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February 27, 2023

Board of Trustees
Daviess Community Hospital
1314 E. Walnut Street
Washington, IN 47501

We have reviewed the audit report of Daviess Community Hospital which was opined upon by FORVIS, LLP, Independent Public Accountants, for the period January 1, 2021 to December 31, 2021. 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, 2021 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 findings in the report on pages 48 through 51. Please see the Schedule of Findings and Questioned Costs for completed details related to the findings. The Hospital's Corrective Action Plan directly follows the report.

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

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

A handwritten signature in cursive script that reads "Tammy R. White".

Tammy R. White, CPA
Deputy State Examiner

**Daviess Community Hospital
A Component Unit of
Daviess County, Indiana**

**Independent Auditor's Report
and Financial Statements**

December 31, 2021 and 2020



Daviess Community Hospital
A Component Unit of Daviess County, Indiana
December 31, 2021 and 2020

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Independent Auditor's Report

Board of Governors
Daviness Community Hospital
Washington, Indiana

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Daviness Community Hospital (Hospital), a component unit of Daviness County, Indiana, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2021 and 2020, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The accompanying supplementary information including the combining schedules, and the schedule of expenditures of federal awards as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 accompanying supplementary information is 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 have also issued our report dated January 30, 2023, 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.

FORVIS,LLP

Indianapolis, Indiana
January 30, 2023

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Management's Discussion and Analysis
December 31, 2021 and 2020

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, 2021 and 2020. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and investments increased in 2021 by \$11,898,508 or 22.8% and increased in 2020 by \$11,099,786 or 27.0%.
- The Hospital's net position increased in 2021 by \$12,142,476 or 20.1% and increased in 2020 by \$12,609,783 or 26.4%.
- The Hospital reported an operating income of \$122,145 in 2021 and operating loss of \$12,311,554 in 2020. The operating results in 2021 increased by \$12,433,699 or 101.0% over the operating loss reported in 2020. The operating results in 2020 decreased by \$21,646,894 or 231.9% over the operating income reported in 2019.
- Net nonoperating revenues/expenses decreased by \$12,901,006 or 51.8% in 2021 compared to the improvement of \$26,010,777 or 2,387.5% in 2020.

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 \$12,142,476 or 20.1% in 2021 over 2020 compared to the \$12,609,783 or 26.4% increase in 2020 over 2019, as shown in Table 1.

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Assets and Deferred Outflows of Resources			
Patient accounts receivable, net	\$ 30,815,559	\$ 29,825,004	\$ 26,852,729
Other current assets	80,410,308	72,352,931	55,877,975
Capital assets, net	32,188,375	34,035,789	33,815,853
Other noncurrent assets and deferred outflows of resources	<u>10,252,091</u>	<u>7,661,105</u>	<u>7,988,687</u>
Total assets and deferred outflows of resources	<u>\$ 153,666,333</u>	<u>\$ 143,874,829</u>	<u>\$ 124,535,244</u>
Liabilities			
Long-term debt (including current portion)	\$ 12,868,866	\$ 13,513,104	\$ 16,819,599
Other current liabilities	68,324,325	66,834,529	59,994,762
Other long-term liabilities	-	3,196,530	-
Total liabilities	<u>81,193,191</u>	<u>83,544,163</u>	<u>76,814,361</u>
Net Position			
Net investment in capital assets	20,902,706	22,329,392	18,947,945
Restricted for debt service	3,145,233	1,633,881	3,298,678
Unrestricted	<u>48,425,203</u>	<u>36,367,393</u>	<u>25,474,260</u>
Total net position	<u>72,473,142</u>	<u>60,330,666</u>	<u>47,720,883</u>
Total liabilities and net position	<u>\$ 153,666,333</u>	<u>\$ 143,874,829</u>	<u>\$ 124,535,244</u>

An increase in assets during 2021 was caused mainly by the increase in cash of \$10,378,677 (20.7%). This increase is attributed to federal stimulus funds received during the last quarter of the year along with settlements of previous Medicare claim withholdings. 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.

Operating Results and Changes in the Hospital's Net Position

In 2021, the Hospital's net position increased by \$12,142,476 or 20.1% as shown in Table 2. This increase is made up of several components and represents a decrease of 3.7% compared with the increase in net position for 2020 of 12,609,783 or 26.4%. Of note, during 2021 and 2020, the Hospital recognized revenue approximating \$47.4 million and \$46.6 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

	2021	2020	2019
Operating Revenues			
Net patient service revenue	\$ 249,142,880	\$ 251,183,495	\$ 255,617,059
Other operating revenues	48,910,229	48,307,529	43,580,071
Total operating revenues	<u>298,053,109</u>	<u>299,491,024</u>	<u>299,197,130</u>
Operating Expenses			
Salaries, wages, contract labor and employee benefits	142,082,312	138,588,323	138,995,062
Purchased services and professional fees	51,904,106	71,406,068	53,061,919
Depreciation and amortization	4,181,725	4,097,664	3,965,823
Provider hospital assessment fee	4,805,737	3,728,061	4,226,588
Other operating expenses	94,957,084	93,982,462	89,612,398
Total operating expenses	<u>297,930,964</u>	<u>311,802,578</u>	<u>289,861,790</u>
Operating Income (Loss)	<u>122,145</u>	<u>(12,311,554)</u>	<u>9,335,340</u>
Nonoperating Revenues (Expenses)			
Investment income	125,985	133,010	154,245
Interest expense	(722,128)	(1,038,321)	(1,455,495)
Noncapital grants and contributions	12,019,104	25,728,997	241,084
Other nonoperating revenues and expenses, net	597,370	97,651	(29,274)
Total nonoperating revenues (expenses)	<u>12,020,331</u>	<u>24,921,337</u>	<u>(1,089,440)</u>
Increase in Net Position	<u>\$ 12,142,476</u>	<u>\$ 12,609,783</u>	<u>\$ 8,245,900</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 operating income of \$122,145, which is an improvement over 2020 where operating results declined (operating loss of \$12,311,554) as a result of the financial impact of the COVID-19 pandemic. In 2019, the Hospital has reported operating income of \$9,335,340.

