Daviess Community Hospital

A Component Unit of Daviess County, Indiana

Independent Auditor's Report and Financial Statements

December 31, 2023

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
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Independent Auditor's Report

Board of Governors
Daviess Community Hospital
Washington, Indiana

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of Daviess Community Hospital (Hospital), a component unit of Daviess County, Indiana, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

We do not express an opinion on the accompanying financial statements of the Hospital. Because of the significance of the matter described in the "Basis for Disclaimer of Opinion" section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

Basis for Disclaimer of Opinion

As explained more fully in Note 1, a substantial portion of the Hospital's financial position and changes in its financial position and its cash flows are derived from operations of ten long-term care nursing facilities managed by a separate third-party manager (Omitted Long-term Care Operations). We were not provided access to the management and financial records of Omitted Long-term Care Operations and were unable to fully determine the nature and volume of transactions to be incorporated into the Hospital's financial statements for the year ended December 31, 2023.

Emphasis of Matter

As discussed in Note 2 to the financial statements, in 2023, the Hospital adopted Governmental Accounting Standards Board Statement No, 96, *Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

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 within one year after the date that these financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the Hospital's financial statements in accordance with auditing standards generally accepted in the United States of America and to issue an auditor's report. However, because of the matter described in the "Basis for Disclaimer of Opinion" section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are required to be independent of the Hospital and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2024, 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 Mazars, LLP

Indianapolis, Indiana
December 23, 2024

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Balance Sheet
December 31, 2023

		2023
Assets and Deferred Outflows of Resources		
Current Assets		
Cash	$ 40,695,228	
Patient accounts receivable, net of allowance of $4,971,448	25,941,133	
Supplies	2,396,947	
Prepaid expenses and other	8,976,258	
Total current assets		$ 78,009,566
Noncurrent Cash and Investments		
Internally designated	413,941	
Held by trustee for debt service	3,186,379	
Total noncurrent cash and investments		3,600,320
Capital Assets, net		32,777,400
Lease Assets, net		93,202
Subscription Assets, net		4,010,812
Other Assets		6,327,482
Total assets		124,818,782
Deferred Outflows of Resources - debt defeasance costs		1,136,177
Total assets and deferred outflows of resources		$ 125,954,959

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Balance Sheet (Continued)
December 31, 2023

	2023	
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Current maturities of long-term debt	$ 1,490,067	
Current maturities of lease liabilities	53,341	
Current maturities of subscription liabilities	693,918	
Line of credit	19,615,118	
Accounts payable and accrued expenses	24,556,899	
Estimated amounts due to third-party payors	495,242	
Total current liabilities		$ 46,904,585
Long-Term Obligations		
Long-term obligations	6,845,808	
Lease liabilities, net of current portion	46,529	
Subscription liabilities, net of current portion	3,480,729	
Total noncurrent liabilities		10,373,066
Total liabilities		57,277,651
Deferred Inflows of Resources - lease receivable		136,832
Net Position		
Net investment in capital assets	25,407,199	
Restricted - expendable for		
Debt service	3,186,379	
Capital acquisitions	5,731,857	
Unrestricted	34,215,041	
Total net position		68,540,476
Total liabilities, deferred inflows of resources and net position		$ 125,954,959

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2023

	2023	
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts - $7,221,812	$ 209,118,014	
Other	26,717,765	
Total operating revenues		$ 235,835,779
Operating Expenses		
Salaries, wages and contract labor	96,708,952	
Employee benefits	19,179,035	
Purchased services and professional fees	47,620,652	
Supplies	17,806,685	
Insurance	2,841,938	
Utilities	4,399,790	
Rent	17,923,538	
Repairs and maintenance	5,863,033	
Provider hospital assessment fee	4,805,552	
Depreciation and amortization	4,620,520	
Other	19,813,910	
Total operating expenses		241,583,605
Operating Loss		(5,747,826)
Nonoperating Revenues (Expenses)		
Investment income	942,566	
Interest expense	(1,361,677)	
Other non-operating income	526,371	
Noncapital appropriations - Daviess County	694,167	
Noncapital grants and contributions	1,901,473	
Total nonoperating revenues		2,702,900
Decrease in Net Position		(3,044,926)
Net Position, Beginning of Year		71,585,402
Net Position, End of Year		$ 68,540,476

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Statement of Cash Flows
Year Ended December 31, 2023

