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January 27, 2022

Board of Governors
Daviss Community Hospital
1314 E. Walnut Street
Washington, IN 47501

We have reviewed the audit report of Daviess Community Hospital, which was opined upon by BKD, LLP, Independent Public Accountants, for the period January 1, 2020 to December 31, 2020. Per the *Independent Auditor's Report*, the financial statements included in the report present fairly the financial condition of Daviess Community Hospital, as of December 31, 2020, and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the finding in the report on page 42. The Hospital's response to the finding is included in the Views of Responsible Officials section of the finding.

In our opinion, BKD, LLP, prepared the audit report in accordance with the guidelines established by the State Board of Accounts.

The audit report is filed with this letter in our office as a matter of public record.

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA
State Examiner

Daviess Community Hospital
A Component Unit of Daviess County, Indiana

Independent Auditor's Report and Financial Statements

December 31, 2020 and 2019

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
December 31, 2020 and 2019

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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, 2020 and 2019, 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 Daviess Community Hospital as of December 31, 2020 and 2019, and the changes in its financial position and 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 as 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 audit 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 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining schedules are the responsibility of management and were 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 audit 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 combining schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated December 17, 2021, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. 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
December 17, 2021

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Management's Discussion and Analysis
December 31, 2020 and 2019

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, 2020 and 2019. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and investments increased in 2020 by \$11,099,786 or 27.0% and increased in 2019 by \$1,513,513 or 3.8%.
- The Hospital's net position increased in 2020 by \$12,609,783 or 26.4% and increased in 2019 by \$8,245,900 or 20.9%.
- The Hospital reported an operating loss of \$12,311,554 in 2020 and operating income of \$9,335,340 in 2019. The operating results in 2020 decreased by \$21,646,894 or 231.9% over the operating income reported in 2019. The operating results in 2019 decreased by \$1,341,218 or 12.6% over the operating income reported in 2018.
- Net nonoperating revenues/expenses improved by \$26,010,777 or 2,387.5% in 2020 compared to the improvement of \$131,220 or 10.7% in 2019.

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 four 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 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 \$12,609,783 or 26.4% in 2020 over 2019 compared to the \$8,245,900 or 20.9% increase in 2019 over 2018, as shown in Table 1.

	2020	2019	2018
Assets and Deferred Outflows of Resources			
Patient accounts receivable, net	\$ 29,825,004	\$ 26,852,729	\$ 26,743,276
Other current assets	72,352,931	55,877,975	54,612,978
Capital assets, net	34,035,789	33,815,853	32,398,393
Other noncurrent assets and deferred outflows of resources	7,661,105	7,988,687	7,544,584
	<u>\$ 143,874,829</u>	<u>\$ 124,535,244</u>	<u>\$ 121,299,231</u>
Liabilities			
Long-term debt (including current portion)	\$ 13,513,104	\$ 16,819,599	\$ 19,285,287
Other current liabilities	66,834,529	59,994,762	62,538,961
Other long-term liabilities	3,196,530	-	-
Total liabilities	<u>83,544,163</u>	<u>76,814,361</u>	<u>81,824,248</u>
Net Position			
Net investment in capital assets	22,329,392	18,947,945	15,279,662
Restricted for debt service	1,633,881	3,298,678	3,263,070
Unrestricted	36,367,393	25,474,260	20,932,251
Total net position	<u>60,330,666</u>	<u>47,720,883</u>	<u>39,474,983</u>
Total liabilities and net position	<u>\$ 143,874,829</u>	<u>\$ 124,535,244</u>	<u>\$ 121,299,231</u>

An increase in assets during 2020 was caused mainly by the increase in cash and estimated amounts due from third-party payors, which increased by \$12,835,457 (34.3%) and \$4,967,573 (8,279.3%), respectively, in 2020 compared to 2019. Cash increases were attributed to federal stimulus funding received. The increase in estimated amounts due from third-party payors was a result of Medicare claim withholdings which were withheld inappropriately during the fiscal year and repaid to the Hospital subsequent to year-end. A significant change in assets during 2019 was the increase in cash and capital, net, which increased by \$1,461,489 (4.1%) and \$1,417,460 (4.4%) in 2019 compared to 2018.

Operating Results and Changes in the Hospital's Net Position

In 2020, the Hospital's net position increased by \$12,609,783 or 26.4% as shown in Table 2. This increase is made up of several components and represents an increase of 52.9% compared with the increase in net position for 2019 of \$8,245,900 or 20.9%. Of note, during 2020 and 2019, the Hospital recognized revenue approximating \$46.6 million and \$39.5 million, respectively, related to its participation in the Indiana Medicaid Upper Payment Limit (UPL) program with its nursing home operations. These amounts are recorded in other operating revenues.

Table 2: Operating Results and Changes in Net Position

	2020	2019	2018
Operating Revenues			
Net patient service revenue	\$ 251,183,495	\$ 255,617,059	\$ 249,385,280
Other operating revenues	48,307,529	43,580,071	42,376,726
Total operating revenues	<u>299,491,024</u>	<u>299,197,130</u>	<u>291,762,006</u>
Operating Expenses			
Salaries, wages, contract labor and employee benefits	138,588,323	138,995,062	136,430,541
Purchased services and professional fees	71,406,068	53,061,919	47,117,555
Depreciation and amortization	4,097,664	3,965,823	3,636,475
Provider hospital assessment fee	3,728,061	4,226,588	3,450,469
Other operating expenses	93,982,462	89,612,398	90,450,408
Total operating expenses	<u>311,802,578</u>	<u>289,861,790</u>	<u>281,085,448</u>
Operating Income (Loss)	<u>(12,311,554)</u>	<u>9,335,340</u>	<u>10,676,558</u>
Nonoperating Revenues (Expenses)			
Investment income	133,010	154,245	127,433
Interest expense	(1,038,321)	(1,455,495)	(1,513,964)
Noncapital grants and contributions	25,728,997	241,084	126,878
Other nonoperating revenues and expenses, net	97,651	(29,274)	38,993
Total nonoperating revenues (expenses)	<u>24,921,337</u>	<u>(1,089,440)</u>	<u>(1,220,660)</u>
Increase in Net Position	<u>\$ 12,609,783</u>	<u>\$ 8,245,900</u>	<u>\$ 9,455,898</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 the current year, the Hospital reported an operating loss as a result of the operational and financial impact of the COVID-19 pandemic. In each of the two preceding years, the Hospital has reported improved operating results, with an operating income each year.

Operating results for 2020 decreased by \$21,646,894 or 231.9% as compared to operating income of \$9,335,340 recognized in 2019. The primary changes that led to the decrease in operating results are:

- A decrease in net patient service revenue of approximately \$4.4 million or 1.7%.
- An increase in purchased services and professional fees of approximately \$18.3 million or 34.6%.
- An increase in all other operating expenses of approximately \$3.6 million or 1.5%.

