



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

B42431

---

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

July 30, 2013

Board of Directors  
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, 2012 to December 31, 2012. 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, 2012 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**

**DECEMBER 31, 2012 AND 2011**

*CPAs / ADVISORS*



# WOODLAWN HOSPITAL

## TABLE OF CONTENTS DECEMBER 31, 2012 AND 2011

---

	Page
<b>Report of Independent Auditors</b> .....	1
<b>Required Supplementary Information</b>	
Management's Discussion & Analysis (Unaudited) .....	i
<b>Financial Statements</b>	
Combined Balance Sheets.....	3
Combined Statements of Revenues, Expenses, and Changes in Net Position .....	5
Combined Statements of Cash Flows .....	6
Notes to Combined Financial Statements .....	8

---



Blue & Co., LLC / One American Square, Suite 2200 / Box 82062 / Indianapolis, IN 46282  
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

## 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, 2012 and 2011, 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.

Board of Trustees  
Woodlawn Hospital  
Rochester, Indiana

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.

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

#### 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, 2012 and 2011, 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  
June 6, 2013

**REQUIRED SUPPLEMENTARY INFORMATION**

# WOODLAWN HOSPITAL

## MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2012 AND 2011

---

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, 2012 and 2011. 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 \$1,891,000 in 2012 and \$397,000 in 2011.
- Operating income in 2012 compared to increased by \$1,731,000 or 249%.

The change in net position was increased by the Hospital Assessment Fee (HAF) Program Medicaid rate increases net of assessment fees by approximately \$1,500,000 in 2012 and \$-0- in 2011. In addition, the Hospital recognized \$370,703 in 2012 and \$-0- in 2011 in EHR incentive payments. Continuation of these programs in the future is uncertain.

### 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.

# WOODLAWN HOSPITAL

## MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2012 AND 2011

### 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 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 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.

#### Assets, Liabilities, and Net Position

	2012	2011	Change 2012-2011	2010
<b>ASSETS</b>				
Current assets	\$ 10,213,282	\$ 9,093,451	\$ 1,119,831	\$ 8,602,031
Assets whose use is limited, net of current portion	2,430,151	2,178,376	251,775	2,700,148
Capital assets, net	19,541,661	17,675,213	1,866,448	17,437,273
Total assets	<u>\$ 32,185,094</u>	<u>\$ 28,947,040</u>	<u>\$ 3,238,054</u>	<u>\$ 28,739,452</u>
<b>LIABILITIES</b>				
Current liabilities	\$ 6,285,227	\$ 4,909,792	\$ 1,375,435	\$ 4,548,052
Long-term debt	11,346,234	11,375,087	(28,853)	11,925,935
Total liabilities	<u>17,631,461</u>	<u>16,284,879</u>	<u>1,346,582</u>	<u>16,473,987</u>
<b>NET POSITION</b>				
Invested in capital assets, net of related debt	6,770,358	4,857,804	1,912,554	4,955,643
Restricted				
For debt service	154,500	873,260	(718,760)	149,848
Expendable - donor restricted	-0-	41,327	(41,327)	41,105
Total restricted net position	<u>154,500</u>	<u>914,587</u>	<u>(760,087)</u>	<u>190,953</u>
Unrestricted	<u>7,628,775</u>	<u>6,889,770</u>	<u>739,005</u>	<u>7,118,869</u>
Total net position	<u>14,553,633</u>	<u>12,662,161</u>	<u>1,891,472</u>	<u>12,265,465</u>
Total liabilities and net position	<u>\$ 32,185,094</u>	<u>\$ 28,947,040</u>	<u>\$ 3,238,054</u>	<u>\$ 28,739,452</u>

# WOODLAWN HOSPITAL

## MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2012 AND 2011

The most significant changes in the Hospital's assets were in the areas of Current Assets and Capital Assets, Net which increased approximately \$1,120,000 and \$1,866,000, respectively, for 2012. The most significant change in the Hospital's liabilities was in the area of long-term debt for 2012. The change can be attributed to the addition of two new capital leases and a new promissory note for the Clay building renovation.