		2023
Operating Activities		
Receipts from and on behalf of patients	$ 238,167,486	
Payments to suppliers and contractors	(102,652,142)	
Payments to employees and contract labor	(115,500,377)	
Other payments, net	(24,295,440)	
Net cash used in operating activities		$ (4,280,473)
Noncapital Financing Activities		
Noncapital grants and contributions	1,901,473	
Noncapital appropriations - Daviess County	694,167	
Borrowings on line of credit	19,615,118	
Repayments on line of credit	(14,300,273)	
Other	526,371	
Net cash provided by noncapital financing activities		8,436,856
Capital and Related Financing Activities		
Principal paid on revenue bonds	(1,490,067)	
Principal paid on lease liabilities	(1,112,648)	
Principal paid on subscription liabilities	(638,328)	
Interest paid on long-term debt, lease and subscription liabilities	(1,150,765)	
Purchase of capital assets	(8,068,222)	
Other	(34,554)	
Net cash used in capital and related financing activities		(12,494,584)
Investing Activities		
Interest and dividends on investments	942,566	
Purchase of investments	(5,600)	
Net cash provided by investing activities		936,966
Decrease in Cash		(7,401,235)
Cash, Beginning of Year		48,115,168
Cash, End of Year		$ 40,713,933
Reconciliation of Cash to the Balance Sheet		
Cash		$ 40,695,228
Noncurrent cash and investments - internally designated		18,705
Total cash and restricted cash		$ 40,713,933

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Statement of Cash Flows (Continued)
Year Ended December 31, 2023

		2023
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (5,747,826)	
Depreciation and amortization	4,620,520	
Provision for uncollectible accounts	7,221,812	
Capital assets transferred in-lieu of management fees	2,287,200	
Changes in operating assets and liabilities:		
Patient accounts receivable	(3,676,185)	
Estimated amounts due to/from third-party payors	246,650	
Accounts payable and accrued expenses	(8,941,386)	
Other assets and liabilities	(291,258)	
Net cash used in operating activities		$ (4,280,473)
Supplemental Cash Flow Information		
Capital assets included in accounts payable and accrued expenses		$ 370,720
Capital assets acquired through payment and termination of lease		1,131,642

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-six long-term care nursing facilities (LTC) through various lease arrangements as of December 31, 2023. 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 financial results for ten of the Hospital's long-term care nursing facilities have been omitted from the Hospital's financial statements for the year ended December 31, 2023 as financial results were not provided by the third-party manager. This treatment is a departure from Generally Accepted Accounting Principles as the Hospital holds the license to operate these facilities and is obligated under its management agreements to provide the working capital for the operations of the facilities. The Hospital has reflected the supplemental Medicaid payments associated with these facilities approximating $7.9 million and its estimate of contract fees which were paid and transferred to the nursing facility operating account approximating $5.9 million. During 2023, $2.3 million in capital assets associated with the operations of these facilities were disposed by the Hospital and accounted for as additional contract fee expense as disclosed in Note 7. The remaining impact of excluding the financial position and results of operations of these facilities is not known. Operations of six of these facilities were transferred to a new manager in March 2024 while the remaining four facilities were closed and the lease and management agreements were terminated.

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 board of the Foundation is self-perpetuating. 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. Separate financial statements of the Foundation may be obtained by contacting its office at 1314 East Walnut Street, Washington, IN 47501.

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

Operating Activities

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

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 inflows and 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.

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.

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.

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. 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

Lease Assets

Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payments made at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease, plus initial direct costs that are ancillary to place the asset into service. Lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Subscription Assets

Subscription assets are initially recorded at the initial measurement of the subscription liability, plus subscription payments made at or before the commencement of the subscription-based information technology arrangement (SBITA) term, less any SBITA vendor incentives received from the SBITA vendor at and certain payments made before the commencement of the SBITA term, plus capitalizable initial implementation costs. Subscription assets are amortized on a straight-line basis over the shorter of the SBITA term or the useful life of the underlying IT asset.

Capital, Lease and Subscription Asset Impairment

The Hospital evaluates capital, lease and subscription assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital, lease or subscription asset has occurred. If a capital, lease or subscription asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation or amortization is increased by the amount of the impairment loss. No asset impairment was recognized during the year ended December 31, 2023.

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 sheet.

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.

Deferred Inflows of Resources

The Hospital reports an acquisition of net position that is applicable to a future reporting period as deferred inflows of resources in a separate section of its balance sheet.

Net Position

Net position of the Hospital is classified in three components on its balance sheet:

- Net investment in capital assets consists of capital, lease and subscription assets net of accumulated depreciation amortization and reduced by the outstanding balances of borrowings, lease and subscription liabilities used to finance the purchase, use, or construction of those assets.
- Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, donors or others 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.