The change in net patient service revenue in 2020 was largely driven by changes in Hospital and nursing home volumes as a result of the ongoing COVID-19 pandemic along with the closure of several nursing homes mid-year. Net patient service revenue increased during 2019 as a result of improvements in Hospital volumes and additional revenues from new long-term care facilities. Increases in other operating revenues in 2020 and 2019 are attributed to UPL revenue approximating \$46.6 and \$39.5 million, respectively, recognized with the changes in nursing home operations and Medicaid volumes.

Total operating expenses increased in 2020 and 2019 as a result of the leases related to long-term care facilities during the year and other operational changes, including the impact of the COVID-19 pandemic. Salaries, wages, contract labor and employee benefits decreased approximately \$407,000 or 0.3% in 2020 while purchased services and professional fees increased approximately \$18.3 million or 34.6%. Salaries, wages, contract labor and employee benefits increased approximately \$2.6 million or 1.9% in 2019 while purchased services and professional fees increased approximately \$5.9 million or 12.6%.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income, interest expense, noncapital grants and contributions, and gains/losses on disposal of capital assets. The main increase in nonoperating revenues was an increase in noncapital grants and contributions approximating \$25.7 million related to provider relief funding as authorized in the *Coronavirus Aid, Relief and Economic Security Act* (CARES Act) made available to prepare, prevent and respond to the impact of the COVID-19 pandemic. Interest expense decreased by approximately \$417,000 in 2020 as a result of debt repayments and a refinancing of the Hospital's outstanding revenue bonds. Interest expense decreased by approximately \$58,000 or 3.9% in 2019.

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 2020 and 2019, discussed earlier. Changes in operating results led to a decrease in cash used in or provided by operating activities approximating \$18.6 million and \$2.7 million in 2020 and 2019, respectively. Cash provided by noncapital financing activities increased by approximately \$27.6 million as a result of provider relief funding in 2020. Cash used in capital and related financing activities remained relatively stable in 2020 compared to 2019 as a result of debt borrowings, repayments and purchases of capital assets.

Capital Asset and Debt Administration

Capital Assets

At the end of 2020 and 2019, the Hospital had \$34,035,789 and \$33,815,853 invested in capital assets, net of accumulated depreciation, respectively, as detailed in Note 5 to the financial statements. The Hospital purchased new capital assets costing approximately \$4.6 million in 2020 and \$6.1 million in 2019.

Debt

At December 31, 2020, the Hospital had \$11,235,435 in revenue bonds outstanding compared to \$13,700,000 at December 31, 2019. During 2020, the Hospital refinanced its revenue bonds through an advance refunding. The Hospital's formal revenue bonds are subject to limitations imposed by state law. See Note 9 to the financial statements for more information regarding long-term debt.

Line of Credit

The Hospital has a \$30 million revolving bank line of credit (see Note 10). There was \$18,217,896 and \$21,583,238 borrowed against this line at December 31, 2020 and 2019, respectively. 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 1.75% on December 31, 2020, and is payable monthly.

Other Economic Factors

Management believes the health care industry's and Hospital's operating results will continue to be under pressure due to changes in payor mix and growth in operating expenses. The ongoing challenge facing the Hospital is to continue to provide quality patient care in a competitive environment, and to attain reasonable rates for services provided while managing costs.

Additionally, uncertainty and business disruption surrounding the outbreak of COVID-19 in 2020 will impact the operations of the Hospital. The economic impact, contingent on the overall impact of the outbreak, may negatively impact the Hospital's payor and service mix and overall operating expenses.

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.

Davieess Community Hospital

A Component Unit of Davieess County, Indiana

Balance Sheets December 31, 2020 and 2019

Assets and Deferred Outflows of Resources

	2020	2019
Current Assets		
Cash	\$ 50,254,690	\$ 37,419,233
Patient accounts receivable, net of allowance of \$5,297,715 and \$7,235,521 for 2020 and 2019, respectively	29,825,004	26,852,729
Supplies	1,804,357	1,656,796
Prepaid expenses and other	15,266,311	16,741,946
Estimated amounts due from third-party payors	5,027,573	60,000
Total current assets	102,177,935	82,730,704
Noncurrent Cash and Investments		
Internally designated	397,681	468,555
Held by trustee for debt service	1,633,881	3,298,678
	2,031,562	3,767,233
Capital Assets, net	34,035,789	33,815,853
Other Assets	3,822,836	2,269,763
Deferred Outflows of Resources - debt defeasance costs	1,806,707	1,951,691
Total assets and deferred outflows of resources	\$ 143,874,829	\$ 124,535,244

Liabilities and Net Position

Current Liabilities		
Current maturities of long-term debt	\$ 644,234	\$ 1,889,481
Line of credit	18,217,896	21,583,238
Accounts payable and accrued expenses	33,235,742	38,102,749
Unearned grant revenue	4,156,716	-
Medicare advance payments	10,870,637	-
Estimated amounts due to third-party payors	353,538	308,775
Total current liabilities	67,478,763	61,884,243
Long-Term Debt		
Long-term obligations	12,868,870	14,930,118
Long-term portion of Medicare advance payments	3,196,530	-
Total noncurrent liabilities	16,065,400	14,930,118
Total liabilities	83,544,163	76,814,361
Net Position		
Net investment in capital assets	22,329,392	18,947,945
Restricted for debt service	1,633,881	3,298,678
Unrestricted	36,367,393	25,474,260
Total net position	60,330,666	47,720,883
Total liabilities and net position	\$ 143,874,829	\$ 124,535,244

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2020 and 2019

	2020	2019
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts of \$6,268,585 and \$8,472,800 for 2020 and 2019, respectively	\$ 251,183,495	\$ 255,617,059
Other	48,307,529	43,580,071
Total operating revenues	299,491,024	299,197,130
Operating Expenses		
Salaries, wages and contract labor	116,694,961	118,050,610
Employee benefits	21,893,362	20,944,452
Purchased services and professional fees	71,406,068	53,061,919
Supplies	22,377,272	21,692,651
Insurance	3,176,344	3,556,954
Utilities	6,485,892	6,873,280
Rent	28,281,275	26,465,412
Repairs and maintenance	6,841,888	7,062,073
Provider hospital assessment fee	3,728,061	4,226,588
Depreciation and amortization	4,097,664	3,965,823
Other	26,819,791	23,962,028
Total operating expenses	311,802,578	289,861,790
Operating Income (Loss)	(12,311,554)	9,335,340
Nonoperating Revenues (Expenses)		
Investment income	133,010	154,245
Interest expense	(1,038,321)	(1,455,495)
Noncapital grants and contributions	25,728,997	241,084
Other	97,651	(29,274)
Total nonoperating revenues (expenses)	24,921,337	(1,089,440)
Increase in Net Position	12,609,783	8,245,900
Net Position, Beginning of Year	47,720,883	39,474,983
Net Position, End of Year	\$ 60,330,666	\$ 47,720,883

