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STATE BOARD OF ACCOUNTS
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April 10, 2024

Board of Trustees
Daviness Community Hospital
Daviness County, Indiana

We have reviewed the audit report of Daviness Community Hospital which was opined upon by FORVIS, LLP, Independent Public Accountants, for the period January 1, 2022 to December 31, 2022. Per the *Independent Auditor's Report*, the financial statements included in the report present fairly the financial condition of Daviness Community Hospital as of December 31, 2022 and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the findings in the report on pages 45 through 48. Please see the Schedule of Findings and Questioned Costs for completed details related to the findings. Management's Corrective Action Plan appears on pages 50 and 51.

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

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

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

Tammy R. White, CPA
Deputy State Examiner



Daviess Community Hospital

A Component Unit of Daviess County, Indiana

Independent Auditor's Report and Financial Statements

December 31, 2022



Daviess Community Hospital
A Component Unit of Daviess County, Indiana
December 31, 2022

Contents

Independent Auditor’s Report.....	1
Management’s Discussion and Analysis	4
Financial Statements	
Balance Sheet	9
Statement of Revenues, Expenses, and Changes in Net Position.....	11
Statement of Cash Flows	12
Notes to Financial Statements	14
Supplementary Information	
Combining Balance Sheet Information as of December 31, 2022	35
Combining Statement of Revenues, Expenses and Changes in Net Position Information for the Year Ended December 31, 2022	36
Schedule of Expenditures of Federal Awards	37
Notes to the Schedule of Expenditures of Federal Awards	38
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> - Independent Auditor’s Report.....	39
Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance – Independent Auditor’s Report.....	41
Schedule of Findings and Questioned Costs.....	44
Summary Schedule of Prior Audit Findings.....	49

Independent Auditor's Report

Board of Governors
Daviess Community Hospital
Washington, Indiana

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Daviess Community Hospital (Hospital), a component unit of Daviess County, Indiana, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Hospital, as of December 31, 2022, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 2 to the financial statements, in 2022, the Hospital adopted Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The accompanying supplementary information including the combining schedules and the schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2024, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

FORVIS,LLP

Indianapolis, Indiana
March 1, 2024

Daviess Community Hospital

A Component Unit of Daviess County, Indiana

Management's Discussion and Analysis

December 31, 2022

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 year ended December 31, 2022. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and investments decreased in 2022 by \$12,536,877 or 20.7%.
- The Hospital's net position decreased in 2022 by \$461,385 or 0.6% after the impact of the adoption of new accounting standards discussed below.
- The Hospital reported an operating loss of \$2,391,966 in 2022. The operating results in 2022 decreased by \$2,514,111 or 2,058.3% over the operating income reported in 2021 of \$122,145.
- Net nonoperating revenues for 2022 were \$1,930,581, which represents a decline of \$10,089,750 or 83.9% compared to the net nonoperating revenues of \$12,020,331 in 2021.
- As discussed in Note 2 to the financial statements, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, in 2022. Prior year comparative information presented herein has not been restated for adoption of GASB 87.

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, liabilities, and deferred inflows of resources—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 four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash during the reporting period.

Hospital's Net Position

The Hospital's net position is the difference between its assets, deferred outflows of resources, liabilities, and deferred inflows of resources reported in the balance sheet. The Hospital's net position decreased by \$887,740 or 1.2% in 2022 compared to 2021 as shown in Table 1 which includes a \$426,355 decrease to beginning net position for the adoption of GASB 87.

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

	<u>2022</u>	<u>2021</u>
Assets		
Patient accounts receivable, net	\$ 29,486,760	\$ 30,815,559
Other current assets	59,452,425	80,410,308
Capital assets, net	29,053,397	32,188,375
Other noncurrent assets	11,119,346	8,668,894
Total assets	<u>129,111,928</u>	<u>152,083,136</u>
Deferred Outflows of Resources	<u>1,359,687</u>	<u>1,583,197</u>
Total assets and deferred outflows of resources	<u>\$ 130,471,615</u>	<u>\$ 153,666,333</u>
Liabilities		
Long-term debt (including current portion)	\$ 9,825,942	\$ 12,868,866
Other current liabilities	48,253,556	68,324,325
Other long-term liabilities	647,990	-
Total noncurrent cash and investments	<u>58,727,488</u>	<u>81,193,191</u>
Deferred Inflows of Resources	<u>158,725</u>	<u>-</u>
Net Position		
Net investment in capital assets	20,820,377	20,902,706
Restricted for debt service	3,193,734	3,145,233
Unrestricted	47,571,291	48,425,203
Total net position	<u>71,585,402</u>	<u>72,473,142</u>
Total liabilities and net position	<u>\$ 130,471,615</u>	<u>\$ 153,666,333</u>

A decrease in assets during 2022 was caused mainly by the decrease in cash of \$12,536,877 (20.7%) and a decrease in prepaid expenses and other current assets of \$8,437,833 (47.4%). This decrease is attributed to a decrease in receipts of noncapital grants and contributions from federal stimulus funds and a decrease in other receivables for nursing home operations. An increase in assets during 2021 was caused mainly by the increase in cash of \$10,378,677 (20.7%). This increase was attributed to federal stimulus funds received during the last quarter of the year along with settlements of previous Medicare claim withholdings.

Operating Results and Changes in the Hospital's Net Position

In 2022, the Hospital's net position decreased by \$461,385 or 0.6% after the impact of the adoption of GASB 87 as shown in Table 2. This decrease is made up of several components and represents a decrease of 103.8% compared with the increase in net position for 2021 of \$12,142,476 or 20.1%. Of note, during 2022 and 2021, the Hospital recognized revenue approximating \$33.5 million and \$47.4 million, respectively, related to its participation in the Indiana Medicaid Upper Payment Limit (UPL) program with its nursing home operations. These amounts are recorded in other operating revenues.

Table 2: Operating Results and Changes in Net Position

	<u>2022</u>	<u>2021</u>
Operating Revenues		
Net patient service revenue	\$ 257,531,527	\$ 249,142,880
Other operating revenues	34,897,769	48,910,229
Total operating revenues	<u>292,429,296</u>	<u>298,053,109</u>
Operating Expenses		
Salaries, wages, contract labor and employee benefits	147,835,222	142,082,312
Purchased services and professional fees	44,213,171	51,904,106
Depreciation and amortization	3,989,342	4,181,725
Provider hospital assessment fee	4,712,272	4,805,737
Other operating expenses	94,071,255	94,957,084
Total operating expenses	<u>294,821,262</u>	<u>297,930,964</u>
Operating Income (Loss)	<u>(2,391,966)</u>	<u>122,145</u>
Nonoperating Revenues (Expenses)		
Investment income	226,200	125,985
Interest expense	(637,882)	(722,128)
Noncapital grants and contributions	1,868,013	12,019,104
Other nonoperating revenues and expenses, net	474,250	597,370
Total nonoperating revenues (expenses)	<u>1,930,581</u>	<u>12,020,331</u>
Increase (Decrease) in Net Position	<u>\$ (461,385)</u>	<u>\$ 12,142,476</u>

Operating Results

The first component of the overall change in the Hospital's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In the current year, the Hospital reported operating loss of \$2,391,966, which is a decline over 2021 operating income of \$122,145 related to macroeconomic trends and the continued impact of COVID-19 on healthcare operations.

