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March 30, 2015

Dave Cholger, Chief Financial Officer
Woodlawn Hospital
1400 E. Ninth Street
Rochester, IN 46975

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

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

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

WOODLAWN HOSPITAL

ROCHESTER — INDIANA

1400 East Ninth Street

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

WOODLAWN HOSPITAL

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DECEMBER 31, 2013 AND 2012

CPAS / ADVISORS

blue

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Woodlawn Hospital
Rochester, Indiana

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Woodlawn Hospital (the Hospital), which comprise the combined balance sheets as of December 31, 2013 and 2012, and the related combined statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

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

Board of Trustees
Woodlawn Hospital
Rochester, Indiana

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

Change in Accounting Principles

As discussed in Note 1 to the combined financial statements, in 2013, the Hospital adopted new accounting guidance, Government Accounting Standards board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34, and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities.* Our opinion is not modified with respect to this matter.

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, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic combined financial statements. Such information, although not a part of the basic combined 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 combined financial statements, and other knowledge we obtained during our audit of the basic combined 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

Indianapolis, Indiana
July 28, 2014

REQUIRED SUPPLEMENTARY INFORMATION

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, 2013 and 2012. Please read it in conjunction with the Hospital's combined financial statements, which begin on page 3.

FINANCIAL HIGHLIGHTS

- The Hospital's net position increased approximately $1,920,000 in 2013 and $1,891,000 in 2012.
- Operating income increased approximately by $187,000 or 8% in 2013 and $1,731,000 or 247% in 2012.

The change in total net position was increased by the addition of the long-term care operations by approximately $1,130,000 in 2013 and $-0- in 2012.

USING THIS ANNUAL REPORT

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

The Combined 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 Combined Statement of Revenues, Expenses, and Changes in Net Position.

Finally, the Combined 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.

THE COMBINED BALANCE SHEET AND COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

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 combined balance sheet and the combined 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. 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 them. Think of the Hospital's net position—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 position 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.

<u>Assets, Liabilities, and Net Position</u>

	2013	2012	Change 2013-2012	2011	Change 2012-2011
ASSETS					
Current assets	$ 16,643,431	$ 10,213,282	$ 6,430,149	$ 9,093,451	$ 1,119,831
Assets whose use is limited, net of current portion	2,105,577	2,430,151	(324,574)	2,178,376	251,775
Capital assets, net	20,295,164	19,541,661	753,503	17,675,213	1,866,448
Other assets	1,934,091	-0-	1,934,091	-0-	-0-
Total assets	$ 40,978,263	$ 32,185,094	$ 8,793,169	$ 28,947,040	$ 3,238,054
LIABILITIES					
Current liabilities	$ 10,431,098	$ 5,589,400	$ 4,841,698	$ 4,909,792	$ 679,608
Long-term debt	14,073,228	12,042,061	2,031,167	11,375,087	666,974
Total liabilities	24,504,326	17,631,461	6,872,865	16,284,879	1,346,582
NET POSITION					
Invested in capital assets, net of related debt	5,215,591	6,770,358	(1,554,767)	4,857,804	1,912,554
Restricted					
For debt service	-0-	154,500	(154,500)	873,260	(718,760)
Expendable - donor restricted	-0-	-0-	-0-	41,327	(41,327)
Total restricted net position	-0-	154,500	(154,500)	914,587	(760,087)
Unrestricted	11,258,346	7,628,775	3,629,571	6,889,770	739,005
Total net position	16,473,937	14,553,633	1,920,304	12,662,161	1,891,472
Total liabilities and net position	$ 40,978,263	$ 32,185,094	$ 8,793,169	$ 28,947,040	$ 3,238,054

The most significant changes in the Hospital's 2013 assets were in the areas of Current Assets which increased approximately $6,430,000 and Other Assets which increased approximately $1,934.000. The changes can be attributed to the addition of the long-term care assets and the purchase of Fulton County Medical Clinic. The most significant change in the Hospital's 2013 liabilities was in the area of current liabilities, which increased approximately $4,842,000. The change can be attributed to the addition of the long-term care operations.

The most significant changes in the Hospital's 2012 assets were in the areas of Current Assets and Capital Assets, Net which increased approximately $1,120,000 and $1,866,000, respectively. The most significant change in the Hospital's 2012 liabilities was in the area of current liabilities, which increased approximately $680,000. The change can be attributed to an increase in accrued salaries and related liabilities. Long-term debt also increased substantially by approximately $667,000. The change can be attributed to the addition of two new capital leases and a new promissory note for the Clay building renovation.

