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January 23, 2013

Board of Directors
Woodlawn Hospital
1400 N. 9th Street
Rochester, IN 46975

We have reviewed the audit report prepared by Blue & Company, LLC, Independent Public Accountants, for the period January 1, 2011 to December 31, 2011. 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, 2011 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.

STATE BOARD OF ACCOUNTS



COMBINED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2011 AND 2010

CPAs / ADVISORS



WOODLAWN HOSPITAL

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Woodlawn Hospital
Rochester, Indiana

We have audited the accompanying combined balance sheets of Woodlawn Hospital (the Hospital) as of December 31, 2011 and 2010 and the related combined statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2011 and 2010, and its results of operations, changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Board of Trustees
Woodlawn Hospital
Rochester, Indiana

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as identified in the accompanying table of contents 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

May 25, 2012

REQUIRED SUPPLEMENTARY INFORMATION

WOODLAWN HOSPITAL

MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 2011 AND 2010

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, 2011 and 2010. The combined financial statements include the Fulton County EMS, Inc., a discrete component unit. Please read it in conjunction with the Hospital's combined financial statements that follow this MD&A.

Financial Highlights

- The Hospital's net assets increased \$396,696 or 3% in 2011 and \$217,847 or 2% in 2010.

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 Assets; 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 Assets.

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.

WOODLAWN HOSPITAL

MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 2011 AND 2010

The Combined Balance Sheet and Combined Statement of Revenues and Expenses

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The combined balance sheet and the combined statement of revenues and expenses report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

Assets, Liabilities, and Net Assets

	2011	2010	Change 2011 - 2010	2009
ASSETS				
Current assets	\$ 9,076,531	\$ 8,602,031	\$ 474,500	\$ 10,228,811
Assets whose use is limited, net of current portion	2,178,376	2,678,394	(500,018)	3,080,798
Capital assets, net	17,675,213	17,437,273	237,940	15,847,376
Other assets	16,920	21,754	(4,834)	26,588
Total assets	<u>\$ 28,947,040</u>	<u>\$ 28,739,452</u>	<u>\$ 207,588</u>	<u>\$ 29,183,573</u>
LIABILITIES				
Current liabilities	\$ 4,909,792	\$ 4,548,052	\$ 361,740	\$ 5,902,536
Long-term debt	11,375,087	11,925,935	(550,848)	11,233,419
Total liabilities	<u>16,284,879</u>	<u>16,473,987</u>	<u>(189,108)</u>	<u>17,135,955</u>
NET ASSETS				
Invested in capital assets, net of related debt	4,857,804	4,955,643	(97,839)	3,778,019
Restricted				
For debt service	873,260	149,848	723,412	1,115,638
Expendable - donor restricted	41,327	41,105	222	38,953
Total restricted net assets	<u>914,587</u>	<u>190,953</u>	<u>723,634</u>	<u>1,154,591</u>
Unrestricted	6,889,770	7,118,869	(229,099)	7,115,008
Total net assets	<u>12,662,161</u>	<u>12,265,465</u>	<u>396,696</u>	<u>12,047,618</u>
Total liabilities and net assets	<u>\$ 28,947,040</u>	<u>\$ 28,739,452</u>	<u>\$ 207,588</u>	<u>\$ 29,183,573</u>

WOODLAWN HOSPITAL

MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 2011 AND 2010

The most significant changes in the Hospital's assets were in the areas of Current Assets and Capital Assets, Net which increased and decreased approximately \$474,500 and \$500,000, respectively, for 2011. The most significant change in the Hospital's liabilities was in the area of long-term debt for 2011. These changes can be attributed mainly due to the payoff of the 2003 First Mortgage Refunding Bonds.

