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October 14, 2015

Board of Governors  
Davieess 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, 2014 to December 31, 2014. 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 Davieess Community Hospital, as of December 31, 2014 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, 2014 and 2013

**Daviess Community Hospital**  
**A Component Unit of Daviess County, Indiana**  
**December 31, 2014 and 2013**

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## Independent Auditor's Report

Board of Governors  
Daviess Community Hospital  
Washington, Indiana

We have audited the accompanying balance sheets of Daviess Community Hospital (Hospital), a component unit of Daviess County, Indiana, as of December 31, 2014 and 2013, 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, which collectively comprise the Hospital's basic 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 as of December 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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.

#### ***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The combining schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

***BKD, LLP***

Indianapolis, Indiana  
May 4, 2014

# **Daviess Community Hospital**

## **A Component Unit of Daviess County, Indiana**

### **Management's Discussion and Analysis**

### **Years Ended December 31, 2014 and 2013**

#### ***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, 2014 and 2013. It should be read in conjunction with the accompanying financial statements of the Hospital.

#### ***Financial Highlights***

- Cash and investments decreased in 2014 by \$1,860,201 or 22.8% and increased in 2013 by \$126,372 or 1.6%.
- The Hospital's net position decreased in 2014 and 2013 by \$1,981,322 or 7.6% and \$2,229,010 or 7.8%, respectively.
- The Hospital reported operating losses in 2014 of \$922,960 and 2013 of \$1,197,422. The operating loss in 2014 decreased by \$274,462 or 22.9% over the operating loss reported in 2013.
- Net nonoperating expenses increased by \$66,206 or 6.4% in 2014 compared to the decrease of \$308,077 or 22.9% in 2013.

#### ***Using This Annual Report***

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

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

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

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

### **Statements of Cash Flows**

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

### **Hospital's Net Position**

The Hospital's net position is the difference between its assets, deferred outflows of resources and liabilities reported in the balance sheets. The Hospital's net position decreased by \$1,981,322 or 7.6% in 2014 over 2013 compared to the \$2,229,010 or 7.8% decrease in 2013 over 2012, as shown in Table 1.

	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Assets and Deferred Outflows of Resources</b>			
Patient accounts receivable, net	\$ 6,882,550	\$ 6,051,772	\$ 6,340,617
Other current assets	6,060,183	6,763,328	6,402,934
Capital assets, net	28,294,541	30,424,084	32,231,984
Other noncurrent assets and deferred outflows of resources	8,550,682	8,856,400	9,147,637
	<u>\$ 49,787,956</u>	<u>\$ 52,095,584</u>	<u>\$ 54,123,172</u>
<b>Liabilities</b>			
Long-term debt (including current portion)	\$ 19,048,257	\$ 20,036,807	\$ 20,637,026
Other current and noncurrent liabilities	6,512,815	5,850,571	5,048,930
Total liabilities	<u>25,561,072</u>	<u>25,887,378</u>	<u>25,685,956</u>
<b>Net Position</b>			
Net investment in capital assets	9,246,284	10,387,277	11,594,958
Restricted for debt service	3,142,988	3,126,887	3,118,909
Unrestricted	11,837,612	12,694,042	13,723,349
Total net position	<u>24,226,884</u>	<u>26,208,206</u>	<u>28,437,216</u>
Total liabilities and net position	<u>\$ 49,787,956</u>	<u>\$ 52,095,584</u>	<u>\$ 54,123,172</u>

The most significant changes in assets during 2014 were current assets as well as capital assets. Current assets increased by \$127,633 (1%) in 2014 primarily as a result of increased patient receivables from long term care facilities acquired during the year. This increase was partially offset with less cash on hand. Current assets increased by \$71,549 (0.6%) in 2013 primarily as the result of additional funds owed to the Hospital associated with Indiana's supplemental Medicaid programs. Capital assets decreased by \$2,129,543 in 2014 and by \$1,807,900 in 2013 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 2014, the Hospital's net position decreased by \$1,981,322 or 7.6% as shown in Table 2. This decrease is made up of several different components and represents an improvement of 11.1% compared with the decrease in net position for 2013 of \$2,229,010 (7.8%). Of note, during 2014 and 2013, the Hospital received approximately \$1.1 million and \$1.5 million of revenue, respectively, from electronic health records incentive funding, which is included in other operating revenues.

