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December 28, 2010

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, 2009 to December 31, 2009. 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, 2009 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

WOODLAWN HOSPITAL

COMBINED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2009 AND 2008

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, 2009 and 2008 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2009 and 2008, and the results of its 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.

Management's Discussion and Analysis, as listed in the table of contents is not a required part of the basic combined financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Blue & Co., LLC

June 30, 2010

REQUIRED SUPPLEMENTARY INFORMATION

WOODLAWN HOSPITAL

MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

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 year ended December 31, 2009. The combined financial statements include the Fulton County EMS, Inc., a discrete component unit. Please read it in conjunction with the Hospital's combined financial statements that follow this MD&A.

Financial Highlights

- The Hospital's net assets decreased \$786,712 or 6% in 2009.

Using This Annual Report

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

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

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

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

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the balance sheet. The Hospital's net assets decreased by \$786,712 in 2009 compared to 2008.

WOODLAWN HOSPITAL

MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

Assets, Liabilities, and Net Assets

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets	\$ 10,228,811	\$ 9,134,743
Assets whose use is limited, net of current portion	3,080,798	3,400,226
Capital assets, net	15,847,376	7,483,510
Other assets	26,588	437,078
Total assets	<u>\$ 29,183,573</u>	<u>\$ 20,455,557</u>
LIABILITIES		
Current liabilities	\$ 5,902,536	\$ 4,383,574
Long-term debt	11,233,419	3,237,653
Total liabilities	<u>17,135,955</u>	<u>7,621,227</u>
NET ASSETS		
Invested in capital assets, net of related debt	3,778,019	3,230,236
Restricted		
For debt service	1,115,638	195,188
Expendable - donor restricted	38,953	1,169,448
Total restricted net assets	<u>1,154,591</u>	<u>1,364,636</u>
Unrestricted	<u>7,115,008</u>	<u>8,239,458</u>
Total net assets	<u>12,047,618</u>	<u>12,834,330</u>
Total liabilities and net assets	<u>\$ 29,183,573</u>	<u>\$ 20,455,557</u>

The most significant change in the Hospital's assets was in the area of Capital Assets, Net which increased approximately \$8.4 million with the renovation and expansion.

Operating Results and Changes in the Hospital's Net Assets

In 2009, the Hospital's net assets decreased \$786,712, as shown herein. This decrease is made up of different components, as displayed.

WOODLAWN HOSPITAL

MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

Operating Results and Changes in Net Assets

	<u>2009</u>	<u>2008</u>
Revenues		
Net patient service revenue	\$ 35,759,804	\$ 33,475,330
Other operating revenue	<u>737,736</u>	<u>725,342</u>
Total operating revenues	36,497,540	34,200,672
Expenses		
Salaries and benefits	21,644,348	20,005,968
Supplies	6,415,145	5,375,827
Depreciation and amortization	1,168,199	1,136,353
Other operating expenses	<u>8,025,944</u>	<u>7,855,563</u>
Total expenses	<u>37,253,636</u>	<u>34,373,711</u>
Operating loss	(756,096)	(173,039)
Non-operating expenses, net	(824,267)	834,950
Income (loss) from operation of discontinued components	<u>-0-</u>	<u>(175,602)</u>
Net income (loss) before transfers from the county	(1,580,363)	486,309
Transfers from the county	<u>793,651</u>	<u>750,021</u>
Change in net assets	(786,712)	1,236,330
Net assets beginning of year	<u>12,834,330</u>	<u>11,598,000</u>
Net assets end of year	<u><u>\$ 12,047,618</u></u>	<u><u>\$ 12,834,330</u></u>

Sources of Revenue

During 2009, 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% and 47% of the Hospital's gross revenues in 2009 and 2008, respectively. The Hospital's outpatient and physician services represented 82% of the Hospital's gross patient revenue in 2009 and 2008.

WOODLAWN HOSPITAL

MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

Operating and Financial Performance

The Hospital had a loss on equity of approximately 6% compared to the prior year return on equity of approximately 10%.

This following section highlights the major financial factors for 2009:

- The Hospital's patient days increased to 3,283 in 2009 compared to 3,118 in 2008.
- During 2009, the Hospital's net patient services revenue was enhanced by Indiana Medicaid Municipal Hospital Payments of approximately \$790,000 compared to the payments of approximately \$820,000 received in 2008.
- Operating expenses increased \$2,879,925 or 8%. This growth is attributable to the increasing costs of resources utilized to provide services to the Hospital's patients.
- Salaries and Benefits along with Supplies represented the largest increase over 2008. Salaries and Benefits expense for 2009 was \$1,638,380 or 8% greater than 2008. Supplies expense from 2009 was \$1,039,318 or 19% greater than 2008.
- Included in nonoperating revenue (expense) is pledge revenue, net of \$134,220 and \$811,273 for the years ended December 31, 2009 and 2008, respectively. During 2009 the Hospital transferred the pledge revenue and associated activity to the newly formed Woodlawn Foundation in the amount of \$1,089,370.