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

Operating Results and Changes in Net Assets

	2011	2010	Change 2011 - 2010	2009
Revenues				
Net patient service revenue	\$ 37,482,967	\$ 38,546,275	\$(1,063,308)	\$ 35,759,804
Other operating revenue	1,114,739	1,063,084	51,655	737,736
Total operating revenues	<u>38,597,706</u>	<u>39,609,359</u>	<u>(1,011,653)</u>	<u>36,497,540</u>
Expenses				
Salaries and benefits	22,630,308	22,786,807	(156,499)	21,644,348
Supplies	5,680,902	6,914,811	(1,233,909)	6,415,145
Depreciation and amortization	1,049,124	1,176,533	(127,409)	1,168,199
Other operating expenses	8,535,544	8,347,075	188,469	8,025,944
Total expenses	<u>37,895,878</u>	<u>39,225,226</u>	<u>(1,329,348)</u>	<u>37,253,636</u>
Operating income (loss)	701,828	384,133	317,695	(756,096)
Non-operating expenses, net	<u>(569,132)</u>	<u>(579,103)</u>	<u>9,971</u>	<u>(824,267)</u>
Net income (loss) before transfers from the county	132,696	(194,970)	327,666	(1,580,363)
Transfers from the county	<u>264,000</u>	<u>412,817</u>	<u>(148,817)</u>	<u>793,651</u>
Change in net assets	396,696	217,847	178,849	(786,712)
Net assets beginning of year	12,265,465	12,047,618	217,847	12,834,330
Net assets end of year	<u>\$ 12,662,161</u>	<u>\$ 12,265,465</u>	<u>\$ 396,696</u>	<u>\$ 12,047,618</u>

The Hospital had a gain on equity of approximately 3% compared to 2% in the prior year.

This following section highlights the major financial factors for 2011:

- The Hospital's patient days increased to 3,696 in 2011 compared to 3,785 in 2010 and 3,283 in 2009.

WOODLAWN HOSPITAL

MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 2011 AND 2010

- During 2011, the Hospital's net patient services revenue was enhanced by Indiana Medicaid Municipal Hospital Payments of approximately \$713,000 compared to the payments of approximately \$767,000 and \$790,000 received in 2010 and 2009, respectively.
- Operating expenses decreased \$1,329,248 or 3% in 2011 and increase \$1,972,457 or 5% in 2010. The change in both years is attributable to the change in patient volumes.
- Supplies expense represented the largest decrease over the prior year. It decreased \$1,233,909 or 17.8% in 2011 and increased \$499,666 or 7.8% in 2010.

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?"

	2011	2010	Change 2010 - 2009	2009
Cash flow from activities				
Operating	\$ 486,299	\$ 1,291,237	\$ (804,938)	\$ 3,084,414
Noncapital financing	17,625	19,238	(1,613)	328,420
Capital and related financing	(1,245,662)	(2,477,355)	1,231,693	(1,120,708)
Investing	476,454	142,508	333,946	(244,942)
Change in cash and cash equivalents	<u>\$ (265,284)</u>	<u>\$ (1,024,372)</u>	<u>\$ 759,088</u>	<u>\$ 2,047,184</u>

Total cash and cash equivalents decreased \$265,284 in 2011 and \$1,024,372 in 2010. Operating activities generated cash and cash equivalents of \$486,299 during 2011 and \$1,291,237 during 2010 mainly from strong operating income. Capital and related financing decreased cash and cash equivalents by \$1,245,662 during 2011 and by \$2,477,355 during 2010 mainly as the result of expenditures for property and equipment additions as well as payments on long-term debt. Investing activities increased cash and cash equivalents by \$476,454 in 2011 and by \$142,508 in 2010 due to the assets whose use is limited investments.

WOODLAWN HOSPITAL

MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 2011 AND 2010

Sources of Revenue

During 2011, the Hospital derived substantially all of its revenue from patient service and other related activities. A significant portion of the patient service revenue is from patients that are insured by government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from the Medicare and Medicaid programs represented approximately 43%, 43%, and 44% of the Hospital's gross revenues in 2011, 2010 and 2009, respectively. The Hospital's outpatient and physician services represented 81%, 80% and 82% of the Hospital's gross patient revenue in 2011, 2010 and 2009, respectively.

Following is a table of major sources of gross patient revenues for 2011, 2010 and 2009:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Medicare	30%	29%	29%
Medicaid	13%	14%	15%
Blue Cross	25%	23%	22%
Other	25%	27%	27%
Self Pay	7%	7%	7%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

Capital Assets

During 2011 and 2010, the Hospital disposed of a net amount of \$2,185,425 and invested a net amount of \$1,942,006, respectively, in capital assets. The change in capital assets is outlined in the following table:

	<u>2011</u>	<u>2010</u>	<u>Change</u> <u>2010 - 2009</u>	<u>2009</u>
Land and improvements	\$ 722,376	\$ 738,072	\$ (15,696)	\$ 732,031
Buildings and improvements	23,085,793	23,527,547	(441,754)	21,704,032
Equipment	7,589,150	9,317,125	(1,727,975)	9,204,675
Total property and equipment	31,397,319	33,582,744	(2,185,425)	31,640,738
Less accumulated depreciation	13,722,106	16,145,471	(2,423,365)	15,793,362
Capital assets, net	<u>\$ 17,675,213</u>	<u>\$ 17,437,273</u>	<u>\$ 237,940</u>	<u>\$ 15,847,376</u>

Debt

Total debt increased from \$12,481,630 to \$12,817,409 in 2011 and from \$12,069,357 to \$12,481,630 in 2010 due to new borrowings related to the renovation and expansion.