Operating results for 2021 improved by \$12,433,699 or 101.0% as compared to the operating loss of \$12,311,554 recognized in 2020. The primary changes that led to the improved operating results are a decrease in purchased services and professional fees of approximately \$19.5 million or 27.3%. This decrease is generally related to declines in contract fees associated with nursing home operations. This decrease was offset by increases in other operating costs as a result of general economic and trends.

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%.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income, interest expense, noncapital appropriations, noncapital grants and contributions, and gains/losses on disposal of capital assets. The main change in nonoperating revenues was a decrease in noncapital grants and contributions approximating \$13.7 million related to declines in Provider Relief Funds as authorized in the *Coronavirus Aid, Relief and Economic Security Act* (CARES Act) and *American Rescue Plan* (ARP) made available to prepare, prevent and respond to the impact of the COVID-19 pandemic along with changes in other federal and state grant activity.

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 2021 and 2020, discussed earlier. Changes in operating results led to an increase (decrease) in cash provided by (used in) operating activities approximating \$12.9 million and \$(18.6) million in 2021 and 2020, respectively. Cash provided by noncapital financing activities decreased by approximately \$17.0 million as a result of declines in Provider Relief Funds in 2021. Cash used in capital and related financing activities declined from that in 2020 as a result of prior year debt refinancing.

Capital Asset and Debt Administration

Capital Assets

At the end of 2021 and 2020, the Hospital had \$32,188,375 and \$34,035,789 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 \$3.2 million in 2021 and \$4.6 million in 2020.

Debt

At December 31, 2021 and 2020, the Hospital had \$11,235,435 in revenue bonds outstanding. Scheduled payments are set to begin in 2022. 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 \$18,701,274 and \$18,217,896 borrowed against this line at December 31, 2021 and 2020, respectively. The line is collateralized by certain deposit accounts held with the bank. Interest varies with the bank's prime rate less 1.25%, with a minimum rate of 2.00%, which was the effective rate on December 31, 2021, 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 continued impact of COVID-19 and overall economic trends have and will impact the operations of the Hospital. The economic impact, contingent on the overall impact of any future outbreaks, 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, 2021 and 2020

Assets and Deferred Outflows of Resources

	2021	2020
Current Assets		
Cash	\$ 60,633,367	\$ 50,254,690
Patient accounts receivable, net of allowance of \$7,062,881 and \$5,297,715 for 2021 and 2020, respectively	30,815,559	29,825,004
Supplies	1,968,271	1,804,357
Prepaid expenses and other	17,808,670	15,266,311
Estimated amounts due from third-party payors	-	5,027,573
Total current assets	111,225,867	102,177,935
Noncurrent Cash and Investments		
Internally designated	406,160	397,681
Held by trustee for debt service	3,145,233	1,633,881
	3,551,393	2,031,562
Capital Assets, net	32,188,375	34,035,789
Other Assets	5,117,501	3,822,836
Deferred Outflows of Resources - debt defeasance costs	1,583,197	1,806,707
Total assets and deferred outflows of resources	\$ 153,666,333	\$ 143,874,829

Liabilities and Net Position

Current Liabilities		
Current maturities of long-term debt	\$ 1,985,430	\$ 644,234
Line of credit	18,701,274	18,217,896
Accounts payable and accrued expenses	47,859,131	33,235,742
Unearned grant revenue	590,300	4,156,716
Medicare advance payments	886,385	10,870,637
Estimated amounts due to third-party payors	287,235	353,538
Total current liabilities	70,309,755	67,478,763
Long-Term Obligations		
Long-term obligations	10,883,436	12,868,870
Long-term portion of Medicare advance payments	-	3,196,530
Total noncurrent liabilities	10,883,436	16,065,400
Total liabilities	81,193,191	83,544,163
Net Position		
Net investment in capital assets	20,902,706	22,329,392
Restricted for debt service	3,145,233	1,633,881
Unrestricted	48,425,203	36,367,393
Total net position	72,473,142	60,330,666
Total liabilities and net position	\$ 153,666,333	\$ 143,874,829

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2021 and 2020

	2021	2020
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts of \$7,152,394 and \$6,268,585 for 2021 and 2020, respectively	\$ 249,142,880	\$ 251,183,495
Other	48,910,229	48,307,529
Total operating revenues	298,053,109	299,491,024
Operating Expenses		
Salaries, wages and contract labor	118,559,063	116,694,961
Employee benefits	23,523,249	21,893,362
Purchased services and professional fees	51,904,106	71,406,068
Supplies	23,102,365	22,377,272
Insurance	4,086,802	3,176,344
Utilities	6,768,813	6,485,892
Rent	28,133,611	28,281,275
Repairs and maintenance	7,152,888	6,841,888
Provider hospital assessment fee	4,805,737	3,728,061
Depreciation and amortization	4,181,725	4,097,664
Other	25,712,605	26,819,791
Total operating expenses	297,930,964	311,802,578
Operating Income (Loss)	122,145	(12,311,554)
Nonoperating Revenues (Expenses)		
Investment income	125,985	133,010
Interest expense	(722,128)	(1,038,321)
Noncapital appropriations - Daviess County	594,000	-
Noncapital grants and contributions	12,019,104	25,728,997
Other	3,370	97,651
Total nonoperating revenues	12,020,331	24,921,337
Increase in Net Position	12,142,476	12,609,783
Net Position, Beginning of Year	60,330,666	47,720,883
Net Position, End of Year	\$ 72,473,142	\$ 60,330,666

