

# WOODLAWN HOSPITAL

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Woodlawn Hospital  
Rochester, Indiana

We have audited the accompanying combined balance sheets of Woodlawn Hospital (the Hospital), as of December 31, 2010 and 2009 and the related combined statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Guidelines for Audits of County and City Hospitals by Independent Certified Public Accountants, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2010 and 2009, and its results of operations, changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Board of Trustees  
Woodlawn HospitalWoodlawn Hospital  
Rochester, Indiana

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated 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 combined financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated 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.

*Blue & Co., LLC*

April 18, 2011

**REQUIRED SUPPLEMENTARY INFORMATION**

# WOODLAWN HOSPITAL

## MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2010 AND 2009

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This section of Woodlawn Hospital's (Hospital) annual combined financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's financial performance during the years ended December 31, 2010 and 2009. The combined financial statements include the Fulton County EMS, Inc., a discrete component unit. Please read it in conjunction with the Hospital's combined financial statements that follow this MD&A.

### **Financial Highlights**

- The Hospital's net assets increased \$217,847 or 2% in 2010 and decreased \$786,712 or 6% in 2009.

### **Using This Annual Report**

The Hospital's combined financial statements consist of three statements – a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These combined financial statements and related notes provide information about the activities and the financial position of the Hospital.

The Balance Sheet includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities).

All of the current year's revenue earned and expenses incurred are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets.

Finally, the Statement of Cash Flows' purpose is to provide information about the Hospital's cash flows from operating activities, financing activities including capital additions, and investing activities. This statement provides information on the sources and uses of cash and the change in the cash balance during the year.

# WOODLAWN HOSPITAL

## MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2010 AND 2009

### The Balance Sheet and Statement of Revenues and Expenses

One of the most important questions asked about the 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 and expenses 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. 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 assets and changes in them. Think of the Hospital's net assets—the difference between assets and liabilities—as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. Consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

### Assets, Liabilities, and Net Assets

	2010	2009	Change 2010 - 2009	2008
<b>ASSETS</b>				
Current assets	\$ 8,602,031	\$10,228,811	\$ (1,626,780)	\$ 9,134,743
Assets whose use is limited, net of current portio	2,678,394	3,080,798	(402,404)	3,400,226
Capital assets, net	17,437,273	15,847,376	1,589,897	7,483,510
Other assets	21,754	26,588	(4,834)	437,078
Total assets	<u>\$28,739,452</u>	<u>\$29,183,573</u>	<u>\$ (444,121)</u>	<u>\$20,455,557</u>
<b>LIABILITIES</b>				
Current liabilities	\$ 4,548,052	\$ 5,902,536	\$ (1,354,484)	\$ 4,383,574
Long-term debt	11,925,935	11,233,419	692,516	3,237,653
Total liabilities	<u>16,473,987</u>	<u>17,135,955</u>	<u>(661,968)</u>	<u>7,621,227</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	4,955,643	3,778,019	1,177,624	3,230,236
Restricted				
For debt service	149,848	1,115,638	(965,790)	195,188
Expendable - donor restricted	41,105	38,953	2,152	1,169,448
Total restricted net assets	<u>190,953</u>	<u>1,154,591</u>	<u>(963,638)</u>	<u>1,364,636</u>
Unrestricted	<u>7,118,869</u>	<u>7,115,008</u>	<u>3,861</u>	<u>8,239,458</u>
Total net assets	<u>12,265,465</u>	<u>12,047,618</u>	<u>217,847</u>	<u>12,834,330</u>
Total liabilities and net assets	<u>\$28,739,452</u>	<u>\$29,183,573</u>	<u>\$ (444,121)</u>	<u>\$20,455,557</u>

# WOODLAWN HOSPITAL

## MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2010 AND 2009

The most significant changes in the Hospital's assets were in the areas of Current Assets and Capital Assets, Net which decreased and increased approximately \$1.6 million, respectively, for 2010. The most significant change in the Hospital's liabilities which decreased \$1.3 million was in the area of current liabilities for 2010. These changes can be attributed mainly due to the completion of the renovation and expansion.

The most significant changes in the Hospital's assets were in the areas of Current Assets and Capital Assets, Net which increased approximately \$1.1 million and \$8.4 million, respectively, for 2009. The most significant changes in the Hospital's liabilities were in the areas of Current Liabilities and Long-term Debt which increased \$1.5 million and \$8 million, respectively. These changes can be attributed mainly due to the renovation and expansion.

### Operating Results and Changes in Net Assets

	2010	2009	Change 2010 - 2009	2008
<b>Revenues</b>				
Net patient service revenue	\$38,546,275	\$35,759,804	\$ 2,786,471	\$33,475,330
Other operating revenue	1,063,084	737,736	325,348	725,342
Total operating revenues	<u>39,609,359</u>	<u>36,497,540</u>	<u>3,111,819</u>	<u>34,200,672</u>
<b>Expenses</b>				
Salaries and benefits	22,786,807	21,644,348	1,142,459	20,005,968
Supplies	6,914,811	6,415,145	499,666	5,375,827
Depreciation and amortization	1,176,533	1,168,199	8,334	1,136,353
Other operating expenses	8,347,075	8,025,944	321,131	7,855,563
Total expenses	<u>39,225,226</u>	<u>37,253,636</u>	<u>1,971,590</u>	<u>34,373,711</u>
Operating income (loss)	384,133	(756,096)	1,140,229	(173,039)
Non-operating expenses, net	(579,103)	(824,267)	245,164	834,950
Loss from operation of discontinued components	-0-	-0-	-0-	(175,602)
Net income (loss) before transfers from the county	<u>(194,970)</u>	<u>(1,580,363)</u>	<u>1,385,393</u>	<u>486,309</u>
<b>Transfers from the county</b>	412,817	793,651	(380,834)	750,021
Change in net assets	217,847	(786,712)	1,004,559	1,236,330
<b>Net assets beginning of year</b>	12,047,618	12,834,330	(786,712)	11,598,000
<b>Net assets end of year</b>	<u>\$12,265,465</u>	<u>\$12,047,618</u>	<u>\$ 217,847</u>	<u>\$12,834,330</u>

The Hospital had a gain on equity of approximately 2% compared to a loss of approximately 6% in the prior year.

This following section highlights the major financial factors for 2010:

- The Hospital's patient days increased to 4,008 in 2010 compared to 3,283 in 2009 and 3,188 in 2008.

# WOODLAWN HOSPITAL

## MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2010 AND 2009

- During 2010, the Hospital's net patient services revenue was enhanced by Indiana Medicaid Municipal Hospital Payments of approximately \$767,000 compared to the payments of approximately \$790,000 and \$820,000 received in 2009 and 2008, respectively.
- Operating expenses increased \$1,972,457 or 5% in 2010 and \$2,879,925 or 8% in 2009. The growth in both years is attributable to the increasing costs of resources utilized to provide services to the Hospital's patients.
- Salaries and Benefits along with Supplies represented the largest increase over prior years. Salaries and Benefits expense increased \$1,142,459 or 5.3% in 2010 and \$1,638,380 or 8% in 2009. Supplies expense increase \$499,666 or 8% in 2010 and \$1,039,318 or 19% in 2009.