WOODLAWN HOSPITAL

MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 2011 AND 2010

Economic Outlook

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

Contacting the Hospital's Financial Management

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

WOODLAWN HOSPITAL

COMBINED BALANCE SHEETS DECEMBER 31, 2011 AND 2010

ASSETS

	2011	2010
Current assets		
Cash and cash equivalents	\$ 2,150,283	\$ 3,138,961
Patient accounts receivable, net	4,369,301	4,020,155
Inventories	958,212	940,547
Other current assets	725,475	352,520
Current portion of assets whose use is limited	873,260	149,848
Total current assets	<u>9,076,531</u>	<u>8,602,031</u>
Assets whose use is limited		
Board designated	2,137,049	2,637,289
Trustee held funds	873,260	149,848
Donor restricted	41,327	41,105
Total assets whose use is limited	<u>3,051,636</u>	<u>2,828,242</u>
Less current portion of assets whose use is limited	<u>(873,260)</u>	<u>(149,848)</u>
Assets whose use is limited net of current portion	2,178,376	2,678,394
Capital assets		
Land	345,223	345,223
Depreciable capital assets, net	<u>17,329,990</u>	<u>17,092,050</u>
Total capital assets	17,675,213	17,437,273
Other assets	<u>16,920</u>	<u>21,754</u>
Total assets	<u><u>\$ 28,947,040</u></u>	<u><u>\$ 28,739,452</u></u>

See accompanying notes to combined financial statements.

WOODLAWN HOSPITAL

COMBINED BALANCE SHEETS
DECEMBER 31, 2011 AND 2010

LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
Current liabilities		
Accounts payable and accrued expenses	\$ 1,360,676	\$ 1,775,447
Accrued salaries and related liabilities	1,818,427	1,706,053
Estimated third party settlements	288,367	510,857
Capital leases	201,647	69,734
Revenue bonds payable	1,240,675	485,961
Total current liabilities	<u>4,909,792</u>	<u>4,548,052</u>
Long-term debt and capital leases		
Capital leases	757,147	22,980
Long-term debt	10,617,940	11,902,955
Total long-term debt	<u>11,375,087</u>	<u>11,925,935</u>
Total liabilities	16,284,879	16,473,987
Net assets		
Invested in capital assets, net of related debt	4,857,804	4,955,643
Restricted		
Trustee held funds	873,260	149,848
Expendable - donor restricted	41,327	41,105
Total restricted net assets	<u>914,587</u>	<u>190,953</u>
Unrestricted	6,889,770	7,118,869
Total net assets	<u>12,662,161</u>	<u>12,265,465</u>
Total liabilities and net assets	<u>\$ 28,947,040</u>	<u>\$ 28,739,452</u>

See accompanying notes to combined financial statements.

WOODLAWN HOSPITAL

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 2011 AND 2010

	2011	2010
Revenues		
Net patient service revenue	\$ 37,482,967	\$ 38,546,275
Other operating revenue	1,114,739	1,063,084
Total operating revenue	<u>38,597,706</u>	<u>39,609,359</u>
Expenses		
Salaries and wages	17,791,315	17,659,597
Employee benefits	4,838,993	5,127,210
Professional fees	4,054,295	4,233,034
Supplies	5,680,902	6,914,811
Rent	1,013,130	1,020,607
Utilities	685,870	602,956
Repairs and maintenance	1,225,508	1,062,417
Insurance	392,253	382,477
Depreciation and amortization	1,049,124	1,176,533
Other	1,164,488	1,045,584
Total operating expenses	<u>37,895,878</u>	<u>39,225,226</u>
Operating income (loss)	701,828	384,133
Nonoperating revenue (expense)		
Investment income	16,340	28,043
Interest expense	(569,840)	(540,850)
Loss on disposition of assets	(33,257)	(85,534)
Other nonoperating income (expense)	17,625	19,238
Total nonoperating revenue (expense)	<u>(569,132)</u>	<u>(579,103)</u>
Net income (loss) before transfers from the county	132,696	(194,970)
Transfers from the county	<u>264,000</u>	<u>412,817</u>
Change in net assets	396,696	217,847
Net assets		
Beginning of year	12,265,465	12,047,618
End of year	<u>\$ 12,662,161</u>	<u>\$ 12,265,465</u>

See accompanying notes to combined financial statements.