Operating Results and Changes in Net Position

	2013	2012	Change 2013-2012	2011	Change 2012-2011
Revenues					
Net patient service revenue	$ 75,614,281	$ 43,615,128	$ 31,999,153	$ 37,482,967	$ 6,132,161
Other operating revenue	1,517,586	1,884,321	(366,735)	1,114,739	769,582
Total operating revenues	77,131,867	45,499,449	31,632,418	38,597,706	6,901,743
Expenses					
Salaries and benefits	26,896,049	24,259,919	2,636,130	22,630,308	1,629,611
Supplies	7,409,944	7,291,864	118,080	5,680,902	1,610,962
Depreciation and amortization	1,531,163	1,278,663	252,500	1,049,127	229,536
Other operating expenses	38,674,538	10,235,992	28,438,546	8,535,544	1,700,448
Total expenses	74,511,694	43,066,438	31,445,256	37,895,881	5,170,557
Operating income (loss)	2,620,173	2,433,011	187,162	701,828	1,731,183
Non-operating expenses, net	(699,869)	(541,539)	(158,330)	(569,132)	27,593
Change in net position	1,920,304	1,891,472	28,832	132,696	1,758,776
Transfers from the county	-0-	-0-	-0-	264,000	(264,000)
Change in net position	1,920,304	1,891,472	28,832	396,696	1,494,776
Net position beginning of year	14,553,633	12,662,161	1,891,472	12,265,465	396,696
Net position end of year	$ 16,473,937	$ 14,553,633	$ 1,920,304	$ 12,662,161	$ 1,891,472

The Hospital had a gain on equity of approximately 12% compared to 13% in the prior year.

This following section highlights the major financial factors for 2013:

- The Hospital's patient days increased to 4,398 in 2013 compared to 4,184 in 2012 and 3,696 in 2011.

- The Hospital's net patient services revenue increased approximately $31,999,000 in 2013 and increased approximately $6,132,000 in 2012. During 2013, the net patient services revenue was enhanced by the addition of the long-term care operations by approximately $28,690,000.

- Operating expenses increased approximately $31,445,000 or 73% in 2013 and increased approximately $5,170,000 or 14% in 2012. The change in 2013 is due to the addition of the long-term care operations. The change in 2012 is attributable to the change in acute care patient volumes.

- Other operating expense represented the largest increase over the prior year. It increased approximately $28,438,000 or 278% in 2013 and increased approximately $1,700,000 or 20% in 2012. The change in 2013 is attributable to the purchases services arrangements with the long-term care operations.

COMBINED STATEMENTS OF CASH FLOWS

The final required statement is the combined 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?"

	2013	2012	Change 2013-2012	2011	Change 2012-2011
Cash flow from activities					
Operating	$ 2,925,689	$ 3,649,953	$ (724,264)	$ 486,299	$ 3,163,654
Noncapital financing	27,919	23,196	4,723	17,625	5,571
Capital and related financing	(2,469,376)	(3,748,679)	1,279,303	(1,245,662)	(2,503,017)
Investing	(1,042,520)	(190,353)	(852,167)	476,454	(666,807)
Change in cash and cash equivalents	$ (558,288)	$ (265,883)	$ (292,405)	$ (265,284)	$ (599)

Total cash and cash equivalents decreased $558,288 in 2013 and $265,883 in 2012. Operating activities generated cash and cash equivalents of $2,925,689 during 2013 and $3,649,953 during 2012 mainly from strong operating income. Capital and related financing decreased cash and cash equivalents by $2,469,376 during 2013 and by $3,748,679 during 2012 mainly as the result of expenditures for property and equipment additions as well as payments on long-term debt. Investing activities decreased cash and cash equivalents by $1,042,520 in 2013 and by $190,353 in 2012 due to transfer of funds to the assets whose use is limited investments.

SOURCES OF REVENUE

During 2013, 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 46%, 44%, and 43% of the Hospital's acute care gross revenues in 2013, 2012 and 2011, respectively. The Hospital's acute care outpatient and physician services represented 77%, 79% and 81% of the Hospital's gross patient revenue in 2013, 2012 and 2011, respectively.

Following is a table of major sources of Hospital acute care gross patient revenues for 2013, 2012 and 2011:

	2013	2012	2011
Medicare	34%	32%	30%
Medicaid	12%	12%	13%
Blue Cross	22%	24%	25%
Other	30%	25%	25%
Self Pay	2%	7%	7%
	100%	100%	100%

CAPITAL ASSETS

During 2013 and 2012, the Hospital invested a net amount of approximately $1,912,000 and $2,493,000, respectively, in capital assets. The change in capital assets is outlined in the following table:

	2013	2012	Change 2013 - 2012	2011	Change 2013 - 2012
Land and improvements	$ 1,085,942	$ 1,068,806	$ 17,136	$ 722,376	$ 346,430
Buildings and improvements	26,380,840	24,131,834	2,249,006	23,085,793	1,046,041
Equipment	8,318,521	8,043,840	274,681	7,589,150	454,690
Construction in process	16,529	645,827	(629,298)	-0-	645,827
Total property and equipment	35,801,832	33,890,307	1,911,525	31,397,319	2,492,988
Less accumulated depreciation	15,506,668	14,348,646	1,158,022	13,722,106	626,540
Capital assets, net	$ 20,295,164	$ 19,541,661	$ 753,503	$ 17,675,213	$ 1,866,448

DEBT

Total debt increased from $12,771,303 to $15,079,573 in 2013 due to the completion of the Rochester Orthopedics building and the acquisition of Fulton County Medical Clinic. Total debt decreased from $12,817,409 to $12,771,303 in 2012 due to the payoff of the Association borrowing which was offset during the year by the borrowing related to capital leases and renovation and expansion.