	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 53,837,586	\$ 49,224,083	\$ 49,771,392
Other operating revenues	2,007,031	2,226,834	2,480,529
Total operating revenues	<u>55,844,617</u>	<u>51,450,917</u>	<u>52,251,921</u>
<b>Operating Expenses</b>			
Salaries, wages, contract labor and employee benefits	28,895,523	28,588,103	27,891,408
Purchased services and professional fees	8,368,612	7,228,956	6,326,976
Depreciation and amortization	3,088,725	3,193,596	3,262,762
Provider hospital assessment fee	3,598,202	1,905,791	4,536,002
Other operating expenses	12,816,515	11,731,893	10,687,664
Total operating expenses	<u>56,767,577</u>	<u>52,648,339</u>	<u>52,704,812</u>
<b>Operating Loss</b>	<u>(922,960)</u>	<u>(1,197,422)</u>	<u>(452,891)</u>
<b>Nonoperating Revenues (Expenses)</b>			
Investment income	39,078	14,087	23,074
Interest expense	(1,165,777)	(1,177,325)	(1,264,776)
Other nonoperating revenues and expenses, net	20,717	123,462	(106,151)
Total nonoperating expenses	<u>(1,105,982)</u>	<u>(1,039,776)</u>	<u>(1,347,853)</u>
<b>Capital Grants and Contributions</b>	<u>47,620</u>	<u>8,188</u>	<u>33,007</u>
<b>Decrease in Net Position</b>	<u>\$ (1,981,322)</u>	<u>\$ (2,229,010)</u>	<u>\$ (1,767,737)</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 three 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 2014 decreased by \$274,462 or 22.9% as compared to 2013. The primary changes in the operating loss are:

- An increase in net patient service revenue of \$4,613,503 million or 9.4%.
- An increase in purchased services and professional fees for the Hospital of \$1,139,656 or 15.8%.
- An increase in other operating expenses for the Hospital of \$1,084,622 or 9.2%.
- An increase in revenue earned under provider hospital assessment program of approximately \$3.4 million or 213% 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 increased during 2014 by \$1,692,411 million or 89%.

Net patient service revenue increased during 2014 as a result of long-term care facilities acquired during the year along with increased visits, primarily in the outpatient and psychiatric settings of the Hospital.

Purchased services and professional fees increased in 2014 due to the full year of outsourcing the information technology function to an external provider rather than providing in-house as for part of 2013. In addition, the increase relates to consulting services for the new nursing home lease arrangements entered into during 2014.

The increase in other operating expenses is a result of numerous items, but most specifically, increased supply expense and general maintenance as a result of the bad winter weather in 2014.

The operating loss for 2014 of \$922,960 was an improvement compared to the operating loss of \$1,197,422 recognized in 2013. This improvement was the result of increased revenue above the 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 2014 as compared to 2013, resulting primarily from principal payments made during the year on the Hospital's 2011 bonds outstanding.

### ***Hospital's Cash Flows***

Changes in the Hospital's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses for 2014 and 2013, discussed earlier.

### ***Capital Asset and Debt Administration***

#### **Capital Assets**

At the end of 2014 and 2013, the Hospital had \$28,294,541 and \$30,424,084 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 \$960,261 in 2014 and \$1,418,011 in 2013.

***Debt***

At December 31, 2014, the Hospital had \$18,475,000 in revenue bonds outstanding compared to \$19,315,000 at December 31, 2013. The Hospital issued no new debt in 2014. The Hospital's formal revenue bonds are subject to limitations imposed by state law. See Note 9 to the basic financial statements for more information regarding long-term debt.

***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, 2014 and 2013

#### Assets and Deferred Outflows of Resources

	2014	2013
<b>Current Assets</b>		
Cash	\$ 1,137,284	\$ 2,884,134
Patient accounts receivable, net of allowance of \$2,570,318 and \$1,405,969 for 2014 and 2013, respectively	6,882,550	6,051,772
Supplies	1,074,860	1,219,093
Prepaid expenses and other	3,293,917	2,036,953
Estimated amounts due from third-party payers	554,122	623,148
Total current assets	12,942,733	12,815,100
<b>Noncurrent Cash and Investments</b>		
Internally designated	2,023,412	2,152,864
Held by trustee for debt service	3,142,988	3,126,887
	5,166,400	5,279,751
<b>Capital Assets, net</b>	28,294,541	30,424,084
<b>Other Assets</b>	358,265	335,767
<b>Deferred Outflows of Resources - debt defeasance costs</b>	3,026,017	3,240,882
Total assets and deferred outflows of resources	\$ 49,787,956	\$ 52,095,584