Daviess Community Hospital
A Component Unit of Daviess County, Indiana

Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
Operating Activities		
Receipts from and on behalf of patients	\$ 302,895,469	\$ 296,475,865
Payments to suppliers and contractors	(142,181,693)	(121,351,657)
Payments to employees and contract labor	(138,253,716)	(138,917,859)
Other payments, net	(28,924,973)	(24,086,450)
Net cash (used in) provided by operating activities	(6,464,913)	12,119,899
Noncapital Financing Activities		
Noncapital grants and contributions	29,885,713	241,084
Borrowings on line of credit	18,217,896	21,583,238
Repayments on line of credit	(21,583,238)	(22,855,972)
Net cash provided by (used in) noncapital financing activities	26,520,371	(1,031,650)
Capital and Related Financing Activities		
Principal paid on capital leases	(799,494)	(1,421,017)
Principal paid on 2011 refunding revenue bonds	(1,090,000)	(1,040,000)
Advance refunding of 2011 refunding revenue bonds	(12,939,594)	-
Proceeds from 2020 refunding revenue bonds	11,235,435	-
Finance costs paid	(219,870)	-
Interest paid on long-term debt and capital leases	(737,703)	(1,245,301)
Purchase of capital assets	(4,645,609)	(6,048,564)
Net cash used in capital and related financing activities	(9,196,835)	(9,754,882)
Investing Activities		
Interest and dividends on investments	133,010	154,245
Purchase of investments	(1,633,877)	(51,744)
Proceeds from the sale of investments	3,294,613	-
Other investing activities	108,153	25,901
Net cash provided by investing activities	1,901,899	128,402
Increase in Cash	12,760,522	1,461,769
Cash, Beginning of Year	37,512,791	36,051,022
Cash, End of Year	\$ 50,273,313	\$ 37,512,791
Reconciliation of Cash to the Balance Sheets		
Cash	\$ 50,254,690	\$ 37,419,233
Noncurrent cash and investments - internally designated	18,623	93,558
	\$ 50,273,313	\$ 37,512,791

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Statements of Cash Flows (Continued)
Years Ended December 31, 2020 and 2019

	2020	2019
Reconciliation of Operating Income (Loss) to		
Net Cash (Used in) Provided by Operating Activities		
Operating (loss) income	\$ (12,311,554)	\$ 9,335,340
Depreciation and amortization	4,097,664	3,965,823
Provision for uncollectible accounts	6,268,585	8,472,800
Capital assets transferred in-lieu of management fees	321,020	613,619
Changes in operating assets and liabilities:		
Patient accounts receivable	(9,240,860)	(8,582,253)
Estimated amounts due to/from third-party payers	(4,922,810)	619,763
Accounts payable and accrued expenses	(4,515,613)	(1,427,228)
Other assets and liabilities	13,838,655	(877,965)
	<u>\$ (6,464,913)</u>	<u>\$ 12,119,899</u>

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Notes to Financial Statements
December 31, 2020 and 2019

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 long-term care nursing facilities (LTC) through various lease arrangements as of December 31, 2020. These facilities provide inpatient and therapy services in their 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.

The Daviess Community Hospital Foundation (Foundation) is a 501(c)3 nonprofit health organization established in order to promote and support the Hospital in the provision of health care through philanthropic support, fundraising and other activities for the acquisition of equipment, facility development and support of programs at the Hospital. The Foundation is a separate legal entity but is financially integrated with the Hospital and is reported as a blended component unit of the Hospital and does not issue separate financial statements.

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, liabilities and deferred outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Operating Activities

The Hospital defines operating activities, as reported in the statement of revenues, expenses and changes in net position, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for goods and services received, as well as program-specific, government-mandated nonexchange transactions. Nearly all of the Hospital's expenses are from exchange transactions. Certain revenues relied upon for operations, such as county appropriations, noncapital grants and contributions, including government-mandated nonexchange transactions that are not program specific, and investment income, are recorded as nonoperating revenues in accordance with GASB Statement No. 35.

Daviess Community Hospital

A Component Unit of Daviess County, Indiana

Notes to Financial Statements **December 31, 2020 and 2019**

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, liabilities and deferred outflows of resources 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. 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 payors, 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.

Daviess Community Hospital

A Component Unit of Daviess County, Indiana

Notes to Financial Statements **December 31, 2020 and 2019**

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

Capital Asset Impairment

The Hospital evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss. No asset impairment was recognized during the years ended December 31, 2020 and 2019.

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.

Daviess Community Hospital

A Component Unit of Daviess County, Indiana

Notes to Financial Statements **December 31, 2020 and 2019**

Net Position

Net position of the Hospital is classified in three components on its balance sheets. Net investment in capital assets consists 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 and deferred losses on refundings of such borrowings reported as deferred outflows of resources. Restricted net position is made up of 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 net position that does not meet the definition of net investment in capital assets or restricted net position.

Unearned Grant Revenue

Unearned grant revenue represents funds received from the Provider Relief Fund as authorized through the *Coronavirus Aid, Relief and Economic Security Act* (CARES Act), and other state and local grants. Such funding will be recognized as revenue when the Hospital meets the applicable eligibility requirements, including the incurrence of eligible expenses or lost revenues.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors 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.

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Notes to Financial Statements **December 31, 2020 and 2019**

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 blended 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.

Change in Accounting Principles - Fiduciary Activities

As of January 1, 2020, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. Adoption of this Statement had no effect on the financial statements

Revision

The 2019 financial statements have been revised for immaterial errors in the presentation and classification of net position balances, and the presentation and classification of line of credit activity within the statement of cash flows. The revisions increased net position – net investment in capital assets and decreased unrestricted net position by \$1,951,691. This revision had no effect on the total net position balances. The revisions also decreased net cash used in capital and related financing activities and decreased net cash provided by (used in) noncapital financing activities by \$1,272,734. This revision had no effect on the total increase in cash. These revisions had no effect on the change in net position.

Future Accounting Standards

In fiscal year 2022, 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.

Daviess Community Hospital
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Notes to Financial Statements
December 31, 2020 and 2019

Note 2: Net Patient Service Revenue

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

Medicare. Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates. 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 72% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for both the years ended December 31, 2020 and 2019. 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 net patient service revenue related to this supplemental payment program for each of the years ended December 31, 2020 and 2019. Amounts outstanding at December 31, 2020 and 2019 approximating \$312,000 are included within prepaid expenses and other assets. This represents management's best estimate of DSH funds due to the Hospital, which are typically paid in arrears.

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The Hospital participates in a state-specific provider assessment program to increase Medicaid payments to hospitals. The Hospital incurred approximately \$3.7 million and \$4.2 million of assessed fees related to the Medicaid program in 2020 and 2019, respectively, which is recorded as an operating expense in the statements of revenues, expenses and changes in net position.

The Hospital's Medicaid Inpatient Utilization Rate (MIUR) exceeded state-wide thresholds, as defined by state regulation, during the most recent measurement period. A benefit of having a MIUR exceeding the threshold includes a 25% reduction in the provider assessment fee. 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 through December 31, 2020.