Net Patient Service Revenue

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

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

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.

Future Accounting Standards

In fiscal year 2024, the Hospital will be required to implement GASB Statement No. 100, *Accounting Changes and Error Corrections* – an amendment of GASB Statement No. 62, which prescribes the accounting and reporting for each type of accounting change and error corrections. Also in fiscal year 2024, the Hospital will be required to implement GASB Statement No. 101, *Compensated Absences*, which updates the recognition and measurement guidance for compensated absences.

The Hospital has not determined the impact of these new standards to its financial statements; however, they could have a material future impact.

Note 2. Adoption of New Accounting Standard – GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs)

On January 1, 2023, the Hospital implemented GASB Statement No. 96, SBITAs (GASB No. 96). This statement requires governments to recognize certain subscription assets and liabilities for agreements that previously were classified as operating expenses and recognized as outflows of resources based on the payment provisions of the contract. The adoption of GASB No. 96 did not result in any change to beginning net position. As of January 1, 2023, adoption of the standard resulted in the recognition of subscription assets and liabilities of approximately $4.8 million, measured based upon the facts and circumstances that existed at the beginning of the year. Refer to Notes 7, 11 and 14 for additional disclosures on these balances.

Note 3. 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 very 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 66% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the year ended December 31, 2023. 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 the year ended December 31, 2023. Amounts outstanding at December 31, 2023 approximating $300,000 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.

The Hospital participates in a state-specific provider assessment program to increase Medicaid payments to hospitals. The Hospital incurred approximately $4.8 million of assessed fees related to the Medicaid program in 2023, which is recorded as an operating expense in the statement 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, 2023.

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, 2023. 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 $661,000 at December 31, 2023, 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 $25,435,000 related to this supplemental payment program for the years ended December 31, 2023. At December 31, 2023 approximately $6,663,000 is accrued and included in prepaid expenses and other assets.

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

Note 4. 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, 2023, the Hospital had the following investments and maturities:

	December 31, 2023				
		Maturities in Years			
Type	**Fair Value**	**Less Than 1**	**1-5**	**6-10**	**More Than 10**
Money market mutual funds	$ 3,300,398	$ 3,300,398	$ -	$ -	$ -

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, 2023, the Hospital's investments were not rated.

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

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

Summary of Carrying Values

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

	2023
Carrying value:	
Deposits	$ 40,995,150
Investments	3,300,398
	$ 44,295,548
Included in the following balance sheets captions:	
Cash	$ 40,695,228
Noncurrent cash and investments	3,600,320
	$ 44,295,548

Nonnegotiable certificates of deposit totaling $281,217 is included in deposit balances at December 31, 2023.

Investment Income

Investment income for the year ended December 31 consisted of:

		2023
Interest and dividend income	$	942,566

Note 5. 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:

		2023
Medicare	$	7,377,725
Medicaid		10,655,579
Other third-party payors		6,841,653
Patients		6,037,624
		30,912,581
Less allowance for uncollectible accounts		(4,971,448)
	$	25,941,133

Note 6. Lease Receivable

The Hospital leases a portion of its office space to a third party, the terms of which expire in 2025. Payments are fixed or increase at amounts defined in the lease agreements. Revenue recognized under lease contracts during the year ended December 31, 2023 was approximately $69,400, which includes both lease revenue and interest. Revenue recognized for variable and short-term rental amounts not included in the measurement of leases receivable approximated $137,000 for the year ended December 31, 2023.

Note 7. Capital, Lease, and Subscription Assets

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

	2023				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 1,280,955	$ -	$ -	$ -	$ 1,280,955
Land improvements	687,865	-	-	-	687,865
Buildings and leasehold improvements	49,250,617	1,581,689	(3,549,117)	5,597,774	52,880,963
Equipment	41,181,830	553,140	(117,173)	1,889,403	43,507,200
Construction in progress	827,468	6,304,113	-	(6,355,535)	776,046
	93,228,735	8,438,942	(3,666,290)	1,131,642	99,133,029
Less accumulated depreciation:					
Land improvements	686,530	293	-	-	686,823
Buildings and leasehold improvements	29,695,787	1,784,952	(1,261,917)	-	30,218,822
Equipment	33,793,021	1,808,690	(151,727)	-	35,449,984
	64,175,338	3,593,935	(1,413,644)	-	66,355,629
Capital assets, net	$ 29,053,397	$ 4,845,007	$ (2,252,646)	$ 1,131,642	$ 32,777,400