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

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income, interest expense, noncapital appropriations, noncapital grants and contributions, and gains/losses on disposal of capital assets. The main change in nonoperating revenues was a decrease in noncapital grants and contributions approximating \$10.2 million related to declines in Provider Relief Funds as authorized in the *Coronavirus Aid, Relief and Economic Security Act* (CARES Act) and *American Rescue Plan* (ARP) made available to prepare, prevent and respond to the impact of the COVID-19 pandemic along with changes in other federal and state grant activity.

Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating results and net nonoperating revenues and expenses for 2022 discussed earlier. Changes in operating results led to a decrease in cash provided by (used in) operating activities approximating \$11.0 million in 2022. Cash (used in) provided by noncapital financing activities decreased by approximately \$12.2 million as a result of declines in Provider Relief Funds in 2022.

Capital Asset and Debt Administration

Capital and Lease Assets

At the end of 2022, the Hospital had \$29,053,397 invested in capital assets, net of accumulated depreciation, and lease assets of \$1,445,753, net of accumulated amortization, as detailed in Note 7 to the financial statements. Capital asset additions approximated \$3,086,000 in 2022. At the end of 2022, the Hospital had \$1,445,753 reported as lease assets, net of accumulated amortization, as detailed in Note 7 to the financial statements.

Debt

At December 31, 2022, the Hospital had \$9,825,942 in revenue bonds outstanding as compared to \$11,235,435 at December 31, 2021. See Note 11 to the financial statements for more information regarding long-term debt.

Line of Credit

The Hospital has a \$30 million revolving bank line of credit (see Note 12). There was \$14,300,273 borrowed against this line at December 31, 2022. The line is collateralized by certain deposit accounts held with the bank. Interest varies with the bank's prime rate less 1.25%, with a minimum rate of 3.50% which was the effective rate on December 31, 2021, and is payable monthly.

Other Economic Factors

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

Additionally, uncertainty and business disruption surrounding the continued impact of COVID-19 and overall economic trends have and will impact the operations of the Hospital. The economic impact, contingent on the overall impact of any future outbreaks, may negatively impact the Hospital's payor and service mix and overall operating expenses.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Business Administration by telephoning 812.254.2760.

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Balance Sheet
December 31, 2022

Assets and Deferred Outflows of Resources

		<u>2022</u>
Current Assets		
Cash	\$ 48,096,490	
Patient accounts receivable, net of allowance of \$8,326,117	29,486,760	
Supplies	1,985,098	
Prepaid expenses and other	<u>9,370,837</u>	
Total current assets		\$ 88,939,185
Noncurrent Cash and Investments		
Internally designated	400,959	
Held by trustee for debt service	<u>3,193,734</u>	
Total noncurrent cash and investments		3,594,693
Capital Assets, net		29,053,397
Lease Assets, net		1,445,753
Other Assets		<u>6,078,900</u>
Total assets		129,111,928
Deferred Outflows of Resources - debt defeasance costs		<u>1,359,687</u>
Total assets and deferred outflows of resources		<u><u>\$ 130,471,615</u></u>

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Balance Sheet (Continued)
December 31, 2022

**Liabilities, Deferred Inflows of Resources
and Net Position**

		<u>2022</u>
Current Liabilities		
Current maturities of long-term debt	\$ 1,464,871	
Current maturities of lease liabilities	564,528	
Line of credit	14,300,273	
Accounts payable and accrued expenses	33,140,163	
Estimated amounts due to third-party payors	248,592	
Total current liabilities		\$ 49,718,427
Long-Term Obligations		
Long-term obligations	8,361,071	
Lease liabilities, net of current portion	647,990	
Total noncurrent liabilities		<u>9,009,061</u>
Total liabilities		58,727,488
Deferred Inflows of Resources - lease receivable		158,725
Net Position		
Net investment in capital assets	20,820,377	
Restricted for debt service	3,193,734	
Unrestricted	47,571,291	
Total net position		<u>71,585,402</u>
Total liabilities, deferred inflows of resources and net position		<u>\$ 130,471,615</u>

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2022

		<u>2022</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts - \$7,626,742	\$ 257,531,527	
Other	34,897,769	
Total operating revenues		\$ 292,429,296
Operating Expenses		
Salaries, wages and contract labor	125,960,996	
Employee benefits	21,874,226	
Purchased services and professional fees	44,213,171	
Supplies	22,956,968	
Insurance	3,754,143	
Total noncurrent cash and investments	6,798,172	
Rent	27,014,622	
Repairs and maintenance	7,421,360	
Provider hospital assessment fee	4,712,272	
Depreciation and amortization	3,989,342	
Other	26,125,990	
Total operating expenses		<u>294,821,262</u>
Operating Loss		(2,391,966)
Nonoperating Revenues (Expenses)		
Investment income	226,200	
Interest expense	(637,882)	
Noncapital appropriations - Daviess County	474,250	
Noncapital grants and contributions	1,868,013	
Total nonoperating revenues		<u>1,930,581</u>
Decrease in Net Position		<u>(461,385)</u>
Net Position, Beginning of Year, as Previously Stated		72,473,142
Restatement for adoption of accounting principle		(426,355)
Net Position, Beginning of Year, as Restated		<u>72,046,787</u>
Net Position, End of Year		<u><u>\$ 71,585,402</u></u>

Daviess Community Hospital
A Component Unit of Daviess County, Indiana

Statement of Cash Flows
Year Ended December 31, 2022

		<u>2022</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 294,968,473	
Payments to suppliers and contractors	(122,263,947)	
Payments to employees and contract labor	(147,769,823)	
Other payments, net	(29,519,139)	
Net cash used in operating activities		\$ (4,584,436)
Noncapital Financing Activities		
Noncapital grants and contributions	1,277,713	
Noncapital appropriations - Daviess County	474,250	
Borrowings on line of credit	14,300,273	
Repayments on line of credit	(18,701,274)	
Net cash used in noncapital financing activities		(2,649,038)
Capital and Related Financing Activities		
Principal paid on revenue bonds	(1,409,493)	
Interest paid on long-term debt	(457,628)	
Principal paid on lease liabilities	(537,969)	
Purchase of capital assets	(3,085,792)	
Net cash used in capital and related financing activities		(5,490,882)
Investing Activities		
Interest and dividends on investments	226,200	
Purchase of investments	(43,281)	
Other investing activities	4,579	
Net cash provided by investing activities		187,498
Decrease in Cash		(12,536,858)
Cash, Beginning of Year		<u>60,652,026</u>
Cash, End of Year		<u>\$ 48,115,168</u>
Reconciliation of Cash to the Balance Sheets		
Cash		\$ 48,096,490
Noncurrent cash and investments - internally designated		<u>18,678</u>
Total cash and restricted cash		<u>\$ 48,115,168</u>

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Statement of Cash Flow (Continued)
Year Ended December 31, 2022

		2022
Reconciliation of Operating Loss to Net Cash Used		
in Operating Activities		
Operating loss	\$	(2,391,966)
Depreciation and amortization		3,989,342
Provision for uncollectible accounts		7,626,742
Capital assets transferred in-lieu of management fees		530,759
Changes in operating assets and liabilities:		
Patient accounts receivable		(6,297,943)
Estimated amounts due to/from third-party payers		(38,643)
Accounts payable and accrued expenses		(14,675,712)
Other assets and liabilities		6,672,985
Net cash used in operating activities		\$ (4,584,436)
Supplemental Cash Flow Information		
Capital assets transferred to manager in lieu of contract fees	\$	475,208

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Notes to Financial Statements
December 31, 2022

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

Nature of Operations and Reporting Entity

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

The Hospital currently operates twenty-seven long-term care nursing facilities (LTC) through various lease arrangements as of December 31, 2022. These facilities provide inpatient and therapy services in their geographic area and supports the Hospital's mission to provide quality care and services to the facility's residents. The facilities are managed by third parties under various management agreements. The revenues from operations are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements.