The state measures the MIUR no less than every four years and no more than every two years. At each measurement period, the state-defined MIUR changes, which may affect the Hospital's eligibility status. Any change in MIUR eligibility would affect the Hospital's ability to receive the 25% provider assessment fee reduction. The State's most recent measurement is for the period ended June 30, 2019. Any change in the amount of tax due as a result of eligibility changes will be recorded in the period the state has made its determination. Subsequent to year-end, the Hospital was notified its MIUR continued to exceed initial state-wide thresholds for the 24 month period ending June 30, 2021. This initial calculation is subject to provider appeals and is not considered a final notice of eligibility.

The amounts outstanding and owed under the assessment fee program approximated \$107,000 and \$804,000 at December 31, 2020 and 2019, respectively, and are included within accounts payable and accrued expenses.

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 \$46,604,000 and \$39,473,000 related to this supplemental payment program for the years ended December 31, 2020 and 2019, respectively. At December 31, 2020 and 2019, respectively, approximately \$11,213,000 and \$9,865,000 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.

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Notes to Financial Statements December 31, 2020 and 2019

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.

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, 2020 and 2019, the Hospital had the following investments and maturities:

December 31, 2020					
Maturities in Years					
Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
Money market mutual funds	\$ 1,749,607	\$ 1,749,607	\$ -	\$ -	\$ -

December 31, 2019					
Maturities in Years					
Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
Money market mutual funds	\$ 3,410,343	\$ 3,410,343	\$ -	\$ -	\$ -

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, 2020 and 2019, the Hospital's investments were not rated.

Daviness Community Hospital

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Notes to Financial Statements December 31, 2020 and 2019

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.

Summary of Carrying Values

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

	2020	2019
Carrying value:		
Deposits	\$ 50,536,645	\$ 37,776,123
Investments	1,749,607	3,410,343
	\$ 52,286,252	\$ 41,186,466
Included in the following balance sheets captions:		
Cash	\$ 50,254,690	\$ 37,419,233
Noncurrent cash and investments	2,031,562	3,767,233
	\$ 52,286,252	\$ 41,186,466

Nonnegotiable certificates of deposit totaling \$263,332 are included in deposit balances at December 31, 2020 and 2019.

Investment Income

Investment income for the years ended December 31 consisted of:

	2020	2019
Interest and dividend income	\$ 133,010	\$ 154,245

Daviness Community Hospital

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Notes to Financial Statements December 31, 2020 and 2019

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 payor agreements. Patient accounts receivable at December 31 consisted of:

	2020	2019
Medicare	\$ 11,882,414	\$ 10,299,231
Medicaid	11,115,791	11,800,470
Other third-party payors	7,214,316	5,734,461
Patients	4,910,198	6,254,088
	35,122,719	34,088,250
Less allowance for uncollectible accounts	(5,297,715)	(7,235,521)
	\$ 29,825,004	\$ 26,852,729

Note 5: Capital Assets

The Hospital's property and equipment consist of the following:

	2020				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 1,280,955	\$ -	\$ -	\$ -	\$ 1,280,955
Land improvements	687,865	-	-	-	687,865
Buildings and leasehold improvements	49,915,067	2,308,899	(298,510)	-	51,925,456
Equipment	40,052,211	1,247,303	(543,361)	1,566,614	42,322,767
Construction in progress	707,709	1,089,407	-	(1,566,614)	230,502
	92,643,807	4,645,609	(841,871)	-	96,447,545
Less accumulated depreciation:					
Land improvements	684,320	810	-	-	685,130
Buildings and leasehold improvements	25,508,125	2,288,351	(22,511)	-	27,773,965
Equipment	32,635,509	1,804,990	(487,838)	-	33,952,661
	58,827,954	4,094,151	(510,349)	-	62,411,756
Capital assets, net	\$ 33,815,853	\$ 551,458	\$ (331,522)	\$ -	\$ 34,035,789

Davieess Community Hospital

A Component Unit of Davieess County, Indiana

Notes to Financial Statements December 31, 2020 and 2019

	2019				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 1,280,955	\$ -	\$ -	\$ -	\$ 1,280,955
Land improvements	687,865	-	-	-	687,865
Buildings and leasehold improvements	48,800,607	1,862,965	(748,505)	-	49,915,067
Equipment	36,764,663	1,131,196	(1,081,513)	3,237,865	40,052,211
Construction in progress	887,271	3,058,303	-	(3,237,865)	707,709
	88,421,361	6,052,464	(1,830,018)	-	92,643,807
Less accumulated depreciation:					
Land improvements	683,509	811	-	-	684,320
Buildings and leasehold improvements	23,438,292	2,204,718	(134,885)	-	25,508,125
Equipment	31,901,167	1,756,781	(1,022,439)	-	32,635,509
	56,022,968	3,962,310	(1,157,324)	-	58,827,954
Capital assets, net	\$ 32,398,393	\$ 2,090,154	\$ (672,694)	\$ -	\$ 33,815,853

Per the terms of the Hospital's management agreements discussed in Note 15, capital assets approximating \$321,000 and \$614,000 were transferred to the manager upon closure of facilities or other disposition during 2020 and 2019, respectively, and are recorded as additional management fee expense.

Note 6: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance up to coverage limits under the Indiana Malpractice Act (the Act) under a claims-made policy on a fixed premium basis. The Hospital is covered under the Act which limits professional liability for claims on or after July 1, 2017 to a maximum recovery of \$1,650,000 per occurrence, \$400,000 of which would be paid through malpractice insurance coverage, with the remainder due from the Fund. For claims on or after July 1, 2019, the maximum recovery is \$1,800,000 per occurrence, \$500,000 of which would be paid through commercial insurance coverage, with the remainder due from the Fund. The Hospital's deductible under this policy is \$10,000 per event.

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.

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Notes to Financial Statements
December 31, 2020 and 2019

Note 7: 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 2020 and 2019, is summarized as follows:

	2020	2019
Balance, beginning of year	\$ 325,200	\$ 275,391
Current year claims incurred and changes in estimate	3,776,407	3,415,222
Claims and expenses paid	(3,643,507)	(3,365,413)
Balance, end of year	\$ 458,100	\$ 325,200

Note 8: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at December 31, 2020 and 2019 consisted of:

	2020	2019
Payable to suppliers and contractors	\$ 31,086,414	\$ 36,288,028
Payable to employees (including payroll taxes and benefits)	2,149,328	1,814,721
Balance, end of year	\$ 33,235,742	\$ 38,102,749

Daviess Community Hospital
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Notes to Financial Statements
December 31, 2020 and 2019