### Statements of Cash Flows

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing 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 balance during the reporting period?"

	2010	2009	Change 2010 - 2009	2008
<b>Cash flow from activities</b>				
Operating	\$ 1,291,237	\$ 3,084,414	\$ (1,793,177)	\$ 2,148,232
Noncapital financing	19,238	328,420	(309,182)	56,148
Capital and related financing	(2,477,355)	(1,120,708)	(1,356,647)	(1,197,229)
Investing	142,508	(244,942)	387,450	(243,546)
Change in cash and cash equivalents	<u>\$ (1,024,372)</u>	<u>\$ 2,047,184</u>	<u>\$ (3,071,556)</u>	<u>\$ 763,605</u>

Total cash and cash equivalents decreased \$1,024,372 in 2010 and increased \$2,047,184 in 2009. Operating activities generated cash and cash equivalents of \$1,291,237 during 2010 and \$3,084,414 during 2009 mainly from strong operating income. Capital and related financing decreased cash and cash equivalents by \$2,477,355 during 2010 and \$1,120,708 during 2009 mainly as the result of expenditures for property and equipment additions as well as payments on long-term debt. Investing activities increased cash and cash equivalents by \$142,508 in 2010 and decreased cash and cash equivalents by \$244,942 due to assets whose use is limited investments.

# WOODLAWN HOSPITAL

## MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2010 AND 2009

### Sources of Revenue

During 2010, the Hospital derived substantially all of its revenue from patient service and other related activities. A significant portion of the patient service revenue is from patients that are insured by government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from the Medicare and Medicaid programs represented approximately 43%, 44%, and 47% of the Hospital's gross revenues in 2010, 2009 and 2008, respectively. The Hospital's outpatient and physician services represented 80%, 82% and 83% of the Hospital's gross patient revenue in 2010, 2009 and 2008, respectively.

Following is a table of major sources of gross patient revenues for 2010, 2009 and 2008:

	2010	2009	2008
Medicare	29%	29%	33%
Medicaid	14%	15%	14%
Blue Cross	23%	22%	18%
Other	27%	27%	29%
Self Pay	7%	7%	6%
	100%	100%	100%

### Capital Assets

During 2010 and 2009, the Hospital invested a net amount of approximately \$2,000,000 and \$9,000,000, respectively, in capital assets mainly due to the renovation and expansion. The change in capital assets is outlined in the following table:

	2010	2009	Change 2010 - 2009	2008
Land and improvements	\$ 738,072	\$ 732,031	\$ 6,041	\$ 750,452
Buildings and improvements	23,527,547	21,704,032	1,823,515	10,159,102
Equipment	9,317,125	9,204,675	112,450	9,137,756
Construction in progress	-0-	-0-	-0-	2,536,896
Total property and equipment	33,582,744	31,640,738	1,942,006	22,584,206
Less accumulated depreciation	16,145,471	15,793,362	352,109	15,100,696
Capital assets, net	\$ 17,437,273	\$ 15,847,376	\$ 1,589,897	\$ 7,483,510

### Debt

Total debt increased from \$12,069,357 to \$12,481,630 in 2010 and from \$4,253,244 to \$12,069,357 in 2009 due to new borrowings related to the renovation and expansion.

# WOODLAWN HOSPITAL

MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED)  
DECEMBER 31, 2010 AND 2009

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## **Economic Outlook**

Management believes that the health care industry's and the Hospital's operating margins will continue to be under pressure because of changes in payer mix and growth in operating expenses that are in excess of the increases in contractually arranged and legally established payments received for services rendered. Another factor that poses a challenge to management is the increasing competitive market for the delivery of health care services. The ongoing challenge facing the Hospital is to continue to provide quality patient care in this competitive environment, and to attain reasonable rates for the services that are provided while managing costs. The most significant cost factor affecting the Hospital is the increases in labor costs due to the increasing competition for quality health care workers.

## **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. If you have questions about this report or need additional financial information, contact the Hospital Administrative offices at 1400 East Ninth Street, Rochester, IN 46975.

# WOODLAWN HOSPITAL

## COMBINED BALANCE SHEETS

DECEMBER 31, 2010

(WITH COMPARATIVE COMBINED TOTALS AT DECEMBER 31, 2009)

	2010			2009	
	Total	Fulton Co	Eliminations	Total	Total
	Hospital	EMS, Inc.		Reporting	Reporting
			Entity	Entity	
<b>Current assets</b>					
Cash and cash equivalents	\$ 3,138,961	\$ -0-	\$ -0-	\$ 3,138,961	\$ 2,995,139
Patient accounts receivable, net	4,020,155	-0-	-0-	4,020,155	4,156,881
Inventories	940,547	-0-	-0-	940,547	874,463
Estimated third party settlements	-0-	-0-	-0-	-0-	288,388
Other current assets	352,520	-0-	-0-	352,520	798,302
Current portion of assets whose use is limited	149,848	-0-	-0-	149,848	1,115,638
Total current assets	<u>8,602,031</u>	<u>-0-</u>	<u>-0-</u>	<u>8,602,031</u>	<u>10,228,811</u>
<b>Assets whose use is limited</b>					
Board designated	2,637,289	-0-	-0-	2,637,289	3,041,845
Trustee held funds	149,848	-0-	-0-	149,848	1,115,638
Donor restricted	41,105	-0-	-0-	41,105	38,953
Total assets whose use is limited	<u>2,828,242</u>	<u>-0-</u>	<u>-0-</u>	<u>2,828,242</u>	<u>4,196,436</u>
Less current portion of assets whose use is limited	<u>(149,848)</u>	<u>-0-</u>	<u>-0-</u>	<u>(149,848)</u>	<u>(1,115,638)</u>
Assets whose use is limited net of current portion	<u>2,678,394</u>	<u>-0-</u>	<u>-0-</u>	<u>2,678,394</u>	<u>3,080,798</u>
<b>Capital assets</b>					
Land	345,223	-0-	-0-	345,223	345,223
Depreciable capital assets, net	17,092,050	-0-	-0-	17,092,050	15,502,153
Total capital assets	<u>17,437,273</u>	<u>-0-</u>	<u>-0-</u>	<u>17,437,273</u>	<u>15,847,376</u>
<b>Other assets</b>					
	21,754	-0-	-0-	21,754	26,588
Total assets	<u>\$ 28,739,452</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 28,739,452</u>	<u>\$ 29,183,573</u>

See accompanying notes to combined financial statements.