The most significant changes in the Hospital's 2011 assets were in the areas of Current Assets and Capital Assets, Net which increased and decreased approximately \$470,000 and \$238,000, respectively, for 2011. The most significant change in the Hospital's liabilities was in the area of long-term debt for 2011. The change can be attributed due to the payoff of the 2003 first Mortgage Refunding Bonds.

### Operating Results and Changes in Net Position

	2012	2011	Change 2012-2011	2010
<b>Revenues</b>				
Net patient service revenue	\$ 43,615,128	\$ 37,482,967	\$ 6,132,161	\$ 38,546,275
Other operating revenue	1,884,321	1,114,739	769,582	1,063,084
Total operating revenues	<u>45,499,449</u>	<u>38,597,706</u>	<u>6,901,743</u>	<u>39,609,359</u>
<b>Expenses</b>				
Salaries and benefits	24,259,919	22,630,308	1,629,611	22,786,807
Supplies	7,291,864	5,680,902	1,610,962	6,914,811
Depreciation and amortization	1,278,663	1,049,124	229,539	1,176,533
Other operating expenses	10,235,992	8,535,544	1,700,448	8,347,075
Total expenses	<u>43,066,438</u>	<u>37,895,878</u>	<u>5,170,560</u>	<u>39,225,226</u>
Operating income (loss)	2,433,011	701,828	1,731,183	384,133
Non-operating expenses, net	<u>(541,539)</u>	<u>(569,132)</u>	<u>27,593</u>	<u>(579,103)</u>
Change in net position before transfers from the county	1,891,472	132,696	1,758,776	(194,970)
<b>Transfers from the county</b>	<u>-0-</u>	<u>264,000</u>	<u>(264,000)</u>	<u>412,817</u>
Change in net position	1,891,472	396,696	1,494,776	217,847
<b>Net position beginning of year</b>	12,662,161	12,265,465	396,696	12,047,618
<b>Net position end of year</b>	<u>\$ 14,553,633</u>	<u>\$ 12,662,161</u>	<u>\$ 1,891,472</u>	<u>\$ 12,265,465</u>

The Hospital had a gain on equity of approximately 15% compared to 3% in the prior year.

This following section highlights the major financial factors for 2012:

- The Hospital's patient days increased to 4,184 in 2012 compared to 3,696 in 2011 and 3,785 in 2010.

# WOODLAWN HOSPITAL

## MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2012 AND 2011

---

- During 2012, the Hospital's net patient services revenue was enhanced by Indiana Medicaid Municipal Hospital Payments of approximately \$336,000 compared to the payments of approximately \$713,000 and \$767,000 received in 2011 and 2010, respectively.
- Operating expenses increased approximately \$5,170,000 or 14% in 2012 and decreased approximately \$1,329,000 or 3% in 2011. The change in both years is attributable to the change in patient volumes.
- Supplies expense represented the largest increase over the prior year. It increased approximately \$1,611,000 or 28.4% in 2012 compared to a decrease of \$1,234,000 or 17.8% in 2011.
- Other operating expenses increased approximately \$1,700,000 or 20% in 2012 compared to \$188,000 or 2.2% in 2011.

### 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?"

	2012	2011	Change 2012-2011	2010
<b>Cash flow from activities</b>				
Operating	\$ 3,649,953	\$ 486,299	\$ 3,163,654	\$ 1,291,237
Noncapital financing	23,196	17,625	5,571	19,238
Capital and related financing	(3,758,294)	(1,245,662)	(2,512,632)	(2,477,355)
Investing	(180,738)	476,454	(657,192)	142,508
Change in cash and cash equivalents	<u>\$ (265,883)</u>	<u>\$ (265,284)</u>	<u>\$ (599)</u>	<u>\$ (1,024,372)</u>

Total cash and cash equivalents decreased \$265,883 in 2012 and \$265,284 in 2011. Operating activities generated cash and cash equivalents of \$3,649,953 during 2012 and \$486,299 during 2011 mainly from strong operating income. Capital and related financing decreased cash and cash equivalents by \$3,758,294 during 2012 and by \$1,245,662 during 2011 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 \$180,738 in 2012 and increased cash and cash equivalents by \$476,454 in 2011 due to the assets whose use is limited investments.