Lease assets activity for the year ended December 31, 2023 was:

	2023				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Buildings	$ 1,550,769	$ -	$ -	$ (1,550,769)	$ -
Major movable equipment	199,718	-	-	-	199,718
	1,750,487	-	-	(1,550,769)	199,718
Less accumulated amortization:					
Buildings	251,476	167,651	-	(419,127)	-
Major movable equipment	53,258	53,258	-	-	106,516
	304,734	220,909	-	(419,127)	106,516
Lease assets, net	$ 1,445,753	$ (220,909)	$ -	$ (1,131,642)	$ 93,202

Per the terms of the Hospital's management agreements discussed in Note 18, capital assets approximating $2,271,000 were transferred to the manager upon closure of facilities or other disposition during 2023, and are recorded as additional contract fee expense under these agreements.

During 2023, the Hospital entered into a purchase agreement for a building previously leased which required payment of the outstanding lease balance in full. Upon execution, the lease agreement was terminated and the net lease asset was transferred to capital assets.

Subscription asset activity for the year ended December 31 was:

	2023				
	Beginning Balance*	Additions	Disposals	Transfers	Ending Balance
Subscription assets	$ 4,812,975	$ -	$ -	$ -	$ 4,812,975
Less accumulated amortization:					
Subscription assets	-	802,163	-	-	802,163
Subscription assets, net	$ 4,812,975	$ (802,163)	$ -	$ -	$ 4,010,812

* Restated for the adoption of GASB 96, *Subscription-Based Information Technology Arrangements*

Note 8. 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.

Note 9. 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 sheet, during 2023, is summarized as follows:

	2023
Balance, beginning of year	$ 283,846
Current year claims incurred and changes in estimate	3,170,985
Claims and expenses paid	(3,151,143)
Balance, end of year	$ 303,688

Note 10. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at December 31, 2023 consisted of:

	2023
Payable to suppliers and contractors	$ 21,948,882
Payable to employees (including payroll taxes and benefits)	2,608,017
Balance, end of year	$ 24,556,899

Note 11. Long-Term Obligations

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

	2023				
	Beginning Balance*	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Series 2020 refunding revenue bonds	$ 9,825,942	$ -	$ (1,490,067)	$ 8,335,875	$ 1,490,067
Other liabilities:					
Lease liability	1,212,518	-	(1,112,648)	99,870	53,341
Subscription liability	4,812,975	-	(638,328)	4,174,647	693,918
Total long-term liabilities	$ 15,851,435	$ -	$ (3,241,043)	$ 12,610,392	$ 2,237,326

* Restated for the adoption of GASB 96, *Subscription-Based Information Technology Arrangements*

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, 2023 are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
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	1,620,390	1,568,284	52,106
2028	1,620,157	1,595,258	24,899
2029	630,394	624,804	5,590
	$ 8,733,464	$ 8,335,875	$ 397,589

Note 12. Line of Credit

The Hospital has a $30,000,000 revolving bank line of credit, which expired on December 14, 2023 and was subsequently renewed with an amended expiration date of December 2024. There was $19,615,000 borrowed against this line at December 31, 2023. 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 5.25% which was the effective rate on December 31, 2023, and is payable monthly.

Note 13. Lease Liabilities

The Hospital leases equipment, the terms of which expire in 2025. Variable payments based upon the use of the underlying asset or tied to an unknown increase with certain indexes are not included in the lease liability because they are not fixed in substance. During the year ended December 31, 2023, the Hospital recognized approximately $201,000 of rental expense for variable payments and short-term rentals not previously included in the measurement of the lease liability.

The facility leases related to long-term care operations include termination language where either party can terminate without cause with 60 - 90 days written notice. The Hospital recognized approximately $17,722,000 under these agreements as short-term rentals, net of amounts forgiven by managers based on working capital available to fund outstanding amounts. Short-term rentals under long-term care facility lease expenses are excluded from the measurement of the lease liability.

The following is a schedule by year of payments under the leases as of December 31, 2023:

Year Ending December 31,	Total to be Paid	Principal	Interest
2024	$ 57,123	$ 53,341	$ 3,782
2025	47,602	46,529	1,073
	$ 104,725	$ 99,870	$ 4,855

Note 14. Subscription Liabilities

The Hospital has certain subscription-based information technology arrangements (SBITAs), the terms of which expire in December 2028. Variable payments based up the use of underlying information technology assets are not included in the Hospital’s subscription liability because they are not fixed in substance. Information technology and software contract through short-term arrangements are also not included in the Hospital’s subscription liability. During the year ended December 31, 2023, the Hospital recognized approximately $1,699,000 of subscription expense for variable payments and short-term subscriptions not previously included in the measurement of the subscription liability.

