

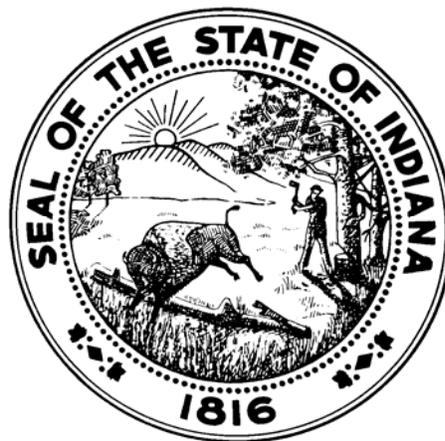
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STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF

WOODLAWN HOSPITAL
A COMPONENT UNIT OF
FULTON COUNTY, INDIANA

January 1, 2006 to December 31, 2006



FILED

05/16/2007

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HOSPITAL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Cheryl Musselman (Interim) John L. Alley	01-01-06 to 05-31-06 06-01-06 to 12-31-07
Treasurer	Cheryl Musselman (Interim) John L. Alley	01-01-06 to 05-31-06 06-01-06 to 12-31-07
Chairman of the Hospital Board	Richard Brown	01-01-06 to 12-31-07
President of the Board of County Commissioners	Richard Powell	01-01-06 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE WOODLAWN HOSPITAL, FULTON COUNTY, INDIANA

We have audited the accompanying basic financial statements of the Woodlawn Hospital (Hospital), for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital as of December 31, 2006, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

The Management Discussion and Analysis, as listed in the table of contents are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

STATE BOARD OF ACCOUNTS

April 24, 2007

Management's Discussion and Analysis

Our discussion and analysis of Woodlawn Hospital's (the Hospital) financial performance provides an overview of the Hospital's financial activities for the fiscal year ended December 31, 2006. Please read it in conjunction with the Hospital's financial statements and accompanying notes to the financial statements.

Using This Annual Report

This annual report consists of two parts – *management's discussion and analysis*, and the *basic financial statements*.

- In the "*management discussion and analysis*" section of this report the management of the hospital discuss various components of the annual report and provide an analysis of the current financial statement information.
- The "*basic financial statement*" section of this report includes a series of financial statements, which provide information about the activities of the Hospital as a whole. The Statement of Net Assets reveals the assets and liabilities of the Hospital as of December 31, 2006 while the Statement of Activities summarizes the changes in the assets and liabilities for the year then ended. The Statement of Cash Flows summarizes the change in cash and cash equivalents as a result of financial activity during the year. The Notes to Financial Statements disclose additional information addressed within the body of the financial statements.

Financial Highlights

The Hospital's net assets increased by \$803,375 or 7.8% as a result of this year's operations bringing net Assets to \$11,104,960. Total Revenue was \$29,405,770 an increase of \$3,278,846 or 12.5%. Total expenses were \$28,602,395 an increase of \$1,715,140 or 6.3%.

Summarized Financial Statement Information

The following information documents in summary form the financial information related to the activities of the hospital for the last 2 years.

	Net Assets	
	<u>2006</u>	<u>2005</u>
Current Assets	7,876,530	7,381,504
Assets limited as to use	2,962,258	1,787,142
Capital Assets	6,499,769	7,310,182
Other Assets	<u>89,349</u>	<u>105,152</u>
Total Assets	17,427,906	16,583,980
Current Liabilities	3,282,967	2,482,976
Long-term debt, net of current maturities	<u>3,039,979</u>	<u>3,799,414</u>
Total Liabilities	6,322,946	6,282,390
Net Assets		
Invested in Capital Assets, net of debt	2,604,437	2,710,089
Restricted	202,390	162,173
Unrestricted	<u>8,298,133</u>	<u>7,429,328</u>
Total Net Assets	<u>11,104,960</u>	<u>10,301,590</u>

Changes in Net Assets

	<u>2005</u>	<u>2005</u>
Revenue:		
Net patient service revenue	28,207,092	25,116,874
Other Revenues	774,605	587,079
Other non-operating income	189,009	180,339
Capital grants and contributions	<u>235,064</u>	<u>242,632</u>
Total Revenues	29,405,770	26,126,924
Expenses:		
Salaries and Benefits	16,310,831	14,787,173
Medical Professional Fees	1,345,839	2,359,174
Other Professional Fees	2,049,894	657,386
Medical Supplies and Drugs	2,576,638	2,629,451
Insurance	426,214	423,327
Other Supplies	1,612,170	1,710,082
Depreciation and Amortization	1,369,636	1,407,263
Other	2,726,158	2,302,097
Loss on sale equipment	12,938	
Interest Expense	172,077	161,482
Special and extraordinary items	<u> </u>	<u>450,000</u>
Total Expenses	28,602,395	26,887,795
Increase (decrease) in net assets	803,375	(760,870)

Capital Assets and Debt Administration

Capital Assets

At the end of the fiscal year ended December 31, 2006 the Hospital had approximately \$6,499,769 invested in capital assets. The table below documents the type of assets that makeup the Capital Assets held by the Hospital as of December 31, 2006.

