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March 12, 2015

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

We have reviewed the audit report prepared by BKD, LLP, Independent Public Accountants, for the period January 1, 2013 to December 31, 2013. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Daviess Community Hospital, as of December 31, 2013 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

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

Paul D. Joyce, CPA
State Examiner

Daviess Community Hospital
A Component Unit of Daviess County, Indiana

Auditor's Report and Financial Statements

December 31, 2013 and 2012

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
December 31, 2013 and 2012

Contents

Independent Auditor's Report on Financial Statements and Supplementary Information	1
Management's Discussion and Analysis	3
Financial Statements	
Balance Sheets	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11

Independent Auditor's Report on Financial Statements and Supplementary

Board of Governors
Daviness Community Hospital
Washington, Indiana

We have audited the accompanying financial statements of Daviness Community Hospital, a component unit of Daviness County, Indiana, which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Daviess Community Hospital, a component unit of Daviess County, Indiana as of December 31, 2013 and 2012, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2013, the Hospital changed its method of accounting for debt issuance costs and debt defeasance costs as a result of adopting GASB Statement No. 65, which has been applied retroactively. Our opinion is not modified with respect to this matter.

Required Supplementary Information

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

BKD, LLP

Indianapolis, Indiana
May 14, 2014

Daviess Community Hospital

A Component Unit of Daviess County, Indiana

Management's Discussion and Analysis

Years Ended December 31, 2013 and 2012

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, 2013 and 2012. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and investments increased in 2013 and 2012 by \$126,372 or 1.6% and \$393,807 or 5.2%, respectively.
- The Hospital's net position decreased in 2013 and 2012 by \$2,229,010 or 7.8% and \$1,767,737 or 5.9%, respectively.
- The Hospital reported operating losses in 2013 of \$1,197,422 and 2012 of \$452,891 (after restatement related to GASB 65). The operating loss in 2013 increased by \$744,531 or 164.4% over the operating loss reported in 2012.
- Net nonoperating expenses decreased by \$308,077 or 22.9% in 2013 compared to \$88,643 or 6.2% in 2012.

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 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.

Statement of Cash Flows

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

Hospital's Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the balance sheets. The Hospital's net position decreased by \$2,229,010 or 7.8% in 2013 over 2012 compared to the \$1,767,737 or 5.9% decrease in 2012 over 2011, as shown in Table 1.

Table 1: Assets, Deferred Outflows of Resources, Liabilities and Net Position

	2013	2012 (Restated)	2011 (Restated)
Assets and Deferred Outflows of Resources			
Patient accounts receivable, net	\$ 6,051,772	\$ 6,340,617	\$ 6,173,124
Other current assets	6,763,328	6,402,934	6,215,568
Capital assets, net	30,424,084	32,231,984	33,589,977
Other noncurrent assets and deferred outflows of resources	8,856,400	9,147,637	8,975,286
	<u>\$ 52,095,584</u>	<u>\$ 54,123,172</u>	<u>\$ 54,953,955</u>
Liabilities			
Long-term debt (including current portion)	\$ 20,036,807	\$ 20,637,026	\$ 20,214,809
Other current and noncurrent liabilities	5,850,571	5,048,930	4,534,193
Total liabilities	<u>25,887,378</u>	<u>25,685,956</u>	<u>24,749,002</u>
Net Position			
Net investment in capital assets	10,387,277	11,594,958	17,045,297
Restricted for debt service	3,126,887	3,118,909	2,353,072
Unrestricted	12,694,042	13,723,349	10,806,584
Total net position	<u>26,208,206</u>	<u>28,437,216</u>	<u>30,204,953</u>
Total liabilities and net position	<u>\$ 52,095,584</u>	<u>\$ 54,123,172</u>	<u>\$ 54,953,955</u>

There were no significant changes in the Hospital's assets in 2013. Other current assets increased by \$360,394 (5.6%) in 2013 and by \$187,366 (3.0%) in 2012 primarily as the result of additional funds owed to the Hospital as of December 31, 2013 and 2012 associated with Indiana's supplemental Medicaid programs. Capital assets decreased by \$1,807,900 in 2013 and by \$1,357,993 in 2012 primarily as a result of depreciation expense during the year that exceeded new acquisitions.

Operating Results and Changes in the Hospital's Net Position

In 2013, the Hospital's net position decreased by \$2,229,010 or 7.8% as shown in Table 2. This decrease is made up of several different components and represents a decrease of 26.1% compared with the decrease in net position for 2012 of \$1,767,737 (5.9%). Of note, during 2013 and 2012, the Hospital received approximately \$1.5 million and \$1.8 million of revenue, respectively, from electronic health records incentive funding, which is included in other operating revenues.