# WOODLAWN HOSPITAL

## COMBINED BALANCE SHEETS DECEMBER 31, 2010

(WITH COMPARATIVE COMBINED TOTALS AT DECEMBER 31, 2009)

### LIABILITIES AND NET ASSETS

	2010			2009	
	Total Hospital	Fulton Co EMS, Inc.	Eliminations	Total Reporting Entity	Total Reporting Entity
<b>Current liabilities</b>					
Accounts payable and accrued expenses	\$ 1,775,447	\$ -0-	\$ -0-	\$ 1,775,447	\$ 3,381,457
Accrued salaries and related liabilities	1,706,053	-0-	-0-	1,706,053	1,685,141
Estimated third party settlements	510,857	-0-	-0-	510,857	-0-
Capital leases	69,734	-0-	-0-	69,734	256,538
Revenue bonds payable	485,961	-0-	-0-	485,961	579,400
<b>Total current liabilities</b>	<b>4,548,052</b>	<b>-0-</b>	<b>-0-</b>	<b>4,548,052</b>	<b>5,902,536</b>
<b>Long-term debt and capital leases</b>					
Capital leases	22,980	-0-	-0-	22,980	92,714
Long-term debt	11,902,955	-0-	-0-	11,902,955	11,140,705
<b>Total long-term debt</b>	<b>11,925,935</b>	<b>-0-</b>	<b>-0-</b>	<b>11,925,935</b>	<b>11,233,419</b>
<b>Total liabilities</b>	<b>16,473,987</b>	<b>-0-</b>	<b>-0-</b>	<b>16,473,987</b>	<b>17,135,955</b>
<b>Net assets</b>					
Invested in capital assets, net of related debt	4,955,643	-0-	-0-	4,955,643	3,778,019
Restricted					
Trustee held funds	149,848	-0-	-0-	149,848	1,115,638
Expendable - donor restricted	41,105	-0-	-0-	41,105	38,953
<b>Total restricted net assets</b>	<b>190,953</b>	<b>-0-</b>	<b>-0-</b>	<b>190,953</b>	<b>1,154,591</b>
Unrestricted	7,118,869	-0-	-0-	7,118,869	7,115,008
<b>Total net assets</b>	<b>12,265,465</b>	<b>-0-</b>	<b>-0-</b>	<b>12,265,465</b>	<b>12,047,618</b>
<b>Total liabilities and net assets</b>	<b>\$ 28,739,452</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ 28,739,452</b>	<b>\$ 29,183,573</b>

See accompanying notes to combined financial statements.

# WOODLAWN HOSPITAL

## COMBINED BALANCE SHEETS DECEMBER 31, 2009

### ASSETS

	Total Hospital	Fulton County EMS, Inc.	Eliminations	Total Reporting Entity
<b>Current assets</b>				
Cash and cash equivalents	\$ 2,877,136	\$ 118,003	\$ -0-	\$ 2,995,139
Patient accounts receivable, net	4,074,839	82,042	-0-	4,156,881
Inventories	874,463	-0-	-0-	874,463
Estimated third party settlements	288,388	-0-	-0-	288,388
Other current assets	959,629	100,022	(261,349)	798,302
Current portion of assets whose use is limited	1,115,638	-0-	-0-	1,115,638
<b>Total current assets</b>	<b>10,190,093</b>	<b>300,067</b>	<b>(261,349)</b>	<b>10,228,811</b>
<b>Assets whose use is limited</b>				
Board designated	3,041,845	-0-	-0-	3,041,845
Trustee held funds	1,115,638	-0-	-0-	1,115,638
Donor restricted	38,953	-0-	-0-	38,953
<b>Total assets whose use is limited</b>	<b>4,196,436</b>	<b>-0-</b>	<b>-0-</b>	<b>4,196,436</b>
Less current portion of assets whose use is limited	(1,115,638)	-0-	-0-	(1,115,638)
<b>Assets whose use is limited net of current portion</b>	<b>3,080,798</b>	<b>-0-</b>	<b>-0-</b>	<b>3,080,798</b>
<b>Capital assets</b>				
Land	345,223	-0-	-0-	345,223
Depreciable capital assets, net	15,502,153	-0-	-0-	15,502,153
<b>Total capital assets</b>	<b>15,847,376</b>	<b>-0-</b>	<b>-0-</b>	<b>15,847,376</b>
<b>Other assets</b>	26,588	-0-	-0-	26,588
<b>Total assets</b>	<b>\$ 29,144,855</b>	<b>\$ 300,067</b>	<b>\$ (261,349)</b>	<b>\$ 29,183,573</b>

See accompanying notes to combined financial statements.

# WOODLAWN HOSPITAL

## COMBINED BALANCE SHEETS DECEMBER 31, 2009

### LIABILITIES AND NET ASSETS

	Total Hospital	Fulton County EMS, Inc.	Eliminations	Total Reporting Entity
<b>Current liabilities</b>				
Accounts payable and accrued expenses	\$ 3,370,643	\$ 272,163	\$ (261,349)	\$ 3,381,457
Accrued salaries and related liabilities	1,685,141	-0-	-0-	1,685,141
Current portion of long-term debt				
Capital leases	256,538	-0-	-0-	256,538
Revenue bonds payable	579,400	-0-	-0-	579,400
Total current liabilities	5,891,722	272,163	(261,349)	5,902,536
<b>Long-term debt and capital leases</b>				
Capital leases	92,714	-0-	-0-	92,714
Long-term debt	11,140,705	-0-	-0-	11,140,705
Total long-term debt	11,233,419	-0-	-0-	11,233,419
Total liabilities	17,125,141	272,163	(261,349)	17,135,955
<b>Net assets</b>				
Invested in capital assets, net of related debt	3,778,019	-0-	-0-	3,778,019
Restricted				
Trustee held funds	1,115,638	-0-	-0-	1,115,638
Expendable - donor restricted	38,953	-0-	-0-	38,953
Total restricted net assets	1,154,591	-0-	-0-	1,154,591
Unrestricted	7,087,104	27,904	-0-	7,115,008
Total net assets	12,019,714	27,904	-0-	12,047,618
Total liabilities and net assets	\$ 29,144,855	\$ 300,067	\$ (261,349)	\$ 29,183,573

See accompanying notes to combined financial statements.