Note 9: Long-Term Obligations

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

	2020				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Series 2011 refunding revenue bonds	\$ 13,700,000	\$ -	\$ (13,700,000)	\$ -	\$ -
Series 2020 refunding revenue bonds	-	11,235,435	-	11,235,435	-
Unamortized bond premium	42,436	-	(42,436)	-	-
Capital lease obligations	3,077,163	-	(799,494)	2,277,669	644,234
Total long-term debt	16,819,599	11,235,435	(14,541,930)	13,513,104	644,234
Other liabilities:					
Medicare advance payments	-	14,067,167	-	14,067,167	10,870,637
Total long-term obligations	\$ 16,819,599	\$ 25,302,602	\$ (14,541,930)	\$ 27,580,271	\$ 11,514,871
	2019				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Series 2011 refunding revenue bonds	\$ 14,740,000	\$ -	\$ (1,040,000)	\$ 13,700,000	\$ 1,090,000
Unamortized bond premium	47,107	-	(4,671)	42,436	-
Capital lease obligations	4,498,180	-	(1,421,017)	3,077,163	799,481
Total long-term obligations	\$ 19,285,287	\$ -	\$ (2,465,688)	\$ 16,819,599	\$ 1,889,481

Series 2011 Revenue Refunding Bonds

The Series 2011 Revenue Refunding Bonds (Series 2011) consisted of lease rental revenue bonds (bonds) in the original amount of \$20,135,000 dated May 2011, which bore interest at 3% to 5.25%. The bonds were payable in annual installments through January 15, 2029 and were refunded with the issuance of the Series 2020 revenue refunding bonds outlined below. The Hospital was required to make monthly deposits to the debt service fund held by the trustee, and interest payments were payable January 15th and July 15th annually. The bonds were secured by the net revenues and accounts receivable of the Hospital and the assets restricted under the bond indenture agreement.

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Notes to Financial Statements
December 31, 2020 and 2019

Series 2020 Revenue Refunding Bonds

In November 2020, the Hospital issued \$11,235,435 in Series 2020 Revenue Refunding Bonds (Series 2020) with an interest rate of 1.72% percent. The net proceeds were used to currently refund the Series 2011 bonds with a reacquisition price of \$12,939,594 which was funded through issuance of the bonds, available sinking fund monies and \$529,083 of cash on hand. In connection with the issuance, the Hospital incurred \$219,870 of issuance costs which were paid out of the net proceeds.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$67,429. This difference was added to unamortized debt defeasance costs from previous refundings, reported in the accompanying financial statements as a deferred outflow of resources, and is being charged to interest expense through the year 2029 using the effective-interest method. The Hospital completed the refunding to reduce its total debt service payments, including the other resources utilized in the refunding of \$1,924,026, over the next eight years by approximately \$325,000 and to obtain an economic gain of approximately \$110,000.

The Series 2020 bonds are payable in annual installments beginning January 2022 through January 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, 2020 are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2021	\$ 127,759	\$ -	\$ 127,759
2022	1,590,621	1,409,493	181,128
2023	1,621,279	1,464,871	156,408
2024	1,621,063	1,490,067	130,996
2025	1,620,842	1,515,696	105,146
2026-2029	5,516,755	5,355,308	161,447
	<u>\$ 12,098,319</u>	<u>\$ 11,235,435</u>	<u>\$ 862,884</u>

Daviess Community Hospital
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Notes to Financial Statements
December 31, 2020 and 2019

Capital Lease Obligations

The Hospital is obligated under leases for equipment and facilities 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, 2020:

2021	\$	734,064
2022		635,805
2023		545,400
2024		145,400
2025		145,400
2026-2028		<u>315,231</u>
Total minimum lease payments		<u>2,521,300</u>
Less amount representing interest		<u>243,631</u>
Present value of future minimum lease payments	\$	<u><u>2,277,669</u></u>

Assets under capital leases at December 31, totaled:

	<u>2020</u>	<u>2019</u>
Machinery and equipment	\$ 4,404,692	\$ 5,676,344
Accumulated depreciation	<u>(1,879,060)</u>	<u>(2,472,163)</u>
	<u><u>\$ 2,525,632</u></u>	<u><u>\$ 3,204,181</u></u>

Note 10: Line of Credit

The Hospital has a \$30,000,000 revolving bank line of credit, which expires on December 16, 2021. There was \$18,217,896 and \$21,583,238 borrowed against this line at December 31, 2020 and 2019, respectively. 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 1.75% on December 31, 2020, and is payable monthly.

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Notes to Financial Statements **December 31, 2020 and 2019**

Note 11: 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 \$420,419 and \$384,449 during 2020 and 2019, respectively.

Note 12: 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

The Hospital has money market mutual funds of \$1,749,607 and \$3,410,343 at December 31, 2020 and 2019, respectively, which are valued on a recurring measurement at fair value using the net asset value per share (or its equivalent) as a practical expedient and are not classified in the fair value hierarchy. These money market mutual funds invest in short-term debt securities and seek to provide greater returns than cash deposits. There are no unfunded commitments or restrictions on redemptions.

Daviness Community Hospital

A Component Unit of Daviness County, Indiana

Notes to Financial Statements December 31, 2020 and 2019

Note 13: 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.

Note 14: Condensed Combining Information

The following tables include condensed combining balance sheet information for the Hospital and its blended component unit as of December 31, 2020 and 2019:

	December 31, 2020		
	Hospital	Foundation	Total
Assets			
Current assets	\$ 102,059,181	\$ 118,754	\$ 102,177,935
Capital assets, net	34,035,789	-	34,035,789
Other assets	5,572,443	281,955	5,854,398
Total assets	<u>141,667,413</u>	<u>400,709</u>	<u>142,068,122</u>
Deferred Outflows of Resources	1,806,707	-	1,806,707
Total assets and deferred outflows of resources	<u>\$ 143,474,120</u>	<u>\$ 400,709</u>	<u>\$ 143,874,829</u>
Liabilities			
Current liabilities	\$ 67,478,763	\$ -	\$ 67,478,763
Noncurrent liabilities	16,065,400	-	16,065,400
Total liabilities	<u>83,544,163</u>	<u>-</u>	<u>83,544,163</u>
Net Position			
Net investment in capital assets	22,329,392	-	22,329,392
Restricted	1,633,881	-	1,633,881
Unrestricted	35,966,684	400,709	36,367,393
Total net position	<u>59,929,957</u>	<u>400,709</u>	<u>60,330,666</u>
Total liabilities and net position	<u>\$ 143,474,120</u>	<u>\$ 400,709</u>	<u>\$ 143,874,829</u>

Daviness Community Hospital

A Component Unit of Daviness County, Indiana

Notes to Financial Statements December 31, 2020 and 2019

	December 31, 2019		
	Hospital	Foundation	Total
Assets			
Current assets	\$ 82,673,191	\$ 57,513	\$ 82,730,704
Capital assets, net	33,815,853	-	33,815,853
Other assets	5,680,106	356,890	6,036,996
Total assets	<u>122,169,150</u>	<u>414,403</u>	<u>122,583,553</u>
Deferred Outflows of Resources	<u>1,951,691</u>	<u>-</u>	<u>1,951,691</u>
Total assets and deferred outflows of resources	<u>\$ 124,120,841</u>	<u>\$ 414,403</u>	<u>\$ 124,535,244</u>
Liabilities			
Current liabilities	\$ 61,884,243	\$ -	\$ 61,884,243
Noncurrent liabilities	14,930,118	-	14,930,118
Total liabilities	<u>76,814,361</u>	<u>-</u>	<u>76,814,361</u>
Net Position			
Net investment in capital assets	18,947,945	-	18,947,945
Restricted	3,298,678	-	3,298,678
Unrestricted	25,059,857	414,403	25,474,260
Total net position	<u>47,306,480</u>	<u>414,403</u>	<u>47,720,883</u>
Total liabilities and net position	<u>\$ 124,120,841</u>	<u>\$ 414,403</u>	<u>\$ 124,535,244</u>

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, 2020 and 2019.