# WOODLAWN HOSPITAL

## MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2012 AND 2011

---

### Sources of Revenue

During 2012, 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 44%, 43%, and 43% of the Hospital's gross revenues in 2012, 2011 and 2010, respectively. The Hospital's outpatient and physician services represented 79%, 81% and 80% of the Hospital's gross patient revenue in 2012, 2011 and 2010, respectively.

Following is a table of major sources of gross patient revenues for 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Medicare	32%	30%	29%
Medicaid	12%	13%	14%
Blue Cross	24%	25%	23%
Other	25%	25%	27%
Self Pay	7%	7%	7%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

### Capital Assets

During 2012 and 2011, the Hospital invested a net amount of \$2,493,000 and disposed of a net amount of \$2,185,425, respectively, in capital assets. The change in capital assets is outlined in the following table:

	<u>2012</u>	<u>2011</u>	<u>Change</u> <u>2012 - 2011</u>	<u>2010</u>
Land and improvements	\$ 1,068,806	\$ 722,376	\$ 346,430	\$ 738,072
Buildings and improvements	24,131,834	23,085,793	1,046,041	23,527,547
Equipment	8,043,840	7,589,150	454,690	9,317,125
Construction in process	645,827	-0-	645,827	-0-
Total property and equipment	<u>33,890,307</u>	<u>31,397,319</u>	<u>2,492,988</u>	<u>33,582,744</u>
Less accumulated depreciation	<u>14,348,646</u>	<u>13,722,106</u>	<u>626,540</u>	<u>16,145,471</u>
Capital assets, net	<u>\$ 19,541,661</u>	<u>\$ 17,675,213</u>	<u>\$ 1,866,448</u>	<u>\$ 17,437,273</u>

### Debt

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

---

# WOODLAWN HOSPITAL

## MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2012 AND 2011

---

### **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, 2012 AND 2011

---

### ASSETS

	<u>2012</u>	<u>2011</u>
<b>Current assets</b>		
Cash and cash equivalents	\$ 2,551,385	\$ 2,150,283
Patient accounts receivable, net	5,157,287	4,369,301
Inventories	1,049,729	958,212
Other current assets	1,300,381	742,395
Current portion of assets whose use is limited	154,500	873,260
Total current assets	<u>10,213,282</u>	<u>9,093,451</u>
<b>Assets whose use is limited</b>		
Board designated	2,430,151	2,137,049
Trustee held funds	154,500	873,260
Donor restricted	-0-	41,327
Total assets whose use is limited	<u>2,584,651</u>	<u>3,051,636</u>
Less current portion of assets whose use is limited	<u>(154,500)</u>	<u>(873,260)</u>
Assets whose use is limited net of current portion	2,430,151	2,178,376
<b>Capital assets</b>		
Land	596,216	345,223
Depreciable capital assets, net	<u>18,945,445</u>	<u>17,329,990</u>
Total capital assets	<u>19,541,661</u>	<u>17,675,213</u>
Total assets	<u>\$ 32,185,094</u>	<u>\$ 28,947,040</u>

---

See accompanying notes to combined financial statements.