	Capital Assets at Year-end Net of Depreciation	
	<u>2006</u>	<u>2005</u>
Land	220,127	220,127
Land Improvements	455,036	476,253
Buildings	10,223,829	10,151,532
Equipment	10,803,481	11,004,866
C.I.P.	<u> </u>	<u>112,920</u>
Total	21,702,475	21,965,698
Less Accumulated Depreciation	<u>15,202,706</u>	<u>14,655,516</u>
Capital Assets (Net)	6,499,769	7,310,182

Debt

At year-end the Hospital had approximately \$3,924,332 in loans and capital leases outstanding, versus \$4,600,093 at the end of the previous year, which represents a decrease of 14.7%. The table below documents the debt held and its use.

Outstanding Debt at Year End

	<u>2006</u>	<u>2005</u>
Bonds Payable	2,805,000	3,407,590
Capital Leases	<u>1,119,332</u>	<u>1,192,593</u>
Total Debt	3,924,332	4,600,093

Contacting the Hospital's Management

This financial report is designed to provide our citizens, taxpayers, patients, and other interested party with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Hospital Administrative offices at 1400 East ninth Street, Rochester, IN 46975.

WOODLAWN HOSPITAL
A COMPONENT UNIT OF FULTON COUNTY, STATE OF INDIANA
STATEMENT OF NET ASSETS
December 31, 2006

<u>Assets</u>	<u>Primary Government</u>
Current assets:	
Cash and cash equivalents	\$ 5,387
Patient accounts receivable, net of estimated uncollectibles of \$2,468,438	6,053,329
Estimated third-party settlements	276,931
Supplies and other current assets	1,540,883
Noncurrent cash and investments:	
Internally designated	2,759,868
Held by trustee for debt service	6,582
Restricted by contributors and grantors	195,808
Capital assets:	
Land	220,127
Depreciable capital assets, net of accumulated depreciation	6,279,642
Other assets	89,349
Total assets	\$ 17,427,906
<u>Liabilities and Net Assets</u>	
Current liabilities:	
Current maturities of long-term debt	\$ 855,353
Accounts payable and accrued expenses	2,206,731
Other current liabilities	220,883
Long-term debt, net of current maturities	3,039,979
Total liabilities	6,322,946
Net assets:	
Invested in capital assets, net of related debt	2,604,437
Restricted:	
For debt service	6,582
Expendable for capital acquisitions	150,233
Expendable for specific operating activities	45,575
Unrestricted	8,298,133
Total net assets	11,104,960
Total liabilities and net assets	\$ 17,427,906

The accompanying notes are an integral part of the financial statements.

WOODLAWN HOSPITAL
A COMPONENT UNIT OF FULTON COUNTY, STATE OF INDIANA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended December 31, 2006

	Primary Government
Operating revenues:	
Net patient service revenue (net of provision for bad debt)	\$ 28,207,092
Other	774,605
Total operating revenues	28,981,697
Operating expenses:	
Salaries and benefits	16,310,831
Medical professional fees	1,345,839
Other professional fees	2,049,894
Medical supplies and drugs	2,576,638
Insurance	426,214
Other supplies	1,612,170
Depreciation and amortization	1,369,636
Other	2,726,158
Total operating expenses	28,417,380
Operating income	564,317
Nonoperating revenues (expenses):	
Investment income	126,718
Interest expense	(172,077)
Loss on sale of equipment	(12,938)
Other	62,291
Total nonoperating revenues	3,994
Excess of revenues over expenses before capital grants and contributions	568,311
Capital grants and contributions	235,064
Increase in net assets	803,375
Net assets beginning of the year	10,301,585
Net assets end of the year	\$ 11,104,960

The accompanying notes are an integral part of the financial statements.