# WOODLAWN HOSPITAL

## COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2010 (WITH COMPARATIVE COMBINED TOTALS FOR DECEMBER 31, 2009)

	2010			2009	
	Total Hospital	Fulton Co EMS, Inc.	Eliminations	Total Reporting Entity	Total Reporting Entity
<b>Revenues</b>					
Net patient service revenue	\$ 38,448,009	\$ 98,266	\$ -0-	\$ 38,546,275	\$ 35,759,804
Other operating revenue	1,318,336	35,966	(291,218)	1,063,084	737,736
<b>Total operating revenue</b>	<b>39,766,345</b>	<b>134,232</b>	<b>(291,218)</b>	<b>39,609,359</b>	<b>36,497,540</b>
<b>Expenses</b>					
Salaries and wages	17,659,597	170,999	(170,999)	17,659,597	17,060,655
Employee benefits	5,122,854	42,072	(37,716)	5,127,210	4,583,693
Professional fees	4,227,322	29,951	(24,239)	4,233,034	4,529,939
Supplies	6,914,811	13,095	(13,095)	6,914,811	6,415,145
Rent	1,020,607	34,300	(34,300)	1,020,607	471,480
Utilities	602,956	-0-	-0-	602,956	556,156
Repairs and maintenance	1,062,417	-0-	-0-	1,062,417	991,257
Insurance	382,477	10,869	(10,869)	382,477	486,964
Depreciation and amortization	1,176,533	-0-	-0-	1,176,533	1,168,199
Other	1,033,917	11,667	-0-	1,045,584	990,148
<b>Total operating expenses</b>	<b>39,203,491</b>	<b>312,953</b>	<b>(291,218)</b>	<b>39,225,226</b>	<b>37,253,636</b>
Operating income (loss)	562,854	(178,721)	-0-	384,133	(756,096)
<b>Nonoperating revenue (expense)</b>					
Investment income	28,043	-0-	-0-	28,043	5,674
Interest expense	(540,850)	-0-	-0-	(540,850)	(190,299)
Loss on disposition of assets	(85,534)	-0-	-0-	(85,534)	(12,912)
Donation to Foundation	-0-	-0-	-0-	-0-	(1,089,370)
Pledge revenue, net	-0-	-0-	-0-	-0-	134,220
Other nonoperating income (expense)	19,238	-0-	-0-	19,238	328,420
<b>Total nonoperating revenue (expense)</b>	<b>(579,103)</b>	<b>-0-</b>	<b>-0-</b>	<b>(579,103)</b>	<b>(824,267)</b>
Net income (loss) before transfers from the county	(16,249)	(178,721)	-0-	(194,970)	(1,580,363)
<b>Transfers from the county</b>	<b>262,000</b>	<b>150,817</b>	<b>-0-</b>	<b>412,817</b>	<b>793,651</b>
Change in net assets	245,751	(27,904)	-0-	217,847	(786,712)
<b>Net assets</b>					
Beginning of year	12,019,714	27,904	-0-	12,047,618	12,834,330
End of year	<u>\$ 12,265,465</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 12,265,465</u>	<u>\$ 12,047,618</u>

See accompanying notes to combined financial statements.

# WOODLAWN HOSPITAL

## COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2009

	Total Hospital	Fulton County EMS, Inc.	Eliminations	Total Reporting Entity
<b>Revenues</b>				
Net patient service revenue	\$ 35,389,717	\$ 370,087	\$ -0-	\$ 35,759,804
Other operating revenue	1,593,375	121,748	(977,387)	737,736
Total operating revenue	36,983,092	491,835	(977,387)	36,497,540
<b>Expenses</b>				
Salaries and wages	17,060,655	582,135	(582,135)	17,060,655
Employee benefits	4,571,593	134,214	(122,114)	4,583,693
Professional fees	4,527,379	87,469	(84,909)	4,529,939
Supplies	6,415,145	48,786	(48,786)	6,415,145
Rent	471,480	117,600	(117,600)	471,480
Utilities	556,156	-0-	-0-	556,156
Repairs and maintenance	991,257	-0-	-0-	991,257
Insurance	486,964	21,843	(21,843)	486,964
Depreciation and amortization	1,168,199	-0-	-0-	1,168,199
Other	959,709	30,439	-0-	990,148
Total operating expenses	37,208,537	1,022,486	(977,387)	37,253,636
Operating income (loss)	(225,445)	(530,651)	-0-	(756,096)
<b>Nonoperating revenue (expense)</b>				
Investment income	5,674	-0-	-0-	5,674
Interest expense	(190,299)	-0-	-0-	(190,299)
Loss on disposition of assets	(12,912)	-0-	-0-	(12,912)
Donation to Foundation	(1,089,370)	-0-	-0-	(1,089,370)
Pledge revenue, net	134,220	-0-	-0-	134,220
Other nonoperating income (expense)	328,420	-0-	-0-	328,420
Total nonoperating revenue (expense)	(824,267)	-0-	-0-	(824,267)
Net income (loss) before transfers from the county	(1,049,712)	(530,651)	-0-	(1,580,363)
<b>Transfers from the county</b>	263,000	530,651	-0-	793,651
Change in net assets	(786,712)	-0-	-0-	(786,712)
<b>Net assets</b>				
Beginning of year	12,806,426	27,904	-0-	12,834,330
End of year	\$ 12,019,714	\$ 27,904	\$ -0-	\$ 12,047,618

See accompanying notes to combined financial statements.

# WOODLAWN HOSPITAL

## COMBINED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2010

(WITH COMPARATIVE COMBINED TOTALS FOR DECEMBER 31, 2009)

	2010			2009	
	Total Hospital	Fulton Co EMS, Inc.	Eliminations	Total Reporting Entity	Total Reporting Entity
<b>Operating activities</b>					
Cash received from patients and third party payors	\$ 39,301,938	\$ 180,308	\$ -0-	\$ 39,482,246	\$ 36,942,892
Cash paid to employees for wages and benefits	(22,761,539)	(485,234)	-0-	(23,246,773)	(22,114,340)
Cash paid to vendors for goods and services	(16,298,678)	140	-0-	(16,298,538)	(13,459,261)
Other operating receipts, net	1,318,336	35,966	-0-	1,354,302	1,715,123
Net cash from operating activities	1,560,057	(268,820)	-0-	1,291,237	3,084,414
<b>Noncapital financing activities</b>					
Other nonoperating	19,238	-	-0-	19,238	328,420
<b>Capital and related financing activities</b>					
Transfers from the county	262,000	150,817	-0-	412,817	793,651
Acquisition and construction of capital assets	(2,847,504)	-0-	-0-	(2,847,504)	(9,558,264)
Loss on disposal of assets	85,534	-0-	-0-	85,534	12,912
Interest paid on long-term debt	(540,850)	-0-	-0-	(540,850)	(190,299)
Proceeds from sale of fixed assets	375	-0-	-0-	375	5,209
Proceeds from issuance of long term debt	1,178,605	-0-	-0-	1,178,605	8,739,106
Principal payments on long-term debt and capital leases, net	(766,332)	-0-	-0-	(766,332)	(923,023)
Net cash from capital and related financing activities	(2,628,172)	150,817	-0-	(2,477,355)	(1,120,708)
<b>Investing activities</b>					
Investment income	28,043	-0-	-0-	28,043	5,674
Pledges, net	-0-	-0-	-0-	-0-	738,754
Donation to Foundation	-0-	-0-	-0-	-0-	(1,089,370)
Assets whose use is limited, net	114,465	-0-	-0-	114,465	100,000
Net cash from investing activities	142,508	-0-	-0-	142,508	(244,942)
Net change in cash and cash equivalents	(906,369)	(118,003)	-0-	(1,024,372)	2,047,184
<b>Cash and cash equivalents</b>					
Beginning of year	6,373,572	118,003	-0-	6,491,575	4,444,391
End of year	<u>\$ 5,467,203</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 5,467,203</u>	<u>\$ 6,491,575</u>

See accompanying notes to combined financial statements.