#### Liabilities and Net Position

<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 1,020,114	\$ 983,878
Interest payable	462,412	475,012
Accounts payable	2,513,823	1,877,636
Accrued expenses	1,697,131	2,393,313
Other	1,839,449	1,104,610
Total current liabilities	7,532,929	6,834,449
<b>Long-Term Debt</b>	18,028,143	19,052,929
Total liabilities	25,561,072	25,887,378
<b>Net Position</b>		
Net investment in capital assets	9,246,284	10,387,277
Restricted for debt service	3,142,988	3,126,887
Unrestricted	11,837,612	12,694,042
Total net position	24,226,884	26,208,206
Total liabilities and net position	\$ 49,787,956	\$ 52,095,584

**Daviess Community Hospital**  
**A Component Unit of Daviess County, Indiana**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts of \$3,299,586 and \$4,040,562 for 2014 and 2013, respectively	\$ 53,837,586	\$ 49,224,083
Other	2,007,031	2,226,834
Total operating revenues	55,844,617	51,450,917
<b>Operating Expenses</b>		
Salaries, wages and contract labor	23,462,806	22,922,401
Employee benefits	5,432,717	5,665,702
Purchased services and professional fees	8,368,612	7,228,956
Supplies	6,220,244	5,861,014
Insurance	539,782	462,204
Utilities	1,023,437	953,861
Rent	608,893	429,318
Repairs and maintenance	2,869,757	2,518,405
Provider hospital assessment fee	3,598,202	1,905,791
Depreciation and amortization	3,088,725	3,193,596
Other	1,554,402	1,507,091
Total operating expenses	56,767,577	52,648,339
<b>Operating Loss</b>	(922,960)	(1,197,422)
<b>Nonoperating Revenues (Expenses)</b>		
Investment income	39,078	14,087
Interest expense	(1,165,777)	(1,177,325)
Other	20,717	123,462
Total nonoperating expenses	(1,105,982)	(1,039,776)
<b>Deficiency of Revenues Over Expenses Before Capital Grants and Contributions</b>	(2,028,942)	(2,237,198)
<b>Capital Grants and Contributions</b>	47,620	8,188
<b>Decrease in Net Position</b>	(1,981,322)	(2,229,010)
<b>Net Position, Beginning of Year</b>	26,208,206	28,437,216
<b>Net Position, End of Year</b>	\$ 24,226,884	\$ 26,208,206

**Daviess Community Hospital**  
**A Component Unit of Daviess County, Indiana**  
**Statements of Cash Flows**  
**Years Ended December 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 53,075,834	\$ 48,675,620
Payments to suppliers and contractors	(19,398,442)	(16,313,533)
Payments to employees	(29,591,705)	(28,236,200)
Payments, net	(3,150,245)	(1,190,720)
Net cash provided by operating activities	935,442	2,935,167
<b>Capital and Related Financing Activities</b>		
Capital grants and gifts	47,620	8,188
Principal paid on capital leases	(143,878)	(87,542)
Principal paid on long-term debt	(840,000)	(820,000)
Interest paid on long-term debt and capital leases	(963,512)	(976,800)
Purchase of capital assets	(960,261)	(1,106,016)
Loss on disposal of capital assets	4,593	35,826
Net cash used in capital and related financing activities	(2,855,438)	(2,946,344)
<b>Investing Activities</b>		
Interest and dividends on investments	39,078	14,087
Purchase of investments	-	(11,316)
Proceeds from sale of investments	113,351	-
Other investing activities	20,717	123,462
Net cash provided by investing activities	173,146	126,233
<b>Increase (Decrease) in Cash</b>	(1,746,850)	115,056
<b>Cash, Beginning of Year</b>	2,884,134	2,769,078
<b>Cash, End of Year</b>	\$ 1,137,284	\$ 2,884,134
<b>Reconciliation of Net Operating Loss to</b>		
<b>Net Cash Provided by Operating Activities</b>		
Operating loss	\$ (922,960)	\$ (1,197,422)
Depreciation and amortization	3,088,725	3,193,596
Provision for uncollectible accounts	3,299,586	4,040,562
Changes in operating assets and liabilities:		
Patient accounts receivable	(4,130,364)	(3,751,717)
Estimated amounts due to/from third-party payers	69,026	(837,308)
Accounts payable and accrued expenses	674,844	1,030,141
Other assets and liabilities	(1,143,415)	457,315
Net cash provided by operating activities	\$ 935,442	\$ 2,935,167
<b>Supplemental Cash Flows Information</b>		
Capital lease obligations incurred for capital assets	\$ -	\$ 311,995
Amortization of debt defeasance costs	\$ 214,865	\$ 214,805

# **Daviess Community Hospital**

## **A Component Unit of Daviess County, Indiana**

### **Notes to Financial Statements** **December 31, 2014 and 2013**

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

##### ***Nature of Operations and Reporting Entity***

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

The Hospital operates long-term care facilities (LTC) through a lease arrangement. These facilities provide inpatient and therapy services in its geographic area and supports the Hospital's mission to provide quality care and services to the facility's residents. The facilities are managed by a third party under a management agreement. The revenues from operations are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements.