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
Operating Activities		
Receipts from and on behalf of patients	\$ 288,401,094	\$ 302,895,469
Payments to suppliers and contractors	(112,182,200)	(142,181,693)
Payments to employees and contract labor	(142,076,632)	(138,253,716)
Other payments, net	(27,694,408)	(28,924,973)
Net cash provided by (used in) operating activities	6,447,854	(6,464,913)
Noncapital Financing Activities		
Noncapital grants and contributions	8,452,688	29,885,713
Noncapital appropriations - Daviess County	594,000	-
Borrowings on line of credit	18,701,274	18,217,896
Repayments on line of credit	(18,217,896)	(21,583,238)
Net cash provided by noncapital financing activities	9,530,066	26,520,371
Capital and Related Financing Activities		
Principal paid on capital leases	(644,238)	(799,494)
Principal paid on 2011 refunding revenue bonds	-	(1,090,000)
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	(370,859)	(737,703)
Purchase of capital assets	(3,193,670)	(4,645,609)
Net cash used in capital and related financing activities	(4,208,767)	(9,196,835)
Investing Activities		
Interest and dividends on investments	125,985	133,010
Purchase of investments	(1,519,795)	(1,633,877)
Proceeds from the sale of investments	-	3,294,613
Other investing activities	3,370	108,153
Net cash provided by (used in) investing activities	(1,390,440)	1,901,899
Increase in Cash	10,378,713	12,760,522
Cash, Beginning of Year	50,273,313	37,512,791
Cash, End of Year	\$ 60,652,026	\$ 50,273,313
Reconciliation of Cash to the Balance Sheets		
Cash	\$ 60,633,367	\$ 50,254,690
Noncurrent cash and investments - internally designated	18,659	18,623
	\$ 60,652,026	\$ 50,273,313

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Statements of Cash Flows (Continued)
Years Ended December 31, 2021 and 2020

	2021	2020
Reconciliation of Operating Income (Loss) to		
Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	\$ 122,145	\$ (12,311,554)
Depreciation and amortization	4,181,725	4,097,664
Provision for uncollectible accounts	7,152,394	6,268,585
Capital assets transferred in-lieu of management fees	862,872	321,020
Changes in operating assets and liabilities:		
Patient accounts receivable	(8,142,949)	(9,240,860)
Estimated amounts due to/from third-party payers	4,961,270	(4,922,810)
Accounts payable and accrued expenses	14,495,630	(4,515,613)
Other assets and liabilities	(17,185,233)	13,838,655
	<u>\$ 6,447,854</u>	<u>\$ (6,464,913)</u>
Net cash provided by (used in) operating activities	<u>\$ 6,447,854</u>	<u>\$ (6,464,913)</u>

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Notes to Financial Statements
December 31, 2021 and 2020

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 currently operates twenty-eight long-term care nursing facilities (LTC) through various lease arrangements as of December 31, 2021 (previously thirty 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.

Daviess Community Hospital

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Notes to Financial Statements **December 31, 2021 and 2020**

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.

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.

Daviess Community Hospital
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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.

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, 2021 and 2020.

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.

Daviess Community Hospital

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Notes to Financial Statements **December 31, 2021 and 2020**

Compensated Absences

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

Net Position

Net position of the Hospital is classified in three components 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), the *American Rescue Plan Act* (ARPA 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.

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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.

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.

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. In fiscal year 2023, the Hospital will implement GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The statement provides a framework for accounting for subscription-based information technology arrangements (SBITAs) where a government would recognize a right-to-use subscription asset and corresponding subscription liability. The Hospital has not determined the impact of these new standards on its financial statements; however, they could have a material future impact.

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Notes to Financial Statements **December 31, 2021 and 2020**

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 69% and 72% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2021 and 2020, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana law and, as such, is eligible to receive supplemental Medicaid payments. The amounts of these supplemental payments are dependent on regulatory approval by agencies of the federal and state governments and is determined by level, extent and cost of uncompensated care and various other factors. Supplemental payments have been made by the State of Indiana, and the Hospital records such amounts as revenue when it has been reasonably determined that the funds will be received. The Hospital recognized approximately \$624,000 within net patient service revenue related to this supplemental payment program for each of the years ended December 31, 2021 and 2020. Amounts outstanding at December 31, 2021 and 2020 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 \$4.8 million and \$3.7 million of assessed fees related to the Medicaid program in 2021 and 2020, 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, 2021.

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, 2021. 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.

The amounts outstanding and owed under the assessment fee program approximated \$1,465,000 and \$107,000 at December 31, 2021 and 2020, 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 \$47,444,000 and \$46,604,000 related to this supplemental payment program for the years ended December 31, 2021 and 2020, respectively. At December 31, 2021 and 2020, respectively, approximately \$9,986,000 and \$11,213,000 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, 2021 and 2020

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, 2021 and 2020, the Hospital had the following investments and maturities:

December 31, 2021					
Maturities in Years					
Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
Money market mutual funds	\$ 3,264,008	\$ 3,264,008	\$ -	\$ -	\$ -

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	\$ -	\$ -	\$ -

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, 2021 and 2020, the Hospital's investments were not rated.

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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:

	2021	2020
Carrying value:		
Deposits	\$ 60,920,752	\$ 50,536,645
Investments	3,264,008	1,749,607
	\$ 64,184,760	\$ 52,286,252
Included in the following balance sheets captions:		
Cash	\$ 60,633,367	\$ 50,254,690
Noncurrent cash and investments	3,551,393	2,031,562
	\$ 64,184,760	\$ 52,286,252

Nonnegotiable certificates of deposit totaling \$268,726 and \$263,332 are included in deposit balances at December 31, 2021 and 2020, respectively.