# WOODLAWN HOSPITAL

## COMBINED BALANCE SHEETS DECEMBER 31, 2012 AND 2011

### LIABILITIES AND NET POSITION

	<u>2012</u>	<u>2011</u>
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 1,680,271	\$ 1,360,676
Accrued salaries and related liabilities	2,535,776	1,818,427
Estimated third party settlements	644,111	288,367
Current portion capital leases	417,467	201,647
Current portion long-term debt	1,007,602	1,240,675
Total current liabilities	<u>6,285,227</u>	<u>4,909,792</u>
<b>Long-term debt and capital leases</b>		
Capital leases	1,030,828	757,147
Long-term debt	10,315,406	10,617,940
Total long-term debt	<u>11,346,234</u>	<u>11,375,087</u>
Total liabilities	17,631,461	16,284,879
<b>Net position</b>		
Invested in capital assets, net of related debt	6,770,358	4,857,804
Restricted		
Trustee held funds	154,500	873,260
Expendable - donor restricted	-0-	41,327
Total restricted net position	<u>154,500</u>	<u>914,587</u>
Unrestricted	7,628,775	6,889,770
Total net position	<u>14,553,633</u>	<u>12,662,161</u>
Total liabilities and net position	<u>\$ 32,185,094</u>	<u>\$ 28,947,040</u>

See accompanying notes to combined financial statements.

# WOODLAWN HOSPITAL

## COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 2012 AND 2011

	2012	2011
<b>Revenues</b>		
Net patient service revenue	\$ 43,615,128	\$ 37,482,967
Other operating revenue	1,884,321	1,114,739
Total operating revenue	<u>45,499,449</u>	<u>38,597,706</u>
<b>Expenses</b>		
Salaries and wages	18,887,023	17,791,315
Employee benefits	5,372,896	4,838,993
Professional fees	4,157,754	4,054,295
Supplies	7,291,864	5,680,902
Rent	817,094	1,013,130
Utilities	626,941	685,870
Repairs and maintenance	1,317,054	1,225,508
Insurance	388,858	392,253
Depreciation and amortization	1,278,663	1,049,124
Hospital Assessment Fee	1,863,601	-0-
Other	1,064,690	1,164,488
Total operating expenses	<u>43,066,438</u>	<u>37,895,878</u>
Operating income	2,433,011	701,828
<b>Nonoperating revenue (expense)</b>		
Investment income	9,647	16,340
Interest expense	(567,077)	(569,840)
Loss on disposition of assets	(7,305)	(33,257)
Other nonoperating income (expense)	23,196	17,625
Total nonoperating revenue (expense)	<u>(541,539)</u>	<u>(569,132)</u>
Change in net position before transfers from the county	1,891,472	132,696
<b>Transfers from the county</b>	<u>-0-</u>	<u>264,000</u>
Change in net position	1,891,472	396,696
<b>Net position</b>		
Beginning of year	12,662,161	12,265,465
End of year	<u>\$ 14,553,633</u>	<u>\$ 12,662,161</u>

See accompanying notes to combined financial statements.

# WOODLAWN HOSPITAL

## COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
<b>Operating activities</b>		
Cash received from patients and third party payors	\$ 41,319,285	\$ 36,911,331
Cash paid to employees for wages and benefits	(23,542,570)	(22,517,934)
Cash paid to vendors for goods and services	(16,011,083)	(15,021,837)
Other operating receipts, net	1,884,321	1,114,739
Net cash from operating activities	3,649,953	486,299
<b>Noncapital financing activities</b>		
Other nonoperating	23,196	17,625
<b>Capital and related financing activities</b>		
Transfers from the county	-0-	264,000
Acquisition and construction of capital assets	(2,302,948)	(277,874)
Loss on disposal of assets	7,305	33,257
Interest paid on long-term debt	(567,077)	(569,840)
Proceeds from sale of fixed assets	-0-	6,677
Proceeds from issuance of long term debt	695,827	-0-
Principal payments on long-term debt and capital leases, net	(1,591,401)	(701,882)
Net cash from capital and related financing activities	(3,758,294)	(1,245,662)
<b>Investing activities</b>		
Investment income	9,647	16,340
Assets whose use is limited, net	(190,385)	460,114
Net cash from investing activities	(180,738)	476,454
Net change in cash and cash equivalents	(265,883)	(265,284)
<b>Cash and cash equivalents</b>		
Beginning of year	5,201,919	5,467,203
End of year	\$ 4,936,036	\$ 5,201,919

See accompanying notes to combined financial statements.