ECONOMIC FACTORS

Management believes that the health care industry's and Hospital's operating margins will continue to be under pressure because of changes in payor 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, 2013 AND 2012

ASSETS

	2013	2012
Current assets		
Cash and cash equivalents	$ 2,172,171	$ 2,551,385
Patient accounts receivable, net	10,313,411	5,157,287
Inventories	1,150,234	1,049,729
Estimated third party settlements	49,903	-0-
Other current assets	1,607,712	1,300,381
Current portion of assets whose use is limited	1,350,000	154,500
Total current assets	16,643,431	10,213,282
Assets whose use is limited		
Board designated	3,455,577	2,430,151
Trustee held funds	-0-	154,500
Total assets whose use is limited	3,455,577	2,584,651
Less current portion of assets whose use is limited	(1,350,000)	(154,500)
Assets whose use is limited, net of current portion	2,105,577	2,430,151
Capital assets		
Land	596,216	596,216
Depreciable capital assets, net	19,698,948	18,945,445
Total capital assets	20,295,164	19,541,661
Other assets, net	1,934,091	-0-
Total assets	$ 40,978,263	$ 32,185,094

See accompanying notes to combined financial statements.

WOODLAWN HOSPITAL

COMBINED BALANCE SHEETS
DECEMBER 31, 2013 AND 2012

LIABILITIES AND NET POSITION

	2013	2012
Current liabilities		
Accounts payable and accrued expenses	$ 5,338,899	$ 1,680,271
Accrued salaries and related liabilities	4,085,854	2,535,776
Estimated third party settlements	-0-	644,111
Current portion capital leases	429,186	417,467
Current portion long-term debt	577,159	311,775
Total current liabilities	10,431,098	5,589,400
Long-term debt and capital leases		
Capital leases	601,684	1,030,828
Long-term debt	13,471,544	11,011,233
Total long-term debt	14,073,228	12,042,061
Total liabilities	24,504,326	17,631,461
Net position		
Invested in capital assets, net of related debt	5,215,591	6,770,358
Restricted		
Trustee held funds	-0-	154,500
Total restricted net position	-0-	154,500
Unrestricted	11,258,346	7,628,775
Total net position	16,473,937	14,553,633
Total liabilities and net position	$ 40,978,263	$ 32,185,094

See accompanying notes to combined financial statements.

WOODLAWN HOSPITAL

COMBINED STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Revenues		
Net patient service revenue	$ 75,614,281	$ 43,615,128
Other operating revenue	1,517,586	1,884,321
Total operating revenue	77,131,867	45,499,449
Expenses		
Salaries and wages	21,110,929	18,887,023
Employee benefits	5,785,120	5,372,896
Purchased services	28,883,804	4,157,754
Supplies	7,409,944	7,291,864
Rent	2,749,497	817,094
Utilities	1,543,446	626,941
Repairs and maintenance	1,794,169	1,317,054
Insurance	842,133	388,858
Depreciation and amortization	1,531,163	1,278,663
Hospital Assessment Fee	1,578,892	1,863,601
Other	1,282,597	1,064,690
Total operating expenses	74,511,694	43,066,438
Operating income	2,620,173	2,433,011
Nonoperating revenue (expense)		
Investment income	7,480	9,647
Interest expense	(733,294)	(567,077)
Loss on disposition of assets	(1,974)	(7,305)
Other nonoperating income	27,919	23,196
Total nonoperating revenue (expense)	(699,869)	(541,539)
Changes in net position	1,920,304	1,891,472
Net position		
Beginning of year	14,553,633	12,662,161
End of year	$ 16,473,937	$ 14,553,633

See accompanying notes to combined financial statements.

WOODLAWN HOSPITAL

COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Operating activities		
Cash received from patients and third party payors	$ 68,185,251	$ 41,319,285
Cash paid to employees for wages and benefits	(25,345,971)	(23,542,570)
Cash paid to vendors for goods and services	(41,431,177)	(16,011,083)
Other operating receipts, net	1,517,586	1,884,321
Net cash from operating activities	2,925,689	3,649,953
Noncapital financing activities		
Other nonoperating	27,919	23,196
Capital and related financing activities		
Acquisition and construction of capital assets	(2,092,126)	(2,293,333)
Loss on disposal of assets	1,974	7,305
Interest paid on long-term debt	(733,294)	(567,077)
Proceeds from issuance of long term debt	1,018,003	695,827
Principal payments on long-term debt and capital leases, net	(663,933)	(1,591,401)
Net cash from capital and related financing activities	(2,469,376)	(3,748,679)
Investing activities		
Investment income	7,480	9,647
Assets whose use is limited proceeds	700,000	-0-
Assets whose use is limited purchases	(1,750,000)	(200,000)
Net cash from investing activities	(1,042,520)	(190,353)
Net change in cash and cash equivalents	(558,288)	(265,883)
Cash and cash equivalents		
Beginning of year	4,936,036	5,201,919
End of year	$ 4,377,748	$ 4,936,036

See accompanying notes to combined financial statements.