	December 31, 2020		
	Hospital	Foundation	Total
Operating Revenue			
Net patient service revenue	\$ 251,183,495	\$ -	\$ 251,183,495
Other operating revenue	48,307,529	-	48,307,529
Total operating revenue	<u>299,491,024</u>	<u>-</u>	<u>299,491,024</u>
Operating Expenses			
Salaries, wages, contract labor and employee benefits	138,588,323	-	138,588,323
Purchased services and professional fees	71,406,068	-	71,406,068
Depreciation and amortization	4,097,664	-	4,097,664
Other operating expenses	97,496,608	213,915	97,710,523
Total operating expenses	<u>311,588,663</u>	<u>213,915</u>	<u>311,802,578</u>
Operating Loss	<u>(12,097,639)</u>	<u>(213,915)</u>	<u>(12,311,554)</u>
Nonoperating Revenue (Expenses)			
Investment return	132,936	74	133,010
Interest expense	(1,038,321)	-	(1,038,321)
Noncapital grants and contributions	25,528,850	200,147	25,728,997
Other	97,651	-	97,651
	<u>24,721,116</u>	<u>200,221</u>	<u>24,921,337</u>
Increase (Decrease) in Net Position	<u>\$ 12,623,477</u>	<u>\$ (13,694)</u>	<u>\$ 12,609,783</u>

Daviness Community Hospital

A Component Unit of Daviness County, Indiana

Notes to Financial Statements December 31, 2020 and 2019

	December 31, 2019		
	Hospital	Foundation	Total
Operating Revenue			
Net patient service revenue	\$ 255,617,059	\$ -	\$ 255,617,059
Other operating revenue	43,580,071	-	43,580,071
Total operating revenue	<u>299,197,130</u>	<u>-</u>	<u>299,197,130</u>
Operating Expenses			
Salaries, wages, contract labor and employee benefits	138,995,062	-	138,995,062
Purchased services and professional fees	53,061,919	-	53,061,919
Depreciation and amortization	3,965,823	-	3,965,823
Other operating expenses	93,561,870	277,116	93,838,986
Total operating expenses	<u>289,584,674</u>	<u>277,116</u>	<u>289,861,790</u>
Operating Income (Loss)	<u>9,612,456</u>	<u>(277,116)</u>	<u>9,335,340</u>
Nonoperating Revenue (Expenses)			
Investment return	144,879	9,366	154,245
Interest expense	(1,455,495)	-	(1,455,495)
Noncapital grants and contributions	-	241,084	241,084
Other	(29,274)	-	(29,274)
	<u>(1,339,890)</u>	<u>250,450</u>	<u>(1,089,440)</u>
Increase (Decrease) in Net Position	<u>\$ 8,272,566</u>	<u>\$ (26,666)</u>	<u>\$ 8,245,900</u>

Note 15: 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 long-term care nursing facilities. 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 have original terms of two years 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 \$25.7 million and \$24.8 million in 2020 and 2019, respectively.

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
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December 31, 2020 and 2019

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 out of the net earnings of the facility, if sufficient excess cash flows exist, up to the maximum amounts as defined in the agreement. The management agreements also call for quality, royalty and capital improvement fees to be paid to the Managers. Management and other fees approximated \$44.9 million and \$28.4 million in 2020 and 2019, respectively, and in certain circumstances included fee reductions as insufficient cash flows existed to fund amounts due. In certain instances, incentive management fees have exceeded established caps. In these instances, the Hospital and third-party managers have agreed to fund amounts in excess of caps while working in good faith to amend current agreements. 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 reflect amounts due to Managers or its vendors.

The Hospital has executed security agreements with lenders of certain Managers, allowing for a security interest in certain deposit and receivable accounts approximating \$21.2 million and \$18.3 million at December 31, 2020 and 2019.

Note 16: COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 (COVID-19) as a global pandemic. Patient volumes and the related revenues were significantly affected by COVID-19 as various policies were implemented by federal, state, and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses, suspended elective procedures by health care facilities, and impact admissions to long-term care facilities.

While some of these policies have been eased and states have lifted moratoriums on non-emergent procedures, some restrictions remain in place, and some state and local governments re-imposed certain restrictions due to increasing rates of COVID-19 cases.

The Hospital's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. The Hospital has taken precautionary steps to enhance its operational and financial flexibility, and react to the risks the COVID-19 pandemic presents to its business, including the implementation of targeted cost reduction initiatives.

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The extent of the COVID-19 pandemic's adverse effect on the Hospital's operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the Hospital's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, government-imposed or recommended suspensions of elective procedures, declines in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, and incremental expenses required for supplies and personal protective equipment.

Because of these and other uncertainties, the Hospital cannot estimate the length or severity of the effect of the pandemic on the Hospital's business. Decreases in cash flows and results of operations may have an effect on assumptions used in significant accounting estimates, including estimated bad debts and contractual adjustments related to uninsured and other patient accounts.

Provider Relief Fund

During the year ended December 31, 2020, the Hospital received \$29.4 million of distributions from the CARES Act Provider Relief Fund. These distributions from the Provider Relief Fund are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services (HHS).

The Hospital is accounting for such payments as voluntary nonexchange transactions in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Payments are recognized as grant revenue once the applicable terms and conditions required to retain the funds have been substantially met. Revenue recognized is classified as nonoperating and the associated cash flows are included within noncapital financing activities. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the Hospital's operating revenues and expenses through December 31, 2020, the Hospital recognized \$25.1 million related to the Provider Relief Fund as nonoperating revenue – noncapital government grants and contributions in the statement of revenues, expenses and changes in net position. The unrecognized amount of Provider Relief Fund distributions are recorded as part of unearned grant revenue in the accompanying balance sheets.

The Hospital will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the Hospital's revenues and expenses. The terms and conditions governing the Provider Relief Funds are complex and subject to interpretation and change. If the Hospital is unable to attest to or comply with current or future terms and conditions the Hospital's ability to retain some or all of the distributions received may be affected. Additionally, the amounts recorded in the financial statements compared to the Hospital's Provider Relief Fund reporting could differ. Provider Relief Fund payments are subject to government oversight, including potential audits.

Daviess Community Hospital
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Notes to Financial Statements
December 31, 2020 and 2019

Medicare Advance Payments

During the year ended December 31, 2020, the Hospital requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. These amounts are expected to be recaptured by the Center for Medicare and Medicaid Services (CMS) according to the payback provisions.