Table 2: Operating Results and Changes in Net Position

	2013	2012 (Restated)	2011 (Restated)
Operating Revenues			
Net patient service revenue	\$ 49,224,083	\$ 49,771,392	\$ 41,990,552
Other operating revenues	2,226,834	2,480,529	818,062
Total operating revenues	<u>51,450,917</u>	<u>52,251,921</u>	<u>42,808,614</u>
Operating Expenses			
Salaries, wages and employee benefits	28,588,103	27,891,408	25,051,831
Purchased services and professional fees	7,228,956	6,326,976	6,699,756
Depreciation and amortization	3,193,596	3,262,762	2,944,262
Provider hospital assessment fee	1,905,791	4,536,002	-
Other operating expenses	11,731,893	10,687,664	9,725,852
Total operating expenses	<u>52,648,339</u>	<u>52,704,812</u>	<u>44,421,701</u>
Operating Loss	<u>(1,197,422)</u>	<u>(452,891)</u>	<u>(1,613,087)</u>
Nonoperating Revenues (Expenses)			
Investment income	14,087	23,074	36,537
Interest expense	(1,177,325)	(1,264,776)	(1,626,413)
Other nonoperating revenues and expenses, net	123,462	(106,151)	153,380
Total nonoperating expenses	<u>(1,039,776)</u>	<u>(1,347,853)</u>	<u>(1,436,496)</u>
Capital Grants and Contributions	<u>8,188</u>	<u>33,007</u>	<u>-</u>
Decrease in Net Position	<u>\$ (2,229,010)</u>	<u>\$ (1,767,737)</u>	<u>\$ (3,049,583)</u>

Operating Losses

The first component of the overall change in the Hospital's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past two years, the Hospital has reported an operating loss. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Daviess and the surrounding area.

The operating loss for 2013 increased by \$744,531 or 164.4% as compared to 2012. The primary components of the increased operating loss are:

- A decrease in net patient service revenue of \$547,309 or 1.1%.
- An increase in salaries, wages and benefits for the Hospital's employees of \$696,695 or 2.5%.
- An increase in purchased services and professional fees for the Hospital of \$901,980 or 14.3%.
- A decrease of electronic health records funding of approximately \$300,000.
- A decrease in revenue earned under provider hospital assessment program of approximately \$3.2 million or 67% for Indiana's Medicaid provider assessment program as discussed in the attached notes to the financial statements. The related assessment fees paid by the Hospital decreased during 2013 by approximately \$2.6 million or 58%

Employee salaries and wages and benefits increased in 2013 in connection with the Hospital's retention and recruitment efforts. These efforts result primarily from the shortage of nurses and other health care professionals in the United States.

Purchased services and professional fees increased in 2013 due to the outsourcing of the information technology function to an external provider rather than providing in-house.

The operating loss for 2013 of \$1,197,422 was a decline compared to the operating loss of \$452,891 recognized in 2012. This decline was the result of decreased revenue and increased expenses as mentioned above.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income and interest expense. The Hospital recognized a slight decrease in interest expense in 2013 as compared to 2012, resulting primarily from more favorable rates on the bonds that were refunded in May 2011.

Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses for 2013 and 2012, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2013 and 2012, the Hospital had \$30,424,084 and \$32,231,984 invested in capital assets, net of accumulated depreciation, respectively, as detailed in Note 5 to the financial statements. The Hospital purchased new furnishings and equipment costing \$1,418,011 in 2013 and \$2,053,092 in 2012.

Debt

At December 31, 2013, the Hospital had \$19,315,000 in revenue bonds outstanding compared to \$20,135,000 in 2012. The Hospital issued no new debt in 2013. The Hospital's formal revenue bonds are subject to limitations imposed by state law.

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.