WOODLAWN HOSPITAL

COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Reconciliation of operating income to net cash from operating activities		
Operating income	$ 2,620,173	$ 2,433,011
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	1,531,163	1,278,663
Provision for bad debt	5,482,512	4,881,423
Changes in assets and liabilities		
Patient accounts receivable	(10,638,636)	(5,669,409)
Inventories	(100,505)	(91,517)
Estimated third-party settlements	(694,014)	355,744
Other current assets	(307,331)	(574,906)
Accounts payable and accrued expenses	3,482,249	319,595
Accrued salaries and related liabilities	1,550,078	717,349
Net cash flows from operating activities	$ 2,925,689	$ 3,649,953
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents		
In current assets	$ 2,172,171	$ 2,551,385
In assets whose use is limited	2,205,577	2,384,651
Total cash and cash equivalents	$ 4,377,748	$ 4,936,036

See accompanying notes to combined financial statements.

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). 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.

Blended Component Unit

Blended component units, although legally separate entities, are in substance part of the government’s operations and exist solely to provide services for the government. Data from these units are combined with data from the primary government. The Association is considered as a blended component unit and has been included within the reporting entity. As of January 1, 2012, the Association had approximately $873,000 in funds along with debt for the first mortgage refunding bonds. The remaining funds were used to pay the bonds in full on January 3, 2012, and all associated trust accounts were closed. No other transactions occurred during 2013 and 2012 and there were no balances to report as of December 31, 2013 and 2012. All significant intercompany transactions have been eliminated for financial reporting purposes.

Long-Term Care Operations

Pursuant to the provision of long-term care, the Hospital owns the operations of four long-term care facilities by way of an arrangement with the Managers of the facilities. These facilities provide inpatient and therapy services. Generally, gross revenues from the operation of the facilities are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements. While the management and related lease agreements are in effect, the performance of all activities of the managers shall be on behalf of the Hospital and the Hospital retains the authority and legal responsibility for the operation of the facilities.

During 2013, the Hospital entered into lease agreements with the long-term care facilities, collectively referred to as the Lessors, to lease the facilities management by the Managers. Concurrently, the Hospital entered into agreements with the Managers to manage the above leased facilities. As part of the agreements, the Hospital pays the Managers a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. These management fees consist of base management fees, subordinated management fees, and quarterly incentive payments. The agreements expire at various times through April 2015. The terms of these agreements may be renewed at the end of each term for an additional period of two years. All parties involved can terminate the agreement without cause with 90 days written notice.

Use of Estimates

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

Accounting Standards

During 2013, the Hospital implemented GASB Statement No. 61, The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14, the Financial Reporting Entity, and 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. The objective of the implementation is to improve financial reporting for a governmental financial reporting entity. As discussed in the Blended Component Units section of this note, there were no balances to report as of December 31, 2013 and 2012, therefore no condensed combining information has been included in the notes to the consolidated financial statements for blended component units of primary governments that are business-type activities.

Also during 2013, the Hospital implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, which established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. There were no transactions that were required to be reported as deferred outflows of resources or deferred inflows of resources during 2013.

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 and are based on gross charges less an allowance for contractual adjustments and interim payment advances. An allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors based on current reimbursement methodologies. The amount also includes amounts receive as interim payments against unpaid claims by certain payors.

Management estimates an allowance for doubtful accounts receivable based on an evaluation of historical losses write-off rate factors based on historical loss experience, current economic conditions, and other factors unique to the Hospital's customer base that affect the Hospital's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible.

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. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. The program has audited the year-end cost report filed with the Medicare program through December 31, 2011 with differences reflected as deductions from revenue in the year the cost report is settled. Amounts for unresolved cost reports for 2012 through 2013 are reflected in estimated third-party settlements on the balance sheets. During 2013, the Hospital final settled the 2010 and 2011 cost report and recognized decrease of approximately $29,000 in the combined statements of revenues, expenses and changes in net position in 2013, due to differences between original estimates and subsequent revisions for the final settlement of the cost report.

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.

Indiana Hospital Assessment Fee Program

During 2012, the Indiana Hospital Assessment Fee (HAF) Program for the period July 1, 2011 through June 30, 2013 was approved by the Centers for Medicare & Medicaid Services retroactive to July 1, 2011. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. Under the HAF Program, the enhanced Medicaid payments follow the patients and are realized through increased Medicaid rates.