Investment Income

Investment income for the years ended December 31 consisted of:

	2021	2020
Interest and dividend income	\$ 125,985	\$ 133,010

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Notes to Financial Statements December 31, 2021 and 2020

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:

	2021	2020
Medicare	\$ 9,223,821	\$ 11,882,414
Medicaid	14,011,476	11,115,791
Other third-party payors	8,832,539	7,214,316
Patients	5,810,604	4,910,198
	37,878,440	35,122,719
Less allowance for uncollectible accounts	(7,062,881)	(5,297,715)
	\$ 30,815,559	\$ 29,825,004

Note 5: Capital Assets

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

	2021				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 1,280,955	\$ -	\$ -	\$ -	\$ 1,280,955
Land improvements	687,865	-	-	-	687,865
Buildings and leasehold improvements	51,925,456	1,401,887	(1,250,328)	-	52,077,015
Equipment	42,322,767	1,165,285	(328,463)	790,369	43,949,958
Construction in progress	230,502	626,498	-	(790,369)	66,631
	96,447,545	3,193,670	(1,578,791)	-	98,062,424
Less accumulated depreciation:					
Land improvements	685,130	810	-	-	685,940
Buildings and leasehold improvements	27,773,965	2,295,022	(391,976)	-	29,677,011
Equipment	33,952,661	1,882,380	(323,943)	-	35,511,098
	62,411,756	4,178,212	(715,919)	-	65,874,049
Capital assets, net	\$ 34,035,789	\$ (984,542)	\$ (862,872)	\$ -	\$ 32,188,375

Daviness Community Hospital

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Notes to Financial Statements December 31, 2021 and 2020

	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
	<u>92,643,807</u>	<u>4,645,609</u>	<u>(841,871)</u>	<u>-</u>	<u>96,447,545</u>
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
	<u>58,827,954</u>	<u>4,094,151</u>	<u>(510,349)</u>	<u>-</u>	<u>62,411,756</u>
Capital assets, net	<u>\$ 33,815,853</u>	<u>\$ 551,458</u>	<u>\$ (331,522)</u>	<u>\$ -</u>	<u>\$ 34,035,789</u>

Per the terms of the Hospital's management agreements discussed in Note 16, capital assets approximating \$863,000 and \$312,000 were transferred to the manager upon closure of facilities or other disposition during 2021 and 2020, respectively, and are recorded as additional contract fee expense under these agreements.

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, 2019 to a maximum recovery of \$1,800,000 per occurrence, \$500,000 of which would be paid through malpractice 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, 2021 and 2020

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 2021 and 2020, is summarized as follows:

	2021	2020
Balance, beginning of year	\$ 458,100	\$ 325,200
Current year claims incurred and changes in estimate	4,578,248	3,776,407
Claims and expenses paid	(4,711,148)	(3,643,507)
Balance, end of year	\$ 325,200	\$ 458,100

Note 8: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at December 31, 2021 and 2020 consisted of:

	2021	2020
Payable to suppliers and contractors	\$ 45,704,123	\$ 31,086,414
Payable to employees (including payroll taxes and benefits)	2,155,008	2,149,328
Balance, end of year	\$ 47,859,131	\$ 33,235,742

Daviness Community Hospital

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Notes to Financial Statements December 31, 2021 and 2020

Note 9: Long-Term Obligations

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

	2021				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Series 2020 refunding revenue bonds	\$ 11,235,435	\$ -	\$ -	\$ 11,235,435	\$ 1,409,493
Capital lease obligations	2,277,669	-	(644,238)	1,633,431	575,937
Total long-term debt	<u>13,513,104</u>	-	(644,238)	12,868,866	1,985,430
Other liabilities:					
Medicare advance payments	14,067,167	-	(13,180,782)	886,385	886,385
Total long-term obligations	<u>\$ 27,580,271</u>	\$ -	\$ (13,825,020)	<u>\$ 13,755,251</u>	<u>\$ 2,871,815</u>
	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	<u>16,819,599</u>	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	<u>\$ 16,819,599</u>	<u>\$ 25,302,602</u>	<u>\$ (14,541,930)</u>	<u>\$ 27,580,271</u>	<u>\$ 11,514,871</u>

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, 2021 and 2020

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 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, 2021 are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
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	1,620,618	1,541,766	78,852
2027-2029	3,896,137	3,813,542	82,595
	<u>\$ 11,970,560</u>	<u>\$ 11,235,435</u>	<u>\$ 735,125</u>

Daviess Community Hospital
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Notes to Financial Statements
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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, 2021:

2022	\$	635,805
2023		545,400
2024		145,400
2025		145,400
2026		145,400
2027-2028		169,633
Total minimum lease payments		1,787,038
Less amount representing interest		153,607
Present value of future minimum lease payments	\$	1,633,431

Assets under capital leases at December 31, totaled:

	2021	2020
Machinery and equipment	\$ 4,404,692	\$ 4,404,692
Accumulated depreciation	(2,370,105)	(1,879,060)
	\$ 2,034,587	\$ 2,525,632

Note 10: Line of Credit

The Hospital has a \$30,000,000 revolving bank line of credit, which expired on December 14, 2022 and was subsequently renewed with an amended expiration date of December 14, 2023. There was \$18,701,274 and \$18,217,896 borrowed against this line at December 31, 2021 and 2020, respectively. The line is collateralized by certain deposit accounts held with the bank. Interest varies with the bank's prime rate less 1.25%, with a minimum rate of 2.00%, which was the effective rate on December 31, 2021, and is payable monthly.

Daviess Community Hospital
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Notes to Financial Statements
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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 \$452,957 and \$420,419 during 2021 and 2020, 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 \$3,264,008 and \$1,749,607 at December 31, 2021 and 2020, 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.

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Notes to Financial Statements
December 31, 2021 and 2020

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: Noncapital Appropriations – Daviess County

Daviess County, of which the Hospital is a component unit, subsidized the Hospital for providing the County with ambulance service. The Hospital recognizes these payments as nonoperating revenue. The Hospital recognized subsidy revenue of approximately \$594,000, for the year ended 2021.