WOODLAWN HOSPITAL

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Operating activities		
Cash received from patients and third party payors	\$ 36,911,331	\$ 39,482,246
Cash paid to employees for wages and benefits	(22,517,934)	(23,246,773)
Cash paid to vendors for goods and services	(15,021,837)	(16,298,538)
Other operating receipts, net	1,114,739	1,354,302
Net cash from operating activities	486,299	1,291,237
Noncapital financing activities		
Other nonoperating	17,625	19,238
Capital and related financing activities		
Transfers from the county	264,000	412,817
Acquisition and construction of capital assets	(286,688)	(2,847,504)
Loss on disposal of assets	33,257	85,534
Interest paid on long-term debt	(569,840)	(540,850)
Proceeds from sale of fixed assets	15,491	375
Proceeds from issuance of long term debt	-0-	1,178,605
Principal payments on long-term debt and capital leases, net	(701,882)	(766,332)
Net cash from capital and related financing activities	(1,245,662)	(2,477,355)
Investing activities		
Investment income	16,340	28,043
Assets whose use is limited, net	460,114	114,465
Net cash from investing activities	476,454	142,508
Net change in cash and cash equivalents	(265,284)	(1,024,372)
Cash and cash equivalents		
Beginning of year	5,467,203	6,491,575
End of year	<u>\$ 5,201,919</u>	<u>\$ 5,467,203</u>

See accompanying notes to combined financial statements.

WOODLAWN HOSPITAL

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Reconciliation of operating income to net cash from operating activities		
Operating income	\$ 701,828	\$ 384,133
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	1,049,124	1,176,533
Provision for bad debt	4,729,330	4,226,050
Changes in assets and liabilities		
Patient accounts receivable	(5,078,476)	(4,089,324)
Inventories	(17,665)	(66,084)
Estimated third-party settlements	(222,490)	799,245
Other current assets	(372,955)	707,131
Accounts payable and accrued expenses	(414,771)	(1,595,196)
Accrued salaries and related liabilities	112,374	(251,251)
Net cash flows from operating activities	<u>\$ 486,299</u>	<u>\$ 1,291,237</u>
 Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents		
In current assets	\$ 2,150,283	\$ 3,138,961
In assets whose use is limited	3,051,636	2,328,242
Total cash and cash equivalents	<u>\$ 5,201,919</u>	<u>\$ 5,467,203</u>

See accompanying notes to combined financial statements.

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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 consolidated with data from the primary government. The Association is considered as a blended component unit and has been included within the reporting entity. All significant intercompany transactions have been eliminated for financial reporting purposes.

Discrete Component Unit

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

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

Fulton County Emergency Medical Services, Inc. ceased operations April 15, 2010, as responsibilities for emergency medical services were transferred back to Fulton County. The corporation was dissolved in July 2011.

As there was no remaining balance sheet activity and the revenues and expenses subsequent to eliminations for 2010 is considered to be immaterial, the revenues and expenses of Fulton County Emergency Medical Services, Inc. have been incorporated into the Hospital totals for presentation purposes.

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 revenue and expenses are recognized on the accrual basis of accounting. Substantially all revenues and expenses are subject to accrual.

Accounting Standards

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

Cash and Cash Equivalents

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

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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 received 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. Final determination of amounts earned is subject to review by the fiscal intermediary. Medicare reports have been settled through 2008. Management believes adequate provision has been made in the combined financial statements for any adjustments.

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

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

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

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

Compassionate Care

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

Inventories

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

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, investments held by trustees for debt services and capital improvements, and other assets restricted by donors for specific purposes. These investments consist primarily of cash and cash equivalents and certificates of deposit. Investment income, to the extent not capitalized, is reported as nonoperating income in the combined statements of revenues, expenses and changes in net assets.