During 2013 and 2012, the Hospital recognized Hospital Assessment Fee expense of approximately $1,579,000 and $1,864,000, respectively, which resulted in Medicaid rate increases. The HAF Program expense is included in the combined statements of revenues, expenses and changes in net position. The Medicaid rate increases under the HAP Program are included in patient service revenue in the combined statements of revenues, expenses and changes in net position. The HAF Program was approved for extension in March 2014 by CMS for the period July 1, 2013 through June 30, 2017.

As a governmental entity, the Hospital is also eligible for the Indiana Medicaid Supplemental programs including Medicaid DSH and Municipal Upper Payment Limit programs. The Hospital recognized reimbursement form these programs within net patient service revenue of approximately $1,384,000 and $391,000 during 2013 and 2012, respectively. These programs are administered by the State of Indiana, but rely on Federal Funding.

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 based on a sliding scale set at 200% of the Federal poverty index. 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.

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 debt services and capital improvements. These investments consist primarily of cash and cash equivalents and certificates of deposit. Investment income is reported as nonoperating income in the combined statements of revenues, expenses and changes in net position.

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.

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.

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:

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

Other Assets

The accounting for the acquisition of Fulton County Medical Center discussed in Note 13 resulted in recognizing intangible assets for non-compete agreements and goodwill in the amounts of $419,000 and $1,543,024, respectively. The carrying amount of the non-compete agreements will be amortized on a straight-line basis over 5 years in accordance with the term of the contract with an annual amortization expense of $83,800. The carrying amount of the goodwill will be amortized on a straight-line basis over an estimated life of 10 years with an annual amortization expense of approximately $154,302. Total amortization expense for each of the five subsequent years is $238,102.

Net Position

Net position of the Hospital is classified in three components. Net position 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 position is net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including required amounts deposited with trustees. Unrestricted net position is remaining net position that does not meet the definition of invested in capital assets net of related debt or restricted. There are no restricted expendable net assets in 2013.

Electronic Health Records (EHR) Incentive Payments

The Hospital receives EHR incentive payments under the Medicare program. To qualify for the EHR incentive payments, the Hospital must meet “meaningful use” criteria that become more stringent over time. The Hospital periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending September 30th). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Hospital’s cost reports.

For Critical Access Hospitals, the payment calculation is based upon the net book value of the qualifying assets multiplied by the Medicare utilization using Medicare to total inpatient days plus 20%, not to exceed 100%. The total days are multiplied by a factor of total charges excluding charity care to total charges. Critical Access Hospitals can be reimbursed over a four year period for additional qualifying assets not claimed in the first year. The transitional factor ranges from 100% in first payment year and decreases 25% each payment year until it is completely phased out in the fifth year.

The Hospital recognizes EHR incentive payments as income when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific requirements. In addition, the financial statement effects of the income must be both recognizable and measurable. During 2013 and 2012, the Hospital recognized approximately $50,000 and $370,703, respectively, in EHR incentive payments as income using the cliff recognition method. Under the cliff recognition method, the Hospital records income at the end of EHR reporting period in which compliance is achieved. EHR incentive income is included in other operating revenue in the combined statements of revenues, expenses, and changes in net position. EHR incentive income recognized is based on management’s estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

Receipt of these funds is subject to the fulfillment of certain obligations by the Hospital as prescribed by the program, subject to future audits and may be subject to repayment upon a determination of noncompliance.

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 Position

The Hospital's combined statement of revenues, expenses and changes in net position 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:

	2013	2012
Supplemental cash flows information		
Cash paid for interest	$ 733,294	$ 567,077
Noncash capital and related financing activities		
Capital leases	$ -0-	$ 849,468
Other assets financed through long-term debt	$ 1,954,200	$ -0-
Construction in progress included in accounts payable	$ 176,379	$ -0-

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.

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 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, 2013 and 2012, 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 statues. The Hospital is organized as a not-for-profit corporation 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). As a governmental entity, the Hospital is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital and recognize a tax liability if the Hospital has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Hospital, and has concluded that as of December 31, 2013 and 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying combined financial statements.

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 $355,528 and $290,717 for 2013 and 2012, respectively.

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.

Reclassification

Certain 2012 balances were reclassified to agree with the current year presentation. There was no impact on assets, liabilities, and total net assets.

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, results from operations, and cash flows.

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 July 28, 2014.

2. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including expenses) reported as current assets and liabilities as of December 31, 2013 and 2012 is as follows:

	2013	2012
Patient accounts receivable		
Receivable from patients and their insurance carriers	$ 14,995,322	$ 9,517,275
Receivable from Medicare	3,628,153	2,519,090
Receivable from Medicaid	1,797,159	918,587
Total patient accounts receivable	20,420,634	12,954,952
Less:		
Allowance for contractual agreements	6,356,031	4,652,563
Allowance for doubtful accounts	3,751,192	3,145,102
Patient accounts receivable, net	$ 10,313,411	$ 5,157,287
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes and benefits)	$ 4,085,854	$ 2,535,776
Payable to suppliers	5,338,899	1,680,271
Total accounts payable and accrued expenses	$ 9,424,753	$ 4,216,047

3. ASSETS WHOSE USE IS LIMITED

Noncurrent cash and investments internally designated include the following:

<u>Board Designated Funds</u>

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.

