,236,331	-	-	3,236,331
Unrestricted	1,324,424	13,428,678	387,265	15,140,367
Total net position	<u>12,318,794</u>	<u>17,313,026</u>	<u>387,265</u>	<u>30,019,085</u>
Total liabilities and net position	<u>\$ 45,470,084</u>	<u>\$ 61,127,349</u>	<u>\$ 387,265</u>	<u>\$ 106,984,698</u>

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Combining Balance Sheet Information
December 31, 2016

Assets and Deferred Outflows of Resources

	2016			
	Hospital	LTC	Hospital Foundation	Total
Current Assets				
Cash	\$ 642,920	\$ 9,299,192	\$ 17,116	\$ 9,959,228
Patient accounts receivable, net of allowance of \$2,594,019	6,089,103	11,708,260	-	17,797,363
Supplies	1,315,680	-	-	1,315,680
Prepaid expenses and other	3,017,258	7,094,070	-	10,111,328
Estimated amounts due from third-party payers	542,724	-	-	542,724
Total current assets	<u>11,607,685</u>	<u>28,101,522</u>	<u>17,116</u>	<u>39,726,323</u>
Noncurrent Cash and Investments				
Internally designated	100,068	-	352,189	452,257
Held by trustee for debt service	3,197,128	-	-	3,197,128
	<u>3,297,196</u>	<u>-</u>	<u>352,189</u>	<u>3,649,385</u>
Capital Assets, net	<u>26,879,289</u>	<u>1,485,307</u>	<u>-</u>	<u>28,364,596</u>
Other Assets	<u>312,690</u>	<u>-</u>	<u>-</u>	<u>312,690</u>
Deferred Outflows of Resources - debt defeasance costs	<u>2,596,287</u>	<u>-</u>	<u>-</u>	<u>2,596,287</u>
Total assets and deferred outflows of resources	<u>\$ 44,693,147</u>	<u>\$ 29,586,829</u>	<u>\$ 369,305</u>	<u>\$ 74,649,281</u>

Liabilities and Net Position

Current Liabilities				
Current maturities of long-term debt	\$ 1,349,497	\$ -	\$ -	\$ 1,349,497
Line of credit	1,900,000	4,028,502	-	5,928,502
Interest payable	417,912	-	-	417,912
Accounts payable	3,450,452	5,885,080	-	9,335,532
Accrued expenses	4,738,191	12,507,698	-	17,245,889
Estimated amounts due to third-party payers	629,017	-	-	629,017
Total current liabilities	<u>12,485,069</u>	<u>22,421,280</u>	<u>-</u>	<u>34,906,349</u>
Long-Term Debt	<u>16,587,150</u>	<u>-</u>	<u>-</u>	<u>16,587,150</u>
Total liabilities	<u>29,072,219</u>	<u>22,421,280</u>	<u>-</u>	<u>51,493,499</u>
Net Position				
Net investment in capital assets	8,942,642	1,485,307	-	10,427,949
Restricted for debt service	3,197,128	-	-	3,197,128
Unrestricted	3,481,158	5,680,242	369,305	9,530,705
Total net position	<u>15,620,928</u>	<u>7,165,549</u>	<u>369,305</u>	<u>23,155,782</u>
Total liabilities and net position	<u>\$ 44,693,147</u>	<u>\$ 29,586,829</u>	<u>\$ 369,305</u>	<u>\$ 74,649,281</u>

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Combining Statement of Revenues, Expenses and
Changes in Net Position Information
Year Ended December 31, 2017