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

##### ***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.

# **Daviess Community Hospital**

## **A Component Unit of Daviess County, Indiana**

### **Notes to Financial Statements** **December 31, 2014 and 2013**

#### ***Risk Management***

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

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

#### ***Investments and Investment Income***

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

Investment income includes dividend and interest income.

#### ***Patient Accounts Receivable***

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party 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, 2014 and 2013**

#### ***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 \$1,213,410 for 2014 and \$980,160 for 2013.

**Daviess Community Hospital**  
**A Component Unit of Daviess County, Indiana**  
**Notes to Financial Statements**  
**December 31, 2014 and 2013**

***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.

The Hospital began recognizing incentive payment revenues earned for qualified EHR technology expenditures during 2012, which was the period when they first finished attestation for year one. In 2014 and 2013, the Hospital recorded revenue of approximately \$1.1 million and \$1.5 million for the Medicare and Medicaid incentive programs, which is included in other operating revenues in the statements of revenues, expenses and changes in net position.

# Daviess Community Hospital

## A Component Unit of Daviess County, Indiana

### Notes to Financial Statements December 31, 2014 and 2013

#### 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.

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

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

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

Approximately 55% and 57% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2014 and 2013, 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.

# **Daviess Community Hospital**

## **A Component Unit of Daviess County, Indiana**

### **Notes to Financial Statements** **December 31, 2014 and 2013**

The Hospital received approximately \$5.0 million and \$1.6 million during 2014 and 2013, 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 \$3.6 million and \$1.9 million for 2014 and 2013, respectively, into this Medicaid program, which is recorded as an operating expense in the statements of revenues, expenses and changes in net position. During 2014, this program was re-instated retroactively to July 1, 2013 and this program is scheduled to sunset on June 30, 2017. There is no assurance this program will continue to be implemented in the future.

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 \$770,000 and \$1.3 million within patient service revenue related to this supplemental payment program for the years ended December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, \$796,000 and \$200,000 is accrued as a receivable in other current assets, respectively. This represents management's best estimate of DSH funds due to the Hospital, 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.

### **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 Depositary Insurance Corporation (FDIC) or by the Indiana Public Deposit Insurance Fund (IPDIF). This includes any deposit accounts issued or offered by a qualifying financial institution. Accordingly, all deposits in excess of FDIC levels are covered by the IPDIF and are considered collateralized.

# Daviness Community Hospital

## A Component Unit of Daviness County, Indiana

### Notes to Financial Statements December 31, 2014 and 2013

#### **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, 2014 and 2013, the Hospital had the following investments and maturities:

		December 31, 2014				
		Maturities in Years				
Type	Fair Value	Less Than 1	1-5	6-10	More Than 10	
Money market mutual funds	\$ 3,240,736	\$ 3,240,736	\$ -	\$ -	\$ -	

  

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

**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, 2014 and 2013, the Hospital's investments were not rated.

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

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

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

**Notes to Financial Statements**  
**December 31, 2014 and 2013**

**Summary of Carrying Values**

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

	<u>2014</u>	<u>2013</u>
Carrying value:		
Deposits	\$ 3,062,948	\$ 4,949,635
Investments	<u>3,240,736</u>	<u>3,214,250</u>
	<u>\$ 6,303,684</u>	<u>\$ 8,163,885</u>
Included in the following balance sheet captions:		
Cash	\$ 1,137,284	\$ 2,884,134
Noncurrent cash and investments	<u>5,166,400</u>	<u>5,279,751</u>
	<u>\$ 6,303,684</u>	<u>\$ 8,163,885</u>

**Investment Income**

Investment income for the years ended December 31 consisted of:

	<u>2014</u>	<u>2013</u>
Interest and dividend income	<u>\$ 39,078</u>	<u>\$ 14,087</u>