<u>Held by Trustee</u>

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.

The following represents assets whose use is limited as of December 31, 2013 and 2012:

	2013	2012
Cash and cash equivalents	$ 2,205,577	$ 2,384,651
Certificates of Deposit	1,250,000	200,000
	$ 3,455,577	$ 2,584,651

4. DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year-end were entirely insured by the Federal Deposit Insurance Corporation or by the Indiana Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

Investments are carried at fair market value. Net realized gains and losses on security transactions are determined on the specific identification cost basis. Assets whose use is limited investments consist of cash and cash equivalents and certificates of deposit.

Fair value approximated cost as of December 31, 2013 and 2012. As of December 31, 2013 and 2012, 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, 2013				
	Investment Maturities (in years)				
	Carrying Amount	Less than 1	1-5	6-10	More than 10
Cash and cash equivalents	$ 2,205,577	$ 2,205,577	$ -0-	$ -0-	$ -0-
Certificates of deposit	1,250,000	1,250,000	-0-	-0-	-0-
	$ 3,455,577	$ 3,455,577	$ -0-	$ -0-	$ -0-

	December 31, 2012				
	Investment Maturities (in years)				
	Carrying Amount	Less than 1	1-5	6-10	More than 10
Cash and cash equivalents	$ 2,384,651	$ 2,384,651	$ -0-	$ -0-	$ -0-
Certificates of deposit	200,000	200,000	-0-	-0-	-0-
	$ 2,584,651	$ 2,584,651	$ -0-	$ -0-	$ -0-

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, 2013 and 2012:

	2013	2012
Carrying amount		
Deposits	$ 2,172,171	$ 2,551,385
Investments	3,455,577	2,584,651
	$ 5,627,748	$ 5,136,036

	2013	2012
Included in the following balance sheet captions:		
Cash and cash equivalents	$ 2,172,171	$ 2,551,385
Board designated	3,455,577	2,430,151
Trustee held funds	-0-	154,500
	$ 5,627,748	$ 5,136,036

5. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2013 and 2012 is as follows:

	Balance December 31, 2012	Additions	Retirements	Transfers	Balance December 31, 2013
Land	$ 596,216	$ -0-	$ -0-	$ -0-	$ 596,216
Land improvements	472,590	18,612	(1,476)	-0-	489,726
Buildings and fixtures	24,131,834	232,327	(39,212)	2,055,891	26,380,840
Moveable equipment	8,043,840	581,173	(306,492)	-0-	8,318,521
Construction in progress	645,827	1,426,593	-0-	(2,055,891)	16,529
Total	33,890,307	2,258,705	(347,180)	-0-	35,801,832
Less accumulated depreciation					
Land improvements	345,615	25,201	(1,476)	-0-	369,340
Buildings and fixtures	8,828,237	746,248	(39,212)	-0-	9,535,273
Moveable equipment	5,174,794	731,779	(304,518)	-0-	5,602,055
Total accumulated depreciation	14,348,646	1,503,228	(345,206)	-0-	15,506,668
Capital assets, net	$19,541,661	$ 755,477	$ (1,974)	$ -0-	$ 20,295,164

	Balance December 31, 2011	Additions	Retirements	Transfers	Balance December 31, 2012
Land	$ 345,223	$ 250,993	$ -0-	$ -0-	$ 596,216
Land improvements	377,153	95,437	-0-	-0-	472,590
Buildings and fixtures	23,085,793	836,558	(72,049)	281,532	24,131,834
Moveable equipment	7,589,150	1,323,601	(587,379)	(281,532)	8,043,840
Construction in progress	-0-	645,827	-0-	-0-	645,827
Total	31,397,319	3,152,416	(659,428)	-0-	33,890,307
Less accumulated depreciation					
Land improvements	331,255	14,360	-0-	-0-	345,615
Buildings and fixtures	8,242,786	657,496	(72,045)	-0-	8,828,237
Moveable equipment	5,148,065	606,807	(580,078)	-0-	5,174,794
Total accumulated depreciation	13,722,106	1,278,663	(652,123)	-0-	14,348,646
Capital assets, net	$17,675,213	$ 1,873,753	$ (7,305)	$ -0-	$ 19,541,661

There were no significant outstanding commitments on capital assets as of December 31, 2013.

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

	2013	2012
Equipment	$ 3,654,522	$ 3,654,522
Accumulated depreciation	(2,188,026)	(1,824,999)
	$ 1,466,496	$ 1,829,523

6. LONG-TERM DEBT

A summary of long-term debt as of December 31, 2013 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.