Daviness Community Hospital

A Component Unit of Daviness County, Indiana

Notes to Financial Statements December 31, 2021 and 2020

Note 15: Condensed Combining Information

The following tables include condensed combining balance sheet information for the Hospital and its blended component unit as of December 31, 2021 and 2020:

	December 31, 2021		
	Hospital	Foundation	Total
Assets			
Current assets	\$ 111,062,377	\$ 163,490	\$ 111,225,867
Capital assets, net	32,188,375	-	32,188,375
Other assets	8,381,509	287,385	8,668,894
Total assets	<u>151,632,261</u>	<u>450,875</u>	<u>152,083,136</u>
Deferred Outflows of Resources	<u>1,583,197</u>	<u>-</u>	<u>1,583,197</u>
Total assets and deferred outflows of resources	<u>\$ 153,215,458</u>	<u>\$ 450,875</u>	<u>\$ 153,666,333</u>
Liabilities			
Current liabilities	\$ 70,309,755	\$ -	\$ 70,309,755
Noncurrent liabilities	10,883,436	-	10,883,436
Total liabilities	<u>81,193,191</u>	<u>-</u>	<u>81,193,191</u>
Net Position			
Net investment in capital assets	20,902,706	-	20,902,706
Restricted	3,145,233	-	3,145,233
Unrestricted	47,974,328	450,875	48,425,203
Total net position	<u>72,022,267</u>	<u>450,875</u>	<u>72,473,142</u>
Total liabilities and net position	<u>\$ 153,215,458</u>	<u>\$ 450,875</u>	<u>\$ 153,666,333</u>
	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	<u>1,806,707</u>	<u>-</u>	<u>1,806,707</u>
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>

Daviess Community Hospital

A Component Unit of Daviess County, Indiana

Notes to Financial Statements December 31, 2021 and 2020

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, 2021 and 2020.

	December 31, 2021		
	Hospital	Foundation	Total
Operating Revenue			
Net patient service revenue	\$ 249,142,880	\$ -	\$ 249,142,880
Other operating revenue	48,910,229	-	48,910,229
Total operating revenue	<u>298,053,109</u>	<u>-</u>	<u>298,053,109</u>
Operating Expenses			
Salaries, wages, contract labor and employee benefits	142,082,312	-	142,082,312
Purchased services and professional fees	51,904,106	-	51,904,106
Depreciation and amortization	4,181,725	-	4,181,725
Other operating expenses	99,524,211	238,610	99,762,821
Total operating expenses	<u>297,692,354</u>	<u>238,610</u>	<u>297,930,964</u>
Operating Income (Loss)	<u>360,755</u>	<u>(238,610)</u>	<u>122,145</u>
Nonoperating Revenue (Expenses)			
Investment return	120,533	5,452	125,985
Interest expense	(722,128)	-	(722,128)
Noncapital grants and contributions	11,735,780	283,324	12,019,104
Other	597,370	-	597,370
	<u>11,731,555</u>	<u>288,776</u>	<u>12,020,331</u>
Increase in Net Position	<u>\$ 12,092,310</u>	<u>\$ 50,166</u>	<u>\$ 12,142,476</u>
	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>

Daviess Community Hospital
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Notes to Financial Statements
December 31, 2021 and 2020

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

The Hospital has entered into various agreements to lease the facilities and equipment for the operation of thirty 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 \$22.4 million and \$25.7 million in 2021 and 2020, respectively.

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 \$20.7 million and \$44.9 million in 2021 and 2020, 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 deposits, receivable accounts and other assets approximating \$22.0 million and \$21.2 million at December 31, 2021 and 2020.

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Notes to Financial Statements
December 31, 2021 and 2020

Note 17: COVID-19 Pandemic, CARES Act Funding and Other 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, as well as suspended elective procedures by health care facilities.

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. 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 government-imposed restrictions 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, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure.

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 access to liquidity and on the inputs and 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 years ended December 31, 2021 and 2020, the Hospital received \$6.7 million and \$29.4 million, respectively, of distributions from the CARES Act Provider Relief Fund and the ARPA Act Relief Fund (collectively, Provider Relief Funds). These distributions from the Provider Relief Funds 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 and lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services (HHS).

The Hospital accounts 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.

Daviess Community Hospital
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December 31, 2021 and 2020

Based on an analysis of the compliance and reporting requirements of the Provider Relief Funds and the effect of the pandemic on the Hospital's operating revenues and expenses through December 31, 2021, the Hospital recognized approximately \$10.4 million and \$25.1 million, respectively, during the years ended December 31, 2021 and 2020, respectively. The unrecognized amount of Provider Relief Fund distributions are recorded as part of unearned grant revenue in the accompanying balance sheets at December 31, 2021 and 2020.

The Hospital has recognized revenue from the Provider Relief Funds based on guidance issued by HHS as of December 31, 2021 and any clarifications issued by HHS subsequent to year-end, including any referenced above as recognized subsequent events. The Hospital will continue to monitor compliance with the terms and conditions of the Provider Relief Funds 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, its 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 Funds reporting could differ. Provider Relief Fund payments are subject to government oversight, including potential audits.

Medicare Advance Payments

As part of the CARES Act legislation, the Centers for Medicare & Medicaid Services (CMS) expanded the existing Accelerated and Advance Payments Program to a broad group of Medicare Part A providers as a means to provide additional cash flow at the onset of the COVID-19 pandemic in March 2020. The Hospital met the eligibility criteria and was approved for advance payments, receiving approximately \$14.1 million in 2020. Under the terms of the program, repayment of the funds began one year from the date the advance payment was issued (April 2021 for the Hospital); beginning then and continuing through February 2022, the advance payments are being recouped at a rate of 25% of any Medicare payments owed to the Hospital. Beginning with month 12 (March 2022), the recoupment rate increases to 50%, with a lump-sum due for any remaining balance at the conclusion of month 17 (August or September 2022).

As of December 31, 2020, the \$14.1 million of outstanding advance payments was recorded as a current portion (\$10.9 million) and a noncurrent portion (\$3.2 million) based on estimates driven by historical and projected future Medicare claims volumes. Amounts outstanding at December 31, 2021 approximated \$886,000 after recoupment and voluntary repayments and are recorded as a current liability with expected repayment in 2022.

Daviess Community Hospital
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Notes to Financial Statements
December 31, 2021 and 2020

Other COVID-19 Funding

The Hospital received additional state and federal grants and awards in 2021 and 2020, 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.