The following is a schedule by year of payments under the SBITAs as of December 31:

Year Ending December 31,	Total to be Paid	Principal	Interest
2024	$ 1,041,475	$ 693,918	$ 347,557
2025	1,039,417	756,867	282,550
2026	1,039,417	827,866	211,551
2027	1,039,417	905,526	133,891
2028	1,039,417	990,470	48,947
	$ 5,199,143	$ 4,174,647	$ 1,024,496

Note 15. 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 approximated $537,000 during 2023.

Note 16. 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 $3,300,398 at December 31, 2023 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.

Note 17. Commitments and Contingencies

Construction Commitment

In November 2022, the Hospital entered into a construction agreement for renovation of its existing facilities with a guaranteed maximum project cost of $6,080,000. Work commenced on this project in December 2022 and the Hospital has a remaining committed amount of $2,034,000 related to this project at December 31, 2023.

Billing Compliance

The Hospital is the subject of various reviews regarding specific third-party payor program billing issues. Management believes the Hospital's medical records fully support the codes used and billings submitted and intends to vigorously defend the Hospital should any assertions to the contrary be made. No provision has been made in the financial statements for any adverse outcome that might ultimately result from these matters, as the amount of any such loss is not probable and reasonably estimable. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

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 18. 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 $694,000, for the year ended 2023.

Note 19. Condensed Combining Information

The following table includes condensed combining balance sheet information for the Hospital and its blended component unit as of December 31, 2023:

	December 31, 2023		
	Hospital	Foundation	Total
Assets			
Current assets	$ 77,451,515	$ 558,051	$ 78,009,566
Capital assets, net	32,777,400	-	32,777,400
Other assets	13,731,894	299,922	14,031,816
Total assets	123,960,809	857,973	124,818,782
Deferred Outflows of Resources	1,136,177	-	1,136,177
Total assets and deferred outflows of resources	$ 125,096,986	$ 857,973	$ 125,954,959
Liabilities			
Current liabilities	$ 46,904,585	$ -	$ 46,904,585
Noncurrent liabilities	10,373,066	-	10,373,066
Total liabilities	57,277,651	-	57,277,651
Deferred Inflows of Resources	136,832	-	136,832
Net Position			
Net investment in capital assets	25,407,199	-	25,407,199
Restricted	8,918,236	-	8,918,236
Unrestricted	33,357,068	857,973	34,215,041
Total net position	67,682,503	857,973	68,540,476
Total liabilities and net position	$ 125,096,986	$ 857,973	$ 125,954,959

The following table includes condensed combining statement of revenues, expenses and changes in net position information for the Hospital and its blended component unit for the year ended December 31, 2023:

	December 31, 2023		
	Hospital	**Foundation**	**Total**
Operating Revenue			
Net patient service revenue	$ 209,118,014	$ -	$ 209,118,014
Other operating revenue	26,717,765	-	26,717,765
Total operating revenue	235,835,779	-	235,835,779
Operating Expenses			
Salaries, wages, contract labor and employee benefits	115,887,987	-	115,887,987
Purchased services and professional fees	47,620,652	-	47,620,652
Depreciation and amortization	4,620,520	-	4,620,520
Other operating expenses	73,296,944	157,502	73,454,446
Total operating expenses	241,426,103	157,502	241,583,605
Operating Loss	(5,590,324)	(157,502)	(5,747,826)
Nonoperating Revenue (Expenses)			
Investment return	935,420	7,146	942,566
Interest expense	(1,361,677)	-	(1,361,677)
Nonoperating income	526,371	-	526,371
Noncapital appropriations - Daviess County	694,167	-	694,167
Noncapital grants and contributions	1,406,349	495,124	1,901,473
	2,200,630	502,270	2,702,900
Increase (Decrease) in Net Position	$ (3,389,694)	$ 344,768	$ (3,044,926)

Note 20. 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 $17.7 million in 2023.

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 $22.1 million in 2023 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.

Upon termination of the agreements, capital assets funded through operating revenues revert to the respective landlords. Certain agreements include capital improvement and replacement reserves, which are established at predetermined amounts per licensed bed. These amounts are to be used to fund improvements at the facilities. Upon termination, unspent reserves also revert to the respective landlords. Capital assets and unspent capital improvement and replacement reserves approximated $9.1 million at December 31, 2023.