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

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Notes to Financial Statements
December 31, 2022

Operating Activities

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

Use of Estimates

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

Risk Management

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

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

Investments and Investment Income

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

Investment income includes dividend and interest income.

Daviess Community Hospital

A Component Unit of Daviess County, Indiana

Notes to Financial Statements **December 31, 2022**

Patient Accounts Receivable

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

Supplies

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	5 - 25 years
Buildings and leasehold improvements	5 - 40 years
Equipment	3 - 20 years

Lease Assets

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

Capital and Lease Asset Impairment

The Hospital evaluates capital and lease assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital or lease asset has occurred. If a capital or lease asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss. No asset impairment was recognized during the year ended December 31, 2022.

Deferred Outflows of Resources

The Hospital reports the consumption of net position that is applicable to a future period as deferred outflows of resources in a separate section of its balance sheet.

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Notes to Financial Statements
December 31, 2022

Compensated Absences

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

Deferred Inflows of Resources

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

Net Position

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

- Net investment in capital assets consists of capital and lease assets net of accumulated depreciation amortization and reduced by the outstanding balances of borrowings and lease liabilities used to finance the purchase, use, or construction of those assets.
- Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

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

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Notes to Financial Statements
December 31, 2022

Charity Care

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

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. In addition, the Hospital is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

Foundation

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

Future Accounting Standards

In fiscal year 2023, the Hospital will implement GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. This statement provides a new framework for accounting for SBITAs under the principle that SBITAs result in a right-to-use subscription asset (intangible asset) and a corresponding subscription liability.

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

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

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Notes to Financial Statements
December 31, 2022

Note 2: Adoption of New Accounting Standards

GASB Statement No. 87, Leases

During 2022, the Hospital implemented GASB Statement No. 87, *Leases* (GASB No. 87). This statement requires governments to recognize certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The adoption of GASB No. 87 resulted in a decrease to beginning net position of \$426,355. As of January 1, 2022, adoption of the standard resulted in the recognition of lease assets and liabilities of approximately \$1,750,000 (for leases in which the Hospital is lessee), a decrease in property and equipment of approximately \$2,052,000 and a decrease in capital lease obligations of approximately \$1,633,000. For leases in which the Hospital is the lessor, adoption of the standard resulted in recognition of leases receivable and deferred inflows of resources for leases of approximately \$224,000. Leases have been recognized and measured using the facts and circumstances that existed at the beginning of the year. Refer to Notes 6, 7 and 13 for the additional disclosures on these balances.

Note 3: Net Patient Service Revenue

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

Medicare. Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

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

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates 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.

Daviess Community Hospital

A Component Unit of Daviess County, Indiana

Notes to Financial Statements

December 31, 2022

Approximately 70% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the year ended December 31, 2022. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana law and, as such, is eligible to receive supplemental Medicaid payments. The amounts of these supplemental payments are dependent on regulatory approval by agencies of the federal and state governments and is determined by level, extent and cost of uncompensated care and various other factors. Supplemental payments have been made by the State of Indiana, and the Hospital records such amounts as revenue when it has been reasonably determined that the funds will be received. The Hospital recognized approximately \$624,000 within net patient service revenue related to this supplemental payment program for the year ended December 31, 2022. Amounts outstanding at December 31, 2022 approximating \$300,000 are included within prepaid expenses and other assets. This represents management's best estimate of DSH funds due to the Hospital, which are typically paid in arrears.

The Hospital participates in a state-specific provider assessment program to increase Medicaid payments to hospitals. The Hospital incurred approximately \$4.7 million of assessed fees related to the Medicaid program in 2022, which is recorded as an operating expense in the statement of revenues, expenses and changes in net position.

The Hospital's Medicaid Inpatient Utilization Rate (MIUR) exceeded state-wide thresholds, as defined by state regulation, during the most recent measurement period. A benefit of having a MIUR exceeding the threshold includes a 25% reduction in the provider assessment fee. The provider assessment fee program is subject to further retroactive rate setting by the state of Indiana and its Medicaid program and the amounts expensed represent the current fees that have been assessed to the Hospital, including the 25% benefit through December 31, 2022.

The state measures the MIUR no less than every four years and no more than every two years. At each measurement period, the state-defined MIUR changes, which may affect the Hospital's eligibility status. Any change in MIUR eligibility would affect the Hospital's ability to receive the 25% provider assessment fee reduction. The State's most recent measurement is for the period ended June 30, 2021. Any change in the amount of tax due as a result of eligibility changes will be recorded in the period the state has made its determination.

The amounts outstanding and owed under the assessment fee program approximated \$1,620,000 at December 31, 2022, and are included within accounts payable and accrued expenses.

Daviness Community Hospital

A Component Unit of Daviness County, Indiana

Notes to Financial Statements December 31, 2022

The long-term care operations of the Hospital qualify for supplemental Medicaid payments through the Upper Payment Limit (UPL) program. The UPL is established to pay qualifying providers the difference between what Medicare would have paid and what Medicaid actually paid. The UPL is distributed through an intergovernmental transfer (IGT) arrangement. The Hospital is responsible for funding the IGT long-term care operations. Revenue associated with the UPL program is recorded net of IGT payments made to the program and are included in other operating revenue. The Hospital recognized approximately \$33,533,000 related to this supplemental payment program for the years ended December 31, 2022. At December 31, 2022 approximately \$6,131,000 is accrued and included in prepaid expenses and other assets.

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

Note 4: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

Deposits with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation (FDIC) or by the Indiana Public Deposit Insurance Fund (IPDIF). This includes any deposit accounts issued or offered by a qualifying financial institution. Accordingly, all deposits in excess of FDIC levels are covered by the IPDIF and are considered collateralized.

Investments

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in certain deposit accounts, mutual funds, repurchase agreements and pooled investment funds as authorized by Indiana Code 16-22-3-20.

At December 31, 2022, the Hospital had the following investments and maturities:

Type	Fair Value	December 31, 2022			
		Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
Money market mutual funds	\$ 3,301,729	\$ 3,301,729	\$ -	\$ -	\$ -

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Notes to Financial Statements
December 31, 2022

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, 2022, 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:

	2022
Carrying value:	
Deposits	\$ 48,389,454
Investments	3,301,729
	\$ 51,691,183
Included in the following balance sheets captions:	
Cash	\$ 48,096,490
Noncurrent cash and investments	3,594,693
	\$ 51,691,183

Nonnegotiable certificates of deposit totaling \$274,286 is included in deposit balances at December 31, 2022.