# WOODLAWN HOSPITAL

## COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011

---

	<u>2012</u>	<u>2011</u>
<b>Reconciliation of operating income to net cash from operating activities</b>		
Operating income	\$ 2,433,011	\$ 701,828
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	1,278,663	1,049,124
Provision for bad debt	4,881,423	4,729,330
Changes in assets and liabilities		
Patient accounts receivable	(5,669,409)	(5,078,476)
Inventories	(91,517)	(17,665)
Estimated third-party settlements	355,744	(222,490)
Other current assets	(574,906)	(372,955)
Accounts payable and accrued expenses	319,595	(414,771)
Accrued salaries and related liabilities	717,349	112,374
Net cash flows from operating activities	<u>\$ 3,649,953</u>	<u>\$ 486,299</u>
 <b>Reconciliation of cash and cash equivalents to the balance sheets</b>		
Cash and cash equivalents		
In current assets	\$ 2,551,385	\$ 2,150,283
In assets whose use is limited	2,384,651	3,051,636
Total cash and cash equivalents	<u>\$ 4,936,036</u>	<u>\$ 5,201,919</u>

---

See accompanying notes to combined financial statements.

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

---

### 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. The Association first mortgage refunding bonds were paid in full January 3, 2012, and all associated trust accounts were closed. All significant intercompany transactions have been eliminated for financial reporting purposes.

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

---

### 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 2012, the Hospital adopted Statement of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and AICPA Pronouncements*, which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of GASB No. 20 for business-type activities to apply post November 30, 1989, FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. GASB No. 62 has been applied retrospectively and had no impact on the Hospital's net position, changes in net position or financial reporting disclosures.

Also during 2012, the Hospital early adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This change primarily resulted in renaming net assets to net position within the balance sheets and statements of revenues, expenses and change in net position. GASB No. 63 has been applied retrospectively in the accompanying financial statements.

### 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, 2012 AND 2011

---

### 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. 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, 2009 with differences reflected as deductions from revenue in the year the cost report is settled. Amounts for unresolved cost reports for 2010 through 2012 are reflected in estimated third-party settlements on the balance sheets. During 2012, the Hospital finally settled the 2009 cost report and recognized an increase of approximately \$50,000 in the combined statements of revenues, expenses and changes in net position in 2012, 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.

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

---

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 2012, the Hospital recognized Hospital Assessment Fee expense of approximately \$1,864,000 and \$-0-, respectively, in the combined statements of revenues, expenses and changes in net position. The HAF program resulted in Medicaid rate increases of approximately \$3,400,000 and \$-0-, respectively.

### 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, 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 position.

---

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

---

### Capital Assets and Depreciation

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

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

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

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

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

### Net 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. Unrestricted net position is remaining net position that does not meet the definition of invested in capital assets net of related debt or restricted.

### 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 30<sup>th</sup>). 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.

---

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

---

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 to 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 2012 and 2011, the Hospital recognized approximately \$370,703 and \$-0-, 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 operations 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.

---

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

---

### 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:

	<u>2012</u>	<u>2011</u>
Supplemental cash flows information		
Cash paid for interest including amounts capitalized of \$-0- in 2012 and 2011	\$ 567,077	\$ 569,840
Noncash capital, related financing activities		
Capital leases	\$ 849,468	\$ 1,037,661

### 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.

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

---

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, 2012 and 2011, the carrying value of the Hospital's long-term debt approximates fair value based upon the borrowing rates currently available to the Hospital.

### Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. The Hospital is 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, 2012 and 2011, 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 \$290,717 and \$399,526 for 2012 and 2011, 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.

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

---

### 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 2011 balances were reclassified to agree with the current year presentation.