	2017			Total
	Hospital	LTC	Hospital Foundation	
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts of \$5,929,531	\$ 53,887,537	\$ 160,167,280	\$ -	\$ 214,054,817
Other	948,685	33,536,814	-	34,485,499
Total operating revenues	<u>54,836,222</u>	<u>193,704,094</u>	<u>-</u>	<u>248,540,316</u>
Operating Expenses				
Salaries, wages and contract labor	24,243,385	73,256,856	-	97,500,241
Employee benefits	5,533,992	13,262,908	-	18,796,900
Purchased services and professional fees	9,221,201	28,479,929	-	37,701,130
Supplies	7,100,463	13,788,847	-	20,889,310
Insurance	481,069	2,022,801	-	2,503,870
Utilities	995,881	4,491,947	-	5,487,828
Rent	366,467	22,132,453	-	22,498,920
Repairs and maintenance	3,217,693	2,089,050	-	5,306,743
Provider hospital assessment fee	2,808,515	-	-	2,808,515
Depreciation and amortization	3,273,961	314,209	-	3,588,170
Other	1,776,724	20,969,769	67,274	22,813,767
Total operating expenses	<u>59,019,351</u>	<u>180,808,769</u>	<u>67,274</u>	<u>239,895,394</u>
Operating Income (Loss)	<u>(4,183,129)</u>	<u>12,895,325</u>	<u>(67,274)</u>	<u>8,644,922</u>
Nonoperating Revenues (Expenses)				
Investment income	78,276	-	166	78,442
Interest expense	(1,363,180)	-	-	(1,363,180)
Noncapital grants and contributions	-	-	85,068	85,068
Other	(581,949)	-	-	(581,949)
Total nonoperating revenues (expenses)	<u>(1,866,853)</u>	<u>-</u>	<u>85,234</u>	<u>(1,781,619)</u>
Excess (Deficiency) of Revenues Over Expenses Before Transfers	<u>(6,049,982)</u>	<u>12,895,325</u>	<u>17,960</u>	<u>6,863,303</u>
Transfers	<u>2,747,848</u>	<u>(2,747,848)</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	<u>(3,302,134)</u>	<u>10,147,477</u>	<u>17,960</u>	<u>6,863,303</u>
Net Position, Beginning of Year	<u>15,620,928</u>	<u>7,165,549</u>	<u>369,305</u>	<u>23,155,782</u>
Net Position, End of Year	<u>\$ 12,318,794</u>	<u>\$ 17,313,026</u>	<u>\$ 387,265</u>	<u>\$ 30,019,085</u>

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Combining Statement of Revenues, Expenses and
Changes in Net Position Information
Year Ended December 31, 2016

	2016			
	Hospital	LTC	Hospital Foundation	Total
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts of \$3,740,365	\$ 53,130,449	\$ 90,315,190	\$ -	\$ 143,445,639
Other	916,405	14,518,142	-	15,434,547
Total operating revenues	<u>54,046,854</u>	<u>104,833,332</u>	<u>-</u>	<u>158,880,186</u>
Operating Expenses				
Salaries and wages	24,761,806	40,214,216	-	64,976,022
Employee benefits	6,037,174	7,552,471	-	13,589,645
Purchased services and professional fees	9,862,456	9,864,171	-	19,726,627
Supplies	6,407,639	8,677,876	-	15,085,515
Insurance	389,814	878,887	-	1,268,701
Utilities	932,115	2,324,103	-	3,256,218
Rent	356,810	11,750,683	-	12,107,493
Repairs and maintenance	3,180,667	960,821	-	4,141,488
Provider hospital assessment fee	2,277,328	-	-	2,277,328
Depreciation and amortization	3,030,479	138,431	-	3,168,910
Other	1,834,761	16,957,299	99,842	18,891,902
Total operating expenses	<u>59,071,049</u>	<u>99,318,958</u>	<u>99,842</u>	<u>158,489,849</u>
Operating Income (Loss)	<u>(5,024,195)</u>	<u>5,514,374</u>	<u>(99,842)</u>	<u>390,337</u>
Nonoperating Revenues (Expenses)				
Investment income	70,382	-	1,314	71,696
Interest expense	(1,140,572)	-	-	(1,140,572)
Noncapital grants and contributions	-	-	65,815	65,815
Other	184,578	-	-	184,578
Total nonoperating revenues (expenses)	<u>(885,612)</u>	<u>-</u>	<u>67,129</u>	<u>(818,483)</u>
Excess (Deficiency) of Revenues Over Expenses Before Transfers	<u>(5,909,807)</u>	<u>5,514,374</u>	<u>(32,713)</u>	<u>(428,146)</u>
Transfers	<u>1,297,596</u>	<u>(1,297,596)</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	<u>(4,612,211)</u>	<u>4,216,778</u>	<u>(32,713)</u>	<u>(428,146)</u>
Net Position, Beginning of Year	<u>20,233,139</u>	<u>2,948,771</u>	<u>402,018</u>	<u>23,583,928</u>
Net Position, End of Year	<u>\$ 15,620,928</u>	<u>\$ 7,165,549</u>	<u>\$ 369,305</u>	<u>\$ 23,155,782</u>

**Report 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***

Independent Auditor's Report

Board of Governors
Daviess Community Hospital
Washington, Indiana

We have audited, 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, the financial statements of Daviess Community Hospital (Hospital), a component unit of Daviess County, Indiana, which comprise the balance sheet as of December 31, 2017, 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 September 4, 2018.