Daviness Community Hospital

A Component Unit of Daviness County, Indiana

Balance Sheets December 31, 2013 and 2012

Assets and Deferred Outflows of Resources

	2013	2012 (Restated)
Current Assets		
Cash	\$ 2,884,134	\$ 2,769,078
Patient accounts receivable, net of allowance of \$1,405,969 and \$1,594,653 for 2013 and 2012, respectively	6,051,772	6,340,617
Supplies	1,219,093	1,136,722
Prepaid expenses and other	2,036,953	2,497,134
Estimated amounts due from third-party payers	623,148	-
Total current assets	12,815,100	12,743,551
Noncurrent Cash and Investments		
Internally designated	2,152,864	2,149,526
Held by trustee for debt service	3,126,887	3,118,909
	5,279,751	5,268,435
Capital Assets, net	30,424,084	32,231,984
Other Assets	335,767	423,455
Deferred Outflows of Resources - debt defeasance costs	3,240,882	3,455,747
Total assets and deferred outflows of resources	\$ 52,095,584	\$ 54,123,172

Liabilities and Net Position

Current Liabilities		
Current maturities of long-term debt	\$ 983,878	\$ 902,865
Interest payable	475,012	489,352
Accounts payable	1,877,636	1,584,985
Accrued expenses	2,393,313	2,041,407
Estimated amounts due to third-party payers	-	214,160
Other	1,104,610	719,026
Total current liabilities	6,834,449	5,951,795
Long-Term Debt	19,052,929	19,734,161
Total liabilities	25,887,378	25,685,956
Net Position		
Net investment in capital assets	10,387,277	11,594,958
Restricted for debt service	3,126,887	3,118,909
Unrestricted	12,694,042	13,723,349
Total net position	26,208,206	28,437,216
Total liabilities and net position	\$ 52,095,584	\$ 54,123,172

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u> <u>(Restated)</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts of \$4,040,562 and \$3,387,096 for 2013 and 2012, respectively	\$ 49,224,083	\$ 49,771,392
Other	2,226,834	2,480,529
Total operating revenues	<u>51,450,917</u>	<u>52,251,921</u>
Operating Expenses		
Salaries and wages	22,922,401	22,127,787
Employee benefits	5,665,702	5,763,621
Purchased services and professional fees	7,228,956	6,326,976
Supplies	5,861,014	5,296,629
Insurance	462,204	508,524
Utilities	953,861	898,354
Rent	429,318	402,712
Repairs and maintenance	2,518,405	2,349,796
Provider hospital assessment fee	1,905,791	4,536,002
Depreciation and amortization	3,193,596	3,262,762
Other	1,507,091	1,231,649
Total operating expenses	<u>52,648,339</u>	<u>52,704,812</u>
Operating Loss	<u>(1,197,422)</u>	<u>(452,891)</u>
Nonoperating Revenues (Expenses)		
Investment income	14,087	23,074
Interest expense	(1,177,325)	(1,264,776)
Other	123,462	(106,151)
Total nonoperating expenses	<u>(1,039,776)</u>	<u>(1,347,853)</u>
Deficiency of Revenues Over Expenses Before Capital Grants and Contributions	<u>(2,237,198)</u>	<u>(1,800,744)</u>
Capital Grants and Contributions	<u>8,188</u>	<u>33,007</u>
Decrease in Net Position	<u>(2,229,010)</u>	<u>(1,767,737)</u>
Net Position, Beginning of Year , as previously reported	28,437,216	30,570,965
Cumulative Effect of Change in Accounting Principle	<u>-</u>	<u>(366,012)</u>
Net Position, Beginning of Year , as restated	<u>28,437,216</u>	<u>30,204,953</u>
Net Position, End of Year	<u>\$ 26,208,206</u>	<u>\$ 28,437,216</u>

Daviess Community Hospital
A Component Unit of Daviess County, Indiana

Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012 (Restated)
Operating Activities		
Receipts from and on behalf of patients	\$ 48,675,620	\$ 49,818,059
Payments to suppliers and contractors	(16,313,533)	(15,650,046)
Payments to employees	(28,236,200)	(27,907,585)
Payments, net	<u>(1,190,720)</u>	<u>(3,287,122)</u>
Net cash provided by operating activities	<u>2,935,167</u>	<u>2,973,306</u>
Capital and Related Financing Activities		
Capital grants and gifts	8,188	33,007
Principal paid on capital leases	(87,542)	(13,896)
Principal paid on long-term debt	(820,000)	-
Interest paid on long-term debt and capital leases	(976,800)	(1,033,640)
Purchase of capital assets	(1,106,016)	(1,612,308)
Loss on disposal of capital assets	35,826	130,411
Net cash used in capital and related financing activities	<u>(2,946,344)</u>	<u>(2,496,426)</u>
Investing Activities		
Interest and dividends on investments	14,087	23,074
Purchase of investments	(11,316)	(767,428)
Other investing activities	123,462	(106,151)
Net cash provided by (used in) investing activities	<u>126,233</u>	<u>(850,505)</u>
Increase (Decrease) in Cash	115,056	(373,625)
Cash, Beginning of Year	<u>2,769,078</u>	<u>3,142,703</u>
Cash, End of Year	<u>\$ 2,884,134</u>	<u>\$ 2,769,078</u>
Reconciliation of Net Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	\$ (1,197,422)	\$ (452,891)
Depreciation and amortization	3,193,596	3,262,762
Provision for uncollectible accounts	4,040,562	3,387,096
Changes in operating assets and liabilities:		
Patient accounts receivable	(3,751,717)	(3,554,589)
Estimated amounts due to/from third-party payers	(837,308)	214,160
Accounts payable and accrued expenses	1,030,141	300,577
Other assets and liabilities	457,315	(183,809)
Net cash provided by operating activities	<u>\$ 2,935,167</u>	<u>\$ 2,973,306</u>
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	\$ 311,995	\$ 440,784
Amortization of debt defeasance costs	214,805	214,382