# WOODLAWN HOSPITAL

## COMBINED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2010 (WITH COMPARATIVE COMBINED TOTALS FOR DECEMBER 31, 2009)

	2010			2009	
	Total Hospital	Fulton Co EMS, Inc.	Eliminations	Total Reporting Entity	Total Reporting Entity
<b>Reconciliation of operating income (loss) to net cash from operating activities</b>					
Operating income (loss)	\$ 562,854	\$ (178,721)	\$ -0-	\$ 384,133	\$ (756,096)
Adjustments to reconcile operating income to net cash from operating activities:					
Depreciation and amortization	1,176,533	-0-	-0-	1,176,533	1,168,199
Provision for bad debt	4,180,946	45,104	-0-	4,226,050	5,735,194
Changes in assets and liabilities					
Patient accounts receivable	(4,126,262)	36,938	-0-	(4,089,324)	(4,351,005)
Inventories	(66,084)	-0-	-0-	(66,084)	(54,754)
Estimated third-party settlements	799,245	-0-	-0-	799,245	(201,101)
Other current assets	607,109	100,022	-0-	707,131	37,409
Accounts payable and accrued expenses	(1,595,196)	-0-	-0-	(1,595,196)	1,272,311
Accrued salaries and related liabilities	20,912	(272,163)	-0-	(251,251)	234,257
Net cash flows from operating activities	<u>\$ 1,560,057</u>	<u>\$ (268,820)</u>	<u>\$ -0-</u>	<u>\$ 1,291,237</u>	<u>\$ 3,084,414</u>
<b>Reconciliation of cash and cash equivalents to the balance sheets</b>					
Cash and cash equivalents					
In current assets	\$ 3,138,961	\$ -0-	\$ -0-	\$ 3,138,961	\$ 2,995,139
In assets whose use is limited	2,328,242	-0-	-0-	2,328,242	3,496,436
Total cash and cash equivalents	<u>\$ 5,467,203</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 5,467,203</u>	<u>\$ 6,491,575</u>

See accompanying notes to combined financial statements.

# WOODLAWN HOSPITAL

## COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2009

	Total Hospital	Fulton County EMS, Inc.	Eliminations	Total Reporting Entity
<b>Operating activities</b>				
Cash received from patients and third party payors	\$ 36,578,466	\$ 364,426	\$ -0-	\$ 36,942,892
Cash paid to employees for wages and benefits	(21,397,991)	(716,349)	-0-	(22,114,340)
Cash paid to vendors for goods and services	(13,195,259)	(264,002)	-0-	(13,459,261)
Other operating receipts, net	1,593,375	121,748	-0-	1,715,123
Net cash from operating activities	3,578,591	(494,177)	-0-	3,084,414
<b>Noncapital financing activities</b>				
Other nonoperating	328,420	-0-	-0-	328,420
<b>Capital and related financing activities</b>				
Transfers from the county	263,000	530,651	-0-	793,651
Acquisition and construction of capital assets	(9,558,264)	-0-	-0-	(9,558,264)
Loss on disposal of assets	12,912	-0-	-0-	12,912
Interest paid on long-term debt	(190,299)	-0-	-0-	(190,299)
Proceeds from sale of fixed assets	5,209	-0-	-0-	5,209
Proceeds from issuance of long term debt	8,739,106	-0-	-0-	8,739,106
Principal payments on long-term debt and capital leases, net	(923,023)	-0-	-0-	(923,023)
Net cash from capital and related financing activities	(1,651,359)	530,651	-0-	(1,120,708)
<b>Investing activities</b>				
Investment income	5,674	-0-	-0-	5,674
Pledges, net	738,754	-0-	-0-	738,754
Donation to Foundation	(1,089,370)	-0-	-0-	(1,089,370)
Other change in assets whose use is limited, net	100,000	-0-	-0-	100,000
Net cash from investing activities	(244,942)	-0-	-0-	(244,942)
Net change in cash and cash equivalents	2,010,710	36,474	-0-	2,047,184
<b>Cash and cash equivalents</b>				
Beginning of year	4,362,862	81,529	-0-	4,444,391
End of year	<u>\$ 6,373,572</u>	<u>\$ 118,003</u>	<u>\$ -0-</u>	<u>\$ 6,491,575</u>

See accompanying notes to combined financial statements.

# WOODLAWN HOSPITAL

## COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2009

	Total Hospital	Fulton County EMS, Inc.	Eliminations	Total Reporting Entity
<b>Reconciliation of operating income (loss) to net cash from operating activities</b>				
Operating income (loss)	\$ (225,445)	\$ (530,651)	\$ -0-	\$ (756,096)
Adjustments to reconcile operating income to net cash from operating activities:				
Depreciation and amortization	1,168,199	-0-	-0-	1,168,199
Provision for bad debt	5,630,396	104,798	-0-	5,735,194
Changes in assets and liabilities				
Patient accounts receivable	(4,240,546)	(110,459)	-0-	(4,351,005)
Inventories	(54,754)	-0-	-0-	(54,754)
Estimated third-party settlements	(201,101)	-0-	-0-	(201,101)
Other current assets	(203,962)	(19,978)	261,349	37,409
Accounts payable and accrued expenses	1,471,547	62,113	(261,349)	1,272,311
Accrued salaries and related liabilities	234,257	-0-	-0-	234,257
Net cash flows from operating activities	\$ 3,578,591	\$ (494,177)	\$ -0-	\$ 3,084,414
<b>Reconciliation of cash and cash equivalents to the balance sheets</b>				
Cash and cash equivalents				
In current assets	\$ 2,877,136	\$ 118,003	\$ -0-	\$ 2,995,139
In assets whose use is limited	3,496,436	-0-	-0-	3,496,436
Total cash and cash equivalents	\$ 6,373,572	\$ 118,003	\$ -0-	\$ 6,491,575

See accompanying notes to combined financial statements.

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Organization and Reporting Entity

Woodlawn Hospital (the Hospital) is a county-owned facility and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides short-term inpatient and outpatient health care.

The Board of County Commissioners of Fulton County appoints the Governing Board of the Hospital (Board) and a financial benefit/burden relationship exists between the County and the Hospital. For these reasons, the Hospital is considered a component unit of Fulton County.

On January 6, 1975, the Board of County Commissioners of Fulton County, upon written request of the Hospital Board of Trustees, created the Fulton County Hospital Association. The Association was created pursuant to the provisions of Indiana Code 16-22-6 for the exclusive purpose of financing and constructing hospital facilities of the Hospital.

For financial reporting purposes, the Hospital's reporting entity consists of the primary government and component unit organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's combined financial statements to be misleading or incomplete, and they are financially accountable to the primary government. The Association has been included within the reporting entity.

#### Discrete Component Unit

Discretely presented component units are involved in activities of an operational nature independent from the government; their transactions are reported in a separate column in the combined financial statements to emphasize they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's combined financial statements to be misleading or incomplete. Fulton County Emergency Medical Services, Inc. is considered a discrete component unit for reporting purposes. All significant transactions have been eliminated for financial reporting purposes.