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) to determine the 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Hospital'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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2017-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of 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 determination of financial statement amounts. 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*.

Managements' Response to Findings

The Hospital's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Hospital's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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 or 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.

BKD, LLP

Indianapolis, Indiana
September 4, 2018

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Schedule of Findings and Responses
Year Ended December 31, 2017

Reference Number	Finding
2017-001	<p>Criteria or Specific Requirement: Internal Control Over Financial Reporting</p> <p>Condition: The Hospital did not timely receive or review periodic financial reporting of the nursing home operations as prepared by the third-party managers.</p> <p>Context: Routine monitoring of the operations of the nursing homes is imperative to ensure that the Hospital is exercising its fiduciary and regulatory responsibility.</p> <p>Effect: Potential misstatements in the financial statements could occur and not be detected and/or corrected in a timely manner.</p> <p>Cause: While financial statements were prepared and monitored by the third-party managers, they were not routinely or timely provided to Hospital management for consolidation into Hospital financial statements. Adjustments were required to information provided by third-party managers to appropriately reflect the operations of the nursing homes.</p> <p>Recommendation: We recommend that the Hospital obtain and review periodic financial statements of each of the nursing homes and review internal calculations of amounts due under management agreements. Financial information should be included in Hospital financial statements on a routine basis.</p> <p>Views of Responsible Officials and Planned Corrective Action: We concur. Management continues to evaluate current controls related to accounting for the nursing home operations to ensure that transactions are accounted for properly and in a timely manner.</p>

TAB 2



Daviness
Community
Hospital

September 4, 2018

BKD, LLP
Certified Public Accountants
201 N. Illinois Street, Suite 700
Indianapolis, IN 46204

We are providing this letter in connection with your audits of our financial statements as of and for the years ended December 31, 2017 and 2016. We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated December 28, 2017, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
2. We acknowledge our responsibility 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.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.

5. We have provided you with:
 - (a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.
 - (b) Additional information that you have requested from us for the purpose of the audit.
 - (c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - (d) All minutes of meetings of the governing body held through the date of this letter.
 - (e) All significant contracts and grants.
 - (f) All peer review organizations, fiscal intermediary and third-party payer reports and information.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. We have informed you of all current risks of a material amount that are not adequately prevented or detected by entity procedures with respect to:
 - (a) Misappropriation of assets.
 - (b) Misrepresented or misstated assets, liabilities or net position.
8. We believe the effects of the uncorrected financial statement misstatement summarized in the attached schedule is immaterial to the financial statements taken as a whole.
9. We have no knowledge of any known or suspected:
 - (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.
 - (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.
 - (c) Communications from regulatory agencies, governmental representatives, employees or others concerning investigations or allegations of noncompliance with laws and regulations, deficiencies in financial reporting practices or other matters that could have a material adverse effect on the financial statements.

10. We have no knowledge of any allegations of fraud or suspected fraud affecting the Hospital received in communications from employees, customers, regulators, suppliers or others.
11. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand that the term related party refers to an affiliate; principal owners, management, and members of their immediate families, subsidiaries accounted for by the equity method; and any other party with which the Hospital may deal if the Hospital can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with the Hospital.
12. Except as reflected in the financial statements, there are no:
 - (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.
 - (b) Material transactions omitted or improperly recorded in the financial statements.
 - (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.
 - (d) Events occurring subsequent to the balance sheet date through the date of this letter requiring adjustment or disclosure in the financial statements.
 - (e) Agreements to purchase assets previously sold.
 - (f) Restrictions on cash balances or compensating balance agreements.
 - (g) Guarantees, whether written or oral, under which the Hospital is contingently liable.
13. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
14. We have no reason to believe the Hospital owes any penalties or payments under the Employer Shared Responsibility Provisions of the Patient Protection and Affordable Care Act nor have we received any correspondence from the IRS or other agencies indicating such payments may be due.

15. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.
16. We have informed you of all pending or completed investigations by regulatory authorities of which we are aware. There are no known circumstances that could jeopardize the Hospital's participation in the Medicare or other governmental health care programs.
17. Adequate provisions and allowances have been accrued for any material losses from:
 - (a) Uncollectible receivables.
 - (b) Medicare/Medicaid and other third-party payer contractual, audit or other adjustments.
 - (c) Purchase commitments in excess of normal requirements or above prevailing market prices.
18. Except as disclosed in the financial statements, the Hospital has:
 - (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.
 - (b) Complied with all aspects of contractual agreements, for which noncompliance would materially affect the financial statements.
19. With respect to the Hospital's possible exposure to past or future medical malpractice assertions:
 - (a) We have disclosed to you all incidents known to us that could possibly give rise to an assertion of malpractice.
 - (b) All known incidents have been reported to the appropriate medical malpractice insurer and are appropriately considered in our malpractice liability accrual.
 - (c) There is no known lapse in coverage, including any lapse subsequent to the fiscal year-end, that would result in any known incidents being uninsured.
 - (d) Management does not expect any claims to exceed malpractice insurance limits.

20. With regard to deposit and investment activities:
 - (a) All deposit, repurchase and reverse repurchase agreements and investment transactions have been made in accordance with legal and contractual requirements.
 - (b) Disclosures of deposit and investment balances and risks in the financial statements are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.
 - (c) We understand that your audit does not represent an opinion regarding the enforceability of any collateral pledges.

21. With respect to any nonattest services you have provided us during the year, including preparing a draft of the financial statements, preparation of the annual Medicare and Medicaid cost reports, and financial analysis performed for potential long-term care transactions:
 - (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.
 - (b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.
 - (c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.
 - (d) We have evaluated the adequacy of the services performed and any findings that resulted.

22. As an essential function of the county, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code. The Foundation is also exempt from income tax under Section 501(c) of the Internal Revenue Code and a similar provision of state law and, except as disclosed in financial statements, there are no activities that would jeopardize our tax-exempt status or subject us to income tax on unrelated business income or excise tax on prohibited transactions and events.

23. We further acknowledge the Hospital's exemption under Section 501(c) is subject to additional operating requirements under Section 501(r). As such, we made publicly available a community health needs assessment performed in accordance with IRS requirements, and the Hospital's Board of Trustees subsequently approved an implementation strategy to address needs identified in the assessment. The Hospital is also in compliance with certain requirements dealing

with financial assistance, billing and collection practices and limitations on charges for uninsured patients that meet our financial assistance requirements.

24. We acknowledge that we are responsible for compliance with applicable laws, regulations and provisions of contracts and grant agreements.
25. We have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that have a direct and material effect on the determination of amounts in our financial statements or other financial data significant to the audit objectives.
26. We have identified and disclosed to you any violations or possible violations of laws, regulations and provisions of contracts and grant agreements whose effects should be considered for recognition and/or disclosure in the financial statements or for your reporting on noncompliance.
27. We have taken or will take timely and appropriate steps to remedy any fraud, abuse, illegal acts or violations of provisions of contracts or grant agreements that you or other auditors report.
28. We have a process to track the status of audit findings and recommendations.
29. We have identified to you any previous financial audits, attestation engagements, performance audits or other studies related to the objectives of your audit and the corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other studies.
30. We have provided our views on any findings, conclusions and recommendations, as well as our planned corrective actions with respect thereto, to you for inclusion in the findings and recommendations referred to in your report on internal control over financial reporting and on compliance and other matters based on your audit of the financial statements performed in accordance with *Government Auditing Standards*.
31. The supplementary information required by the Governmental Accounting Standards Board, consisting of management's discussion and analysis, has been prepared and is measured and presented in conformity with the applicable GASB pronouncements, and we acknowledge our responsibility for the information. The information contained therein is based on all facts, decisions and conditions currently known to us and is measured using the same methods and assumptions as were used in the preparation of the financial statements. We believe the significant assumptions underlying the measurement and/or presentation of the information are reasonable and appropriate. There has been no change from the preceding period in the methods of measurement and presentation.
32. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the balance

sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

33. The fair values of financial assets, if any, recognized in the financial statements or disclosed in the notes thereto are reasonable estimates based on the methods and assumptions used. The methods and significant assumptions used result in measurements of fair value appropriate for financial statement recognition and disclosure purposes and have been applied consistently from period to period, taking into account any changes in circumstances. The significant assumptions appropriately reflect market participant assumptions.
34. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.
35. We have notified you of any instances of noncompliance with applicable disclosure requirements of the SEC Rule 15c2-12 and applicable state laws.
36. Billings to third-party payers comply in all material respects with applicable coding guidelines, laws and regulations. Billings reflect only charges for goods and services that were medically necessary; properly approved by regulatory bodies, if required; and properly rendered.
37. With regard to cost reports filed with Medicare, Medicaid or other third parties:
 - (a) All required reports have been properly filed.
 - (b) Management is responsible for the accuracy and propriety of those reports.
 - (c) All costs reflected on such reports are appropriate and allowable under Applicable reimbursement rules and regulations and are patient-related and properly allocated to applicable payers.
 - (d) The reimbursement methodologies and principles employed are in accordance with applicable rules and regulations.
 - (e) All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report.
 - (f) Recorded allowances for third-party settlements are necessary and are based on historical experience or new or ambiguous regulations that may be subject to differing interpretations.

38. Working capital reserve contributions (or similar defined terms) used in the calculation of management fees and potential fee reduction as outlined in long-term care facility management agreements are in-line with amounts transferred to managers to provide for working capital of the facility.
39. Where calculated fees exceed incentive fee caps as outlined in respective long-term care facility management agreements, we agree that additional fees are warranted and will modify terms of agreements with respective managers.
40. With regard to supplementary information:
 - (a) We acknowledge our responsibility for the presentation of the supplementary information in accordance with the applicable criteria.
 - (b) We believe the supplementary information is fairly presented, both in form and content, in accordance with the applicable criteria.
 - (c) The methods of measurement and presentation of the supplementary information are unchanged from those used in the prior period.
 - (d) We believe the significant assumptions or interpretations underlying the measurement and/or presentation of the supplementary information are reasonable and appropriate.
 - (e) If the supplementary information is not presented with the audited financial statements, we acknowledge we will make the audited financial statements readily available to intended users of the supplementary information no later than the date such information and the related auditor's report are issued.


Tracy Conroy, Chief Executive Officer


Randy Russell, Chief Financial Officer

Davies Community Hospital

ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	66,451,674	(500,000)	65,951,674	-0.75%
Non-Current Assets & Deferred Outflows of Resources	40,533,024		40,533,024	
Current Liabilities	(58,236,679)	500,000	(57,736,679)	-0.86%
Non-Current Liabilities	(18,728,934)		(18,728,934)	
Current Ratio	1.141		1.142	0.09%
Total Assets & Deferred Outflows of Resources	106,984,698	(500,000)	106,484,698	-0.47%
Total Liabilities	(76,965,613)	500,000	(76,465,613)	-0.65%
Total Net Position	(30,019,085)		(30,019,085)	
Operating Revenues	(248,540,316)	500,000	(248,040,316)	-0.20%
Operating Expenses	239,895,394	(500,000)	239,395,394	-0.21%
Nonoperating (Revenues) Exp	1,781,619		1,781,619	
Change in Net Position	(6,863,303)		(6,863,303)	

Client: Daviess Community Hospital
Period Ending: December 31, 2017

Major Enterprise Fund
SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

Description	Financial Statement Line Item	Factual (F), Judgmental (J), Projected (P)	Assets & Deferred Outflows		Liabilities & Deferred Inflows		Operating				Net Effect on Following Year			
			Current		Non-Current		Revenues		Expenses		Nonoperating (Revenues) Exp		Net Position	
			DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)
Premier - additional reserve in patient receivables and corresponding fee reduction in management fees		J	(500,000)	0	500,000	0	500,000	(500,000)	0	0	0	0	0	0
	Net patient service revenue						500,000							
	Patient accounts receivable		(500,000)											
	Purchased services and professional fees				500,000			(500,000)						
	Accrued expenses													
			0	0	0	0	0	0	0	0	0	0	0	0
			0	0	0	0	0	0	0	0	0	0	0	0
			0	0	0	0	0	0	0	0	0	0	0	0
			0	0	0	0	0	0	0	0	0	0	0	0
			0	0	0	0	0	0	0	0	0	0	0	0
			0	0	0	0	0	0	0	0	0	0	0	0
Total passed adjustments			<u>(500,000)</u>	<u>0</u>	<u>500,000</u>	<u>0</u>	<u>500,000</u>	<u>(500,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Impact on Change in Net Position											0			
Impact on Net Position											0			