Daviess Community Hospital

A Component Unit of Daviess County, Indiana

Notes to Financial Statements **December 31, 2013 and 2012**

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. It also operates a home health agency in the same geographic area.

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

Basis of Accounting and Presentation

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

Use of Estimates

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

Risk Management

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

Daviess Community Hospital

A Component Unit of Daviess County, Indiana

Notes to Financial Statements **December 31, 2013 and 2012**

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

Investments and Investment Income

Investments in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income.

Patient Accounts Receivable

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

Supplies

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

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

Daviess Community Hospital

A Component Unit of Daviess County, Indiana

Notes to Financial Statements **December 31, 2013 and 2012**

Deferred Outflows of Resources

A deferred outflow of resources is a consumption of net position by the Hospital that is applicable to a future reporting period. Deferred outflows of resources are reported in the balance sheets, but are not recognized in the financial statements as expenses until the periods to which they relate. Deferred outflows of resources of the Hospital consist of deferred losses on debt refundings (defeasance costs).

Compensated Absences

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

Net Position

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

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$980,160 for 2013 and \$1,383,333 in 2012.

Daviess Community Hospital

A Component Unit of Daviess County, Indiana

Notes to Financial Statements **December 31, 2013 and 2012**

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. The Foundation files federal tax returns in the U.S. federal jurisdiction.

Foundation

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

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2012, the Hospital completed the first-year requirements under both the Medicare and Medicaid programs and has recorded revenue of approximately \$1.8 million, which is included in other operating revenues in the statements of revenues, expenses and changes in net position. During 2013, the Hospital recorded revenue of approximately \$1.5 million for the Medicare and Medicaid incentive programs.

Daviess Community Hospital

A Component Unit of Daviess County, Indiana

Notes to Financial Statements December 31, 2013 and 2012

Change in Accounting Policy

During 2013, the Hospital adopted GASB Statement No. 65 of the Governmental Accounting Standards Board (GASB 65), *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB 65 also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term “deferred” in the financial statement presentations. Adoption of GASB 65 resulted in a decrease of \$366,012 in net position as of January 1, 2012 and an increase in the increase in net position of \$21,425 for the year ended December 31, 2012. These changes resulted from the requirement in GASB 65 that debt issuance costs be recognized as an expense in the period incurred. Other changes resulting from application of GASB 65 are the reclassification of the deferred losses from the refunding of debt to deferred outflows of resources.

Note 2: Net Patient Service Revenue

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

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

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.

Daviess Community Hospital

A Component Unit of Daviess County, Indiana

Notes to Financial Statements **December 31, 2013 and 2012**

Approximately 57% and 50% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2013 and 2012, 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 received approximately \$1.6 million and \$4.8 million during 2013 and 2012, respectively, due to the enactment of a state specific provider assessment program to increase Medicaid payments to hospitals. This revenue is recorded within net patient service revenue in the statements of revenues, expenses and changes in net position. The Hospital paid approximately \$1.9 million and \$4.5 million for 2013 and 2012, respectively, into this Medicaid program, which is recorded as an operating expense in the statements of revenues, expenses and changes in net position. There is no assurance this program will continue to be implemented in the future, and as of December 31, 2013, this provider assessment program was awaiting federal approval to be continued past June 30, 2013. As a result, no estimate has been recorded for this program additional revenue and expenses that will be applicable to the Hospital for the period beginning July 1, 2013. Extension of this program received federal approval in March 2014, with a retroactive applicable date of July 1, 2013.