Fulton County Emergency Medical Services, Inc. ceased operations April 15, 2010, as responsibilities for emergency medical services were transferred back to Fulton County. Procedures to dissolve the Corporation will be initiated subsequent to December 31, 2010.

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### Use of Estimates

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

### Enterprise Fund Accounting

The Hospital utilizes the enterprise fund method of accounting whereby revenue and expenses are recognized on the accrual basis of accounting. Substantially all revenues and expenses are subject to accrual.

### Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement Number 20, *Accounting and Financial Reporting For Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

### Cash and Cash Equivalents

Cash and cash equivalents include all cash held in checking, savings, certificates of deposits, and money market accounts available for operating purposes with original maturity dates of 90 days or less. The Hospital maintains its cash in accounts, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on cash and cash equivalents.

### Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. Management estimates an allowance for doubtful accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital's customer base.

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

Medicare – The Hospital has been granted Critical Access Status under which the Hospital is paid based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports. Final determination of amounts earned is subject to review by the fiscal intermediary. Medicare reports have been settled through 2008. Management believes adequate provision has been made in the combined financial statements for any adjustments.

Medicaid – Inpatient and outpatient services rendered to the Medicaid program are paid based upon prospectively determined rates.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Hospital also has 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.

### Compassionate Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue.

### Inventories

Inventories consist mainly of medical supplies and are valued at the lower of cost or market with cost being determined on an average cost method.

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### Assets Whose Use is Limited

Assets whose use is limited are stated at cost which approximates fair value in the combined financial statements. These assets include investments designated by the Hospital Board for internal purposes and investments held by trustees for capital improvements. These investments consist primarily of cash and cash equivalents and certificates of deposit. Investment income, to the extent not capitalized, is reported as nonoperating income in the statements of revenues, expenses and changes in net assets.

### Capital Assets and Depreciation

Capital assets such as property and equipment are stated at cost and include expenditures for new additions and other costs added to existing facilities which exceed \$5,000 and which substantially increase the useful lives of existing facilities. Maintenance, repairs and minor renewals are expensed as incurred.

The Hospital provides for depreciation of property and equipment using annual rates, which are sufficient to depreciate the cost of depreciable assets over their estimated useful lives using the straight-line method.

The range of useful lives in computing depreciation is as follows:

<u>Description</u>	<u>Range of Useful Lives</u>
Land improvements	2-25 years
Buildings and fixed equipment	5-40 years
Major movable and minor equipment	2-20 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

### Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### Grants and Contributions

From time to time, the Hospital receives grants from Fulton County and the State of Indiana as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

### Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

### Combined Statements of Revenues, Expenses, and Changes in Net Assets

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Non-exchange revenues, including grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

### Combined Statements of Cash Flows

For purposes of the combined statements of cash flows, cash and cash equivalents include all cash held in checking, savings, and money market accounts with original maturity dates of 90 days or less in current assets, board designated funds and trustee held assets. Additional cash flow information is as follows:

	<u>2010</u>	<u>2009</u>
Supplemental cash flows information		
Cash paid for interest including amounts capitalized of \$-0- and \$235,890 in 2010 and 2009	\$ 540,850	\$ 426,189
Noncash capital, related financing, and investing activities		
Construction in progress included in accounts payable	\$ -0-	\$ 225,434
Donation to the Foundation of pledges receivable, net	\$ -0-	\$ 580,718

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# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

### Bond Issuance Costs

The Hospital provides for the amortization of costs incurred for the issuance of bonds over the life of the debt. Bond issuance costs were \$56,801. Issuance costs are amortized over the life of the bond utilizing the straight-line method. Accumulated amortization was \$35,047 and \$30,213 in 2010 and 2009, respectively. Bond issuance costs are recorded in other assets on the balance sheet.

### Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, patient accounts receivable, assets whose use is limited, accounts payable, accrued liabilities, estimated third party settlements and long-term debt. The carrying amounts reported in the combined balance sheets for cash and cash equivalents, patient accounts receivable, accounts payable, accrued liabilities and estimated third-party settlements approximate fair value based upon short maturities of those items.

The fair values of assets whose use is limited are estimated based upon quoted market prices for those or similar investments, where applicable. The fair value of the Hospital's long-term debt is estimated based on market prices for similar issues on current rates offered to the Hospital. As of December 31, 2010 and 2009, the carrying value of the Hospital's long-term debt approximates fair value based upon the borrowing rates currently available to the Hospital.

### Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. The Hospital is exempt from federal income tax under Section 115 of the Internal Revenue Code of 1986 as a not-for-profit organization under Section 501(c)(3).

Fulton County Emergency Medical Services, Inc. is registered as a domestic not-for-profit corporation with the State of Indiana.

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### Compensated Absences

The Hospital's employees earn time off at varying rates depending on years of service. The estimated amount of unused earned time off is reported as a liability in the combined financial statements.

### Advertising and Community Relations

The Hospital records advertising and community relations expense in the period incurred. Total expense for advertising and community relations was \$248,099 and \$318,823 for 2010 and 2009, respectively.

### Litigation

The Hospital is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

### 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; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

### Medical Malpractice

The Hospital participates in the Indiana Medical Malpractice Act, which limits the maximum recovery to \$1,250,000 per occurrence, the first \$250,000 of which would be the responsibility of the Hospital, with the balance paid by the State of Indiana Patient Compensation Fund. The Hospital carries a claims made basis insurance policy covering the Hospital's \$250,000 of exposure per claim. Accordingly, the Hospital has not recorded any provision for self-insured medical malpractice claims.

### Subsequent Events

The Hospital evaluates events or transactions occurring subsequent to the combined balance sheet date for recognition and disclosure in the accompanying combined financial statements through the date the combined financial statements were issued which is April 18, 2011.

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### 2. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including expenses) reported as current assets and liabilities as of December 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 7,165,717	\$ 6,738,355
Receivable from Medicare	1,413,966	1,512,426
Receivable from Medicaid	909,740	887,610
Total patient accounts receivable	<u>9,489,423</u>	<u>9,138,391</u>
Less allowance for contractual agreements and uncollectible amounts	5,469,268	4,981,510
Patient accounts receivable, net	<u>\$ 4,020,155</u>	<u>\$ 4,156,881</u>
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes and benefits)	\$ 1,706,053	\$ 1,685,141
Payable to suppliers	1,775,447	3,381,457
Total accounts payable and accrued expenses	<u>\$ 3,481,500</u>	<u>\$ 5,066,598</u>

### 3. ASSETS WHOSE USE IS LIMITED

Noncurrent cash and investments internally designated include the following:

#### Board Designated Funds

Assets set aside by the Hospital Board of Trustees for identified purposes and over which the Board retains control and may, at its discretion, subsequently use for other purposes.

#### Held by Trustee

Hospital Association funds deposited with a trustee and limited to use in accordance with the requirements of a trust indenture and funds from long-term debt borrowings to be expended on construction.

#### Donor Restricted

Assets that are restricted by contributors or grantors are included in this category. The investments consist of a deposit at the Northern Indiana Community Foundation, which is restricted for operating purposes of the Hospital, but are not readily available for use.