Effective September 30, 2020, the payback provisions were revised and extended the payback period to begin one year after the issuance of the advance payment through a phased payback period approach. The first 11 months of the payback period will be at 25 percent of the remittance advice payment followed by a six-month payback period at 50 percent of the remittance advice payment. After the 17-month payback period (29 months after issuance of the advance payment), CMS expects any amount not paid back through the withhold amounts to be paid back in a lump-sum or interest will begin to accrue subsequent to the 29 months at a rate of 4 percent.

During the year ended December 31, 2020, the Hospital received approximately \$14.1 million from these accelerated Medicare payment requests. Based on historical Medicare claims volumes, management believes \$10.9 million of the funds will be recouped by December 31, 2021 and are included as a current liability in the accompany balance sheets. The remainder of these advances is included as a noncurrent liability.

Other COVID-19 Funding

The Hospital received additional state and federal grants and awards approximating \$327,000 which were to be used for COVID-19 specific activities. These funds are recorded as nonoperating revenue – noncapital grants and contributions within the accompanying statements of revenues, expenses and changes in net position. The nursing home operations owned by the Hospital were subject to Medicaid rate increases instituted in response to the COVID-19 pandemic. Certain “COVID ready” facilities received additional increases in Medicaid rates and per diems during portions of 2020. These rate increases are included within net patient service revenue as the funding constitutes reimbursement for care or treatment provided. Further, the federal government’s response to COVID-19 temporarily reduced the non-federal share associated with funding of certain supplemental Medicaid payments. This led to a temporary decrease in Hospital Assessment Fee amounts and an increase in net UPL revenue received.

Daviess Community Hospital
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Notes to Financial Statements
December 31, 2020 and 2019

Note 17: Subsequent Events

Subsequent to year-end, the Hospital received approximately \$5.0 million in rural health clinic testing and mitigation funding and American Rescue Plan rural distributions from the Provider Relief Funds. These awards have similar terms and conditions as previous COVID-19 funding. The Hospital also received a \$1.0 million grant from the Indiana State Department of Health to support COVID-19 response activities over a two year period.

In June 2021, the Hospital entered into a lease for the operations of a single skilled nursing facility under similar terms as existing agreements. At various points in 2021, the Hospital closed and ceased operating three of its existing skilled nursing facilities and terminated their lease and management agreements.

Supplementary Information

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Combining Balance Sheet Information
December 31, 2020

Assets and Deferred Outflows of Resources

	2020			
	Hospital	LTC	Hospital Foundation	Total
Current Assets				
Cash	\$ 12,733,716	\$ 37,402,220	\$ 118,754	\$ 50,254,690
Patient accounts receivable, net of allowance of \$5,297,715	9,233,519	20,591,485	-	29,825,004
Supplies	1,804,357	-	-	1,804,357
Prepaid expenses and other	1,150,384	14,115,927	-	15,266,311
Estimated amounts due from third-party payors	5,027,573	-	-	5,027,573
Total current assets	<u>29,949,549</u>	<u>72,109,632</u>	<u>118,754</u>	<u>102,177,935</u>
Noncurrent Cash and Investments				
Internally designated	115,726	-	281,955	397,681
Held by trustee for debt service	1,633,881	-	-	1,633,881
	<u>1,749,607</u>	<u>-</u>	<u>281,955</u>	<u>2,031,562</u>
Capital Assets, net				
	<u>28,256,789</u>	<u>5,779,000</u>	<u>-</u>	<u>34,035,789</u>
Other Assets				
	<u>769,516</u>	<u>3,053,320</u>	<u>-</u>	<u>3,822,836</u>
Deferred Outflows of Resources - debt defeasance costs				
	<u>1,806,707</u>	<u>-</u>	<u>-</u>	<u>1,806,707</u>
Total assets and deferred outflows of resources	<u>\$ 62,532,168</u>	<u>\$ 80,941,952</u>	<u>\$ 400,709</u>	<u>\$ 143,874,829</u>

Liabilities and Net Position

Current Liabilities				
Current maturities of long-term debt	\$ 644,234	\$ -	\$ -	\$ 644,234
Line of credit	-	18,217,896	-	18,217,896
Accounts payable and accrued expenses	4,165,921	29,069,821	-	33,235,742
Unearned grant revenue	3,111,233	1,045,483	-	4,156,716
Medicare advance payments	3,394,000	7,476,637	-	10,870,637
Estimated amounts due to third-party payors	353,538	-	-	353,538
Total current liabilities	<u>11,668,926</u>	<u>55,809,837</u>	<u>-</u>	<u>67,478,763</u>
Noncurrent Liabilities				
Long-term obligations	12,868,870	-	-	12,868,870
Long-term portion of Medicare advance payments	3,196,530	-	-	3,196,530
Total noncurrent liabilities	<u>16,065,400</u>	<u>-</u>	<u>-</u>	<u>16,065,400</u>
Total liabilities	<u>27,734,326</u>	<u>55,809,837</u>	<u>-</u>	<u>83,544,163</u>
Net Position				
Net investment in capital assets	16,550,392	5,779,000	-	22,329,392
Restricted for debt service	1,633,881	-	-	1,633,881
Unrestricted	16,613,569	19,353,115	400,709	36,367,393
Total net position	<u>34,797,842</u>	<u>25,132,115</u>	<u>400,709</u>	<u>60,330,666</u>
Total liabilities and net position	<u>\$ 62,532,168</u>	<u>\$ 80,941,952</u>	<u>\$ 400,709</u>	<u>\$ 143,874,829</u>

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Combining Balance Sheet Information
December 31, 2019

Assets and Deferred Outflows of Resources

	2019			
	Hospital	LTC	Hospital Foundation	Total
Current Assets				
Cash	\$ 1,165,993	\$ 36,195,727	\$ 57,513	\$ 37,419,233
Patient accounts receivable, net of allowance of \$7,235,521	8,645,980	18,206,749	-	26,852,729
Supplies	1,656,796	-	-	1,656,796
Prepaid expenses and other	1,514,781	15,227,165	-	16,741,946
Estimated amounts due from third-party payors	60,000	-	-	60,000
Total current assets	<u>13,043,550</u>	<u>69,629,641</u>	<u>57,513</u>	<u>82,730,704</u>
Noncurrent Cash and Investments				
Internally designated	111,665	-	356,890	468,555
Held by trustee for debt service	3,298,678	-	-	3,298,678
	<u>3,410,343</u>	<u>-</u>	<u>356,890</u>	<u>3,767,233</u>
Capital Assets, net	<u>28,700,715</u>	<u>5,115,138</u>	<u>-</u>	<u>33,815,853</u>
Other Assets	<u>532,803</u>	<u>1,736,960</u>	<u>-</u>	<u>2,269,763</u>
Deferred Outflows of Resources - debt defeasance costs	<u>1,951,691</u>	<u>-</u>	<u>-</u>	<u>1,951,691</u>
Total assets and deferred outflows of resources	<u>\$ 47,639,102</u>	<u>\$ 76,481,739</u>	<u>\$ 414,403</u>	<u>\$ 124,535,244</u>