The Hospital also qualified 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 \$1.3 million and \$150,000 within patient service revenue related to this supplemental payment program for the years ended December 31, 2013 and 2012, respectively. At December 31, 2013, \$200,000 is accrued as receivable in other current assets. This represents management's best estimate of DSH funds due to the Hospital as of December 31, 2013, which are typically paid in arrears.

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.

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Notes to Financial Statements
December 31, 2013 and 2012

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, 2013 and 2012, the Hospital had the following investments and maturities:

Type	December 31, 2013				
	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
Money market mutual funds	\$ 3,214,250	\$ 3,214,250	\$ -	\$ -	\$ -

Type	December 31, 2012				
	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
Money market mutual funds	\$ 3,215,120	\$ 3,215,120	\$ -	\$ -	\$ -

Daviness Community Hospital

A Component Unit of Daviness County, Indiana

Notes to Financial Statements December 31, 2013 and 2012

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, 2013 and 2012, 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:

	2013	2012
Carrying value:		
Deposits	\$ 4,949,635	\$ 4,822,393
Investments	3,214,250	3,215,120
	\$ 8,163,885	\$ 8,037,513
Included in the following balance sheet captions:		
Cash	\$ 2,884,134	\$ 2,769,078
Noncurrent cash and investments	5,279,751	5,268,435
	\$ 8,163,885	\$ 8,037,513

Investment Income

Investment income for the years ended December 31 consisted of:

	2013	2012
Interest and dividend income	\$ 14,087	\$ 23,074

Daviess Community Hospital
A Component Unit of Daviess County, Indiana

Notes to Financial Statements
December 31, 2013 and 2012

Note 4: Patient Accounts Receivable

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

	2013	2012
Medicare	\$ 2,246,023	\$ 1,909,762
Medicaid	313,037	968,562
Other third-party payers	2,217,078	2,312,662
Patients	2,681,603	2,744,284
	7,457,741	7,935,270
Less allowance for uncollectible accounts	1,405,969	1,594,653
	\$ 6,051,772	\$ 6,340,617

Note 5: Capital Assets

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

	2013				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 1,280,955	\$ -	\$ -	\$ -	\$ 1,280,955
Land improvements	687,865	-	-	-	687,865
Buildings and leasehold improvements	38,583,124	81,930	(53,795)	-	38,611,259
Equipment	29,188,359	1,025,874	(117,072)	-	30,097,161
Construction in progress	1,765	310,207	-	-	311,972
	69,742,068	1,418,011	(170,867)	-	70,989,212
Less accumulated depreciation:					
Land improvements	625,624	15,869	-	-	641,493
Buildings and leasehold improvements	15,544,948	1,049,094	(22,700)	-	16,571,342
Equipment	21,339,512	2,125,122	(112,341)	-	23,352,293
	37,510,084	3,190,085	(135,041)	-	40,565,128
Capital assets, net	\$ 32,231,984	\$ (1,772,074)	\$ (35,826)	\$ -	\$ 30,424,084

Daviess Community Hospital
A Component Unit of Daviess County, Indiana

Notes to Financial Statements
December 31, 2013 and 2012

	2012				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 1,280,955	\$ -	\$ -	\$ -	\$ 1,280,955
Land improvements	687,865	-	-	-	687,865
Buildings and leasehold improvements	38,448,591	134,533	-	-	38,583,124
Equipment	27,859,643	1,918,559	(719,639)	129,796	29,188,359
Construction in progress	131,561	-	-	(129,796)	1,765
	<u>68,408,615</u>	<u>2,053,092</u>	<u>(719,639)</u>	<u>-</u>	<u>69,742,068</u>
Less accumulated depreciation:					
Land improvements	431,085	227,467	(32,928)	-	625,624
Buildings and leasehold improvements	14,506,074	1,042,772	(3,898)	-	15,544,948
Equipment	19,881,479	2,010,435	(552,402)	-	21,339,512
	<u>34,818,638</u>	<u>3,280,674</u>	<u>(589,228)</u>	<u>-</u>	<u>37,510,084</u>
Capital assets, net	<u>\$ 33,589,977</u>	<u>\$ (1,227,582)</u>	<u>\$ (130,411)</u>	<u>\$ -</u>	<u>\$ 32,231,984</u>

Note 6: Medical Malpractice Claims

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

Note 7: Employee Health Claims

Substantially all of the Hospital's employees and their dependents 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 \$80,000 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.