WOODLAWN HOSPITAL

MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

Capital Assets

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

	<u>2009</u>	<u>2008</u>
Land and improvements	\$ 732,031	\$ 750,452
Buildings and improvements	21,704,032	10,159,102
Equipment	9,204,675	9,137,756
Construction in progress	-0-	<u>2,536,896</u>
Total property and equipment	<u>31,640,738</u>	<u>22,584,206</u>
Less accumulated depreciation	<u>15,793,362</u>	<u>15,100,696</u>
Capital assets, net	<u><u>\$ 15,847,376</u></u>	<u><u>\$ 7,483,510</u></u>

Debt

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

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, 2009

(WITH COMPARATIVE COMBINED TOTALS AT DECEMBER 31, 2008)

ASSETS

	2009			2008	
	Total Hospital	Fulton Co EMS, Inc.	Eliminations	Total Reporting Entity	Total Reporting Entity
Current assets					
Cash and cash equivalents	\$ 2,877,136	\$ 118,003	\$ -0-	\$ 2,995,139	\$ 1,648,977
Patient accounts receivable, net	4,074,839	82,042	-0-	4,156,881	5,541,070
Pledge receivable, net	-0-	-0-	-0-	-0-	198,878
Inventories	874,463	-0-	-0-	874,463	819,709
Estimated third party settlements	288,388	-0-	-0-	288,388	87,287
Other current assets	959,629	100,022	(261,349)	798,302	643,634
Current portion of assets whose use is limited	1,115,638	-0-	-0-	1,115,638	195,188
Total current assets	10,190,093	300,067	(261,349)	10,228,811	9,134,743
Assets whose use is limited					
Board designated	3,041,845	-0-	-0-	3,041,845	2,835,312
Trustee held funds	1,115,638	-0-	-0-	1,115,638	195,188
Donor restricted	38,953	-0-	-0-	38,953	564,914
Total assets whose use is limited	4,196,436	-0-	-0-	4,196,436	3,595,414
Less current portion of assets whose use is limited	(1,115,638)	-0-	-0-	(1,115,638)	(195,188)
Assets whose use is limited net of current portion	3,080,798	-0-	-0-	3,080,798	3,400,226
Capital assets					
Land	345,223	-0-	-0-	345,223	345,223
Depreciable capital assets, net	15,502,153	-0-	-0-	15,502,153	4,601,391
Construction in progress	-0-	-0-	-0-	-0-	2,536,896
Total capital assets	15,847,376	-0-	-0-	15,847,376	7,483,510
Other assets					
Pledge receivable, net	-0-	-0-	-0-	-0-	405,656
Other assets	26,588	-0-	-0-	26,588	31,422
Total other assets	26,588	-0-	-0-	26,588	437,078
Total assets	\$ 29,144,855	\$ 300,067	\$ (261,349)	\$ 29,183,573	\$ 20,455,557

See accompanying notes to combined financial statements.

WOODLAWN HOSPITAL

COMBINED BALANCE SHEETS DECEMBER 31, 2009

(WITH COMPARATIVE COMBINED TOTALS AT DECEMBER 31, 2008)

LIABILITIES AND NET ASSETS

	2009			2008	
	Total Hospital	Fulton Co EMS, Inc.	Eliminations	Total Reporting Entity	Total Reporting Entity
Current liabilities					
Accounts payable and accrued expenses	\$ 3,370,643	\$ 272,163	\$ (261,349)	\$ 3,381,457	\$ 1,917,069
Accrued salaries and related liabilities	1,685,141	-0-	-0-	1,685,141	1,450,884
Current portion of long-term debt					
Capital leases	256,538	-0-	-0-	256,538	380,642
Revenue bonds payable	579,400	-0-	-0-	579,400	634,979
Total current liabilities	<u>5,891,722</u>	<u>272,163</u>	<u>(261,349)</u>	<u>5,902,536</u>	<u>4,383,574</u>
Long-term debt and capital leases					
Capital leases	92,714	-0-	-0-	92,714	349,251
Long-term debt	11,140,705	-0-	-0-	11,140,705	2,888,402
Total long-term debt	<u>11,233,419</u>	<u>-0-</u>	<u>-0-</u>	<u>11,233,419</u>	<u>3,237,653</u>
Total liabilities	17,125,141	272,163	(261,349)	17,135,955	7,621,227
Net assets					
Invested in capital assets, net of related debt	3,778,019	-0-	-0-	3,778,019	3,230,236
Restricted					
Trustee held funds	1,115,638	-0-	-0-	1,115,638	195,188
Expendable - donor restricted	38,953	-0-	-0-	38,953	1,169,448
Total restricted net assets	<u>1,154,591</u>	<u>-0-</u>	<u>-0-</u>	<u>1,154,591</u>	<u>1,364,636</u>
Unrestricted	7,087,104	27,904	-0-	7,115,008	8,239,458
Total net assets	<u>12,019,714</u>	<u>27,904</u>	<u>-0-</u>	<u>12,047,618</u>	<u>12,834,330</u>
Total liabilities and net assets	<u>\$ 29,144,855</u>	<u>\$ 300,067</u>	<u>\$ (261,349)</u>	<u>\$ 29,183,573</u>	<u>\$ 20,455,557</u>

See accompanying notes to combined financial statements.