WOODLAWN HOSPITAL
A COMPONENT UNIT OF FULTON COUNTY, STATE OF INDIANA
STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS
Year Ended December 31, 2006

	<u>2006</u>
Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 28,580,935
Payments to suppliers and contractors	(11,106,237)
Payments to employees	(15,387,405)
Other receipts and payments, net	<u>(48,675)</u>
Net cash provided by operating activities	<u>2,038,618</u>
Cash flows from noncapital financing activities:	
Other	<u>62,291</u>
Cash flows from capital and related financing activities:	
Capital grants and contributions	235,064
Principal paid on long-term debt	(934,675)
Interest paid on long-term debt	(173,165)
Purchase of capital assets	(345,022)
Proceeds from sale of capital assets	<u>15,167</u>
Net cash used by capital and related financing activities	<u>(1,202,631)</u>
Cash flows from investing activities:	
Interest and dividends on investments	91,819
Purchase of investments	<u>(1,100,000)</u>
Net cash used by investing activities	<u>(1,008,181)</u>
Net decrease in cash and cash equivalents	(109,903)
Cash and cash equivalents at beginning of year	<u>317,680</u>
Cash and cash equivalents at end of year	<u>\$ 207,777</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	\$ 5,387
Restricted cash and cash equivalents	<u>202,390</u>
Total Cash and Cash Equivalents	<u>\$ 207,777</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 564,317
Adjustments to reconcile operating income to net cash flows provided in operating activities:	
Depreciation and amortization	1,369,636
(Increase) decrease in current assets:	
Patient accounts receivable	(81,112)
Supplies and other current assets	(149,689)
Estimated third-party payor settlements	(319,650)
Other assets	(137,419)
Increase (decrease) in current liabilities:	
Accounts payable and accrued expenses	752,270
Other current liabilities	<u>40,265</u>
Net cash provided in operating activities	<u>\$ 2,038,618</u>

Noncash investing, capital, and financing activities:

The Hospital entered into capital lease obligations of \$226,503 for new equipment in 2006.
Construction in progress transfers to capital assets totaled \$116,253 in 2006.
Leasehold improvements amortization included in depreciation and amortization expense was \$22,319.
Amortization of bond issue costs included in depreciation and amortization expense was
Amortization of bond discount included in interest expense was \$3,411.

The accompanying notes are an integral part of the financial statements.

WOODLAWN HOSPITAL
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

Woodlawn Hospital (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 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 Woodlawn 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 for the Hospital.

The accompanying financial statements present the activities of the Hospital (primary government). There are no significant component units which require inclusion.

B. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended, 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.

C. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

Cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity date of three months or less.

Short-term investments are investments with remaining maturities of up to 90 days.

Statutes authorize the Hospital to invest in interest-bearing deposit accounts, passbook savings accounts, certificates of deposit, money market deposit 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.

Nonparticipating certificates of deposit, demand deposits, and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Investments in affiliated companies are reported using the equity method of accounting, or at cost, as applicable.

WOODLAWN HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Investment income, including changes in the fair value of investments, is reported as nonoperating revenues in the statement of revenues, expenses, and changes in net assets.

2. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, and equipment, are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the financial statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land improvements	\$ 5,000	Straight-line	Varies
Buildings and improvements	5,000	Straight-line	Varies
Equipment	5,000	Straight-line	Varies

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Hospital during the current year was \$127,077.

4. 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 noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note II E.

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 FINANCIAL STATEMENTS
(Continued)

D. 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.

E. 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.

F. Operating Revenues and Expenses

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. Nonexchange 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.

G. Compensated Absences

1. Sick Leave

Hospital employees earn sick leave at the rate of 8 hours for every 173 accrued hours. Unused sick leave may be accumulated to a maximum of 240 hours. Accumulated sick leave is not paid to employees upon termination.

2. Vacation Leave

Hospital employees earn vacation leave at rates from 80 hours to 200 hours per year based upon the number of years of service. Vacation leave may be accumulated to a maximum of 1 ½ times the annual accrual. Accumulated vacation leave is paid to employees through cash payments upon termination of employment.

3. Personal Leave

Hospital employees earn personal leave at the rate of 1 to 2 days per year. Personal leave does not accumulated from year to year. Personal leave is not paid upon termination of employment.

Vacation leave is accrued when earned and reported as a liability.