Capital Assets and Depreciation

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

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

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

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

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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

Net Assets

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

Grants and Contributions

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

Restricted Resources

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

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

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

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

Combined Statements of Cash Flows

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

	<u>2011</u>	<u>2010</u>
Supplemental cash flows information		
Cash paid for interest including amounts capitalized of \$-0- in 2011 and 2010	\$ 569,840	\$ 540,850
Noncash capital, related financing activities		
Capital leases	\$ 1,037,661	\$ -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.

Bond Issuance Costs

The Hospital provides for the amortization of costs incurred for the issuance of bonds over the life of the debt. Bond issuance costs were \$56,801. Issuance costs are amortized over the life of the bond utilizing the straight-line method. Accumulated amortization was \$39,881 and \$35,047 in 2011 and 2010, respectively. Bond issuance costs are recorded in other assets on the combined balance sheet.

Fair Value of Financial Instruments

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

The fair values of assets whose use is limited are estimated based upon quoted market prices for those or similar investments, where applicable. The fair value of the Hospitals long-term debt is estimated based on market prices for similar issues on current rates offered to the Hospital. As of December 31, 2011 and 2010, the carrying value of the Hospital's long-term debt approximates fair value based upon the borrowing rates currently available to the Hospital.

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. 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, 2011 and 2010, 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 \$399,526 and \$248,099 for 2011 and 2010, respectively.

Litigation

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

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.

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

Medical Malpractice

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

Subsequent Events

The Hospital evaluates events or transactions occurring subsequent to the combined balance sheet date for recognition and disclosure in the accompanying combined financial statements through the date the combined financial statements were issued which is May 25, 2012.

2. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including expenses) reported as current assets and liabilities as of December 31, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 7,924,945	\$ 7,165,717
Receivable from Medicare	2,112,866	1,413,966
Receivable from Medicaid	727,286	909,740
Total patient accounts receivable	<u>10,765,097</u>	<u>9,489,423</u>
Less:		
Allowance for contractual agreements	3,958,532	3,469,654
Allowance for doubtful accounts	2,437,264	1,999,614
Patient accounts receivable, net	<u>\$ 4,369,301</u>	<u>\$ 4,020,155</u>
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes and benefits)	\$ 1,818,427	\$ 1,706,053
Payable to suppliers	1,360,676	1,775,447
Total accounts payable and accrued expenses	<u>\$ 3,179,103</u>	<u>\$ 3,481,500</u>

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

3. ASSETS WHOSE USE IS LIMITED

Noncurrent cash and investments internally designated include the following:

Board Designated Funds

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

Held by Trustee

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

Donor Restricted

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

The following represents assets whose use is limited as of December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 3,051,636	2,328,242
Certificates of Deposit	-0-	500,000
	<u>\$ 3,051,636</u>	<u>\$ 2,828,242</u>

4. DEPOSITS AND INVESTMENTS

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

Investments 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.

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

Fair value approximated cost as of December 31, 2011 and 2010. As of December 31, 2011 and 2010, 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, 2011				
		Investment Maturities (in years)				
	Carrying Amount	Less than 1	1-5	6-10	More than 10	
Cash and cash equivalents	\$ 3,051,636	\$ 3,051,636	\$ -0-	\$ -0-	\$ -0-	
	<u>\$ 3,051,636</u>	<u>\$ 3,051,636</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	

		Investment Maturities (in years)				
	Carrying Amount	Less than 1	1-5	6-10	More than 10	
Cash and cash equivalents	\$ 2,328,242	\$ 2,328,242	\$ -0-	\$ -0-	\$ -0-	
Certificates of deposit	500,000	500,000	-0-	-0-	-0-	
	<u>\$ 2,828,242</u>	<u>\$ 2,828,242</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	

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, 2011 and 2010:

	2011	2010
Carrying amount		
Deposits	\$ 2,150,283	\$ 3,138,961
Investments	3,051,636	2,828,242
	<u>\$ 5,201,919</u>	<u>\$ 5,967,203</u>
	2011	2010
Included in the following balance sheet captions:		
Cash and cash equivalents	\$ 2,150,283	\$ 3,138,961
Board designated	2,137,049	2,637,289
Trustee held funds	873,260	149,848
Donor restricted	41,327	41,105
	<u>\$ 5,201,919</u>	<u>\$ 5,967,203</u>

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

5. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2011 and 2010 is as follows:

	Balance December 31, 2010	Additions	Retirements	Transfers	Balance December 31, 2011
Land	\$ 345,223	\$ -0-	\$ -0-	\$ -0-	\$ 345,223
Land improvements	392,849	32,197	(47,893)	-0-	377,153
Buildings and fixtures	23,527,547	144,703	(586,457)	-0-	23,085,793
Moveable equipment	9,317,125	1,147,449	(2,875,424)	-0-	7,589,150
Construction in progress	-0-	-	-0-	-0-	-0-
Total	33,582,744	1,324,349	(3,509,774)	-0-	31,397,319
Less accumulated depreciation					
Land improvements	371,383	7,766	(47,894)	-0-	331,255
Buildings and fixtures	8,164,113	625,913	(547,240)	-0-	8,242,786
Moveable equipment	7,609,975	410,659	(2,872,569)	-0-	5,148,065
Total accumulated depreciation	16,145,471	1,044,338	(3,467,703)	-0-	13,722,106
Capital assets, net	\$17,437,273	\$ 280,011	\$ (42,071)	\$ -0-	\$17,675,213
	Balance December 31, 2009	Additions	Retirements	Transfers	Balance December 31, 2010
Land	\$ 345,223	\$ -0-	\$ -0-	\$ -0-	\$ 345,223
Land improvements	386,808	6,041	-0-	-0-	392,849
Buildings and fixtures	21,704,032	49,166	(367,433)	2,141,782	23,527,547
Moveable equipment	9,204,675	650,515	(538,065)	-0-	9,317,125
Construction in progress	-0-	2,141,782	-0-	(2,141,782)	-0-
Total	31,640,738	2,847,504	(905,498)	-0-	33,582,744
Less accumulated depreciation					
Land improvements	365,056	6,327	-0-	-0-	371,383
Buildings and fixtures	7,865,485	603,215	(304,587)	-0-	8,164,113
Moveable equipment	7,562,821	561,348	(514,194)	-0-	7,609,975
Total accumulated depreciation	15,793,362	1,170,890	(818,781)	-0-	16,145,471
Capital assets, net	\$15,847,376	\$ 1,676,614	\$ (86,717)	\$ -0-	\$17,437,273

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

	2011	2010
Equipment	\$ 2,805,054	\$ 1,832,573
Accumulated depreciation	(1,556,997)	(1,570,416)
	\$ 1,248,057	\$ 262,157

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

6. LONG-TERM DEBT

A summary of long-term debt as of December 31, 2011 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 Hospital has entered into several capital lease obligations with interest rates of 5.00% to 6.23%, collateralized by the leased equipment. Monthly installments are due in varying amounts from \$3,059 to \$13,949, including interest. Principal and interest payments are due through April 2012 to August 2016.
- The Hospital's \$7,300,000, Series 2007 Promissory Note is due in monthly installments of \$41,806 for 298 months at a fixed interest rate of 4.76% commencing on January 1, 2009. A final installment of any unpaid principal and interest is due on December 1, 2033. The Promissory Note is secured by certain Hospital property. This note was issued for the renovation and expansion of Woodlawn Hospital and its parking facilities together with the purchase of the project equipment.
- The Hospital's \$4,700,000, Series 2008 Promissory Note is due in monthly installments of \$26,916 for 298 months at a fixed interest rate of 4.76% commencing on January 1, 2009. A final installment of any unpaid principal and interest is due on December 1, 2033. The Promissory Note is secured by certain Hospital property. The note was issued for the acquisition, construction, installation and equipping of a medical office building together with the purchase of the project equipment.

The Series 2007 and Series 2008 Promissory Notes require the Hospital to comply with certain restrictive financial covenants. As of December 31, 2011, Management believes that the Hospital was in compliance with the financial covenants.

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

The following represents a progression of long-term debt for 2011 and 2010:

	Balance December 31, 2010	Additional borrowings	Payments	Balance December 31, 2011	Current portion	Long-term portion
Revenue bonds payable						
Association Bonds Series 2003	\$ 1,160,000	\$ -0-	\$ (215,000)	\$ 945,000	\$ 945,000	\$ -0-
Loans payable						
Capital lease obligations	92,714	1,037,661	(171,581)	958,794	201,647	757,147
Promissory Notes						
Series 2007	6,890,639	-0-	(194,633)	6,696,006	187,107	6,508,899
Series 2008	4,353,632	-0-	(124,079)	4,229,553	108,568	4,120,985
Unamortized bond discount	(15,355)	-0-	3,411	(11,944)	-0-	(11,944)
Total long term debt	<u>\$ 12,481,630</u>	<u>\$ 1,037,661</u>	<u>\$ (701,882)</u>	<u>\$ 12,817,409</u>	<u>\$ 1,442,322</u>	<u>\$ 11,375,087</u>