WOODLAWN HOSPITAL

COMBINED BALANCE SHEETS DECEMBER 31, 2008

ASSETS

	Total Hospital	Fulton County EMS, Inc.	Eliminations	Total Reporting Entity
Current assets				
Cash and cash equivalents	\$ 1,567,448	\$ 81,529	\$ -0-	\$ 1,648,977
Patient accounts receivable, net	5,464,689	76,381	-0-	5,541,070
Pledge receivable, net	198,878	-0-	-0-	198,878
Inventories	819,709	-0-	-0-	819,709
Estimated third party settlements	87,287	-0-	-0-	87,287
Other current assets	755,667	80,044	(192,077)	643,634
Current portion of assets whose use is limited	195,188	-0-	-0-	195,188
Total current assets	9,088,866	237,954	(192,077)	9,134,743
Assets whose use is limited				
Board designated	2,835,312	-0-	-0-	2,835,312
Trustee held funds	195,188	-0-	-0-	195,188
Donor restricted	564,914	-0-	-0-	564,914
Total assets whose use is limited	3,595,414	-0-	-0-	3,595,414
Less current portion of assets whose use is limited	(195,188)	-0-	-0-	(195,188)
Assets whose use is limited net of current portion	3,400,226	-0-	-0-	3,400,226
Capital assets				
Land	345,223	-0-	-0-	345,223
Depreciable capital assets, net	4,601,391	-0-	-0-	4,601,391
Construction in progress	2,536,896	-0-	-0-	2,536,896
Total capital assets	7,483,510	-0-	-0-	7,483,510
Other assets				
Pledge receivable, net	405,656	-0-	-0-	405,656
Other assets	31,422	-0-	-0-	31,422
Total other assets	437,078	-0-	-0-	437,078
Total assets	\$ 20,409,680	\$ 237,954	\$ (192,077)	\$ 20,455,557

See accompanying notes to combined financial statements.

WOODLAWN HOSPITAL

COMBINED BALANCE SHEETS DECEMBER 31, 2008

LIABILITIES AND NET ASSETS

	Total Hospital	Fulton County EMS, Inc.	Eliminations	Total Reporting Entity
Current liabilities				
Accounts payable and accrued expenses	\$ 1,899,096	\$ 210,050	\$ (192,077)	\$ 1,917,069
Accrued salaries and related liabilities	1,450,884	-0-	-0-	1,450,884
Current portion of long-term debt				
Capital leases	380,642	-0-	-0-	380,642
Revenue bonds payable	634,979	-0-	-0-	634,979
Total current liabilities	<u>4,365,601</u>	<u>210,050</u>	<u>(192,077)</u>	<u>4,383,574</u>
Long-term debt and capital leases				
Capital leases	349,251	-0-	-0-	349,251
Long-term debt	2,888,402	-0-	-0-	2,888,402
Total long-term debt	<u>3,237,653</u>	<u>-0-</u>	<u>-0-</u>	<u>3,237,653</u>
Total liabilities	<u>7,603,254</u>	<u>210,050</u>	<u>(192,077)</u>	<u>7,621,227</u>
Net assets				
Invested in capital assets, net of related debt	3,230,236	-0-	-0-	3,230,236
Restricted				
Trustee held funds	195,188	-0-	-0-	195,188
Expendable - donor restricted	1,169,448	-0-	-0-	1,169,448
Total restricted net assets	<u>1,364,636</u>	<u>-0-</u>	<u>-0-</u>	<u>1,364,636</u>
Unrestricted	8,211,554	27,904	-0-	8,239,458
Total net assets	<u>12,806,426</u>	<u>27,904</u>	<u>-0-</u>	<u>12,834,330</u>
Total liabilities and net assets	<u>\$ 20,409,680</u>	<u>\$ 237,954</u>	<u>\$ (192,077)</u>	<u>\$ 20,455,557</u>

See accompanying notes to combined financial statements.

WOODLAWN HOSPITAL

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

(WITH COMPARATIVE COMBINED TOTALS FOR DECEMBER 31, 2008)

	2009			2008	
	Total Hospital	Fulton Co EMS, Inc.	Eliminations	Total Reporting Entity	Total Reporting Entity
Revenues					
Net patient service revenue	\$ 35,389,717	\$ 370,087	\$ -0-	\$ 35,759,804	\$ 33,475,330
Other operating revenue	1,593,375	121,748	(977,387)	737,736	725,342
Total operating revenue	<u>36,983,092</u>	<u>491,835</u>	<u>(977,387)</u>	<u>36,497,540</u>	<u>34,200,672</u>
Expenses					
Salaries and wages	17,060,655	582,135	(582,135)	17,060,655	15,541,909
Employee benefits	4,571,593	134,214	(122,114)	4,583,693	4,464,059
Professional fees	4,527,379	87,469	(84,909)	4,529,939	4,207,549
Supplies	6,415,145	48,786	(48,786)	6,415,145	5,375,827
Rent	471,480	117,600	(117,600)	471,480	422,831
Utilities	556,156	-0-	-0-	556,156	631,623
Repairs and maintenance	991,257	-0-	-0-	991,257	888,452
Insurance	486,964	21,843	(21,843)	486,964	462,016
Depreciation and amortization	1,168,199	-0-	-0-	1,168,199	1,136,353
Other	959,709	30,439	-	990,148	1,243,092
Total operating expenses	<u>37,208,537</u>	<u>1,022,486</u>	<u>(977,387)</u>	<u>37,253,636</u>	<u>34,373,711</u>
Operating income (loss)	(225,445)	(530,651)	-0-	(756,096)	(173,039)
Nonoperating revenue (expense)					
Investment income	5,674	-0-	-0-	5,674	104,788
Interest expense	(190,299)	-0-	-0-	(190,299)	(154,580)
Loss on disposition of assets	(12,912)	-0-	-0-	(12,912)	17,321
Donation to Foundation	(1,089,370)	-0-	-0-	(1,089,370)	-0-
Pledge revenue, net	134,220	-0-	-0-	134,220	811,273
Other nonoperating income (expense)	328,420	-0-	-0-	328,420	56,148
Total nonoperating revenue (expense)	<u>(824,267)</u>	<u>-0-</u>	<u>-0-</u>	<u>(824,267)</u>	<u>834,950</u>
Income (loss) from operations of discontinued components					
	-0-	-0-	-0-	-0-	(175,602)
Net income (loss) before transfers from the county	(1,049,712)	(530,651)	-0-	(1,580,363)	486,309
Transfers from the county					
	263,000	530,651	-0-	793,651	750,021
Change in net assets	(786,712)	-0-	-0-	(786,712)	1,236,330
Net assets					
Beginning of year	12,806,426	27,904	-0-	12,834,330	11,598,000
End of year	<u>\$ 12,019,714</u>	<u>\$ 27,904</u>	<u>\$ -0-</u>	<u>\$ 12,047,618</u>	<u>\$ 12,834,330</u>

See accompanying notes to combined financial statements.