  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 bonds were paid off during 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 the related real estate with an approximate net book value of $10,296,000. 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 the related real estate with an approximate net book value of $10,296,000. The note was issued for the acquisition, construction, installation, and equipping of a medical office building together with the purchase of the project equipment.

- The Hospital has entered into a Promissory Note of $1,768,000 due in monthly installments of $11,955 for 120 months at a fixed interest rate of 2.66% commencing on December 18, 2012. The Promissory Note is secured by the related real estate with an approximate net book value of $1,664,000.

- The Hospital has entered into a Promissory Note of $1,460,432 due in monthly installments of $16,031 for 120 months at a fixed interest rate of 5.75% commencing on September 1, 2013. A final installment of any unpaid principal and interest is due on August 1, 2023. Any amounts remaining unpaid as of August 1, 2023 will incur a fixed interest rate of 12% on the remaining balance until paid. The note is non-secured. The note was issued for the acquisition of certain fixed assets, inventory and intangible assets.

- The Hospital has entered into a Promissory Note of $493,768 due in monthly installments of $5,420 for 120 months at a fixed interest rate of 5.75% commencing on September 1, 2013. A final installment of any unpaid principal and interest is due on August 1, 2023. Any amounts remaining unpaid as of August 1, 2023 will incur a fixed interest rate of 12% on the remaining balance until paid. The note is non-secured. The note was issued for the acquisition of certain fixed assets, inventory and intangible assets.

- The Hospital has entered into several capital lease obligations with interest rates of 3.70% to 6.23%, collateralized by the leased equipment. Monthly installments are due in varying amounts from $5,193 to $13,949, including interest. Principal and interest payments are due through September 2017.

The Series 2007 and Series 2008 Promissory Notes require the Hospital to comply with certain restrictive financial covenants. As of December 31, 2013, management believes that the Hospital was in compliance with the financial covenants.

The following represents a progression of long-term debt for 2013 and 2012:

	Balance December 31, 2012	Additional borrowings	Payments	Balance December 31, 2013	Current portion	Long-term portion
Loans Payable						
Capital Lease Obligations	$ 1,448,295	$ -0-	$ (417,425)	$ 1,030,870	429,186	$ 601,684
Promissory Notes						
Series 2007	6,514,618	-0-	(167,302)	6,347,316	193,696	6,153,620
Series 2008	4,112,563	-0-	(30,509)	4,082,054	131,536	3,950,518
Rochester Orthopedics Building Note	695,827	1,018,003	-	1,713,830	100,121	1,613,709
Fulton County Medical Clinic Note 1	-0-	1,460,432	(36,393)	1,424,039	113,449	1,310,590
Fulton County Medical Clinic Note 2	-0-	493,768	(12,304)	481,464	38,357	443,107
Total long term debt	$ 12,771,303	$ 2,972,203	$ (663,933)	$ 15,079,573	$ 1,006,345	$ 14,073,228

	Balance December 31, 2011	Additional borrowings	Payments	Balance December 31, 2012	Current portion	Long-term portion
Revenue bonds payable						
Association Bonds Series 2003	945,000	$ -0-	$ (945,000)	$ -0-	$ -0-	$ -0-
Loans payable						
Capital lease obligations	958,794	849,468	(359,967)	1,448,295	417,467	1,030,828
Promissory Notes						
Series 2007	6,696,006	-0-	(181,388)	6,514,618	196,210	6,318,408
Series 2008	4,229,553	-0-	(116,990)	4,112,563	115,565	3,996,998
Rochester Orthopedics Building Note	-0-	695,827	-0-	695,827	-0-	695,827
Unamortized bond discount	(11,944)	-0-	11,944	-0-	-0-	-0-
Total long term debt	$ 12,817,409	$ 1,545,295	$ (1,591,401)	$ 12,771,303	$ 729,242	$ 12,042,061

Aggregate maturities of long-term debt are as follows:

Year ending December 31,	Principal	Interest	Total
2014	$ 1,006,345	$ 522,147	$ 1,528,492
2015	928,020	491,110	1,419,130
2016	864,661	462,141	1,326,802
2017	740,969	438,969	1,179,938
2018	706,305	418,970	1,125,275
2019-2023	4,597,234	1,883,338	6,480,572
2024-2028	2,973,103	1,150,264	4,123,367
2029-2033	3,262,936	359,461	3,622,397
	$ 15,079,573	$ 5,726,400	$ 20,805,973

7. LINE OF CREDIT

In August 2012, the Hospital obtained a $700,000 revolving line of credit with Lake City Bank. The 12-month line of credit is secured by all inventory, accounts, equipment, and general intangibles with an approximate net book value of $18,487,000. The annual interest rate is floating rate equal to prime rate, which was 3.25% at year-end. Interest is calculated on the outstanding principal and is due monthly. The line of credit was extended in 2013 with a maturity date in August 2018, at which time all unpaid principal is due. As of December 31, 2013 and 2012, the Hospital has not drawn down against the line of credit.