Investment Income

Investment income for the year ended December 31 consisted of:

	2022
Interest and dividend income	\$ 226,200
	\$ 226,200

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Notes to Financial Statements
December 31, 2022

Note 5: Patient Accounts Receivable

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

	2022
Medicare	\$ 9,123,142
Medicaid	15,915,480
Other third-party payors	6,723,315
Patients	6,050,940
	37,812,877
Less allowance for uncollectible accounts	(8,326,117)
	\$ 29,486,760

Note 6: Lease Receivable

The Hospital leases a portion of its office space to a third party, the terms of which expire in 2025. Payments are fixed or increase at amounts defined in the lease agreements. Revenue recognized under lease contracts during the year ended December 31, 2022 was approximately \$60,800, which includes both lease revenue and interest. Revenue recognized for variable and short-term rental amounts not included in the measurement of leases receivable approximated \$80,000 for the year ended December 31, 2022.

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Notes to Financial Statements
December 31, 2022

Note 7: Capital Assets

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

	2022				Ending Balance
	Beginning Balance*	Additions	Disposals	Transfers	
Land	\$ 1,280,955	\$ -	\$ -	\$ -	\$ 1,280,955
Land improvements	687,865	-	-	-	687,865
Buildings and leasehold improvements	48,563,047	1,521,745	(839,150)	4,975	49,250,617
Equipment	40,510,235	698,998	(126,640)	99,237	41,181,830
Construction in progress	66,631	865,049	-	(104,212)	827,468
	<u>91,108,733</u>	<u>3,085,792</u>	<u>(965,790)</u>	<u>-</u>	<u>93,228,735</u>
Less accumulated depreciation:					
Land improvements	685,940	590	-	-	686,530
Buildings and leasehold improvements	28,132,995	1,926,732	(363,940)	-	29,695,787
Equipment	32,105,759	1,753,774	(66,512)	-	33,793,021
	<u>60,924,694</u>	<u>3,681,096</u>	<u>(430,452)</u>	<u>-</u>	<u>64,175,338</u>
Total noncurrent cash and investments					
Capital assets, net	<u>\$ 30,184,039</u>	<u>\$ (595,304)</u>	<u>\$ (535,338)</u>	<u>\$ -</u>	<u>\$ 29,053,397</u>

Lease assets activity for the year ended December 31, 2022 was:

	2022				Ending Balance
	Beginning Balance*	Additions	Disposals	Transfers	
Buildings	\$ 1,550,769	\$ -	\$ -	\$ -	\$ 1,550,769
Major movable equipment	199,718	-	-	-	199,718
	<u>1,750,487</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,750,487</u>
Less accumulated amortization:					
Buildings	-	251,476	-	-	251,476
Major movable equipment	-	53,258	-	-	53,258
	<u>-</u>	<u>304,734</u>	<u>-</u>	<u>-</u>	<u>304,734</u>
Lease Assets, Net	<u>\$ 1,750,487</u>	<u>\$ (304,734)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,445,753</u>

* Restated for the adoption of GASB 87, *Leases*

Per the terms of the Hospital's management agreements discussed in Note 19, capital assets approximating \$475,000 were transferred to the manager upon closure of facilities or other disposition during 2022, and are recorded as additional contract fee expense under these agreements.

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Notes to Financial Statements
December 31, 2022

Note 8: Medical Malpractice Claims

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

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

Note 9: Employee Health Claims

Substantially all of the Hospital's employees and their dependents (excluding contract employees through long-term care nursing facility arrangements) are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$90,000 per enrollee. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability, which is included in accrued expenses in the balance sheet, during 2022, is summarized as follows:

	2022
Balance, beginning of year	\$ 325,200
Current year claims incurred and changes in estimate	3,605,545
Claims and expenses paid	(3,646,899)
Balance, end of year	\$ 283,846

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Notes to Financial Statements
December 31, 2022

Note 10: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at December 31, 2022 consisted of:

	2022
Payable to suppliers and contractors	\$ 30,919,756
Payable to employees (including payroll taxes and benefits)	2,220,407
Balance, end of year	\$ 33,140,163

Note 11: Long-Term Obligations

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

	2022				
	Beginning Balance*	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Series 2020 refunding revenue bonds	\$ 11,235,435	\$ -	\$ (1,409,493)	\$ 9,825,942	\$ 1,464,871
Other liabilities:					
Medicare advance payments	886,385	-	(886,385)	-	-
Lease liability	1,750,487	-	(537,969)	1,212,518	564,528
Total long-term liabilities	\$ 13,872,307	\$ -	\$ (2,833,847)	\$ 11,038,460	\$ 2,029,399

* Restated for the adoption of GASB 87, *Leases*

Series 2020 Revenue Refunding Bonds

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

Daviness Community Hospital

A Component Unit of Daviness County, Indiana

Notes to Financial Statements December 31, 2022

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

The Series 2020 bonds are payable in annual installments beginning January 2022 through January 2029. The Hospital is required to make monthly deposits to the debt service fund held by the trustee, and interest payments are payable January 15th and July 15th annually. The bonds are secured by the net revenues and accounts receivable of the Hospital and the assets restricted under the bond indenture agreement.

The debt service requirements as of December 31, 2022 are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2023	\$ 1,621,279	\$ 1,464,871	\$ 156,408
2024	1,621,063	1,490,067	130,996
2025	1,620,842	1,515,696	105,146
2026	1,620,618	1,541,766	78,852
2027	1,620,390	1,568,284	52,106
2028-2029	2,275,747	2,245,258	30,489
	<u>\$ 10,379,939</u>	<u>\$ 9,825,942</u>	<u>\$ 553,997</u>

Medicare Advance Payments

As part of the CARES Act legislation, the Centers for Medicare & Medicaid Services (CMS) expanded the existing Accelerated and Advance Payments Program to a broad group of Medicare Part A providers as a means to provide additional cash flow at the onset of the COVID-19 pandemic in March 2020. The Hospital met the eligibility criteria and was approved for advance payments, receiving approximately \$14.1 million in 2020. Under the terms of the program, repayment of the funds began one year from the date the advance payment was issued (April 2021 for the Hospital); beginning then and continuing through February 2022, the advance payments are being recouped at a rate of 25% of any Medicare payments owed to the Hospital. Beginning with month 12 (March 2022), the recoupment rate increases to 50%, with a lump-sum due for any remaining balance at the conclusion of month 17 (August or September 2022). During 2022, previous amounts outstanding approximating \$886,000 were recouped in full.

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Notes to Financial Statements
December 31, 2022

Note 12: Line of Credit

The Hospital has a \$30,000,000 revolving bank line of credit, which expired on December 14, 2023 and was subsequently renewed with an amended expiration date of December 2024. There was \$14,300,273 borrowed against this line at December 31, 2022. The line is collateralized by certain deposit accounts held with the bank. Interest varies with the bank's prime rate less 1.25%, with a minimum rate of 3.50% which was the effective rate on December 31, 2022, and is payable monthly.

Note 13: Lease Liabilities

The Hospital leases equipment and office space, the terms of which expire in various years through 2028. Variable payments based upon the use of the underlying asset or tied to an unknown increase with certain indexes are not included in the lease liability because they are not fixed in substance. During the year ended December 31, 2022, the Hospital recognized approximately \$300,000 of rental expense for variable payments and short-term rentals not previously included in the measurement of the lease liability.