Daviness Community Hospital

A Component Unit of Daviness County, Indiana

Notes to Financial Statements December 31, 2013 and 2012

Activity in the Hospital's accrued employee health claims liability during 2013 and 2012 is summarized as follows:

	2013	2012
Balance, beginning of year	\$ 400,000	\$ 228,979
Current year claims incurred and changes in estimate	3,610,127	3,690,232
Claims and expenses paid	(3,388,127)	(3,519,211)
Balance, end of year	\$ 622,000	\$ 400,000

Note 8: Long-Term Debt

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

	2013				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Series 2011 refunding revenue bonds	\$ 20,135,000	\$ -	\$ (820,000)	\$ 19,315,000	\$ 840,000
Unamortized bond premium	75,138	-	(4,672)	70,466	-
Capital lease obligations	426,888	311,995	(87,542)	651,341	143,878
Total long-term debt	\$ 20,637,026	\$ 311,995	\$ (912,214)	\$ 20,036,807	\$ 983,878
	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Series 2011 refunding revenue bonds	\$ 20,135,000	\$ -	\$ -	\$ 20,135,000	\$ 820,000
Unamortized bond premium	79,809	-	(4,671)	75,138	-
Capital lease obligations	-	440,784	(13,896)	426,888	82,865
Total long-term debt	\$ 20,214,809	\$ 440,784	\$ (18,567)	\$ 20,637,026	\$ 902,865

Daviess Community Hospital
A Component Unit of Daviess County, Indiana

Notes to Financial Statements
December 31, 2013 and 2012

Series 2011 Revenue Refunding Bonds Payable

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

The debt service requirements as of December 31, 2013 are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2014	\$ 1,777,425	\$ 840,000	\$ 937,425
2015	1,773,075	870,000	903,075
2016	1,768,575	910,000	858,575
2017	1,775,305	955,000	820,305
2018	1,779,787	1,000,000	779,787
2019-2023	8,828,807	5,710,000	3,118,807
2024-2028	8,773,081	7,325,000	1,448,081
2029-2033	1,749,756	1,705,000	44,756
	\$ 28,225,811	\$ 19,315,000	\$ 8,910,811

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. The following is a schedule by year of future minimum lease payments under the capital lease including interest at a rate of 4.25% together with the present value of the future minimum lease payments as of December 31, 2013:

2014	\$ 168,780
2015	168,780
2016	168,780
2017	143,929
2018	63,592
Total minimum lease payments	713,861
Less amount representing interest	62,520
Present value of future minimum lease payments	\$ 651,341

Daviness Community Hospital

A Component Unit of Daviness County, Indiana

Notes to Financial Statements December 31, 2013 and 2012

Assets under capital leases at December 31, totaled:

	2013	2012
Machinery and equipment	\$ 752,779	\$ 440,784
Accumulated depreciation	(135,919)	(48,211)
	\$ 616,860	\$ 392,573

Note 9: Pension Plan

The Hospital contributes to a defined-contribution 403(b) pension plan covering substantially all employees after one year of service. 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 4% 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 \$182,227 during 2013 and \$161,302 in 2012.

Note 10: Contingencies

Investigation

The Hospital is performing an internal investigation regarding specific third-party payer 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 this matter, as the amount of any such loss is not 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.

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Notes to Financial Statements
December 31, 2013 and 2012

Note 11: Patient Protection and Affordable Care Act

The Patient Protection and Affordable Care Act (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The State of Indiana has not affirmatively indicated whether or not it will participate in the expansion of the Medicaid program. The impact of that decision on the overall reimbursement to the Hospital cannot be quantified at this point.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible that it will have a negative impact on the Hospital's net patient service revenue. Additionally, it is possible the Hospital will experience payment delays and other operational challenges during PPACA's implementation.

Daviness Community Hospital

A Component Unit of Daviness County, Indiana

Notes to Financial Statements December 31, 2013 and 2012

Note 12: Combining Financial Statement Information

The Hospital's combining financial statement information is summarized as follows for the years ended December 31, 2013 and 2012:

Combining Balance Sheet as of December 31, 2013

Assets and Deferred Outflows of Resources	2013		
	Hospital	Hospital Foundation	Total
Current Assets			
Cash	\$ 2,825,572	\$ 58,562	\$ 2,884,134
Patient accounts receivable, net of allowance of \$1,405,969	6,051,772	-	6,051,772
Supplies	1,219,093	-	1,219,093
Prepaid expenses and other	2,036,953	-	2,036,953
Estimated amounts due from third-party payers	623,148	-	623,148
Total current assets	<u>12,756,538</u>	<u>58,562</u>	<u>12,815,100</u>
Noncurrent Cash and Investments			
Internally designated	1,596,864	556,000	2,152,864
Held by trustee for debt service	3,126,887	-	3,126,887
	<u>4,723,751</u>	<u>556,000</u>	<u>5,279,751</u>
Capital Assets, net	<u>30,424,084</u>	<u>-</u>	<u>30,424,084</u>
Other Assets	<u>335,767</u>	<u>-</u>	<u>335,767</u>
Deferred Outflows of Resources - debt defeasance costs	<u>3,240,882</u>	<u>-</u>	<u>3,240,882</u>
Total assets and deferred outflows of resources	<u>\$ 51,481,022</u>	<u>\$ 614,562</u>	<u>\$ 52,095,584</u>
Liabilities and Net Position			
Current Liabilities			
Current maturities of long-term debt	\$ 983,878	\$ -	\$ 983,878
Interest payable	475,012	-	475,012
Accounts payable	1,877,636	-	1,877,636
Accrued expenses	2,393,313	-	2,393,313
Other	1,104,610	-	1,104,610
Total current liabilities	<u>6,834,449</u>	<u>-</u>	<u>6,834,449</u>
Long-Term Debt	<u>19,052,929</u>	<u>-</u>	<u>19,052,929</u>
Total liabilities	<u>25,887,378</u>	<u>-</u>	<u>25,887,378</u>
Net Position			
Net investment in capital assets	10,387,277	-	10,387,277
Restricted for debt service	3,126,887	-	3,126,887
Unrestricted	12,079,480	614,562	12,694,042
Total net position	<u>25,593,644</u>	<u>614,562</u>	<u>26,208,206</u>
Total liabilities and net position	<u>\$ 51,481,022</u>	<u>\$ 614,562</u>	<u>\$ 52,095,584</u>

Daviness Community Hospital

A Component Unit of Daviness County, Indiana

Notes to Financial Statements December 31, 2013 and 2012

Combining Balance Sheet as of December 31, 2012

Assets and Deferred Outflows of Resources

	2012 (Restated)		
	Hospital	Hospital Foundation	Total
Current Assets			
Cash	\$ 2,707,691	\$ 61,387	\$ 2,769,078
Patient accounts receivable, net of allowance of \$1,594,653	6,340,617	-	6,340,617
Supplies	1,136,722	-	1,136,722
Prepaid expenses and other	2,497,134	-	2,497,134
Total current assets	<u>12,682,164</u>	<u>61,387</u>	<u>12,743,551</u>
Noncurrent Cash and Investments			
Internally designated	1,596,852	552,674	2,149,526
Held by trustee for debt service	3,118,909	-	3,118,909
	<u>4,715,761</u>	<u>552,674</u>	<u>5,268,435</u>
Capital Assets, net	<u>32,231,984</u>	-	<u>32,231,984</u>
Other Assets	<u>423,455</u>	-	<u>423,455</u>
Deferred Outflows of Resources - debt defeasance costs	<u>3,455,747</u>	-	<u>3,455,747</u>
Total assets and deferred outflows of resources	<u>\$ 53,509,111</u>	<u>\$ 614,061</u>	<u>\$ 54,123,172</u>
Liabilities and Net Position			
Current Liabilities			
Current maturities of long-term debt	\$ 902,865	\$ -	\$ 902,865
Interest payable	489,352	-	489,352
Accounts payable	1,584,985	-	1,584,985
Accrued expenses	2,041,407	-	2,041,407
Estimated amounts due to third-party payers	214,160	-	214,160
Other	719,026	-	719,026
Total current liabilities	<u>5,951,795</u>	-	<u>5,951,795</u>
Long-Term Debt	<u>19,734,161</u>	-	<u>19,734,161</u>
Total liabilities	<u>25,685,956</u>	<u>-</u>	<u>25,685,956</u>
Net Position			
Net investment in capital assets	11,594,958	-	11,594,958
Restricted for debt service	3,118,909	-	3,118,909
Unrestricted	13,109,288	614,061	13,723,349
Total net position	<u>27,823,155</u>	<u>614,061</u>	<u>28,437,216</u>
Total liabilities and net position	<u>\$ 53,509,111</u>	<u>\$ 614,061</u>	<u>\$ 54,123,172</u>

Daviess Community Hospital

A Component Unit of Daviess County, Indiana

Notes to Financial Statements December 31, 2013 and 2012

Combining Statement of Revenues, Expenses and Changes in Net Position for the Year Ended December 31, 2013