WOODLAWN HOSPITAL

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2008

	Total Hospital	Fulton County EMS, Inc.	Eliminations	Total Reporting Entity
Revenues				
Net patient service revenue	\$ 33,080,115	\$ 395,215	\$ -0-	\$ 33,475,330
Other operating revenue	1,537,581	150,534	(962,773)	725,342
Total operating revenue	34,617,696	545,749	(962,773)	34,200,672
Expenses				
Salaries and wages	15,533,945	559,661	(551,697)	15,541,909
Employee benefits	4,450,036	159,322	(145,299)	4,464,059
Professional fees	4,200,224	55,688	(48,363)	4,207,549
Supplies	5,373,297	48,117	(45,587)	5,375,827
Rent	422,831	147,600	(147,600)	422,831
Utilities	631,623	-0-	-0-	631,623
Repairs and maintenance	888,452	-0-	-0-	888,452
Insurance	462,016	24,227	(24,227)	462,016
Depreciation and amortization	1,136,353	-0-	-0-	1,136,353
Other	1,205,937	37,155	-0-	1,243,092
Total operating expenses	34,304,714	1,031,770	(962,773)	34,373,711
Operating income (loss)	312,982	(486,021)	-0-	(173,039)
Nonoperating revenue (expense)				
Investment income	104,788	-0-	-0-	104,788
Interest expense	(154,580)	-0-	-0-	(154,580)
Loss on disposition of assets	17,321	-0-	-0-	17,321
Pledge revenue, net	811,273	-0-	-0-	811,273
Other nonoperating income (expense)	56,148	-0-	-0-	56,148
Total nonoperating revenue (expense)	834,950	-0-	-0-	834,950
Income (loss) from operations of discontinued components				
	(175,602)	-0-	-0-	(175,602)
Net income (loss) before transfers from the county	972,330	(486,021)	-0-	486,309
Transfers from the county	264,000	486,021	-0-	750,021
Change in net assets	1,236,330	-0-	-0-	1,236,330
Net assets				
Beginning of year	11,570,096	27,904	-0-	11,598,000
End of year	\$ 12,806,426	\$ 27,904	\$ -0-	\$ 12,834,330

See accompanying notes to combined financial statements.

WOODLAWN HOSPITAL

COMBINED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2009 (WITH COMPARATIVE COMBINED TOTALS FOR DECEMBER 31, 2008)

	2009			2008	
	Total Hospital	Fulton Co EMS, Inc.	Eliminations	Total Reporting Entity	Total Reporting Entity
Operating activities					
Cash received from patients and third party payors	\$ 36,578,466	\$ 364,426	\$ -0-	\$ 36,942,892	\$ 34,308,706
Cash paid to employees for wages and benefits	(21,397,991)	(716,349)	-0-	(22,114,340)	(20,422,932)
Cash paid to vendors for goods and services	(13,195,259)	(264,002)	-0-	(13,459,261)	(13,425,657)
Other operating receipts, net	1,593,375	121,748	-0-	1,715,123	1,688,115
Net cash from operating activities	<u>3,578,591</u>	<u>(494,177)</u>	<u>-0-</u>	<u>3,084,414</u>	<u>2,148,232</u>
Noncapital financing activities					
Other nonoperating	328,420	-0-	-0-	328,420	56,148
Capital and related financing activities					
Transfers from the county	263,000	530,651	-0-	793,651	750,021
Acquisition and construction of capital assets	(9,558,264)	-0-	-0-	(9,558,264)	(2,227,008)
(Gain)/Loss on disposal of assets	12,912	-0-	-0-	12,912	(17,321)
Interest expense on long-term debt	(190,299)	-0-	-0-	(190,299)	(154,580)
Proceeds from sale of fixed assets	5,209	-0-	-0-	5,209	37,664
Payment on line of credit	-0-	-0-	-0-	-0-	(525,000)
Proceeds from issuance of long term debt	8,739,106	-0-	-0-	8,739,106	1,975,558
Principal payments on long-term debt and capital leases, net	<u>(923,023)</u>	<u>-0-</u>	<u>-0-</u>	<u>(923,023)</u>	<u>(1,036,563)</u>
Net cash from capital and related financing activities	<u>(1,651,359)</u>	<u>530,651</u>	<u>-0-</u>	<u>(1,120,708)</u>	<u>(1,197,229)</u>
Investing activities					
Discontinued operations	-0-	-0-	-0-	-0-	(175,602)
Investment income	5,674	-0-	-0-	5,674	104,788
Pledges, net	738,754	-0-	-0-	738,754	(55,106)
Donation to Foundation	(1,089,370)	-0-	-0-	(1,089,370)	-0-
Assets whose use is limited, net	100,000	-0-	-0-	100,000	(117,626)
Net cash from investing activities	<u>(244,942)</u>	<u>-0-</u>	<u>-0-</u>	<u>(244,942)</u>	<u>(243,546)</u>
Net change in cash and cash equivalents	2,010,710	36,474	-0-	2,047,184	763,605
Cash and cash equivalents					
Beginning of year	<u>4,362,862</u>	<u>81,529</u>	<u>-0-</u>	<u>4,444,391</u>	<u>3,680,786</u>
End of year	<u>\$ 6,373,572</u>	<u>\$ 118,003</u>	<u>\$ -0-</u>	<u>\$ 6,491,575</u>	<u>\$ 4,444,391</u>

See accompanying notes to combined financial statements.