The facility leases related to long-term care operations include termination language where either party can terminate without cause with 60 - 90 days written notice. The Hospital recognized approximately \$23,046,000 under these agreements as short-term rentals, net of amounts forgiven by managers based on working capital available to fund outstanding amounts. Short-term rentals under long-term care facility lease expenses are excluded from the measurement of the lease liability.

The following is a schedule by year of payments under the leases as of December 31, 2022:

Year Ending December 31,	Total to be Paid	Principal	Interest
2023	\$ 603,122	\$ 564,528	\$ 38,594
2024	203,123	174,691	28,432
2025	193,603	174,088	19,515
2026	146,000	134,085	11,915
2027	146,000	140,945	5,055
2028	24,332	24,181	151
	\$ 1,316,180	\$ 1,212,518	\$ 103,662

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Notes to Financial Statements
December 31, 2022

Note 14: Pension Plan

The Hospital contributes to a defined-contribution 403(b) pension plan covering substantially all employees after one year of service (excluding contract employees through long-term care nursing facility arrangements). Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by a board of governors. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's board of governors. The Hospital will match 50% of the employee's contributions into the plan up to a maximum of 6% contribution by the employee. Employees are 100% vested in their own contributions and are vested on an increasing scale from 0% to 100% over 5 years in Hospital contributions. Hospital contributions approximated \$515,000 during 2022.

Note 15: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

The Hospital has money market mutual funds of \$3,301,729 at December 31, 2022 which are valued on a recurring measurement at fair value using the net asset value per share (or its equivalent) as a practical expedient and are not classified in the fair value hierarchy. These money market mutual funds invest in short-term debt securities and seek to provide greater returns than cash deposits. There are no unfunded commitments or restrictions on redemptions.

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Notes to Financial Statements
December 31, 2022

Note 16: Commitments and Contingencies

Construction Commitment

In November 2022, the Hospital entered into a construction agreement for renovation of its existing facilities with a guaranteed maximum project cost of \$6,080,000. Work commenced on this project in December 2022 and the Hospital has a remaining committed amount of \$6,070,000 related to this project at December 31, 2022.

Billing Compliance

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

Litigation

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

COVID-19 Pandemic

Hospital operations have been affected by COVID-19, including the impact of various policies by federal, state, and local governments in response to the pandemic. The extent of the COVID-19 pandemic's adverse effect on the Hospital's operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the Hospital's control and ability to forecast. Because of these and other uncertainties, the Hospital cannot estimate the length or severity of the effect of the pandemic on the Hospital's business. Decreases in cash flows and results of operations may have an effect on debt covenant compliance and on the inputs and assumptions used in significant accounting estimates, including the allowance for uncollectible accounts related to patient accounts receivable, and potential impairments of long-lived and other assets.

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Notes to Financial Statements
December 31, 2022

The Hospital previously received distributions from the Coronavirus Aid, Relief and Economic Security (CARES) Act Provider Relief Fund and the American Rescue Plan Act (ARPA) Relief Fund (collectively, Provider Relief Funds). These distributions from the Provider Relief Funds are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses and lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services (HHS).

The Hospital accounts for such payments as voluntary nonexchange transactions in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Payments are recognized as grant revenue once the applicable terms and conditions required to retain the funds have been substantially met. Revenue recognized is classified as nonoperating and the associated cash flows are included within noncapital financing activities.

Based on an analysis of the compliance and reporting requirements of the Provider Relief Funds and the effect of the pandemic on the Hospital's operating revenues and expenses, the Hospital recognized approximately \$696,000 of previously deferred amounts during the year ended December 31, 2022.

The Hospital has recognized revenue from the Provider Relief Funds based on guidance issued by HHS as of December 31, 2022 and any clarifications issued by HHS subsequent to year-end, including any referenced above as recognized subsequent events. The Hospital will continue to monitor compliance with the terms and conditions of the Provider Relief Funds and the effect of the pandemic on the Hospital's revenues and expenses. The terms and conditions governing the Provider Relief Funds are complex and subject to interpretation and change. If the Hospital is unable to attest to or comply with current or future terms and conditions, its ability to retain some or all of the distributions received may be affected. Additionally, the amounts recorded in the financial statements compared to the Hospital's Provider Relief Funds reporting could differ. Provider Relief Fund payments are subject to government oversight, including potential audits.

Note 17: Noncapital Appropriations – Daviess County

Daviess County, of which the Hospital is a component unit, subsidized the Hospital for providing the County with ambulance service. The Hospital recognizes these payments as nonoperating revenue. The Hospital recognized subsidy revenue of approximately \$474,000, for the year ended 2022.

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Notes to Financial Statements
December 31, 2022

Note 18: Condensed Combining Information

The following table includes condensed combining balance sheet information for the Hospital and its blended component unit as of December 31, 2022:

	December 31, 2022		
	Hospital	Foundation	Total
Assets			
Current assets	\$ 88,718,944	\$ 220,241	\$ 88,939,185
Capital assets, net	29,053,397	-	29,053,397
Other assets	10,826,382	292,964	11,119,346
Total assets	<u>128,598,723</u>	<u>513,205</u>	<u>129,111,928</u>
Deferred Outflows of Resources	<u>1,359,687</u>	<u>-</u>	<u>1,359,687</u>
Total assets and deferred outflows of resources	<u>\$ 129,958,410</u>	<u>\$ 513,205</u>	<u>\$ 130,471,615</u>
Liabilities			
Current liabilities	\$ 49,718,427	\$ -	\$ 49,718,427
Noncurrent liabilities	9,009,061	-	9,009,061
Total liabilities	<u>58,727,488</u>	<u>-</u>	<u>58,727,488</u>
Deferred Inflows of Resources	<u>158,725</u>	<u>-</u>	<u>158,725</u>
Net Position			
Net investment in capital assets	20,820,377	-	20,820,377
Restricted	3,193,734	-	3,193,734
Unrestricted	47,058,086	513,205	47,571,291
Total net position	<u>71,072,197</u>	<u>513,205</u>	<u>71,585,402</u>
Total liabilities and net position	<u>\$ 129,958,410</u>	<u>\$ 513,205</u>	<u>\$ 130,471,615</u>

Daviness Community Hospital

A Component Unit of Daviness County, Indiana

Notes to Financial Statements December 31, 2022

The following table includes condensed combining statement of revenues, expenses and changes in net position information for the Hospital and its blended component unit for the year ended December 31, 2022:

	December 31, 2022		
	Hospital	Foundation	Total
Operating Revenue			
Net patient service revenue	\$ 257,531,527	\$ -	\$ 257,531,527
Other operating revenue	34,897,769	-	34,897,769
Total operating revenue	<u>292,429,296</u>	<u>-</u>	<u>292,429,296</u>
Operating Expenses			
Salaries, wages, contract labor and employee benefits	147,835,222	-	147,835,222
Purchased services and professional fees	44,213,171	-	44,213,171
Depreciation and amortization	3,989,342	-	3,989,342
Other operating expenses	98,698,984	84,543	98,783,527
Total operating expenses	<u>294,736,719</u>	<u>84,543</u>	<u>294,821,262</u>
Operating Loss	<u>(2,307,423)</u>	<u>(84,543)</u>	<u>(2,391,966)</u>
Nonoperating Revenue (Expenses)			
Investment return	220,538	5,662	226,200
Interest expense	(637,882)	-	(637,882)
Noncapital appropriations - Daviness County	474,250	-	474,250
Noncapital grants and contributions	1,726,802	141,211	1,868,013
	<u>1,783,708</u>	<u>146,873</u>	<u>1,930,581</u>
Increase (Decrease) in Net Position	<u>\$ (523,715)</u>	<u>\$ 62,330</u>	<u>\$ (461,385)</u>

Note 19: Long-Term Care Operating Leases and Management Agreements

The Hospital has entered into various agreements to lease the facilities and equipment for the operation of thirty long-term care nursing facilities. Along with the lease agreements, the Hospital also entered into management agreements with the facilities' previous managers (Managers) to continue to operate the facilities. The agreements have original terms of two years and include optional two to three-year extensions. The management agreements include optional termination clauses by either party if material changes in circumstances, as defined in the agreements, occur. The lease agreements include termination clauses where the leases shall automatically end at the termination of the management agreements between the Hospital and Managers.