Note 18: Subsequent Events

Subsequent to year-end, the Hospital entered into various construction agreements for renovation of its existing facilities with a guaranteed maximum project cost of \$6,080,000. At other dates subsequent to year-end, the Hospital ceased operating two 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, 2021

Assets and Deferred Outflows of Resources

	2021			
	Hospital	LTC	Hospital Foundation	Total
Current Assets				
Cash	\$ 20,651,868	\$ 39,818,009	\$ 163,490	\$ 60,633,367
Patient accounts receivable, net of allowance of \$7,062,881	9,193,123	21,622,436	-	30,815,559
Supplies	1,968,271	-	-	1,968,271
Prepaid expenses and other	1,557,305	16,251,365	-	17,808,670
Total current assets	<u>33,370,567</u>	<u>77,691,810</u>	<u>163,490</u>	<u>111,225,867</u>
Noncurrent Cash and Investments				
Internally designated	118,775	-	287,385	406,160
Held by trustee for debt service	3,145,233	-	-	3,145,233
	<u>3,264,008</u>	<u>-</u>	<u>287,385</u>	<u>3,551,393</u>
Capital Assets, net	<u>27,105,561</u>	<u>5,082,814</u>	<u>-</u>	<u>32,188,375</u>
Other Assets	<u>843,306</u>	<u>4,274,195</u>	<u>-</u>	<u>5,117,501</u>
Deferred Outflows of Resources - debt defeasance costs	<u>1,583,197</u>	<u>-</u>	<u>-</u>	<u>1,583,197</u>
Total assets and deferred outflows of resources	<u>\$ 66,166,639</u>	<u>\$ 87,048,819</u>	<u>\$ 450,875</u>	<u>\$ 153,666,333</u>

Liabilities and Net Position

Current Liabilities				
Current maturities of long-term debt	\$ 1,985,430	\$ -	\$ -	\$ 1,985,430
Line of credit	-	18,701,274	-	18,701,274
Accounts payable and accrued expenses	8,322,697	39,536,434	-	47,859,131
Unearned grant revenue	590,300	-	-	590,300
Medicare advance payments	-	886,385	-	886,385
Estimated amounts due to third-party payors	287,235	-	-	287,235
Total current liabilities	<u>11,185,662</u>	<u>59,124,093</u>	<u>-</u>	<u>70,309,755</u>
Long-Term Obligations	<u>10,883,436</u>	<u>-</u>	<u>-</u>	<u>10,883,436</u>
Total liabilities	<u>22,069,098</u>	<u>59,124,093</u>	<u>-</u>	<u>81,193,191</u>
Net Position				
Net investment in capital assets	15,819,892	5,082,814	-	20,902,706
Restricted for debt service	3,145,233	-	-	3,145,233
Unrestricted	25,132,416	22,841,912	450,875	48,425,203
Total net position	<u>44,097,541</u>	<u>27,924,726</u>	<u>450,875</u>	<u>72,473,142</u>
Total liabilities and net position	<u>\$ 66,166,639</u>	<u>\$ 87,048,819</u>	<u>\$ 450,875</u>	<u>\$ 153,666,333</u>

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 Statement of Revenues, Expenses and
Changes in Net Position Information
Year Ended December 31, 2021

	2021			Total
	Hospital	LTC	Hospital Foundation	
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts of \$7,152,394	\$ 64,475,028	\$ 184,667,852	\$ -	\$ 249,142,880
Other	1,188,273	47,721,956	-	48,910,229
Total operating revenues	<u>65,663,301</u>	<u>232,389,808</u>	<u>-</u>	<u>298,053,109</u>
Operating Expenses				
Salaries, wages and contract labor	26,079,383	92,479,680	-	118,559,063
Employee benefits	7,313,261	16,209,988	-	23,523,249
Purchased services and professional fees	13,040,520	38,863,586	-	51,904,106
Supplies	8,608,348	14,494,017	-	23,102,365
Insurance	806,432	3,280,370	-	4,086,802
Utilities	1,125,072	5,643,741	-	6,768,813
Rent	345,798	27,787,813	-	28,133,611
Repairs and maintenance	5,208,856	1,944,032	-	7,152,888
Provider hospital assessment fee	4,805,737	-	-	4,805,737
Depreciation and amortization	3,235,336	946,389	-	4,181,725
Other	2,230,459	23,243,536	238,610	25,712,605
Total operating expenses	<u>72,799,202</u>	<u>224,893,152</u>	<u>238,610</u>	<u>297,930,964</u>
Operating Income (Loss)	<u>(7,135,901)</u>	<u>7,496,656</u>	<u>(238,610)</u>	<u>122,145</u>
Nonoperating Revenues (Expenses)				
Investment income	104,537	15,996	5,452	125,985
Interest expense	(569,214)	(152,914)	-	(722,128)
Noncapital appropriations - Daviess County	594,000	-	-	594,000
Noncapital grants and contributions	4,623,003	7,112,777	283,324	12,019,104
Other	3,370	-	-	3,370
Total nonoperating revenues (expenses)	<u>4,755,696</u>	<u>6,975,859</u>	<u>288,776</u>	<u>12,020,331</u>
Excess (Deficiency) of Revenues Over Expenses Before Transfers	<u>(2,380,205)</u>	<u>14,472,515</u>	<u>50,166</u>	<u>12,142,476</u>
Transfers	<u>11,679,904</u>	<u>(11,679,904)</u>	<u>-</u>	<u>-</u>
Increase in Net Position	<u>9,299,699</u>	<u>2,792,611</u>	<u>50,166</u>	<u>12,142,476</u>
Net Position, Beginning of Year	<u>34,797,842</u>	<u>25,132,115</u>	<u>400,709</u>	<u>60,330,666</u>
Net Position, End of Year	<u>\$ 44,097,541</u>	<u>\$ 27,924,726</u>	<u>\$ 450,875</u>	<u>\$ 72,473,142</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			
	Hospital	LTC	Hospital Foundation	Total
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 (expenses)	<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	(1,273,710)	13,897,187	(13,694)	12,609,783
Transfers	<u>11,007,884</u>	<u>(11,007,884)</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	9,734,174	2,889,303	(13,694)	12,609,783
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
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2021