WOODLAWN HOSPITAL

COMBINED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2009 (WITH COMPARATIVE COMBINED TOTALS FOR DECEMBER 31, 2008)

	2009			2008	
	Total Hospital	Fulton Co EMS, Inc.	Eliminations	Total Reporting Entity	Total Reporting Entity
Reconciliation of operating income (loss) to net cash from operating activities					
Operating income (loss)	\$ (225,445)	\$ (530,651)	\$ -0-	\$ (756,096)	\$ (173,039)
Adjustments to reconcile operating income to net cash from operating activities:					
Depreciation and amortization	1,168,199	-0-	-0-	1,168,199	1,136,353
Provision for bad debt	5,630,396	104,798	-0-	5,735,194	3,435,652
Changes in assets and liabilities					
Patient accounts receivable	(4,240,546)	(110,459)	-0-	(4,351,005)	(3,757,452)
Inventories	(54,754)	-0-	-0-	(54,754)	87,213
Estimated third-party settlements	(201,101)	-0-	-0-	(201,101)	1,155,176
Other current assets	(203,962)	(19,978)	261,349	37,409	(29,392)
Accounts payable and accrued expenses	1,471,547	62,113	(261,349)	1,272,311	13,689
Accrued salaries and related liabilities	234,257	-0-	-0-	234,257	280,032
Net cash flows from operating activities	<u>\$ 3,578,591</u>	<u>\$ (494,177)</u>	<u>\$ -0-</u>	<u>\$ 3,084,414</u>	<u>\$ 2,148,232</u>
Reconciliation of cash and cash equivalents to the balance sheets					
Cash and cash equivalents					
In current assets	\$ 2,877,136	\$ 118,003	\$ -0-	\$ 2,995,139	\$ 1,648,977
In assets whose use is limited	3,496,436	-0-	-0-	3,496,436	2,795,414
Total cash and cash equivalents	<u>\$ 6,373,572</u>	<u>\$ 118,003</u>	<u>\$ -0-</u>	<u>\$ 6,491,575</u>	<u>\$ 4,444,391</u>

See accompanying notes to combined financial statements.

WOODLAWN HOSPITAL

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008

	Total Hospital	Fulton County EMS, Inc.	Eliminations	Total Reporting Entity
Operating activities				
Cash received from patients and third party payors	\$ 33,906,976	\$ 401,730	\$ -0-	\$ 34,308,706
Cash paid to employees for wages and benefits	(19,703,949)	(718,983)	-0-	(20,422,932)
Cash paid to vendors for goods and services	(13,164,106)	(261,551)	-0-	(13,425,657)
Other operating receipts, net	1,537,581	150,534	-0-	1,688,115
Net cash from operating activities	2,576,502	(428,270)	-0-	2,148,232
Noncapital financing activities				
Other nonoperating	56,148	-0-	-0-	56,148
Capital and related financing activities				
Transfers from the county	264,000	486,021	-0-	750,021
Acquisition and construction of capital assets	(2,227,008)	-0-	-0-	(2,227,008)
(Gain)/Loss on disposal of assets	(17,321)	-0-	-0-	(17,321)
Interest expense on long-term debt	(154,580)	-0-	-0-	(154,580)
Proceeds from sale of fixed assets	37,664	-0-	-0-	37,664
Payment on line of credit	(525,000)	-0-	-0-	(525,000)
Proceeds from issuance of long term debt	1,975,558	-0-	-0-	1,975,558
Principal payments on long-term debt and capital leases, net	(1,036,563)	-0-	-0-	(1,036,563)
Net cash from capital and related financing activities	(1,683,250)	486,021	-0-	(1,197,229)
Investing activities				
Discontinued operations	(175,602)	-0-	-0-	(175,602)
Investment income	104,788	-0-	-0-	104,788
Pledges	(55,106)	-0-	-0-	(55,106)
Other change in assets whose use is limited, net	(117,626)	-0-	-0-	(117,626)
Net cash from investing activities	(243,546)	-0-	-0-	(243,546)
Net change in cash and cash equivalents	705,854	57,751	-0-	763,605
Cash and cash equivalents				
Beginning of year	3,657,008	23,778	-0-	3,680,786
End of year	\$ 4,362,862	\$ 81,529	\$ -0-	\$ 4,444,391

See accompanying notes to combined financial statements.

WOODLAWN HOSPITAL

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008

	Total Hospital	Fulton County EMS, Inc.	Eliminations	Total Reporting Entity
Reconciliation of operating income (loss) to net cash from operating activities				
Operating income (loss)	\$ 312,982	\$ (486,021)	\$ -0-	\$ (173,039)
Adjustments to reconcile operating income to net cash from operating activities:				
Depreciation and amortization	1,136,353	-0-	-0-	1,136,353
Provision for bad debt	3,305,593	130,059	-0-	3,435,652
Changes in assets and liabilities				
Patient accounts receivable	(3,633,908)	(123,544)	-0-	(3,757,452)
Inventories	87,213	-0-	-0-	87,213
Estimated third-party settlements	1,155,176	-0-	-0-	1,155,176
Other current assets	(272,493)	51,024	192,077	(29,392)
Accounts payable and accrued expenses	205,554	212	(192,077)	13,689
Accrued salaries and related liabilities	280,032	-0-	-0-	280,032
Net cash flows from operating activities	<u>\$ 2,576,502</u>	<u>\$ (428,270)</u>	<u>\$ -0-</u>	<u>\$ 2,148,232</u>

See accompanying notes to combined financial statements.