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 $13.7 million at December 31, 2023.

Note 21. Cyber Incident

During November 2023, the Hospital was party to a cyber-incident where management with, confirmation from external parties, determined it was necessary to disconnect from their network until an assessment of impacts could be completed. It was determined that the underlying incident was with a software vendor and not with the Hospital’s information technology. As a result, the Hospital incurred network downtime which impacted service delivery. The Hospital filed a business interruption claim and was reimbursed approximately $1,764,000 subsequent to year-end related to this matter.

Note 22. Subsequent Events

Subsequent to year-end, the Hospital terminated its lease and management agreements for ten of its existing skilled nursing facilities. Four facilities were closed while six facilities were sold to a separate third-party. The Hospital entered into new lease and management agreements in March 2024 with the new owner of the six facilities under similar terms as the prior lease and management agreements.

In March 2024, the Hospital incurred extensive damages related to a flood in certain areas of the Hospital including surgery, radiology, pharmacy, and laboratory department and various corridors. The extent of the damages was limited to existing infrastructures with minimal damage to major movable equipment. Subsequent to this damage, the Hospital has received estimates approximating $6.6 million in repair expenses and mold remediation. Approximately $3.7 million in repair expense has been incurred subsequent to year-end which has been reimbursed by insurers. The Hospital also received approximately $800,000 in insurance proceeds related to lost revenues and facility downtime. The Hospital amended its existing construction agreement to include projects related to the flood, which is estimated to last approximately an additional 18 months. Future reimbursement of these committed amounts is subject to review by the Hospital's primary insurer.

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

Independent Auditor's Report

Board of Governors
Daviess Community Hospital
Washington, Indiana

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of Daviess Community Hospital (Hospital), a component unit of Daviess County, Indiana, which comprise the Hospital's balance sheet as of December 31, 2023, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 23, 2024, which disclaimed an opinion because of restrictions on the scope of the audit and included an emphasis of matter related to the adoption of a new accounting standard.

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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2023-001 and 2023-002 that we consider to be material weaknesses.

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*.

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 responses. 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 Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Forvis Mazars, LLP

Indianapolis, Indiana
December 23, 2024

Reference Number		Finding
2023-001	**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 *Uniform Internal Control Standards for Indiana Political Subdivisions*. Also, *Government Auditing Standards* 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.
	Condition:	The Hospital did not timely receive or review periodic financial reporting of the nursing home operations as prepared by the third-party managers. The financial statements for one manager were not incorporated into the Hospital's reporting entity.
	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 information provided by third-party managers to appropriately reflect the operations of the nursing homes.
	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.
	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.
	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.

Reference Number		Finding
2023-002	**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 *Uniform Internal Control Standards for Indiana Political Subdivisions*. Also, *Government Auditing Standards* 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.
	Condition:	Adjustments were proposed during our audit which were recorded by management in the areas of accounts receivable valuation, valuation of hospital assessment fee expense, lease accounting associated with the acquired CORE building and adoption of GASB 96, *Subscription Based Information Technology Arrangements* (SBITAs). Other adjustments were proposed and not recorded which were determined to be immaterial. The Hospital's control structure did not adequately prevent or detect the misstatements in a timely manner.
	Cause:	While management reviewed the above referenced transactions, the following impacted its assessment and overall conclusions. Accounts Receivable Valuation – management utilized transactional data supporting cash receipts and contractual adjustments which were applied in the reserve setting methodology. This methodology was not tested against actual results, including subsequent receipts, to conclude on the accuracy of the model. Hospital Assessment Fee – management tracked expense entries on a monthly basis but did not timely adjust its routine entries to account for changes in assessed fees and recoupments from monthly Medicaid remittances. Lease Accounting – management did not accurately account for the CORE building acquisition which was previously recognized as a lease asset and liability. GASB 96 – management did not identify and account for its population of SBITAs
	Effect or Potential Effect:	Potential material misstatements in the financial statements could occur and not be detected and/or corrected in a timely manner.
	Recommendation:	We recommend that the Hospital revisit their internal processes in the above referenced areas to ensure that account balances are actively reconciled, estimates are monitored and other unique transactions are accounted for in accordance with the appropriate accounting guidance.
	Views of Responsible Officials and Planned Corrective Action:	We concur. Management continues to evaluate current controls related to the above referenced areas to ensure that these transactions are accounted for properly and in a timely manner.