The lease agreements call for monthly base rent payments as outlined in the agreements. Certain facilities include annual rent increases of 2% to 5%. Rental expense approximated \$23.7 million in 2022.

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Notes to Financial Statements
December 31, 2022

The management agreements include management fees consisting of base management fees, subordinated management fees and incentive management fees. Base and subordinate management fees are determined on percentages of net patient service revenue of the individual facilities and range from 0.5% to 5.0%. Incentive management fees are to be paid out of the net earnings of the facility, if sufficient excess cash flows exist, up to the maximum amounts as defined in the agreement. The management agreements also call for quality, royalty and capital improvement fees to be paid to the Managers. Management and other fees approximated \$21.8 million in 2022 and in certain circumstances included fee reductions as insufficient cash flows existed to fund amounts due. In certain instances, incentive management fees have exceeded established caps. In these instances, the Hospital and third-party managers have agreed to fund amounts in excess of caps while working in good faith to amend current agreements. Amounts are included in purchased services and professional fees on the statements of revenues, expenses and changes in net position.

Upon termination of the agreements, capital assets funded through operating revenues revert to the respective landlords. Certain agreements include capital improvement and replacement reserves, which are established at predetermined amounts per licensed bed. These amounts are to be used to fund improvements at the facilities. Upon termination, unspent reserves also revert to the respective landlords. Capital assets and unspent capital improvement and replacement reserves approximated \$10.3 million at December 31, 2022.

Under the management agreements, the employees necessary to operate the facilities are contracted by the Hospital. The majority of all costs in the ordinary course of business are paid by the Managers who are then reimbursed by the Hospital from operations of the facilities. Similarly, Managers of certain facilities have provided working capital to cover insufficient cash flows from operations. Consequently, the majority of accounts payable and accrued expenses of the long-term care operations reflect amounts due to Managers or its vendors.

The Hospital has executed security agreements with lenders of certain Managers, allowing for a security interest in certain deposits, receivable accounts and other assets approximating \$20.3 million at December 31, 2022.

Note 20: Subsequent Events

Subsequent to year-end, the Hospital ceased operating two of its existing skilled nursing facilities and terminated their lease and management agreements. The Hospital was also notified by one of its third party managers of the intent to close an additional four and sell an additional six skilled nursing facilities. The parties have not terminated any existing management or lease agreements related to the planned closure or sale of these ten facilities.

In August 2023, the Hospital purchased a facility it leased at December 31, 2022 for approximately \$545,000. Upon closing, the existing lease agreement was terminated. At the termination date, the lease asset approximated \$880,000 and the lease liability approximated \$468,000.

Also, in August 2023, the Hospital received a donation from Daviess County for \$400,000 related to ongoing renovation and construction projects.

Supplementary Information

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Combining Balance Sheet Information
December 31, 2022

Assets and Deferred Outflows of Resources

	2022			
	Hospital	LTC	Hospital Foundation	Total
Current Assets				
Cash	\$ 20,077,125	\$ 27,799,124	\$ 220,241	\$ 48,096,490
Patient accounts receivable, net of allowance of \$8,326,117	8,710,881	20,775,879	-	29,486,760
Supplies	1,985,098	-	-	1,985,098
Prepaid expenses and other	937,733	8,433,104	-	9,370,837
Estimated amounts due from third-party payors	-	-	-	-
Total current assets	<u>31,710,837</u>	<u>57,008,107</u>	<u>220,241</u>	<u>88,939,185</u>
Noncurrent Cash and Investments				
Internally designated	107,995	-	292,964	400,959
Held by trustee for debt service	3,193,734	-	-	3,193,734
	<u>3,301,729</u>	<u>-</u>	<u>292,964</u>	<u>3,594,693</u>
Capital Assets, net	<u>23,930,856</u>	<u>5,122,541</u>	<u>-</u>	<u>29,053,397</u>
Lease Assets, net	<u>1,445,753</u>	<u>-</u>	<u>-</u>	<u>1,445,753</u>
Other Assets	<u>872,269</u>	<u>5,206,631</u>	<u>-</u>	<u>6,078,900</u>
Total assets	61,261,444	67,337,279	513,205	129,111,928
Deferred Outflows of Resources - debt defeasance costs	<u>1,359,687</u>	<u>-</u>	<u>-</u>	<u>1,359,687</u>
Total assets and deferred outflows of resources	<u>\$ 62,621,131</u>	<u>\$ 67,337,279</u>	<u>\$ 513,205</u>	<u>\$ 130,471,615</u>

**Liabilities, Deferred Inflows of Resources
and Net Position**

Current Liabilities				
Current maturities of long-term debt	\$ 1,464,871	\$ -	\$ -	\$ 1,464,871
Current maturities of lease liabilities	564,528	-	-	564,528
Line of credit	-	14,300,273	-	14,300,273
Accounts payable and accrued expenses	3,857,825	29,282,338	-	33,140,163
Estimated amounts due to third-party payors	248,592	-	-	248,592
Total current liabilities	<u>6,135,816</u>	<u>43,582,611</u>	<u>-</u>	<u>49,718,427</u>
Noncurrent Liabilities				
Long-term obligations	8,361,071	-	-	8,361,071
Lease liabilities, net of current portion	647,990	-	-	647,990
Total noncurrent liabilities	<u>9,009,061</u>	<u>-</u>	<u>-</u>	<u>9,009,061</u>
Total liabilities	<u>15,144,877</u>	<u>43,582,611</u>	<u>-</u>	<u>58,727,488</u>
Deferred Inflows of Resources - lease receivable	<u>158,725</u>	<u>-</u>	<u>-</u>	<u>158,725</u>
Net Position				
Net investment in capital assets	15,697,836	5,122,541	-	20,820,377
Restricted for debt service	3,193,734	-	-	3,193,734
Unrestricted	28,425,959	18,632,127	513,205	47,571,291
Total net position	<u>47,317,529</u>	<u>23,754,668</u>	<u>513,205</u>	<u>71,585,402</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 62,621,131</u>	<u>\$ 67,337,279</u>	<u>\$ 513,205</u>	<u>\$ 130,471,615</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, 2022