WOODLAWN HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

II. Detailed Notes

A. 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 Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

B. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at year end consisted of these amounts:

Patient Accounts Receivable

Receivable from patients and their insurance carriers	\$ 5,666,945
Receivable from Medicare	2,059,389
Receivable from Medicaid	<u>795,433</u>

Total patient accounts receivable	8,521,767
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Less allowance for uncollectible amounts	<u>2,468,438</u>
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Patient accounts receivable, net	<u><u>\$ 6,053,329</u></u>
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Accounts Payable and Accrued Expenses

Payable to employees (including payroll taxes)	\$ 923,426
Payable to suppliers	1,004,746
Other	<u>278,559</u>

Total accounts payable and accrued expenses	<u><u>\$ 2,206,731</u></u>
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C. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

WOODLAWN HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 220,127	\$ -	\$ -	\$ 220,127
Construction in progress	<u>112,920</u>	<u>3,333</u>	<u>116,253</u>	<u>-</u>
Total capital assets, not being depreciated	<u>333,047</u>	<u>3,333</u>	<u>116,253</u>	<u>220,127</u>
Capital assets, being depreciated:				
Land improvements	10,151,532	72,298	-	10,223,830
Buildings and improvements	476,253	-	21,216	455,037
Equipment	<u>11,004,866</u>	<u>612,149</u>	<u>813,534</u>	<u>10,803,481</u>
Totals	<u>21,632,651</u>	<u>684,447</u>	<u>834,750</u>	<u>21,482,348</u>
Less accumulated depreciation for:				
Land improvements	6,749,295	320,088	-	7,069,383
Buildings and improvements	381,520	9,259	-	390,779
Equipment	<u>7,524,701</u>	<u>1,003,271</u>	<u>785,428</u>	<u>7,742,544</u>
Totals	<u>14,655,516</u>	<u>1,332,618</u>	<u>785,428</u>	<u>15,202,706</u>
Total capital assets, being depreciated, net	<u>6,977,135</u>	<u>(648,171)</u>	<u>49,322</u>	<u>6,279,642</u>
Total primary government capital assets, net	<u>\$ 7,310,182</u>	<u>\$ (644,838)</u>	<u>\$ 165,575</u>	<u>\$ 6,499,769</u>

D. Leases

1. Operating Leases

The Hospital has entered into an operating lease having initial or remaining noncancelable terms exceeding one year for an equipment and maintenance agreement. Rental expenditures for this lease were \$18,194. The following is a schedule by years of future minimum rental payments as of year end:

2007	\$ 226,343
2008	321,465
2009	321,465
2010	321,465
2011	<u>294,677</u>
Total	<u>\$ 1,485,415</u>

WOODLAWN HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Capital Leases

The Hospital has entered into a capital lease for equipment. Future minimum lease payments and present values of the net minimum lease payments under the capital lease as of year end are as follows:

2007	\$	336,090
2008		336,090
2009		336,091
2010		196,778
2011		<u>3,061</u>
Total minimum lease payments		1,208,110
Less amount representing interest		<u>88,778</u>
Present value of net minimum lease payments		<u>\$ 1,119,332</u>

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

Equipment	\$	1,618,639
Accumulated depreciation		<u>502,217</u>
Total	\$	<u>1,116,422</u>

E. Long-Term Liabilities

1. Revenue Bonds

The Hospital issues bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

Purpose	Interest Rates	Amount
Hospital Association - 2003 Refunding Bonds	1.1% to 4.2%	<u>\$ 1,855,000</u>

Revenue bonds debt service requirements to maturity are as follows:

WOODLAWN HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Year Ended December 31	Principal	Interest
2007	\$ 95,000	\$ 33,703
2008	190,000	63,676
2009	205,000	58,040
2010	205,000	51,680
2011	215,000	44,460
2012-2016	<u>945,000</u>	<u>89,235</u>
Totals	<u>\$ 1,855,000</u>	<u>\$ 340,794</u>

2. Loan Payable

The Hospital has entered into a loan. Annual debt service requirements to maturity for the loan, including interest of \$50,125, are as follows:

2007	\$ 499,612
2008	<u>500,513</u>
Total	<u>\$ 1,000,125</u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
Revenue:					
Hospital association	\$ 2,045,000	\$ -	\$ 190,000	\$ 1,855,000	\$ 95,000
Capital leases	1,192,504	226,503	299,675	119,332	295,353
Loan payable	<u>1,395,000</u>	<u>-</u>	<u>445,000</u>	<u>950,000</u>	<u>465,000</u>
Total long-term liabilities	<u>\$ 4,632,504</u>	<u>\$ 226,503</u>	<u>\$ 934,675</u>	<u>\$ 2,924,332</u>	<u>\$ 855,353</u>

Revenue bonds are included in long-term debt on the Statement of Net Assets, net of unamortized bond discount as follows:

Purpose	Principal Amount	Discount	Net Revenue Bonds
Hospital Association - 2003 Refunding Bonds	<u>\$ 1,855,000</u>	<u>\$ 28,999</u>	<u>\$ 1,826,001</u>

WOODLAWN HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

F. Restricted Net Assets

Restricted, expendable net assets are available for the following purposes:

	2006
Woodlawn Hospital Association:	
Debt Service	\$ 6,582
Woodlawn Development Council:	
Purchase of equipment	150,233
Northern Indiana Community Foundation:	
General	45,575
Total expendable, restricted net assets	\$ 202,390

G. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$342,455 for 2006.