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# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

The following represents assets whose use is limited as of December 31, 2010 and 2009:

	2010	2009
Cash and cash equivalents	\$ 2,328,242	3,496,436
Certificates of Deposit	500,000	700,000
	\$ 2,828,242	\$ 4,196,436

### 4. DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year-end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution. Investments consist primarily of cash and cash equivalents and certificates of deposit. Fair value approximated cost as of December 31, 2010 and 2009.

As of December 31, 2010 and 2009, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital:

		December 31, 2010				
		Investment Maturities (in years)				
	Carrying Amount	Less than 1	1-5	6-10	More than 10	
Cash and cash equivalents	\$ 2,328,242	\$ 2,328,242	\$ -0-	\$ -0-	\$ -0-	
Certificates of deposit	500,000	500,000	-0-	-0-	-0-	
	\$ 2,828,242	\$ 2,828,242	\$ -0-	\$ -0-	\$ -0-	
		December 31, 2009				
		Investment Maturities (in years)				
	Carrying Amount	Less than 1	1-5	6-10	More than 10	
Cash and cash equivalents	\$ 3,496,436	\$ 3,496,436	\$ -0-	\$ -0-	\$ -0-	
Certificates of deposit	700,000	700,000	-0-	-0-	-0-	
	\$ 4,196,436	\$ 4,196,436	\$ -0-	\$ -0-	\$ -0-	

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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Interest rate risk – The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit risk - Statutes authorize the Hospital to invest in interest bearing deposit accounts, passbook savings accounts, certificates of deposit, money market accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

Deposits and investments consist of the following as of December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Carrying amount		
Deposits	\$ 3,138,961	\$ 2,995,139
Investments	2,828,242	4,196,436
	<u>\$ 5,967,203</u>	<u>\$ 7,191,575</u>
	<u>2010</u>	<u>2009</u>
Included in the following balance sheet captions:		
Cash and cash equivalents	\$ 3,138,961	\$ 2,995,139
Board designated	2,637,289	3,041,845
Trustee held funds	149,848	1,115,638
Donor restricted	41,105	38,953
	<u>\$ 5,967,203</u>	<u>\$ 7,191,575</u>

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

### 5. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2010 and 2009 is as follows:

	Balance December 31, 2009	Additions	Retirements	Transfers	Balance December 31, 2010
Land	\$ 345,223	\$ -0-	\$ -0-	\$ -0-	\$ 345,223
Land improvements	386,808	6,041	-0-	-0-	392,849
Buildings and fixtures	21,704,032	49,166	(367,433)	2,141,782	23,527,547
Moveable equipment	9,204,675	650,515	(538,065)	-0-	9,317,125
Construction in progress	-0-	2,141,782	-0-	(2,141,782)	-0-
<b>Total</b>	<b>31,640,738</b>	<b>2,847,504</b>	<b>(905,498)</b>	<b>-0-</b>	<b>33,582,744</b>
Less accumulated depreciation					
Land improvements	365,056	6,327	-0-	-0-	371,383
Buildings and fixtures	7,865,485	603,215	(304,587)	-0-	8,164,113
Moveable equipment	7,562,821	561,348	(514,194)	-0-	7,609,975
<b>Total accumulated depreciation</b>	<b>15,793,362</b>	<b>1,170,890</b>	<b>(818,781)</b>	<b>-0-</b>	<b>16,145,471</b>
<b>Capital assets, net</b>	<b><u>\$15,847,376</u></b>	<b><u>\$ 1,676,614</u></b>	<b><u>\$ (86,717)</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$17,437,273</u></b>
	Balance December 31, 2008	Additions	Retirements	Transfers	Balance December 31, 2009
Land	\$ 345,223	\$ -0-	\$ -0-	\$ -0-	\$ 345,223
Land improvements	405,229	-0-	(18,421)	-0-	386,808
Buildings and fixtures	10,159,102	149,775	(161,693)	11,556,848	21,704,032
Moveable equipment	9,137,756	375,623	(308,704)	-0-	9,204,675
Construction in progress	2,536,896	9,019,952	-0-	(11,556,848)	-0-
<b>Total</b>	<b>22,584,206</b>	<b>9,545,350</b>	<b>(488,818)</b>	<b>-0-</b>	<b>31,640,738</b>
Less accumulated depreciation					
Land improvements	377,157	6,320	(18,421)	-0-	365,056
Buildings and fixtures	7,586,704	432,924	(154,143)	-0-	7,865,485
Moveable equipment	7,136,835	722,181	(296,195)	-0-	7,562,821
<b>Total accumulated depreciation</b>	<b>15,100,696</b>	<b>1,161,425</b>	<b>(468,759)</b>	<b>-0-</b>	<b>15,793,362</b>
<b>Capital assets, net</b>	<b><u>\$ 7,483,510</u></b>	<b><u>\$ 8,383,925</u></b>	<b><u>\$ (20,059)</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$15,847,376</u></b>

Assets acquired through capital leases still in effect are as follows:

	2010	2009
Equipment	\$ 1,832,573	\$ 1,832,573
Accumulated depreciation	(1,570,416)	(1,365,003)
	<b><u>\$ 262,157</u></b>	<b><u>\$ 467,570</u></b>

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### 6. LONG-TERM DEBT

A summary of long-term debt as of December 31, 2010 is as follows:

- The Hospital's \$2,510,000, 2003 First Mortgage Refunding Bonds are due in varying installments of \$85,000 to \$125,000 through July 2015 at interest rates ranging from 1.10% to 4.2%. Principal and interest is due semi-annually on July 1 and January 1. The bonds are secured by certain Hospital property.
- The Hospital has entered into several capital lease obligations with interest rates of 3.55% to 6.02%, collateralized by the leased equipment. Monthly installments are due in varying amounts from \$1,198 to \$18,160, including interest. Principal and interest payments are due through May 2010 to April 2012.
- The Hospital's \$7,300,000, Series 2007 Promissory Note is due in monthly installments of \$41,806 for 298 months at a fixed interest rate of 4.76% commencing on January 1, 2009. A final installment of any unpaid principal and interest is due on December 1, 2033. The Promissory Note is secured by certain Hospital property. This note was issued for the renovation and expansion of Woodlawn Hospital and its parking facilities together with the purchase of the project equipment.
- The Hospital's \$4,700,000, Series 2008 Promissory Note is due in monthly installments of \$26,916 for 298 months at a fixed interest rate of 4.76% commencing on January 1, 2009. A final installment of any unpaid principal and interest is due on December 1, 2033. The Promissory Note is secured by certain Hospital property. The note was issued for the acquisition, construction, installation and equipping of a medical office building together with the purchase of the project equipment.

General obligation bonds of Fulton County were issued October 2, 2003, in the total amount of \$2,510,000, to fund the early extinguishment of the FMHA loan debt. The bonds and interest thereon are being paid by Fulton County Hospital Association from semiannual lease rental payments.

The Series 2007 and Series 2008 Promissory Notes require the Hospital to comply with certain restrictive financial covenants. As of December 31, 2010, Management believes that the Hospital was in compliance with the financial covenants.