### 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 June 6, 2013.

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

---

### 2. ACCOUNTS RECEIVABLE AND PAYABLE

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

	<u>2012</u>	<u>2011</u>
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 9,517,275	\$ 7,924,945
Receivable from Medicare	2,519,090	2,112,866
Receivable from Medicaid	918,587	727,286
Total patient accounts receivable	<u>12,954,952</u>	<u>10,765,097</u>
Less:		
Allowance for contractual agreements	4,652,563	3,958,532
Allowance for doubtful accounts	3,145,102	2,437,264
Patient accounts receivable, net	<u>\$ 5,157,287</u>	<u>\$ 4,369,301</u>
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes and benefits)	\$ 2,535,776	\$ 1,818,427
Payable to suppliers	1,680,271	1,360,676
Total accounts payable and accrued expenses	<u>\$ 4,216,047</u>	<u>\$ 3,179,103</u>

### 3. ASSETS WHOSE USE IS LIMITED

Noncurrent cash and investments internally designated include the following:

#### Board Designated Funds

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

#### Held by Trustee

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

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

### 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, 2012 and 2011:

	2012	2011
Cash and cash equivalents	\$2,384,651	3,051,636
Certificates of Deposit	200,000	-0-
	\$2,584,651	\$ 3,051,636

#### 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.

Fair value approximated cost as of December 31, 2012 and 2011. As of December 31, 2012 and 2011, 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, 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-

  

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-
	\$ 3,051,636	\$ 3,051,636	\$ -0-	\$ -0-	\$ -0-

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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, 2012 and 2011:

	2012	2011
Carrying amount		
Deposits	\$ 2,551,385	\$ 2,150,283
Investments	2,584,651	3,051,636
	\$ 5,136,036	\$ 5,201,919
	2012	2011
Included in the following balance sheet captions:		
Cash and cash equivalents	\$ 2,551,385	\$ 2,150,283
Board designated	2,430,151	2,137,049
Trustee held funds	154,500	873,260
Donor restricted	-0-	41,327
	\$ 5,136,036	\$ 5,201,919

## 5. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2012 and 2011 is as follows:

	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

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

	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	1,138,635	(2,866,610)	-0-	7,589,150
Construction in progress	-0-	-0-	-0-	-0-	-0-
Total	33,582,744	1,315,535	(3,500,960)	-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	\$ 271,197	\$ (33,257)	\$ -0-	\$ 17,675,213

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

	2012	2011
Equipment	\$ 3,654,522	\$ 2,805,054
Accumulated depreciation	(1,824,999)	(1,556,997)
	\$ 1,829,523	\$ 1,248,057

The Hospital had remaining construction commitments of approximately \$1,072,000 as of December 31, 2012.

## 6. LONG-TERM DEBT

A summary of long-term debt as of December 31, 2012 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.

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

---

- 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 \$12,500,000. 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 \$12,500,000. 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 to be allocated to expenditures for capital projects within a temporary period of three years beginning on the date of issue of the note, December 18, 2012 with Old National Bank. The net sale proceeds of the note will be utilized as follows: (a) for the costs of renovation of the Project; and (b) for payment of costs of issuance of the Note. The note is treated as a draw-down loan and all amounts advanced pursuant to the note are reasonably expected to be advanced within 3 years of the issue date. As of December 31, 2012, \$695,827 has been drawn down on the note. Final terms of the note have not been drafted as the capital projects are still in progress. As such, the outstanding balance on the note has been recorded in current portion of long-term debt. The Promissory Note is secured by the related real estate in which the net book value approximates the outstanding balance of the note.
- 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, 2012, management believes that the Hospital was in compliance with the financial covenants.

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

The following represents a progression of long-term debt for 2012 and 2011:

	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
Old National Bank	-0-	695,827	-0-	695,827	695,827	-0-
Unamortized bond discount	(11,944)	-0-	11,944	-0-	-0-	-0-
Total long term debt	<u>\$ 12,817,409</u>	<u>\$ 1,545,295</u>	<u>\$ (1,591,401)</u>	<u>\$ 12,771,303</u>	<u>\$ 1,425,069</u>	<u>\$ 11,346,234</u>

	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>

Aggregate maturities of long-term debt are as follows:

Year ending December 31,	Principal	Interest	Total
2013	\$ 1,425,069	\$ 550,569	\$ 1,975,638
2014	766,543	518,592	1,285,135
2015	669,844	487,384	1,157,228
2016	594,823	458,233	1,053,056
2017	466,932	434,871	901,803
2018-2022	2,259,418	1,863,949	4,123,367
2023-2027	2,865,206	1,258,172	4,123,378
2028-2032	3,605,083	489,976	4,095,059
2033	118,385	711	119,096
	<u>\$ 12,771,303</u>	<u>\$ 6,062,457</u>	<u>\$ 18,833,760</u>

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

---

### 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 \$14,251,000. 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 matures in August 2013, at which time all unpaid principal is due. As of December 31, 2012 and 2011, 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 practice revenue.