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Health and Human Services				
COVID-19 - Provider Relief Fund	93.498	Direct	\$ -	\$ 29,383,158
COVID-19 - HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund	93.461	Direct	-	94,461
COVID-19 - Rural Health Clinic COVID-19 Testing and Mitigation Program	93.697	Direct	-	500,000
Pass-through Programs				
Indiana Department of Health				
COVID-19 - Epidemiology and Laboratory Capacity for Infection Diseases	93.323	62323	-	982,455
<i>Total U.S. Department of Health and Human Services</i>			<u>\$ -</u>	<u>\$ 30,960,074</u>

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Notes to the Schedule of Expenditures of Federal Awards
Year Ended December 31, 2021

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Daviess Community Hospital, a component unit of Daviess County, Indiana (the Hospital), under programs of the federal government for the year ended December 31, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Hospital, it is not intended to and does not present the financial position, changes in net position or cash flows of the Hospital.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3: Indirect Cost Rate

Daviess Community Hospital has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4: Federal Loan Programs

Daviess Community Hospital administered no federal loan programs for the year ended December 31, 2021.

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
Daviness 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 Daviness Community Hospital (Hospital), a component unit of Daviness County, Indiana, which comprise the balance sheet as of December 31, 2021, 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 January 30, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) as a basis for 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 the Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2021-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2021-002 to be a significant deficiency.

Report on Compliance and Other Matters

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

The Hospital's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Hospital's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Hospital's response was not subjected to the other auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the response.

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.

FORVIS,LLP

Indianapolis, Indiana
January 30, 2023

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

Board of Governors
Daviness Community Hospital
Washington, Indiana

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Daviness Community Hospital's, a component unit of Daviness County, Indiana (Hospital) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended December 31, 2021. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Hospital complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Hospital's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Hospital's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over compliance. Accordingly, no such opinion is expressed.

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2021-003 and 2021-004. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Hospital's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Hospital's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response. The Hospital is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The Hospital's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the “Auditor’s Responsibilities for the Audit of Compliance” section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2021-003 and 2021-004 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Government Auditing Standards requires the auditor to perform limited procedures on the Hospital’s response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Hospital’s response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response. The Hospital is responsible for preparing a corrective action plan to address each audit finding included in our auditor’s report. The Hospital’s corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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

FORVIS,LLP

Indianapolis, Indiana
January 30, 2023

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Schedule of Findings and Questioned Costs
Year Ended December 31, 2021

Section I - Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP):
 Unmodified Qualified Adverse Disclaimer
2. Internal control over financial reporting:
- Significant deficiency(ies) identified? Yes None reported
- Material weakness(es) identified? Yes No
3. Noncompliance material to the financial statements noted? Yes No

Federal Awards

4. Internal control over major federal awards programs:
- Significant deficiency(ies) identified? Yes None reported
- Material weakness(es) identified? Yes No
5. Type of auditor's report issued on compliance for major federal program(s):
 Unmodified Qualified Adverse Disclaimer
6. Any audit findings disclosed that are required to be reported by 2 CFR 200.516(a)? Yes No

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2021

7. Identification of major federal programs:

Assistance Listing Numbers	Name of Federal Program or Cluster
93.498	COVID-19 – Provider Relief Fund
93.323	COVID-19 – Epidemiology and Laboratory Capacity for Infection Diseases

8. Dollar threshold used to distinguish between Type A and Type B programs: \$928,802

9. Auditee qualified as a low-risk auditee? Yes No

Section II – Financial Statement Findings

Reference Number	Finding
2021-001	<p>Criteria: Internal Control Over Financial Reporting - Indiana Code 5-11-1-27, requires the Hospital to adopt a minimum level of internal control standards and internal control procedures as developed by the Indiana State Board of Accounts and published in the <i>Uniform Internal Control Standards for Indiana Political Subdivisions</i>. Also, <i>Government Auditing Standards</i> section 6.40 requires auditors to report on internal control over financial reporting where findings rise to the level of a significant deficiency or material weakness.</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>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. Material adjustments were required to the information provided by third-party managers to appropriately reflect the operations of the nursing homes.</p> <p>Effect or Potential 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 material misstatements in the financial statements could occur and not be detected and/or corrected in a timely manner.</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>

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2021

Section II – Financial Statement Findings (Continued)

Reference Number	Finding
2021-002	<p>Criteria: Internal Control Over Financial Reporting - Indiana Code 5-11-1-27, requires the Hospital to adopt a minimum level of internal control standards and internal control procedures as developed by the Indiana State Board of Accounts and published in the <i>Uniform Internal Control Standards for Indiana Political Subdivisions</i>. Also, <i>Government Auditing Standards</i> section 6.40 requires auditors to report on internal control over financial reporting where findings rise to the level of a significant deficiency or material weakness.</p> <p>Condition: The Hospital did not properly account for distributions of Provider Relief Funds received during the current fiscal year.</p> <p>Cause: Hospital management aggregated expenses and lost revenues attributable to COVID-19 as reported through the Provider Relief Fund reporting portal. These amounts were not compared to aggregate Provider Relief Funds received to properly account for these funds across the entity, including the nursing home operations.</p> <p>Effect or Potential Effect: Noncapital grants and contributions were not recorded in the proper period where the Hospital had satisfied the terms and conditions associated with the award as reported through the Provider Relief Fund reporting portal.</p> <p>Recommendation: We recommend that the Hospital continue to track expenses and lost revenues and compare these amounts to aggregate Provider Relief Funds to determine that noncapital grants and contributions are recorded in the appropriate period as the terms and conditions are satisfied.</p> <p>Views of Responsible Officials and Planned Corrective Action: We concur. Management continues to evaluate current controls related to accounting for the Provider Relief Funds to ensure that transactions are accounted for in the proper period. We do not expect continued funding under this program into the future.</p>