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

Aggregate maturities of long-term debt are as follows:

Year ending December 31,	Principal	Interest	Total
2012	\$ 1,442,322	\$ 567,763	\$ 2,010,085
2013	525,966	528,421	1,054,387
2014	550,100	504,288	1,054,388
2015	575,348	479,040	1,054,388
2016	496,472	453,446	949,918
2017-2021	2,154,592	1,968,774	4,123,366
2022-2026	2,732,275	1,391,103	4,123,378
2027-2031	3,464,816	658,548	4,123,364
2032-2035	875,518	28,207	903,725
	<u>\$ 12,817,409</u>	<u>\$ 6,579,590</u>	<u>\$ 19,396,999</u>

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

7. 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 practice revenue.

Of the Hospital's total expenses reported (approximately \$37,896,000 and \$39,225,000 during 2011 and 2010, respectively), an estimated \$1,180,000 and \$1,197,000 arose from providing services to charity patients during 2011 and 2010, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses (less bad debt expense) divided by gross patient service revenue.

8. NET PATIENT SERVICE REVENUE

Patient service revenue for 2011 and 2010 consists of the following:

	2011	2010
Inpatient services	\$ 15,379,085	\$ 16,457,922
Outpatient services	56,410,789	55,727,401
Physician services	9,831,783	10,186,468
	<hr/>	<hr/>
Gross patient service revenue	81,621,657	82,371,791
Contractual allowances	(36,868,068)	(37,076,262)
Compassionate care	(2,541,292)	(2,523,204)
Bad debt	(4,729,330)	(4,226,050)
Deductions from revenue	(44,138,690)	(43,825,516)
	<hr/>	<hr/>
Net patient service revenue	\$ 37,482,967	\$ 38,546,275

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

9. DEFINED CONTRIBUTION PENSION PLAN

Plan Description

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

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Plan members may contribute 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 2011 and 2010 were \$272,746 and \$273,288, respectively.

10. OPERATING LEASES

The Hospital has leases expiring at various times through 2015. Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operating as incurred. Total rent expense for 2011 and 2010 was \$1,013,130 and \$1,020,607, respectively. Minimum future payments on leases for the years following December 31, 2011 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2012	\$ 472,128
2013	472,128
2014	335,598
2015	33,178
	<u>\$ 1,313,032</u>

11. CONCENTRATION OF CREDIT RISK

Woodlawn Hospital is located in Rochester, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements.

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

The mix of gross receivables and revenue from patients and third-party payors as of December 31, 2011 and 2010 was as follows:

	Receivables		Revenues	
	2011	2010	2011	2010
Medicare	20%	15%	30%	29%
Medicaid	7%	10%	13%	14%
Blue Cross	16%	14%	25%	23%
Other commercial payors	23%	27%	25%	27%
Self-pay	34%	34%	7%	7%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

12. SELF INSURANCE

The Hospital is self-insured for employee health claims. A third party administrator processes the claims for the hospital. The Hospital maintains an estimated liability for the amount of claims incurred but not reported. The Hospital also maintains reinsurance including a stop loss for individual employees over \$50,000 up to an aggregate amount of \$950,000 a year. Substantially all employees are covered for major medical benefits. The total health claims expense was \$2,893,223 and \$3,211,915 for 2011 and 2010, respectively. 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.

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

	2011	2010
Unpaid claims, beginning of fiscal year	\$ 347,272	\$ 409,049
Incurred claims and changes in estimates	2,893,223	3,211,915
Claim payments	<u>(2,927,947)</u>	<u>(3,273,692)</u>
Unpaid claims, end of fiscal year	<u>\$ 312,548</u>	<u>\$ 347,272</u>

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

13. RELATED PARTIES

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

As of December 31, 2011 and 2010, the Hospital had recorded receivables from the Foundation of \$199,068 and \$-0- respectively, for capital items that were requested to be reimbursed from the capital campaign funds held by the Foundation.

14. SUBSEQUENT EVENTS

The Hospital has agreed to and substantially paid off the remaining portion of the 2003 First Mortgage Refunding Bonds that Fulton County has been funding since issuance of the bonds in exchange for the land being transferred from Fulton County to the Hospital.

In addition, the Hospital also purchased a building for approximately \$925,000, subsequent to year-end.