**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:

	<u>2014</u>	<u>2013</u>
Medicare	\$ 2,524,207	\$ 2,246,023
Medicaid	958,767	313,037
Other third-party payers	2,473,606	2,217,078
Patients	<u>3,496,288</u>	<u>2,681,603</u>
	9,452,868	7,457,741
Less allowance for uncollectible accounts	<u>2,570,318</u>	<u>1,405,969</u>
	<u>\$ 6,882,550</u>	<u>\$ 6,051,772</u>

# Daviness Community Hospital

## A Component Unit of Daviness County, Indiana

### Notes to Financial Statements December 31, 2014 and 2013

#### Note 5: Capital Assets

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

	2014				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 1,280,955	\$ -	\$ -	\$ -	\$ 1,280,955
Land improvements	687,865	-	-	-	687,865
Buildings and leasehold improvements	38,611,259	123,437	-	6,835	38,741,531
Equipment	30,097,161	381,834	(109,025)	655,820	31,025,790
Construction in progress	311,972	454,990	-	(662,655)	104,307
	<u>70,989,212</u>	<u>960,261</u>	<u>(109,025)</u>	<u>-</u>	<u>71,840,448</u>
Less accumulated depreciation:					
Land improvements	641,493	17,581	-	-	659,074
Buildings and leasehold improvements	16,571,342	1,053,158	-	-	17,624,500
Equipment	23,352,293	2,014,472	(104,432)	-	25,262,333
	<u>40,565,128</u>	<u>3,085,211</u>	<u>(104,432)</u>	<u>-</u>	<u>43,545,907</u>
Capital assets, net	<u>\$ 30,424,084</u>	<u>\$ (2,124,950)</u>	<u>\$ (4,593)</u>	<u>\$ -</u>	<u>\$ 28,294,541</u>

  

	2013				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
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
	<u>69,742,068</u>	<u>1,418,011</u>	<u>(170,867)</u>	<u>-</u>	<u>70,989,212</u>
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
	<u>37,510,084</u>	<u>3,190,085</u>	<u>(135,041)</u>	<u>-</u>	<u>40,565,128</u>
Capital assets, net	<u>\$ 32,231,984</u>	<u>\$ (1,772,074)</u>	<u>\$ (35,826)</u>	<u>\$ -</u>	<u>\$ 30,424,084</u>

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

**Notes to Financial Statements**  
**December 31, 2014 and 2013**

**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 \$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 other current liabilities in the balance sheets, during 2014 and 2013 is summarized as follows:

	<b>2014</b>	<b>2013</b>
Balance, beginning of year	\$ 622,000	\$ 400,000
Current year claims incurred and changes in estimate	3,080,434	3,610,127
Claims and expenses paid	(3,181,434)	(3,388,127)
Balance, end of year	\$ 521,000	\$ 622,000

# Daviness Community Hospital

## A Component Unit of Daviness County, Indiana

### Notes to Financial Statements December 31, 2014 and 2013

#### Note 8: Operating Leases

The Hospital has operating leases for long-term care nursing facilities and equipment that expire at various dates through 2016. In addition to base monthly rent, certain agreements require the Hospital to pay its proportionate share of excess operating costs associated with the facilities.

Future minimum lease payments at December 31, 2014 were:

2015		\$ 1,905,105
2016		<u>1,690,233</u>
Future minimum lease payments		<u><u>\$ 3,595,338</u></u>

Rental expense for all operating leases amounted to \$608,893 and \$429,318 for the years ended December 31, 2014 and 2013, respectively.

#### Note 9: Long-Term Debt

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

	2014				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Series 2011 refunding revenue bonds	\$ 19,315,000	\$ -	\$ (840,000)	\$ 18,475,000	\$ 870,000
Unamortized bond premium	70,466	-	(4,672)	65,794	-
Capital lease obligations	<u>651,341</u>	<u>-</u>	<u>(143,878)</u>	<u>507,463</u>	<u>150,114</u>
Total long-term debt	<u><u>\$ 20,036,807</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (988,550)</u></u>	<u><u>\$ 19,048,257</u></u>	<u><u>\$ 1,020,114</u></u>
	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	<u>426,888</u>	<u>311,995</u>	<u>(87,542)</u>	<u>651,341</u>	<u>143,878</u>
Total long-term debt	<u><u>\$ 20,637,026</u></u>	<u><u>\$ 311,995</u></u>	<u><u>\$ (912,214)</u></u>	<u><u>\$ 20,036,807</u></u>	<u><u>\$ 983,878</u></u>