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

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

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

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

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

Discrete Component Unit

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

Use of Estimates

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

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Enterprise Fund Accounting

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

Accounting Standards

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

Cash and Cash Equivalents

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

Patient Accounts Receivable and Net Patient Service Revenue

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

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 2007. 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.

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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

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

Compassionate Care

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

Pledge Revenues and Pledge Receivables

Unconditional pledges receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The allowance offset against pledges receivable represent management's estimate of expected losses to be realized, and are based on historical experience, current economic conditions, and other relevant factors.

Inventories

Inventories are valued at the lower of cost or market with cost being determined on an average cost method.

Assets Whose Use is Limited

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

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Capital Assets and Depreciation

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

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

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

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

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

Net Assets

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

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.

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Restricted Resources

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

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

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

Combined Statements of Cash Flows

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

	<u>2009</u>	<u>2008</u>
Supplemental cash flows information		
Cash paid for interest including amounts capitalized of \$235,890 and \$-0- in 2009 and 2008	\$ 426,189	\$ 154,580
Noncash capital, related financing, and investing activities		
Construction in progress included in accounts payable	\$ 225,434	\$ 512,445
Donation to the Foundation of pledges receivable, net	\$ 580,718	\$ -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 \$30,213 and \$25,379 in 2009 and 2008, respectively. Bond issuance costs are recorded in other assets on the balance sheet.

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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.

The fair values of assets whose use is limited are estimated based upon quoted market prices for those or similar investments, where applicable. The fair value of the Hospital's long-term debt is estimated based on market prices for similar issues on current rates offered to the Hospital. As of December 31, 2009 and 2008, the carrying value of the Hospital's long-term debt approximated its fair value.

Federal or State Income Taxes

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

Fulton County Emergency Medical Services, Inc. is registered as a domestic not-for-profit corporation with the State of Indiana. Management is unable to locate a completed Application for Recognition of Exemption, Federal Form 1023. Based on discussions with legal counsel, management determined that the entity would file Federal and State Corporate tax returns as management could not locate any previous filings. Accordingly, the Corporation filed tax returns for 2007, 2008, and 2009.

Accounting for Uncertainty in Income Taxes

The Income Taxes topic of the FASB Accounting Standards Codification requires certain disclosures, which clarifies generally acceptable accounting principles in the United States of America for recognition, measurement, presentation and disclosure relating to uncertain tax positions. This guidance applies to business enterprises, not-for-profit entities, and pass-through entities, such as S corporations and limited liability companies. Uncertain tax positions are evaluated in accordance with existing generally accepted accounting principles and makes such accruals and disclosures as might be required thereunder. As is previously disclosed certain Federal and State tax filings for Fulton County Emergency Medical Services, Inc. could not be located and therefore the filings were completed in arrears. At this time, it is unknown what potential penalties and assessments may result. Therefore the resulting impact to the financial statements is not readily determinable.

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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 \$318,823 and \$277,261 for 2009 and 2008, respectively.

Litigation

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

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Medical Malpractice

Malpractice insurance coverage is provided under a claims-made policy. Should the claims-made policy be terminated, the Hospital has the option to purchase insurance for claims having occurred during its term but reported subsequently. Prior to July 1, 1999, the Indiana Medical Malpractice Act provided for a maximum recovery of \$750,000 per occurrence (\$3,000,000 annual aggregate) for professional liability, \$100,000 of which would be paid through the Hospital's malpractice insurance coverage and the balance would be paid by the State of Indiana Patient Compensation Fund. For claims on or after July 1, 1999, the Indiana Medical Malpractice Act provides for a maximum recovery of \$1,250,000 per occurrence (\$7,500,000 annual aggregate) with the first \$250,000 covered by the Hospital's insurance and the remainder by the Fund.

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Reclassifications

Certain amounts from the 2008 combined financial statements have been reclassified to conform to the current year presentation.

Subsequent Events

The Hospital evaluates events or transactions occurring subsequent to consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are available to be issued which is June 30, 2010.

2. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including expenses) reported as current assets and liabilities as of December 31, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 6,738,355	\$ 7,123,364
Receivable from Medicare	1,512,426	1,273,372
Receivable from Medicaid	887,610	786,610
Total patient accounts receivable	<u>9,138,391</u>	<u>9,183,346</u>
Less allowance for contractual agreements and uncollectible amounts	4,981,510	3,642,276
Patient accounts receivable, net	<u><u>\$ 4,156,881</u></u>	<u><u>\$ 5,541,070</u></u>
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes and benefits)	\$ 1,685,141	\$ 1,450,884
Payable to suppliers	3,381,457	1,917,069
Total accounts payable and accrued expenses	<u><u>\$ 5,066,598</u></u>	<u><u>\$ 3,367,953</u></u>

3. PLEDGES RECEIVABLE

Beginning in 2008, the Hospital initiated a capital campaign to directly assist with a renovation and expansion project. The Hospital had pledge commitments outstanding from donors totaling \$786,006 as of December 31, 2008. These pledges were due in varying amounts through approximately 2013.