H. Internally Designated Assets

Noncurrent cash and investments internally designated include the following:

1. **Funded Depreciation** – Amounts transferred from the Operating Fund by the Hospital Board of Trustees through funding depreciation expense. Such amounts are to be used for equipment and building, remodeling, repairing, replacing or making additions to the Hospital buildings as authorized by Indiana Code 16-22-3-13.
2. **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.

Internally designated:	
Funded depreciation:	
Investments	\$ 2,450,000
Accrued interest receivable	57,054
Total funded depreciation	2,507,054
Board designation:	
Investments	244,500
Accrued interest receivable	8,314
Total board designation	252,814
Total internally designated	\$ 2,759,868

WOODLAWN HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

I. General Obligation Bonds Paid by County

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 Woodlawn Hospital Association from semiannual lease rental payments. In 2006, approximately 90% of the lease rental payments were contributed by Fulton County with the remainder derived from hospital revenues.

IV. Other Information

A. Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

The Hospital has chosen to establish a risk financing fund for risks associated with medical benefits to employees and dependents. An excess policy through commercial insurance covers individual claims in excess of \$35,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years.

Claim expenditures and liabilities of the fund are reported when it is probable 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 (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of payouts and other economic and social factors.

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

	2006	2005
Unpaid claims, beginning of fiscal year	\$ 520,292	\$ 477,080
Incurred claims and changes in estimates	2,214,512	2,273,165
Claim payments	(2,405,309)	(2,229,953)
Unpaid claims, end of fiscal year	\$ 329,495	\$ 520,292

B. Contingent Liabilities

Litigation

The Hospital is involved in litigation and regulatory investigations arising in the 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.

WOODLAWN HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Fair Value of Financial Instruments

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Cash and Cash Equivalents

The carrying amount reported in the statement of net assets for cash and cash equivalents approximates its fair value.

Short-Term Investments

The carrying amount reported in the statement of net assets is the investment's fair value on the day it becomes a short-term investment.

Investments

Fair values, which are the amounts reported in the statement of net assets, are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

Accounts Payable and Accrued Expenses

The carrying amount reported in the statement of net assets for accounts payable and accrued expenses approximates its fair value.

Estimated Third-Party Payor Settlements

The carrying amount reported in the statement of net assets for estimated third-party payor settlements approximates its fair value.

D. Investment in Affiliated Company (Companies)

In 1997, the Hospital entered into an agreement to purchase 100 units of membership in Wynnfield Crossing, a limited liability company. In accordance with this agreement, the hospital invested \$140,000 for an original 6.9% equity interest in Wynnfield Crossing. The investment is recorded on the cost method. The Hospital's investment in affiliated companies is included in the Other Assets category of the statement of net assets.

Summarized financial information as of December 31, 2006, and for the year then ended from the unaudited financial statements of the Affiliated Company follows:

Current assets	\$	326,333
Noncurrent assets		907,898
Current liabilities		222,556
Noncurrent liabilities		336,796
Stockholders equity		674,879
Revenue		99,145
Net loss		24,532

WOODLAWN HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Estimated Third-Party Settlements

Regulations in effect require annual retroactive settlements for third-party settlements based upon cost reports filed by the Hospital. These retroactive settlements are estimated and recorded in the accompanying financial statements. Changes in these estimates are reflected in the year in which they occur. During 2006, net patient service revenues in the accompanying statements of operations were increased by \$276,931, to reflect changes in the estimated settlements for certain prior years.

F. Pension Plan

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 and employee contributions to the plan for the calendar year 2006 were \$158,919 and \$482,750, respectively.

WOODLAWN HOSPITAL
EXIT CONFERENCE

The contents of this report were discussed on April 24, 2007, with John L. Alley, Treasurer; David Cholger, Chief Financial Officer; and Richard Brown, Chairman of the Hospital Board. Our audit disclosed no material items that warrant comment at this time.