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

**Notes to Financial Statements**  
**December 31, 2014 and 2013**

**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 15<sup>th</sup> and July 15<sup>th</sup> 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, 2014 are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2015	\$ 1,773,075	\$ 870,000	\$ 903,075
2016	1,768,575	910,000	858,575
2017	1,775,306	955,000	820,306
2018	1,779,788	1,000,000	779,788
2019	1,768,788	1,040,000	728,788
2020-2024	8,819,444	5,990,000	2,829,444
2025-2029	8,763,412	7,710,000	1,053,412
	<u>\$ 26,448,388</u>	<u>\$ 18,475,000</u>	<u>\$ 7,973,388</u>

**Capital Lease Obligations**

The Hospital is obligated under leases for equipment that are accounted for as capital leases. The following is a schedule by year of future minimum lease payments under the capital lease including interest at a rate of 4.25% together with the present value of the future minimum lease payments as of December 31, 2014:

2015	\$ 168,780
2016	168,780
2017	143,929
2018	63,592
Total minimum lease payments	545,081
Less amount representing interest	37,618
Present value of future minimum lease payments	\$ 507,463

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

**Notes to Financial Statements**  
**December 31, 2014 and 2013**

Assets under capital leases at December 31, totaled:

	<b>2014</b>	<b>2013</b>
Machinery and equipment	\$ 752,779	\$ 752,779
Accumulated depreciation	(279,798)	(135,919)
	\$ 472,981	\$ 616,860

**Note 10: 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 \$174,413 and \$182,227 during 2014 and 2013, respectively.

**Note 11: Contingencies**

***Litigation***

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

# **Daviess Community Hospital**

## **A Component Unit of Daviess County, Indiana**

### **Notes to Financial Statements** **December 31, 2014 and 2013**

#### **Note 12: 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 required the establishment of health insurance exchanges, which provides 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 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. In 2015, the state of Indiana expanded its Medicaid program with the implementation of the Healthy Indiana Plan (HIP) 2.0. Under HIP 2.0, the first \$2,500 of beneficiary medical expenses are reimbursed from special savings accounts funded partly by the state and partly by the beneficiary. The impact of Medicaid expansion under the HIP 2.0 program on the Hospital's revenues is currently unknown.

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.

#### **Note 13: Long-Term Care Operating Leases and Management Agreements**

The Hospital entered into agreements effective December 1, 2014 to lease the facility and equipment for the operation of two nursing homes. Along with the lease agreement, the Hospital also entered into a management agreement with the facility's previous manager (Manager) to continue to operate the facility. The agreements expire November 30, 2016 and include automatic two-year extensions. The management agreement includes optional termination clauses by either party if material changes in circumstances, as defined in the agreement, occur. The lease agreement includes termination clauses where the lease shall automatically end at the termination of the management agreement between the Hospital and Manager.

# Daviness Community Hospital

## A Component Unit of Daviness County, Indiana

### Notes to Financial Statements December 31, 2014 and 2013

The Autumn Wood's lease agreement calls for monthly base rent payments of \$73,376, while the Hearthstone lease agreement calls for monthly base rent payments of \$79,661. Both monthly base rent payments are increased by 2% annually and run through November 30, 2016. The agreement also calls for a royalty fee to be paid to the Manager at \$10,000 per month for each facility. Rent and royalty expense totaled \$173,037 for 2014. The management agreement includes management fees consisting of base management fees, subordinated management fees and incentive management fees. These amounts are based on the net patient service revenue of the facility. Subordinate and incentive management fees are to be paid only if sufficient working capital exists. Combined base, subordinate and incentive management fees totaled \$167,056 in 2014.

#### Note 14: Blended Component Unit

The Hospital's financial statements include the blended component unit accounts of the Foundation. The following is a financial summary of the Foundation as of and for the years ended December 31, 2014 and 2013:

	2014	2013
Current assets	\$ 55,988	\$ 58,562
Noncurrent assets	411,062	556,000
Total assets	\$ 467,050	\$ 614,562
Current and total liabilities	\$ -	\$ -
Net position	467,050	614,562
Total liabilities and net position	\$ 467,050	\$ 614,562
Revenues	\$ 54,496	\$ 34,307
Expenses	202,008	33,806
Increase (decrease) in net position	(147,512)	501
Net position, beginning of year	614,562	614,061
Net position, end of year	\$ 467,050	\$ 614,562

**Daviess Community Hospital**  
**A Component Unit of Daviess County, Indiana**  
**Notes to Financial Statements**  
**December 31, 2014 and 2013**

**Note 15: Subsequent Events**

In February 2015, the Hospital entered into a line of credit agreement to finance additional nursing home transactions for \$6 million that expires on February 20, 2016. This line of credit bears a variable interest rate of 1.75% and is secured by a deposit account along with any assets acquired or created through the line of credit.