8. COMPASSIONATE CARE

The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its companionate care policy on a sliding scale on the basis of financial need. Because the Hospital does not pursue collection of approved compassionate care balances, the charges are not reflected in net revenue. Rather, charges approved for compassionate care are posted to gross revenue and subsequently written off as a charity adjustment before the resulting net patient revenue.

The Hospital’s provided service to compassionate care patients for an estimated cost of $1,264,000 and $1,314,000 during 2013 and 2012, respectively. The estimated costs of providing compassionate care services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to compassionate care patients. The ratio of cost to charges is calculated based on the Hospital’s total expenses divided by gross patient service revenue.

9. NET PATIENT SERVICE REVENUE

Patient service revenue for 2013 and 2012 consists of the following:

	2013	2012
Inpatient services	$ 52,615,396	$ 20,553,256
Outpatient services	73,354,680	64,910,560
Physician services	7,875,511	11,328,919
Gross patient service revenue	133,845,587	96,792,735
Contractual allowances	(49,865,527)	(45,250,303)
Compassionate care	(2,883,267)	(3,045,881)
Bad debt	(5,482,512)	(4,881,423)
Deductions from revenue	(58,231,306)	(53,177,607)
Net patient service revenue	$ 75,614,281	$ 43,615,128

10. 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 a portion 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 2013 and 2012 were $298,481 and $281,614, respectively.

11. OPERATING LEASES

The Hospital has leases expiring at various times through 2023. 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 2013 and 2012 was $2,749,497 and $817,094, respectively. Minimum future payments on non-cancellable leases for the years following December 31, 2013 are as follows:

Year Ending December 31,	Amount
2014	$ 547,314
2015	244,894
2016	211,716
2017	211,716
2018	211,716
Thereafter	970,325
	$ 2,397,681

Rent expense for facilities and equipment under the long-term care leases discussed in Note 1 was approximately $1,876,000 and $-0- for 2013 and 2012, respectively.

12. 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 acute care gross receivables and revenue from patients and third-party payors as of December 31, 2013 and 2012 was as follows:

	Receivables		Revenues	
	2013	2012	2013	2012
Medicare	14%	20%	34%	32%
Medicaid	6%	7%	12%	12%
Blue Cross	12%	14%	22%	24%
Other commercial payors	31%	24%	30%	25%
Self-pay	37%	35%	2%	7%
	100%	100%	100%	100%

13. GOVERNMENT ACQUISITIONS

On August 1, 2013, the Hospital acquired the medical practice owned by Kenneth E. Hoff, M.D., P.C., d/b/a Fulton County Medical Clinic (the Clinic) for $2,154,200 to further integrate care. The Hospital received certain fixed assets, inventory and intangible assets in consideration for $200,000 in cash and $1,954,200 in long-term debt. See Note 1 for further discussion of the other assets and Note 6 for further discussion of the promissory notes.

The Hospital also entered into a lease agreement with Kenneth E. Hoff, MD for medical office space for approximately $212,000 per year. Rental expense recorded during 2013 was approximately $88,000. Minimum future rental payments will be approximately $212,000 for the next 5 years and $970,325 in total thereafter.

14. 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 $70,000 up to an aggregate amount of $1,930,000 a year. Substantially all employees are covered for major medical benefits. The total health claims expense was $3,678,436 and $3,378,985 for 2013 and 2012, 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:

	2013	2012
Unpaid claims, beginning of fiscal year	$ 742,362	$ 312,548
Incurred claims and changes in estimates	3,678,436	3,378,985
Claim payments	(3,408,308)	(2,949,171)
Unpaid claims, end of fiscal year	$1,012,490	$ 742,362

As of December 31, 2013 and 2012, the Hospital had approximately $375,000 and $290,000 of reinsurance recovery receivables for stop loss claims recorded in other current assets in the combined balance sheets.

15. 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 recorded contributions from the Foundation of $199,068 in 2013 and 2012.

The Hospital also leases medical office space from an employed physician and has outstanding promissory notes with the physician as discussed in Note 13.

16. UPCOMING GASB PRONOUNCEMENTS

Management has not currently determined what effects, if any, the implementation of the following recently enacted statements may have on its future consolidated financial statements:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, issued June 2012, will be effective for periods beginning after June 15, 2014. This Statement establishes the accounting and financial reporting standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to certain pensions. It will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, issued January 2013, will be effective for government combinations and disposals of government operations occurring in financial reporting periods for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations (mergers, acquisitions, and transfers of operations) and disposals of government operations. The disclosures required by this Statement will enable financial statement users to evaluate the nature and financial effects of those transactions.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, issued April 2013, will be effective for financial reporting periods beginning after June 15, 2013. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. Additional disclosures will be required by both governments that extend and receive financial guarantees.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68*, issued November 2013, will be required to be applied simultaneously with provisions of GASB Statement No. 68 making it effective for periods beginning after June 15, 2014. This Statement amends previous guidance to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.