	2022			Total
	Hospital	LTC	Hospital Foundation	
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts of \$7,626,742	\$ 60,318,398	\$ 197,213,129	\$ -	\$ 257,531,527
Other	733,692	34,164,077	-	34,897,769
Total operating revenues	<u>61,052,090</u>	<u>231,377,206</u>	<u>-</u>	<u>292,429,296</u>
Operating Expenses				
Salaries, wages and contract labor	27,701,890	98,259,106	-	125,960,996
Employee benefits	6,526,885	15,347,341	-	21,874,226
Purchased services and professional fees	11,901,986	32,311,185	-	44,213,171
Supplies	8,442,482	14,514,486	-	22,956,968
Insurance	893,388	2,860,755	-	3,754,143
Utilities	1,183,105	5,615,067	-	6,798,172
Rent	391,286	26,623,336	-	27,014,622
Repairs and maintenance	5,055,355	2,366,005	-	7,421,360
Provider hospital assessment fee	4,712,272	-	-	4,712,272
Depreciation and amortization	3,101,205	888,137	-	3,989,342
Other	3,186,914	22,854,533	84,543	26,125,990
Total operating expenses	<u>73,096,768</u>	<u>221,639,951</u>	<u>84,543</u>	<u>294,821,262</u>
Operating Income (Loss)	<u>(12,044,678)</u>	<u>9,737,255</u>	<u>(84,543)</u>	<u>(2,391,966)</u>
Nonoperating Revenues (Expenses)				
Investment income	136,877	83,661	5,662	226,200
Interest expense	(418,834)	(219,048)	-	(637,882)
Noncapital appropriations - Daviess County	474,250	-	-	474,250
Noncapital grants and contributions	1,726,802	-	141,211	1,868,013
Total nonoperating revenues (expenses)	<u>1,919,095</u>	<u>(135,387)</u>	<u>146,873</u>	<u>1,930,581</u>
Excess (Deficiency) of Revenues Over Expenses				
Before Transfers	(10,125,583)	9,601,868	62,330	(461,385)
Transfers	<u>13,771,926</u>	<u>(13,771,926)</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	<u>3,646,343</u>	<u>(4,170,058)</u>	<u>62,330</u>	<u>(461,385)</u>
Net Position, Beginning of Year, as Previously Stated	44,097,541	27,924,726	450,875	72,473,142
Restatement for adoption of accounting principle	(426,355)	-	-	(426,355)
Net Position, Beginning of Year, as Restated	<u>43,671,186</u>	<u>27,924,726</u>	<u>450,875</u>	<u>72,046,787</u>
Net Position, End of Year	<u>\$ 47,317,529</u>	<u>\$ 23,754,668</u>	<u>\$ 513,205</u>	<u>\$ 71,585,402</u>

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2022

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Health and Human Services				
COVID-19 - Provider Relief Fund	93.498	Direct	\$ -	\$ 6,657,660
Pass-through Programs				
Indiana Hospital Association				
COVID-19 - Rural Health Research Centers	93.155	N/A	-	252,916
Indiana Department of Health				
COVID-19 - Epidemiology and Laboratory Capacity for Infection Diseases	93.323	57212	-	53,000
State Opioid Response	93.788	1H79TI083279-01	-	314,030
Indiana Rural Health Association				
Health Start Initiative	93.926	5 H49MC32726	-	244,614
Indiana Family and Social Services Administration, Division of Mental Health and Addiction				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	63179	-	18,500
			<u>\$ -</u>	<u>\$ 7,540,720</u>

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Notes to the Schedule of Expenditures of Federal Awards
Year Ended December 31, 2022

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Daviess Community Hospital, a component unit of Daviess County, Indiana (the Hospital), under programs of the federal government for the year ended December 31, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Hospital, it is not intended to and does not present the financial position, changes in net position or cash flows of the Hospital.

Note 2: Summary of Significant Accounting Policies

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

Note 3: Indirect Cost Rate

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

Note 4: Federal Loan Programs

Daviess Community Hospital administered no federal loan programs for the year ended December 31, 2022.

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

Independent Auditor's Report

Board of Governors
Daviness Community Hospital
Washington, Indiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of Daviness Community Hospital (Hospital), a component unit of Daviness County, Indiana, which comprise the Hospital's the balance sheet as of December 31, 2022, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 1, 2024, which contained an "Emphasis of Matter" paragraph regarding a change in accounting principle.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2022-001 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2022-002 to be a significant deficiency.

Report on Compliance and Other Matters

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

Hospital's Response to Findings

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

FORVIS,LLP

Indianapolis, Indiana
March 1, 2024

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

Independent Auditor's Report

Board of Governors
Daviness Community Hospital
Washington, Indiana

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Daviness Community Hospital's, a component unit of Daviness County, Indiana (Hospital), compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the Hospital's major federal program for the year ended December 31, 2022. The Hospital's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Hospital complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2022.

Basis for Opinion on the Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2022-003. Our opinion on each major federal program is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-003 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-004 to be a significant deficiency.

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

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

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

FORVIS,LLP

Indianapolis, Indiana
March 1, 2024

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Schedule of Findings and Questioned Costs
Year Ended December 31, 2022

Section I - Summary of Auditor's Results

Financial Statements

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

Federal Awards

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

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2022

7. Identification of major federal program:

Assistance Listing Numbers	Name of Federal Program or Cluster
93.498	COVID-19 – Provider Relief Fund

8. Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

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

Section II – Financial Statement Findings

Reference Number	Finding
2022-001	<p>Criteria: Internal Control Over Financial Reporting - Indiana Code 5-11-1-27, requires the Hospital to adopt a minimum level of internal control standards and internal control procedures as developed by the Indiana State Board of Accounts and published in the <i>Uniform Internal Control Standards for Indiana Political Subdivisions</i>. Also, <i>Government Auditing Standards</i> section 6.40 requires auditors to report on internal control over financial reporting where findings rise to the level of a significant deficiency or material weakness.</p> <p>Condition: The Hospital did not timely receive or review periodic financial reporting of the nursing home operations as prepared by the third-party managers.</p> <p>Cause: While financial statements were prepared and monitored by the third-party managers, they were not routinely or timely provided to Hospital management for inclusion in the Hospital’s financial statements. Material adjustments were required to information provided by third-party managers to appropriately reflect the operations of the nursing homes.</p> <p>Effect or Potential Effect: Routine monitoring of the operations of the nursing homes is imperative to ensure that the Hospital is exercising its fiduciary and regulatory responsibility. Potential material misstatements in the financial statements could occur and not be detected and/or corrected in a timely manner.</p> <p>Recommendation: We recommend that the Hospital obtain and review periodic financial statements of each of the nursing homes and review internal calculations of amounts due under management agreements. Financial information should be included in the Hospital’s financial statements on a routine basis.</p> <p>Views of Responsible Officials and Planned Corrective Action: We concur. Management continues to evaluate current controls related to accounting for the nursing home operations to ensure that transactions are accounted for properly and in a timely manner.</p>

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2022

Section II – Financial Statement Findings (Continued)