Effective January 1, 2015, the Hospital entered into additional agreements to lease a facility and equipment for the operation of a third nursing facility. This lease agreement has similar terms as the two arrangements initiated during 2014.

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

## **Supplementary Information**

**Daviess Community Hospital**  
**A Component Unit of Daviess County, Indiana**  
**Combining Balance Sheet Information**  
**December 31, 2014**

**Assets and Deferred Outflows of Resources**

	2014			
	Hospital	LTC	Hospital Foundation	Total
<b>Current Assets</b>				
Cash	\$ 993,896	\$ 87,400	\$ 55,988	\$ 1,137,284
Patient accounts receivable, net of allowance of \$2,570,318	6,035,252	847,298	-	6,882,550
Supplies	1,074,860	-	-	1,074,860
Prepaid expenses and other	3,293,917	-	-	3,293,917
Estimated amounts due from third-party payers	554,122	-	-	554,122
Total current assets	<u>11,952,047</u>	<u>934,698</u>	<u>55,988</u>	<u>12,942,733</u>
<b>Noncurrent Cash and Investments</b>				
Internally designated	1,612,350	-	411,062	2,023,412
Held by trustee for debt service	3,142,988	-	-	3,142,988
	<u>4,755,338</u>	<u>-</u>	<u>411,062</u>	<u>5,166,400</u>
<b>Capital Assets, net</b>	<u>28,294,541</u>	<u>-</u>	<u>-</u>	<u>28,294,541</u>
<b>Other Assets</b>	<u>297,997</u>	<u>60,268</u>	<u>-</u>	<u>358,265</u>
<b>Deferred Outflows of Resources - debt defeasance costs</b>	<u>3,026,017</u>	<u>-</u>	<u>-</u>	<u>3,026,017</u>
Total assets and deferred outflows of resources	<u>\$ 48,325,940</u>	<u>\$ 994,966</u>	<u>\$ 467,050</u>	<u>\$ 49,787,956</u>

**Liabilities and Net Position**

<b>Current Liabilities</b>				
Current maturities of long-term debt	\$ 1,020,114	\$ -	\$ -	\$ 1,020,114
Interest payable	462,412	-	-	462,412
Accounts payable	1,951,530	562,293	-	2,513,823
Accrued expenses	1,697,131	-	-	1,697,131
Other	1,418,412	421,037	-	1,839,449
Total current liabilities	<u>6,549,599</u>	<u>983,330</u>	<u>-</u>	<u>7,532,929</u>
<b>Long-Term Debt</b>	<u>18,028,143</u>	<u>-</u>	<u>-</u>	<u>18,028,143</u>
Total liabilities	<u>24,577,742</u>	<u>983,330</u>	<u>-</u>	<u>25,561,072</u>
<b>Net Position</b>				
Net investment in capital assets	9,246,284	-	-	9,246,284
Restricted for debt service	3,142,988	-	-	3,142,988
Unrestricted	11,358,926	11,636	467,050	11,837,612
Total net position	<u>23,748,198</u>	<u>11,636</u>	<u>467,050</u>	<u>24,226,884</u>
Total liabilities and net position	<u>\$ 48,325,940</u>	<u>\$ 994,966</u>	<u>\$ 467,050</u>	<u>\$ 49,787,956</u>

**Daviess Community Hospital**  
**A Component Unit of Daviess County, Indiana**  
**Combining Balance Sheet Information**  
**December 31, 2013**

**Assets and Deferred Outflows of Resources**

	2013		
	Hospital	Hospital Foundation	Total
<b>Current Assets</b>			
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>
<b>Noncurrent Cash and Investments</b>			
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>
<b>Capital Assets, net</b>	<u>30,424,084</u>	<u>-</u>	<u>30,424,084</u>
<b>Other Assets</b>	<u>335,767</u>	<u>-</u>	<u>335,767</u>
<b>Deferred Outflows of Resources - debt defeasance costs</b>	<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>
<b>Liabilities and Net Position</b>			
<b>Current Liabilities</b>			
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>
<b>Long-Term Debt</b>	<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>
<b>Net Position</b>			
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>

**Daviess Community Hospital**  
**A Component Unit of Daviess County, Indiana**  
**Combining Statement of Revenues, Expenses and**  
**Changes in Net Position Information**  
**Year Ended December 31, 2014**