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Pledges receivable related to the aforementioned campaign consisted of the following at December 31, 2008:

	<u>2008</u>
Amounts due in:	
Less than one year	\$ 245,673
One to five years	<u>552,333</u>
	798,006
Less unamortized discount	(73,771)
Less allowance for uncollectible pledges	<u>(119,701)</u>
Net pledges receivable	<u><u>\$ 604,534</u></u>

Pledges receivable due in future years were discounted at 5% at December 31, 2008.

During 2009, the Hospital transferred the pledges and the related cash from the capital campaign to the newly formed Woodlawn Foundation. See Note 16 for further details.

4. 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, 2009 AND 2008

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 investments also consist of a cash account for the Woodlawn Development Council, which was set up to deposit contributions of cash, which are restricted for the purchase of property and equipment.

5. DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year-end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution. Investments consist primarily of cash and cash equivalents and certificates of deposit. Fair value approximated cost as of December 31, 2009 and 2008.

As of December 31, 2009 and 2008, 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, 2009

	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Cash and cash equivalents	\$ 3,496,436	\$ 3,496,436	\$ -0-	\$ -0-	\$ -0-
Certificates of deposit	700,000	700,000	-0-	-0-	-0-
	<u>\$ 4,196,436</u>	<u>\$ 4,196,436</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

December 31, 2008

	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Cash and cash equivalents	\$ 2,795,414	\$ 2,795,414	\$ -0-	\$ -0-	\$ -0-
Certificates of deposit	800,000	800,000	-0-	-0-	-0-
	<u>\$ 3,595,414</u>	<u>\$ 3,595,414</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.

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Carrying amount		
Deposits	\$ 2,995,139	\$ 1,648,977
Investments	4,196,436	3,595,414
	<u>\$ 7,191,575</u>	<u>\$ 5,244,391</u>
	<u>2009</u>	<u>2008</u>
Included in the following balance sheet captions:		
Cash and cash equivalents	\$ 2,995,139	\$ 1,648,977
Board designated	3,041,845	2,835,312
Trustee held funds	1,115,638	195,188
Donor restricted	38,953	564,914
	<u>\$ 7,191,575</u>	<u>\$ 5,244,391</u>

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

6. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2009 and 2008 is as follows:

	Balance December 31, 2008	Additions	Retirements	Transfers	Balance December 31, 2009
Land	\$ 345,223	\$ -0-	\$ -0-	\$ -0-	\$ 345,223
Land improvements	405,229	-0-	(18,421)	-0-	386,808
Buildings and fixtures	10,159,102	149,775	(161,693)	11,556,848	21,704,032
Moveable equipment	9,137,756	375,623	(308,704)	-0-	9,204,675
Construction in progress	2,536,896	9,019,952	-0-	(11,556,848)	-0-
Total	22,584,206	9,545,350	(488,818)	-0-	31,640,738
Less accumulated depreciation					
Land improvements	377,157	6,320	(18,421)	-0-	365,056
Buildings and fixtures	7,586,704	432,924	(154,143)	-0-	7,865,485
Moveable equipment	7,136,835	722,181	(296,195)	-0-	7,562,821
Total accumulated depreciation	15,100,696	1,161,425	(468,759)	-0-	15,793,362
Capital assets, net	\$ 7,483,510	\$ 8,383,925	\$ (20,059)	\$ -0-	\$ 15,847,376
	Balance December 31, 2007	Additions	Retirements	Transfers	Balance December 31, 2008
Land	\$ 345,223	\$ -0-	\$ -0-	\$ -0-	\$ 345,223
Land improvements	405,229	-0-	-0-	-0-	405,229
Buildings and fixtures	10,182,474	-	(23,372)	-0-	10,159,102
Moveable equipment	9,162,150	247,557	(271,951)	-0-	9,137,756
Construction in progress	45,000	2,491,896	-0-	-0-	2,536,896
Total	20,140,076	2,739,453	(295,323)	-0-	22,584,206
Less accumulated depreciation					
Land improvements	361,072	16,085	-0-	-0-	377,157
Buildings and fixtures	7,304,013	306,069	(23,378)	-0-	7,586,704
Moveable equipment	6,582,412	806,025	(251,602)	-0-	7,136,835
Total accumulated depreciation	14,247,497	1,128,179	(274,980)	-0-	15,100,696
Capital assets, net	\$ 5,892,579	\$ 642,398	\$ (15,879)	\$ -0-	\$ 7,483,510

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

	2009	2008
Equipment	\$ 1,832,573	\$ 1,832,573
Accumulated depreciation	(1,365,003)	(1,038,463)
	\$ 467,570	\$ 794,110

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

7. LONG-TERM DEBT

A summary of long-term debt as of December 31, 2009 is as follows:

- The Hospital's \$2,510,000, 2003 First Mortgage Refunding Bonds are due in varying installments of \$85,000 to \$125,000 through July 2015 at interest rates ranging from 1.10% to 4.2%. Principal and interest is due semi-annually on July 1 and January 1. The bonds are secured by certain Hospital property.
- The Hospital's \$2,445,000 Taxable Promissory Note, Series B was due in varying installments of \$245,000 to \$1,050,000 through October 2008 at interest rates ranging from 3.5% to 4.25%. The note was secured by the Hospital's accounts receivable. The note was paid off during 2008.
- The Hospital has entered into several capital obligations with interest rates of 3.55% to 6.02%, collateralized by the leased equipment. Monthly installments are due in varying amounts from \$1,198 to \$18,160, including interest. Principal and interest payments are due through May 2010 to April 2012.
- The Hospital's \$7,300,000, Series 2007 Promissory Note is due in monthly installments of \$41,806 for 298 months at a fixed interest rate of 4.76% commencing on January 1, 2009. A final installment of any unpaid principal and interest is due on December 1, 2033. The Promissory Note is secured by certain Hospital property. As of December 31, 2009, approximately \$7,070,000 has been drawn down on the Note. 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. As of December 31, 2009, approximately \$3,300,000 has been drawn down on the Note. The note was issued for the acquisition, construction, installation and equipping of a medical office building together with the purchase of the project equipment.