Liabilities and Net Position

Current Liabilities				
Current maturities of long-term debt	\$ 1,889,481	\$ -	\$ -	\$ 1,889,481
Line of credit	-	21,583,238	-	21,583,238
Accounts payable and accrued expenses	5,447,060	32,655,689	-	38,102,749
Estimated amounts due to third-party payors	308,775	-	-	308,775
Total current liabilities	<u>7,645,316</u>	<u>54,238,927</u>	<u>-</u>	<u>61,884,243</u>
Long-Term Debt	<u>14,930,118</u>	<u>-</u>	<u>-</u>	<u>14,930,118</u>
Total liabilities	<u>22,575,434</u>	<u>54,238,927</u>	<u>-</u>	<u>76,814,361</u>
Net Position				
Net investment in capital assets	13,832,807	5,115,138	-	18,947,945
Restricted for debt service	3,298,678	-	-	3,298,678
Unrestricted	7,932,183	17,127,674	414,403	25,474,260
Total net position	<u>25,063,668</u>	<u>22,242,812</u>	<u>414,403</u>	<u>47,720,883</u>
Total liabilities and net position	<u>\$ 47,639,102</u>	<u>\$ 76,481,739</u>	<u>\$ 414,403</u>	<u>\$ 124,535,244</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, 2020

	2020			Total
	Hospital	LTC	Hospital Foundation	
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts of \$6,268,585	\$ 56,462,710	\$ 194,720,785	\$ -	\$ 251,183,495
Other	1,808,157	46,499,372	-	48,307,529
Total operating revenues	<u>58,270,867</u>	<u>241,220,157</u>	<u>-</u>	<u>299,491,024</u>
Operating Expenses				
Salaries, wages and contract labor	24,437,009	92,257,952	-	116,694,961
Employee benefits	6,744,380	15,148,982	-	21,893,362
Purchased services and professional fees	12,061,920	59,344,148	-	71,406,068
Supplies	7,405,940	14,971,332	-	22,377,272
Insurance	650,184	2,526,160	-	3,176,344
Utilities	1,148,606	5,337,286	-	6,485,892
Rent	303,815	27,977,460	-	28,281,275
Repairs and maintenance	4,842,147	1,999,741	-	6,841,888
Provider hospital assessment fee	3,728,061	-	-	3,728,061
Depreciation and amortization	3,184,839	912,825	-	4,097,664
Other	2,129,680	24,476,196	213,915	26,819,791
Total operating expenses	<u>66,636,581</u>	<u>244,952,082</u>	<u>213,915</u>	<u>311,802,578</u>
Operating Loss	<u>(8,365,714)</u>	<u>(3,731,925)</u>	<u>(213,915)</u>	<u>(12,311,554)</u>
Nonoperating Revenues (Expenses)				
Investment income	110,844	22,092	74	133,010
Interest expense	(884,652)	(153,669)	-	(1,038,321)
Noncapital grants and contributions	7,768,161	17,760,689	200,147	25,728,997
Other	97,651	-	-	97,651
Total nonoperating revenues	<u>7,092,004</u>	<u>17,629,112</u>	<u>200,221</u>	<u>24,921,337</u>
Excess (Deficiency) of Revenues Over Expenses Before Transfers	<u>(1,273,710)</u>	<u>13,897,187</u>	<u>(13,694)</u>	<u>12,609,783</u>
Transfers	<u>11,007,884</u>	<u>(11,007,884)</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	<u>9,734,174</u>	<u>2,889,303</u>	<u>(13,694)</u>	<u>12,609,783</u>
Net Position, Beginning of Year	<u>25,063,668</u>	<u>22,242,812</u>	<u>414,403</u>	<u>47,720,883</u>
Net Position, End of Year	<u>\$ 34,797,842</u>	<u>\$ 25,132,115</u>	<u>\$ 400,709</u>	<u>\$ 60,330,666</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, 2019

	2019			Total
	Hospital	LTC	Hospital Foundation	
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts of \$8,472,800	\$ 60,224,663	\$ 195,392,396	\$ -	\$ 255,617,059
Other	1,870,020	41,710,051	-	43,580,071
Total operating revenues	<u>62,094,683</u>	<u>237,102,447</u>	<u>-</u>	<u>299,197,130</u>
Operating Expenses				
Salaries, wages and contract labor	25,517,529	92,533,081	-	118,050,610
Employee benefits	6,062,563	14,881,889	-	20,944,452
Purchased services and professional fees	9,339,267	43,722,652	-	53,061,919
Supplies	7,625,661	14,066,990	-	21,692,651
Insurance	586,767	2,970,187	-	3,556,954
Utilities	1,019,681	5,853,599	-	6,873,280
Rent	314,213	26,151,199	-	26,465,412
Repairs and maintenance	4,774,140	2,287,933	-	7,062,073
Provider hospital assessment fee	4,226,588	-	-	4,226,588
Depreciation and amortization	3,093,566	872,257	-	3,965,823
Other	1,969,073	21,715,839	277,116	23,962,028
Total operating expenses	<u>64,529,048</u>	<u>225,055,626</u>	<u>277,116</u>	<u>289,861,790</u>
Operating Income (Loss)	<u>(2,434,365)</u>	<u>12,046,821</u>	<u>(277,116)</u>	<u>9,335,340</u>
Nonoperating Revenues (Expenses)				
Investment income	65,837	79,042	9,366	154,245
Interest expense	(1,073,954)	(381,541)	-	(1,455,495)
Noncapital grants and contributions	-	-	241,084	241,084
Other	(29,274)	-	-	(29,274)
Total nonoperating revenues (expenses)	<u>(1,037,391)</u>	<u>(302,499)</u>	<u>250,450</u>	<u>(1,089,440)</u>
Excess (Deficiency) of Revenues Over Expenses Before Transfers	<u>(3,471,756)</u>	<u>11,744,322</u>	<u>(26,666)</u>	<u>8,245,900</u>
Transfers	<u>10,659,088</u>	<u>(10,659,088)</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	<u>7,187,332</u>	<u>1,085,234</u>	<u>(26,666)</u>	<u>8,245,900</u>
Net Position, Beginning of Year	<u>17,876,336</u>	<u>21,157,578</u>	<u>441,069</u>	<u>39,474,983</u>
Net Position, End of Year	<u>\$ 25,063,668</u>	<u>\$ 22,242,812</u>	<u>\$ 414,403</u>	<u>\$ 47,720,883</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, 2020, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 17, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hospital's internal control over financial reporting (internal control) as a basis for designing 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 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2020-001 that we consider to be a material weakness.

Compliance and Other Matters

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

The Hospital's 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Indianapolis, Indiana
December 17, 2021

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Schedule of Findings and Responses
Year Ended December 31, 2020

Reference Number	Finding
2020-001	<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>Effect: Routine monitoring of the operations of the nursing homes is imperative to ensure that the Hospital is exercising its fiduciary and regulatory responsibility. 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 inclusion in the Hospital's 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 the Hospital's 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>