	2014				
	Hospital	LTC	Hospital Foundation	Eliminations	Total
<b>Operating Revenues</b>					
Net patient service revenue, net of provision for uncollectible accounts of \$3,299,586	\$ 52,472,072	\$ 1,365,514	\$ -	\$ -	\$ 53,837,586
Other	2,157,031	-	-	(150,000)	2,007,031
Total operating revenues	<u>54,629,103</u>	<u>1,365,514</u>	<u>-</u>	<u>(150,000)</u>	<u>55,844,617</u>
<b>Operating Expenses</b>					
Salaries, wages and contract labor	22,988,337	474,469	-	-	23,462,806
Employee benefits	5,274,560	158,157	-	-	5,432,717
Purchased services and professional fees	8,051,505	317,107	-	-	8,368,612
Supplies	6,050,879	132,857	36,508	-	6,220,244
Insurance	519,158	20,624	-	-	539,782
Utilities	999,055	24,382	-	-	1,023,437
Rent	455,856	153,037	-	-	608,893
Repairs and maintenance	2,869,757	-	-	-	2,869,757
Provider hospital assessment fee	3,598,202	-	-	-	3,598,202
Depreciation and amortization	3,088,725	-	-	-	3,088,725
Other	1,465,657	73,245	165,500	(150,000)	1,554,402
Total operating expenses	<u>55,361,691</u>	<u>1,353,878</u>	<u>202,008</u>	<u>(150,000)</u>	<u>56,767,577</u>
<b>Operating Income (Loss)</b>	<u>(732,588)</u>	<u>11,636</u>	<u>(202,008)</u>	<u>-</u>	<u>(922,960)</u>
<b>Nonoperating Revenues (Expenses)</b>					
Investment income	34,952	-	4,126	-	39,078
Interest expense	(1,165,777)	-	-	-	(1,165,777)
Other	17,967	-	2,750	-	20,717
Total nonoperating revenues (expenses)	<u>(1,112,858)</u>	<u>-</u>	<u>6,876</u>	<u>-</u>	<u>(1,105,982)</u>
<b>Excess (Deficiency) of Revenues Over Expenses Before Capital Grants and Contributions</b>	<u>(1,845,446)</u>	<u>11,636</u>	<u>(195,132)</u>	<u>-</u>	<u>(2,028,942)</u>
<b>Capital Grants and Contributions</b>	<u>-</u>	<u>-</u>	<u>47,620</u>	<u>-</u>	<u>47,620</u>
<b>Increase (Decrease) in Net Position</b>	<u>(1,845,446)</u>	<u>11,636</u>	<u>(147,512)</u>	<u>-</u>	<u>(1,981,322)</u>
<b>Net Position, Beginning of Year</b>	<u>25,593,644</u>	<u>-</u>	<u>614,562</u>	<u>-</u>	<u>26,208,206</u>
<b>Net Position, End of Year</b>	<u>\$ 23,748,198</u>	<u>\$ 11,636</u>	<u>\$ 467,050</u>	<u>\$ -</u>	<u>\$ 24,226,884</u>

**Daviess Community Hospital**  
**A Component Unit of Daviess County, Indiana**  
**Combining Statement of Revenues, Expenses and**  
**Changes in Net Position Information**  
**Year Ended December 31, 2013**

	2013		
	Hospital	Hospital Foundation	Total
<b>Operating Revenues</b>			
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	<u>51,450,917</u>	<u>-</u>	<u>51,450,917</u>
<b>Operating Expenses</b>			
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	<u>52,614,533</u>	<u>33,806</u>	<u>52,648,339</u>
<b>Operating Loss</b>	<u>(1,163,616)</u>	<u>(33,806)</u>	<u>(1,197,422)</u>
<b>Nonoperating Revenues (Expenses)</b>			
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)	<u>(1,065,895)</u>	<u>26,119</u>	<u>(1,039,776)</u>
<b>Deficiency of Revenues Over Expenses Before</b>			
<b>Capital Grants and Contributions</b>	(2,229,511)	(7,687)	(2,237,198)
<b>Capital Grants and Contributions</b>	<u>-</u>	<u>8,188</u>	<u>8,188</u>
<b>Increase (Decrease) in Net Position</b>	(2,229,511)	501	(2,229,010)
<b>Net Position, Beginning of Year</b>	<u>27,823,155</u>	<u>614,061</u>	<u>28,437,216</u>
<b>Net Position, End of Year</b>	<u>\$ 25,593,644</u>	<u>\$ 614,562</u>	<u>\$ 26,208,206</u>