	2013		
	Hospital	Hospital Foundation	Total
Operating Revenues			
Net patient service revenue, net of provision for uncollectible accounts of \$4,040,562	\$ 49,224,083	\$ -	\$ 49,224,083
Other	2,226,834	-	2,226,834
Total operating revenues	51,450,917	-	51,450,917
Operating Expenses			
Salaries and wages	22,922,401	-	22,922,401
Employee benefits	5,665,702	-	5,665,702
Purchased services and professional fees	7,228,472	484	7,228,956
Supplies	5,843,442	17,572	5,861,014
Insurance	462,204	-	462,204
Utilities	953,861	-	953,861
Rent	429,318	-	429,318
Repairs and maintenance	2,518,405	-	2,518,405
Provider hospital assessment fee	1,905,791	-	1,905,791
Depreciation and amortization	3,193,596	-	3,193,596
Other	1,491,341	15,750	1,507,091
Total operating expenses	52,614,533	33,806	52,648,339
Operating Loss	(1,163,616)	(33,806)	(1,197,422)
Nonoperating Revenues (Expenses)			
Investment income	9,813	4,274	14,087
Interest expense	(1,177,325)	-	(1,177,325)
Other	101,617	21,845	123,462
Total nonoperating revenues (expenses)	(1,065,895)	26,119	(1,039,776)
Deficiency of Revenues Over Expenses Before Capital Grants and Contributions			
	(2,229,511)	(7,687)	(2,237,198)
Capital Grants and Contributions	-	8,188	8,188
Increase (Decrease) in Net Position	(2,229,511)	501	(2,229,010)
Net Position, Beginning of Year	27,823,155	614,061	28,437,216
Net Position, End of Year	\$ 25,593,644	\$ 614,562	\$ 26,208,206

Daviness Community Hospital

A Component Unit of Daviness County, Indiana

Notes to Financial Statements December 31, 2013 and 2012

Combining Statement of Revenues, Expenses and Changes in Net Position for the Year Ended December 31, 2012

	2012 (Restated)		
	Hospital	Hospital Foundation	Total
Operating Revenues			
Net patient service revenue, net of provision for uncollectible accounts of \$3,387,096	\$ 49,771,392	\$ -	\$ 49,771,392
Other	2,480,529	-	2,480,529
Total operating revenues	<u>52,251,921</u>	<u>-</u>	<u>52,251,921</u>
Operating Expenses			
Salaries and wages	22,127,787	-	22,127,787
Employee benefits	5,763,621	-	5,763,621
Purchased services and professional fees	6,324,081	2,895	6,326,976
Supplies	5,291,016	5,613	5,296,629
Insurance	508,524	-	508,524
Utilities	898,354	-	898,354
Rent	402,712	-	402,712
Repairs and maintenance	2,349,796	-	2,349,796
Provider hospital assessment fee	4,536,002	-	4,536,002
Depreciation and amortization	3,262,762	-	3,262,762
Other	1,207,349	24,300	1,231,649
Total operating expenses	<u>52,672,004</u>	<u>32,808</u>	<u>52,704,812</u>
Operating Loss	<u>(420,083)</u>	<u>(32,808)</u>	<u>(452,891)</u>
Nonoperating Revenues (Expenses)			
Investment income	21,489	1,585	23,074
Interest expense	(1,264,776)	-	(1,264,776)
Other	(106,151)	-	(106,151)
Total nonoperating revenues (expenses)	<u>(1,349,438)</u>	<u>1,585</u>	<u>(1,347,853)</u>
Deficiency of Revenues Over Expenses Before Capital Grants and Contributions	<u>(1,769,521)</u>	<u>(31,223)</u>	<u>(1,800,744)</u>
Capital Grants and Contributions	<u>-</u>	<u>33,007</u>	<u>33,007</u>
Increase (Decrease) in Net Position	<u>(1,769,521)</u>	<u>1,784</u>	<u>(1,767,737)</u>
Net Position, Beginning of Year, as previously reported	29,958,688	612,277	30,570,965
Cumulative Effect of Change in Accounting Principle	<u>(366,012)</u>	<u>-</u>	<u>(366,012)</u>
Net Position, Beginning of Year, as restated	<u>29,592,676</u>	<u>612,277</u>	<u>30,204,953</u>
Net Position, End of Year	<u>\$ 27,823,155</u>	<u>\$ 614,061</u>	<u>\$ 28,437,216</u>