Reference Number	Finding
2022-002	<p>Criteria: Internal Control Over Financial Reporting - Indiana Code 5-11-1-27, requires the Hospital to adopt a minimum level of internal control standards and internal control procedures as developed by the Indiana State Board of Accounts and published in the <i>Uniform Internal Control Standards for Indiana Political Subdivisions</i>. Also, <i>Government Auditing Standards</i> section 6.40 requires auditors to report on internal control over financial reporting where findings rise to the level of a significant deficiency or material weakness.</p> <p>Condition: The Hospital did not properly account for distributions of Provider Relief Funds received during the current fiscal year.</p> <p>Cause: Hospital management aggregated expenses and lost revenues attributable to COVID-19 as reported through the Provider Relief Fund reporting portal. These amounts were not compared to aggregate Provider Relief Funds received to properly account for these funds across the entity, including the nursing home operations.</p> <p>Effect or Potential Effect: Noncapital grants and contributions were not recorded in the proper period where the Hospital had satisfied the terms and conditions associated with the award as reported through the Provider Relief Fund reporting portal.</p> <p>Recommendation: The entirety of Provider Relief Funds have been recognized in full as of December 31, 2022. Therefore, we recommend that the Hospital formalize its tracking of expenses and lost revenues across all periods to support the amount of noncapital grants and contributions recognized over the life of the program.</p> <p>Views of Responsible Officials and Planned Corrective Action: We concur. Management has tracked expenses and lost revenues and recognized amounts in full. We do not expect continued funding under this program into the future.</p>

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2022

Section III – Federal Award Findings and Question Costs

Reference Number	Finding
2022-003	<p>Federal Program Name: COVID – 19 Provider Relief Fund (PRF)</p> <p>Federal Agency: U.S. Department of Health and Human Services</p> <p>Federal Assistance Listing Title and Number: COVID-19 Provider Relief Fund, 93.498</p> <p>Criteria or Specific Requirement: Reporting - 2 CFR 200.303(a) requires a non-Federal entity to establish and maintain effective internal control over Federal awards that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Also, per the terms and conditions of the Provider Relief Fund, amounts are to be used to prevent, prepare for, and respond to coronavirus and payments shall only be used to reimburse the Hospital for health care related expenses or lost revenues that are attributable to coronavirus.</p> <p>Condition: Lost revenues attributable to COVID-19 were not properly calculated and reported for Provider Relief Fund Portal reporting Periods 3 and 4.</p> <p>Questioned Costs: None</p> <p>Context: The Hospital reported lost revenues using the actual revenues for 2022 compared to actual revenues for 2019. During specific quarters in Periods 3 and 4 reporting, the Hospital did not include all patient revenues including those from the nursing home supplemental payment program in its calculation of lost revenues. This presentation did not conform with guidance published by the Health Resources and Services Administration (HRSA). Errors were identified by reconciling figures to underlying financial information.</p> <p>Effect: The Hospital did not properly calculate, and report lost revenues.</p> <p>Cause: Internal controls surrounding the review and submission of required reports were not adequately applied to ensure accuracy of required elements.</p> <p>Repeat Findings: Yes</p> <p>Recommendation: We recommend the Hospital evaluate lost revenues under published HRSA guidance and prepare a revised calculation that can be provided, if necessary, upon any further review.</p> <p>Views of Responsible Officials and Planned Corrective Action: We concur. When evaluating all uses of Provider Relief Funds, we have adequate expenses and lost revenues to support funding reported without consideration to the lost revenues reported in Periods 3 and 4.</p>

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2022

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

Reference Number	Finding
2022-004	<p>Federal Program Name: COVID – 19 Provider Relief Fund (PRF)</p> <p>Federal Agency: U.S. Department of Health and Human Services</p> <p>Federal Assistance Listing Title and Number: COVID-19 Provider Relief Fund, 93.498</p> <p>Criteria or Specific Requirement: 2 CFR 200.512(a) requires that the Hospital’s audit must be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section must be submitted within the earlier of 30 calendar day safter receipt of the auditor’s report(s), or nine months after the end of the audit period.</p> <p>Condition: The Hospital’s audit report was not finalized and submitted during the required time period.</p> <p>Questioned Costs: None</p> <p>Context: The Hospital’s audit report was not finalized and submitted during the required time period.</p> <p>Effect: The Hospital did not comply with the requirements of 2 CFR 200.512(a).</p> <p>Cause: Internal controls surrounding the accumulation of data from the Hospital’s nursing home operations as prepared by third party managers was delayed</p> <p>Repeat Findings: No</p> <p>Recommendation: We recommend that the Hospital obtain and review periodic financial statements of each of the nursing homes and review internal calculations of amounts due under management agreements. Financial information should be included in the Hospital’s financial statements on a routine basis.</p> <p>Views of Responsible Officials and Planned Corrective Action: We concur. Management continues to evaluate current controls related to accounting for the nursing home operations to ensure that transactions are accounted for properly and in a timely manner to allow for completion of required audit procedures within the timelines identified above.</p>

Daviess Community Hospital
A Component Unit of Daviess County, Indiana
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2022

Reference Number	Summary of Finding	Status
2021-001	The Hospital did not timely receive or review periodic financial reporting of the nursing home operations as prepared by the third-party managers.	Not Resolved - see current year finding 2022-001
2021-002	The Hospital did not properly account for distributions of Provider Relief Funds received during the current fiscal year.	Not Resolved - see current year finding 2022-002
2021-003	Lost revenues attributable to COVID-19 were not properly calculated and reported for Provider Relief Fund Portal reporting Period 2.	Not Resolved - see current year finding 2022-003
2021-004	Expenses attributable to COVID-19 were not properly reported for Provider Relief Fund Portal reporting Periods 1 and 2 when compared to detailed listings of expenses attributable to COVID-19.	Resolved

Corrective Action Plan

Year ended December 31, 2022

Reference	Corrective Action	Contact Person(s)
2022-001	<p>Internal Controls Over Financial Reporting – The following steps have been taken or will be taken to address Finding 2022-001:</p> <ul style="list-style-type: none"> • Daviness Community Hospital continues to stay focused and committed to timely receipt of interim financials from its nursing home partners. • Daviness Community Hospital will commit to review and monitor nursing home financials/support in order to have improved oversight with its nursing home partners. 	<p>April Settles, Daviness Community Hospital Asettles@dchosp.org 812-254-2760</p>
2022-002	<p>Internal Controls Over Financial Reporting – The following steps have been taken or will be taken to address Finding 2022-001:</p> <ul style="list-style-type: none"> • Daviness Community Hospital will formalize its tracking of expenses and lost revenues across all periods to support the amounts recognized over the life of the program. 	<p>April Settles, Daviness Community Hospital Asettles@dchosp.org 812-254-2760</p>
2022-003	<p>Findings Reported by Uniform Guidance – The following steps have been taken or will be taken to address Finding 2022-003:</p> <ul style="list-style-type: none"> • Daviness Community Hospital will prepare a revised lost revenue calculation that can be provided to HRSA if necessary. 	<p>April Settles, Daviness Community Hospital Asettles@dchosp.org 812-254-2760</p>

<p>2022-004</p>	<p>Findings Reported by Uniform Guidance – The following steps have been taken or will be taken to address Finding 2022-004:</p> <ul style="list-style-type: none"> • Daviness Community Hospital continues to stay focused and committed to timely receipt of interim financials from its nursing home partners. • Daviness Community Hospital will commit to review and monitor nursing home financials/support in order to have improved oversight with its nursing home partners. 	<p>April Settles, Daviness Community Hospital Asettles@dchosp.org 812-254-2760</p>
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