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2021

Section III – Federal Award Findings and Question Costs

Reference Number	Finding
2021-003	<p>Federal Program Name: COVID – 19 Provider Relief Fund (PRF)</p> <p>Federal Agency: U.S. Department of Health and Human Services</p> <p>Federal Assistance Listing Title and Number: COVID-19 Provider Relief Fund, 93.498</p> <p>Criteria or Specific Requirement: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Reporting - 2 CFR 200.303(a) requires a non-Federal entity to establish and maintain effective internal control over Federal awards that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Also, per the terms and conditions of the Provider Relief Fund, amounts are to be used to prevent, prepare for, and respond to coronavirus and payments shall only be used to reimburse the Hospital for health care related expenses or lost revenues that are attributable to coronavirus.</p> <p>Condition: Lost revenues attributable to COVID-19 were not properly calculated and reported for Provider Relief Fund Portal reporting Period 2.</p> <p>Questioned Costs: None</p> <p>Context: The Hospital reported lost revenues using the actual revenues for 2021 and 2022 compared to actual revenues for 2019. During specific quarters in Period 2 reporting, the Hospital did not include patient revenues from the nursing home supplemental payment program in its calculation of lost revenues. This presentation did not conform with guidance published by the Health Resources and Services Administration (HRSA). Errors were identified by reconciling figures to underlying financial information.</p> <p>Effect: The Hospital did not properly calculate, and report lost revenues.</p> <p>Cause: Internal controls surrounding the review and submission of required reports were not adequately applied to ensure accuracy of required elements.</p> <p>Repeat Findings: No</p> <p>Recommendation: We recommend the Hospital evaluate lost revenues in future reporting submissions to HRSA under published guidance.</p> <p>Views of Responsible Officials and Planned Corrective Action: We concur. Management continues to evaluate the current controls related to reporting to ensure amounts are appropriately stated. Under a revised calculation, utilizing detailed listings of expenses and updated lost revenue calculations, we have adequate expenses and lost revenues to support funding reported for Periods 1 and 2.</p>

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2021

Section III – Federal Award Findings and Question Costs (Continued)

Reference Number	Finding
2021-004	<p>Federal Program Name: COVID – 19 Provider Relief Fund (PRF)</p> <p>Federal Agency: U.S. Department of Health and Human Services</p> <p>Federal Assistance Listing Title and Number: COVID-19 Provider Relief Fund, 93.498</p> <p>Criteria or Specific Requirement: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Reporting - 2 CFR 200.303(a) requires a non-Federal entity to establish and maintain effective internal control over Federal awards that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Also, per the terms and conditions of the Provider Relief Fund, amounts are to be used to prevent, prepare for, and respond to coronavirus and payments shall only be used to reimburse the Hospital for health care related expenses or lost revenues that are attributable to coronavirus.</p> <p>Condition: Expenses attributable to COVID-19 were not properly reported for Provider Relief Fund Portal reporting Periods 1 and 2 when compared to detailed listings of expenses attributable to COVID-19.</p> <p>Questioned Costs: None</p> <p>Context: The Hospital reported incorrect expense amounts when compared to detailed expense listings provided by third-party nursing home managers and aggregated with Hospital information to report on a combined basis. Errors were identified by reconciling the entirety of the expense population to underlying summary expense information previously accumulated and reported for Periods 1 and 2.</p> <p>Effect: The Hospital did not properly report expenses attributable to COVID-19.</p> <p>Cause: Internal controls surrounding the review and submission of required reports were not adequately applied to ensure accuracy of required elements.</p> <p>Repeat Findings: No</p> <p>Recommendation: We recommend the Hospital reconcile summary information to detailed records prior to future reporting submissions to ensure that all information is complete and does not duplicate amounts reported in previous periods or omit amounts within detailed listings.</p> <p>Views of Responsible Officials and Planned Corrective Action: We concur. Management continues to evaluate the current controls related to reporting to ensure amounts are appropriately stated. Under a revised calculation, utilizing detailed listings of expenses and updated lost revenue calculations, we have adequate expenses and lost revenues to support funding reported for Periods 1 and 2.</p>

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2021

Reference Number	Summary of Finding	Status
2020-001	The Hospital did not timely receive or review periodic financial reporting of the nursing home operations as prepared by the third-party managers.	Not Resolved - see current year finding 2021-001

Corrective Action Plan

Year ended December 31, 2021

Reference	Corrective Action	Contact Person(s)
2021-001	<p>Internal Controls Over Financial Reporting – The following steps have been taken or will be taken to address Finding 2021-001:</p> <ul style="list-style-type: none"> • Daviness Community Hospital continues to stay focused and committed to timely receipt of interim financials from its nursing home partners. • Daviness Community Hospital will commit to review and monitor nursing home financials in order to have improved oversight with its nursing home operations. 	<p>Mandy Rodewald, Daviness Community Hospital Arodewald@dchosp.org 812-254-2760</p>
2021-002	<p>Internal Controls Over Financial Reporting – The following steps have been taken or will be taken to address Finding 2021-002:</p> <ul style="list-style-type: none"> • Daviness Community Hospital will review additional Provider Relief Funds if received to ensure appropriate accounting across all operations in the period the terms and conditions are satisfied 	<p>Mandy Rodewald, Daviness Community Hospital Arodewald@dchosp.org 812-254-2760</p>
2021-003	<p>Findings Reported by Uniform Guidance – The following steps have been taken or will be taken to address Finding 2021-003:</p> <ul style="list-style-type: none"> • Daviness Community Hospital plans to monitor controls related to reporting to ensure amounts are appropriately stated. • Daviness Community Hospital will update amounts in Provider Relief Fund Reporting Period #4 to correct previously reported amounts. 	<p>Mandy Rodewald, Daviness Community Hospital Arodewald@dchosp.org 812-254-2760</p>

2021-004	Findings Reported by Uniform Guidance – The following steps have been taken or will be taken to address Finding 2021-003: <ul style="list-style-type: none">• Daviness Community Hospital plans to monitor controls related to reporting to ensure amounts are appropriately stated.• Daviness Community Hospital will update amounts in Provider Relief Fund Reporting Period #4 to correct previously reported amounts.	Mandy Rodewald, Daviness Community Hospital Arodewald@dchosp.org 812-254-2760
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