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

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

The following represents a progression of long-term debt for 2009 and 2008:

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

	Balance December 31, 2007	Additional borrowings	Payments	Balance December 31, 2008	Current portion	Long-term portion
Revenue bonds payable						
Bond Series B	\$ 485,000	\$ -0-	\$ (485,000)	\$ -0-	\$ -0-	\$ -0-
Association Bonds Series 2003	1,760,000	-0-	(190,000)	1,570,000	205,000	1,365,000
Loans payable						
Capital lease obligations	1,094,867	-0-	(364,974)	729,893	380,642	349,251
Promissory Notes						
Series 2007	-0-	1,925,563	-0-	1,925,563	383,395	1,542,168
Series 2008	-0-	49,995	-0-	49,995	49,995	-0-
Unamortized bond discount	(25,588)	-0-	3,411	(22,177)	(3,411)	(18,766)
Total long term debt	<u>\$ 3,314,279</u>	<u>\$ 1,975,558</u>	<u>\$ (1,036,563)</u>	<u>\$ 4,253,274</u>	<u>\$ 1,015,621</u>	<u>\$ 3,237,653</u>

Aggregate maturities of long-term debt are as follows:

Year ending December 31,	Principal	Interest	Total
2010	\$ 835,938	\$ 508,225	\$ 1,344,163
2011	636,061	517,409	1,153,470
2012	616,537	489,186	1,105,723
2013	616,654	461,849	1,078,503
2014	643,920	433,511	1,077,431
Thereafter	8,720,247	3,614,296	12,334,543
	<u>\$ 12,069,357</u>	<u>\$ 6,024,476</u>	<u>\$ 18,093,833</u>

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

8. COMPASSIONATE CARE

Charges excluded from patient service revenue under the compassionate care policy were \$1,473,641 and \$1,347,763 for 2009 and 2008, respectively.

9. NET PATIENT SERVICE REVENUE

Patient service revenue for 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
Inpatient services	\$ 13,330,566	\$ 11,213,511
Outpatient services	51,811,962	44,577,126
Physician services	<u>10,050,368</u>	<u>8,346,191</u>
Gross patient service revenue	75,192,896	64,136,828
Contractual allowances	(32,224,257)	(25,878,083)
Compassionate care	(1,473,641)	(1,347,763)
Bad debt	<u>(5,735,194)</u>	<u>(3,435,652)</u>
Deductions from revenue	<u>(39,433,092)</u>	<u>(30,661,498)</u>
Net patient service revenue	<u>\$ 35,759,804</u>	<u>\$ 33,475,330</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.

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Plan members may contribute \$12,000 of the annual covered salary. The Hospital is required to contribute a matching amount from 10% to 50% of the employees' contribution based on years of service. Employer contributions to the plan for the calendar year 2009 and 2008 were \$214,671 and \$202,752, respectively.

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 2009 and 2008 was \$471,480 and \$422,831, respectively. Minimum future payments on leases for the years following December 31, 2009 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2010	\$ 503,199
2011	511,558
2012	213,002
2013	213,002
2014	213,002
2015	35,500
	<u>\$ 1,689,263</u>

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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 receivables from patients and third-party payors as of December 31, 2009 and 2008 was as follows:

	<u>2009</u>	<u>2008</u>
Medicare	16%	14%
Medicaid	10%	9%
Blue Cross	13%	14%
Other commercial payors	29%	26%
Self-pay	32%	37%
	<u>100%</u>	<u>100%</u>

The mix of revenue from patients and third-party payors as of December 31, 2009 and 2008 was as follows:

	<u>2009</u>	<u>2008</u>
Medicare	29%	33%
Medicaid	15%	14%
Blue Cross	22%	18%
Other commercial payors	27%	29%
Self-pay	7%	6%
	<u>100%</u>	<u>100%</u>

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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 \$950,000 a year. Substantially all employees are covered for major medical benefits. The total health claims expense was \$2,831,881 and \$2,846,505 for 2009 and 2008, 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>2009</u>	<u>2008</u>
Unpaid claims, beginning of fiscal year	\$ 402,000	\$ 304,224
Incurred claims and changes in estimates	2,831,881	2,846,505
Claim payments	<u>(2,824,832)</u>	<u>(2,748,729)</u>
Unpaid claims, end of fiscal year	<u>\$ 409,049</u>	<u>\$ 402,000</u>

14. DISCONTINUED OPERATIONS

During 2008, the Hospital discontinued service related to Total Equips. Operating results are included as a loss from operations of the discontinued components in the statement of operations of \$175,602 in 2008.

15. COMMITMENT

The Hospital has committed to the construction of a building addition for an estimated amount of approximately \$13.25 million. As of December 31, 2009, approximately \$11.3 million of the construction has been completed.

16. 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.

WOODLAWN HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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

As of December 31, 2009 the Hospital has recorded a receivable from the Foundation of \$334,194 for capital items that were requested to be reimbursed from the capital campaign funds held by the Foundation.

17. SUBSEQUENT EVENTS

It is the intent of the Board of Directors and Management of Fulton County Emergency Medical Services, Inc. to dissolve the Corporation during 2010. Responsibilities for emergency medical services were transferred back to Fulton County during April 2010.