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

The following represents a progression of long-term debt for 2010 and 2009:

	Balance December 31, 2009	Additional borrowings	Payments	Balance December 31, 2010	Current portion	Long-term portion
Revenue bonds payable						
Association Bonds Series 2003	\$ 1,365,000	\$ -0-	\$ (205,000)	\$ 1,160,000	\$ 205,000	\$ 955,000
Loans payable						
Capital lease obligations	349,252	-0-	(256,538)	92,714	69,734	22,980
Promissory Notes						
Series 2007	7,069,212	-0-	(178,573)	6,890,639	177,522	6,713,117
Series 2008	3,304,659	1,178,605	(129,632)	4,353,632	106,850	4,246,782
Unamortized bond discount	(18,766)	-0-	3,411	(15,355)	(3,411)	(11,944)
Total long term debt	<u>\$ 12,069,357</u>	<u>\$ 1,178,605</u>	<u>\$ (766,332)</u>	<u>\$ 12,481,630</u>	<u>\$ 555,695</u>	<u>\$ 11,925,935</u>

	Balance December 31, 2008	Additional borrowings	Payments	Balance December 31, 2009	Current portion	Long-term portion
Revenue bonds payable						
Association Bonds Series 2003	1,570,000	-0-	(205,000)	1,365,000	205,000	1,160,000
Loans payable						
Capital lease obligations	729,893	-0-	(380,641)	349,252	256,538	92,714
Promissory Notes						
Series 2007	1,925,563	5,371,225	(227,576)	7,069,212	197,160	6,872,052
Series 2008	49,995	3,367,881	(113,217)	3,304,659	180,651	3,124,008
Unamortized bond discount	(22,177)	-0-	3,411	(18,766)	(3,411)	(15,355)
Total long term debt	<u>\$ 4,253,274</u>	<u>\$ 8,739,106</u>	<u>\$ (923,023)</u>	<u>\$ 12,069,357</u>	<u>\$ 835,938</u>	<u>\$ 11,233,419</u>

Aggregate maturities of long-term debt are as follows:

Year ending December 31,	Principal	Interest	Total
2011	\$ 555,695	\$ 563,606	\$ 1,119,301
2012	550,214	555,507	1,105,721
2013	547,105	531,396	1,078,501
2014	572,699	506,403	1,079,102
2015	600,752	480,085	1,080,837
2016-2020	2,036,845	2,086,522	4,123,367
2021-2025	2,582,947	1,549,418	4,132,365
2026-2030	3,275,467	847,900	4,123,367
2031-2035	1,759,906	108,252	1,868,158
	<u>\$ 12,481,630</u>	<u>\$ 7,229,089</u>	<u>\$ 19,710,719</u>

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### 7. COMPASSIONATE CARE

Charges excluded from patient service revenue under the compassionate care policy were \$2,523,204 and \$1,473,641 for 2010 and 2009, respectively.

### 8. NET PATIENT SERVICE REVENUE

Patient service revenue for 2010 and 2009 consists of the following:

	<u>2010</u>	<u>2009</u>
Inpatient services	\$ 16,457,922	\$ 13,330,566
Outpatient services	55,727,401	51,811,962
Physician services	<u>10,186,468</u>	<u>10,050,368</u>
Gross patient service revenue	82,371,791	75,192,896
Contractual allowances	(37,075,395)	(32,224,257)
Compassionate care	(2,523,204)	(1,473,641)
Bad debt	<u>(4,226,917)</u>	<u>(5,735,194)</u>
Deductions from revenue	<u>(43,825,516)</u>	<u>(39,433,092)</u>
Net patient service revenue	<u>\$ 38,546,275</u>	<u>\$ 35,759,804</u>

### 9. DEFINED CONTRIBUTION PENSION PLAN

#### Plan Description

The Hospital has a defined contribution pension plan administered by Lincoln National Life and Aetna Life Insurance Company as authorized by Indiana Code 16-22-3-11. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by written agreement between the Hospital Board of Trustees and the Plan Administrator.

#### Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Plan members may contribute \$12,000 of the annual covered salary. The Hospital is required to contribute a matching amount from 10% to 50% of the employees' contribution based on years of service. Employer contributions to the plan for the calendar year 2010 and 2009 were \$273,288 and \$214,671, respectively.

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# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### 10. OPERATING LEASES

The Hospital has leases expiring at various times through 2015. Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operating as incurred. Total rent expense for 2010 and 2009 was \$1,020,607 and \$422,831, respectively. Minimum future payments on leases for the years following December 31, 2010 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2011	\$ 770,684
2012	472,128
2013	472,128
2014	335,598
2015	33,178
	<u>\$ 2,083,716</u>

### 11. CONCENTRATION OF CREDIT RISK

Woodlawn Hospital is located in Rochester, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors as of December 31, 2010 and 2009 was as follows:

	<u>2010</u>	<u>2009</u>
Medicare	15%	16%
Medicaid	10%	10%
Blue Cross	14%	13%
Other commercial payors	27%	29%
Self-pay	34%	32%
	<u>100%</u>	<u>100%</u>

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

The mix of revenue from patients and third-party payors as of December 31, 2010 and 2009 was as follows:

	<u>2010</u>	<u>2009</u>
Medicare	29%	29%
Medicaid	14%	15%
Blue Cross	23%	22%
Other commercial payors	27%	27%
Self-pay	<u>7%</u>	<u>7%</u>
	<u>100%</u>	<u>100%</u>

### 12. SELF INSURANCE

The Hospital is self insured for employee health claims. A third party administrator processes the claims for the hospital. The Hospital maintains an estimated liability for the amount of claims incurred but not reported. The Hospital also maintains reinsurance including a stop loss for individual employees over \$50,000 up to an aggregate amount of \$950,000 a year. Substantially all employees are covered for major medical benefits. The total health claims expense was \$3,211,915 and \$2,831,881 for 2010 and 2009, respectively. Claim expenditures and liabilities of the fund are reported when it is probably that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

Changes in the balance of claim liabilities during the past two years are as follows:

	<u>2010</u>	<u>2009</u>
Unpaid claims, beginning of fiscal year	\$ 409,049	\$ 402,000
Incurred claims and changes in estimates	3,211,915	2,831,881
Claim payments	<u>(3,273,692)</u>	<u>(2,824,832)</u>
Unpaid claims, end of fiscal year	<u>\$ 347,272</u>	<u>\$ 409,049</u>

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### 13. RELATED PARTIES

The Hospital is related to Woodlawn Foundation (Foundation) with three common board members. The Hospital has no ownership interest in the Foundation and is not considered to have control over the Foundation through a majority voting interest.

The Hospital transferred \$508,652 in cash from the capital campaign and \$580,718 in net receivables to the Foundation during October 2009.

As of December 31, 2010 and 2009 the Hospital had recorded receivables from the Foundation of \$-0- and \$334,194 respectively, for capital items that were requested to be reimbursed from the capital campaign funds held by the Foundation.