Of the Hospital's total expenses reported (approximately \$43,066,000 and \$37,896,000 during 2012 and 2011, respectively), an estimated \$1,355,000 and \$1,180,000 arose from providing services to charity patients during 2012 and 2011, 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.

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

---

### 9. NET PATIENT SERVICE REVENUE

Patient service revenue for 2012 and 2011 consists of the following:

	2012	2011
Inpatient services	\$ 20,553,256	\$ 15,379,085
Outpatient services	64,910,560	56,410,789
Physician services	11,328,919	9,831,783
Gross patient service revenue	96,792,735	81,621,657
Contractual allowances	(45,250,303)	(36,868,068)
Compassionate care	(3,045,881)	(2,541,292)
Bad debt	(4,881,423)	(4,729,330)
Deductions from revenue	(53,177,607)	(44,138,690)
Net patient service revenue	<u>\$ 43,615,128</u>	<u>\$ 37,482,967</u>

### 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 2012 and 2011 were \$281,614 and \$272,746, respectively.

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

---

### 11. 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 2012 and 2011 was \$817,094 and \$1,013,130, respectively. Minimum future payments on leases for the years following December 31, 2012 are as follows:

Year Ending December 31,	Amount
2013	\$ 472,128
2014	335,598
2015	33,178
	<u>\$ 840,904</u>

### 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 gross receivables and revenue from patients and third-party payors as of December 31, 2012 and 2011 was as follows:

	Receivables		Revenues	
	2012	2011	2012	2011
Medicare	19%	20%	32%	30%
Medicaid	7%	7%	12%	13%
Blue Cross	15%	16%	24%	25%
Other commercial payors	24%	23%	25%	25%
Self-pay	35%	34%	7%	7%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

---

### 13. 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 \$1,200,000 a year. Substantially all employees are covered for major medical benefits. The total health claims expense was \$3,378,985 and \$2,893,223 for 2012 and 2011, respectively. Claim expenditures and liabilities of the fund are reported when it is probably that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

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

	<u>2012</u>	<u>2011</u>
Unpaid claims, beginning of fiscal year	\$ 312,548	\$ 347,272
Incurred claims and changes in estimates	3,378,985	2,893,223
Claim payments	<u>(2,949,171)</u>	<u>(2,927,947)</u>
Unpaid claims, end of fiscal year	<u>\$ 742,362</u>	<u>\$ 312,548</u>

### 14. 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, 2012 and 2011, the Hospital had recorded receivables from the Foundation of \$-0- and \$199,068 respectively, for capital items that were requested to be reimbursed from the capital campaign funds held by the Foundation. The Hospital recorded contributions from the Foundation of \$199,068 in 2012 and 2011.

# WOODLAWN HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

---

### 15. SUBSEQUENT EVENTS

#### Management Agreements

Subsequent to December 31, 2012, the Hospital entered into agreements with distinct lessor entities to lease long-term care facilities operated by related management companies. Additionally, the Hospital entered into agreements with the related management companies to manage the leased long-term care facilities. As part of the agreement, the Hospital will pay the management companies a fee to continue managing the long-term care facilities on behalf of the Hospital in accordance with the terms of the agreement. While the leases are in effect, the performance of all activities of the management companies shall be on behalf of the Hospital. Furthermore, the Hospital retains ultimate authority and legal responsibility for the operation and control of the long-term care facilities.

Under the agreements, all gross patient revenues from the operation of the long-term care facilities will be the property of the Hospital and the Hospital shall be responsible for all operating expenses and working capital requirements. The agreements expire at various times. All parties involved can terminate the agreements without cause with written notice.